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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 3 March 2014 Chair: Ms Bowles (ALDE, UK)

Half-day meeting at which ECON exchanged views with Mr DRAGHI in his capacity as President of the European Central Bank (ECB) and Chairman of the European Systemic Risk Board (ESRB). In his capacity as ECB President, he reiterated his positions on the Banking Union, the Single Resolution Mechanism (SRM) and the Troika. He reasserted the legality of the ECB's Outright Monetary Transactions' (OMT) programme and made some brief comments about the situation in Ukraine and its impact on the euro area. As ESRB Chairman, he updated the Committee on the ongoing work of the institution.
Additionally ECON decided to table three codecision files on financial supervision and financial markets for votes in plenary following compromise agreements with the Council.

Agenda item 1 on the agenda
Adoption of the agenda

The agenda was adopted.

Agenda item 2 on the agenda
Approval of the minutes of the meetings on 28 and 30 January and on 3, 12-13, 13 and 17 February 2014

The minutes were approved.

Agenda item 3 on the agenda
Chair's announcements

Ms BOWLES (ALDE, UK) updated the Committee on ongoing trilogues.

She said that a trilogue on the Single Resolution Mechanism (SRM) had taken place on 25 February during which the European Parliament (EP) negotiating team had expressed its disappointment at the lack of a Presidency negotiating mandate and the slowing down of the discussions. She viewed this with some disappointment as the EP had been under the impression that a flexible mandate had been given. She noted that the trilogue had focused on the general approach, on the decision-making process, the single resolution fund, possible transfer of elements of the Intergovernmental Agreement into the SRM, the scope of the SRM, state aid, and the review clause.
On the Payments Account Directive, she said that a third trilogue had taken place on 26 February and that some progress had been made, notably on sanctions and competent authorities, but that a compromise on other key areas (transparency, access to basic payment accounts and cross-border switching) was still outstanding. She added that two more trilogues were planned for the 13 and 20 March, with the objective of reaching an agreement by the end of the current legislature.
She also announced that a second trilogue on Actions for Damages had taken place on 27 February and that progress had been made on the passing on of overcharges (Articles 12-15), on the interaction between the amount of damages and fines and on joint and several liabilities (Article 11). However she said that no final agreement could be reached on disclosure of evidence (Article 6) or on the effect of national decisions (Article 9) and that the next trilogue would take place in mid-March.

Finally, on the Undertakings for Collective Investment in Transferable Securities (UCITSV), Ms BOWLES explained that a deal had been reached over a written procedure containing elements on the Market Abuse and the Markets in Financial Instruments Directive texts on sanctions and on remuneration. She also referred to an agreement on a mandate for the European Securities Market Authority to issue guidelines on the scope of persons covered by a UCIT remuneration policy and mentioned that the Committee would be consulted under Rule 70 of the EP's Rules of Procedure, once there was an official confirmation from the Council, with a view to tabling the text for a vote.

Agenda item 4 on the agenda
Re-consultation of the Committee: (Rule 70 of the Rules of Procedure):

- Markets in financial instruments and amendment of the EMIR Regulation on OTC derivatives, central counterparties and trade repositories and
- Markets in financial instruments, and repeal of Directive 2004/39/EC (recast) (rapporteur: Markus Ferber)
- Securities settlement in the EU and central securities depositories (CSDs), and amendment of Directive 98/26/EC (rapporteur: Kay Swinburne)
ECON/7/12108

Mr FERBER (EPP, DE) stressed the fact that the agreed text reflected 90% of the European Parliament's position at first reading and Ms SWINBURNE (ECR, UK) referred to a solid piece of Single Market legislation which would enable the European Central Bank to address Target2-Securities.
Following the trilogue agreement reached in December and January and the Council's confirmation by letters of 19 and 26 February, the Committee agreed to table both files for votes in the second plenary of April.

Agenda item 5 on the agenda
Monetary Dialogue with Mario Draghi, President of the European Central Bank
ECON/7/00032

In his introductory statement, President DRAGHI delivered the speech in ANNEX I, in which he took stock of five years of European Central Bank (ECB) monetary policy and of EU economic and governance reforms and looked at the five years ahead. He held that despite significant advances the mission was not over yet.

During the exchange of views, Mr BALZ (EPP, DE) defended the Troika agenda while Ms FERREIRA (S&D, PT) did not, as all programme countries currently had higher public debt and unemployment rates and weak growth prospects. She urged the ECB to be more vocal on the Single Resolution Mechanism (SRM).
Mr EPPINK (ECR, BE) asked if the ECB's Outright Monetary Transactions (OMT) programme remained valid, and Mr SCHMIDT (ALDE, SE) whether the minutes of the ECB's Governing Council meetings would be published. Ms MATIAS (GUE/NGL, PT) advocated a funding-for-lending policy to support SMEs and Mr TERHO (EFD, FI) a weaker euro to boost the EU's competitiveness. Mr ZALBA BIDEGAIN (EPP, ES) feared that a prolonged period of deflation could derail the recovery while Ms LULLING (EPP, LU) viewed low inflation as something positive. Mr FERBER (EPP, DE) asked whether the ECB would place state bonds in the market as a result of lower eurozone interest levels; Mr HOANG NGOC (S&D, FR) whether the ECB would take losses if there was a restructuring of Greek sovereign debt and Mr MITCHELL (EPP, IE) whether the ECB had tools to counter asset inflation. MEPs also fielded questions on the forthcoming asset quality review and stress tests and on the risk weighting of sovereign bonds.

In response, President DRAGHI referred to the ECB's conservative position on stress tests and said that global standards must be addressed by the Basel Committee, that the assessment of sovereign bonds in the AQR would follow the current EU legislation (CRDIV) and that sovereign bonds would be treated in the same way as all other assets in the stress tests. He reaffirmed that all banks would be looked at in the same way and that the AQR and stress tests must be transparent and rigorous to restore the credibility of the EU banking sector and stimulate private investment. He underlined the open design of the Banking Union to dissipate any claims over possible divisions in the EU and considered it a natural step for the European Monetary Union to complete its architecture and preserve itself.
He viewed the SRM and the Single Resolution Fund (SRF) as the next logical steps to break the link between "sovereigns" and banks, and called for swift negotiations between the co-legislators to set up an effective governance framework that could take decisions quickly. He advocated strict separation between assessment and resolution and underlined the ECB's desire to be a mere observer in the SRM board. He held that the absence of a swift agreement on the SRM would not harm the credibility of the Single Supervisory Mechanism (SSM) but that it would represent a misalignment of responsibilities between supervision and resolution.

Mr DRAGHI also urged that a common backstop be set up rapidly (5 instead of 10 years) and referred to issuances on markets with joint-government guarantees and to credit lines with the European Stability Mechanism as possible ways to back the SRF in its initial phase.

He said that despite many hardships, programme countries had benefited from the Troika agenda, but that the situation remained unsatisfactory due to high unemployment and low growth. On the role of the ECB in the Troika, he noted that the ECB was in the back seat mainly to improve the transmission channels of monetary policy and that it would review its role once the crisis was over. He urged governments to rethink their budget consolidation efforts and to continue with the process of structural reform. He considered it premature to speculate on Greece's debt relief and noted that the ECB could not undertake monetary financing. He urged Greece to fully implement its programme in order to tackle structural unemployment and stimulate internal demand and growth.

He explained that the ECB would keep the bonds acquired through the Securities Market Programme (SMP) until maturity and that it would not replace them but that that this would not be the case regarding bonds bought under OMT.

He said that the OMT programme remained fully legal, within the ECB's mandate, and ready for use if needed. He added that the ECB was subject to the jurisdiction of the European Court of Justice and that the risk sharing was covered by everyone irrespective of their participation.

He hinted that internal discussions on the publication of the minutes of the ECB's Governing Council meetings would be finished soon and would result in the publication of the minutes during the next legislature.

He acknowledged that inflation was currently way below 2% but that in the medium to long term the ECB expected it to pick up and converge with the ECB's outlook which remained firmly anchored to 2%. He referred to price, salary and pension adjustments, low unemployment, recovery of internal demand and confidence, as well as structural reforms as key elements in the overall process of adjustment of the economy which, once completed, would result in higher inflation.

He viewed the funding-for-lending scheme as one instrument that the ECB had in its catalogue and noted that despite some positive signs, credit flows remained subdued because of problems in supply and especially in demand. He announced that on 5 March, for the first time in its history, the ECB would publish its projections on inflation until 2016 and reminded the Committee that the exchange rate was not the ECB's policy target. Nevertheless he admitted that the exchange rate was important for price stability and growth and constituted an important element in the conception of the ECB's monetary policy. He called for the setup of local macro-prudential instruments to deal with local bubbles, to maintain financial stability and to free the ECB from pursuing objectives that did not fall within its mandate on monetary policy.

Mr DRAGHI also underlined the weak economic, financial and trade ties between the EU and Ukraine, (Ukraine accounted for less than 1% of foreign demand for goods exported by the euro area), but warned of the impact that the geopolitical dimension could have on the EU economy. Finally, he claimed that certain elements of the Financial Transaction Tax could hamper the ECB's monetary policy, and that the ECB was working with the Commission to repair those aspects in their proposal.

Agenda item 6 on the agenda
Public Hearing with Mario Draghi, Chairman of the European Systemic Risk Board
ECON/7/05173

In his introductory statement, Mr DRAGHI delivered the speech in ANNEX II, in which he updated the Committee on the ongoing work of the European Systemic Risk Board (ESRB).

During the subsequent exchange of views Mr GAUZÈS (EPP, FR) asked Mr DRAGHI about his role in the ESRB. Mr EL KHADRAOUI (S&D, BE) asked for Mr DRAGHI's views on the Commission's proposal on Money Market Funds (MMFs) and in particular on the mandatory move from constant to variable net asset value funds (CNAVs to VNAVs). He also asked Mr DRAGHI to elaborate on the different options to tackle the systemic risk associated with CNAVs, adding that some MEPs feared that the buffer or the conversion would be counterproductive and would create additional risks by pushing away money from MMFs into banks or abroad. Ms FORD (ECR, UK) feared potential conflicts of interest between the Commission's role on state aid and its new tasks in the Single Resolution Mechanism (SRM) and asked for advice on how to avoid that. Mr BESSET (Greens/EFA, FR) requested Mr DRAGHI's opinion on the effects of the current turbulence in emerging markets and whether they constituted a systemic risk for the EU. He also expressed concern about a contraction in the issuing of credit in emerging markets and the loose monetary policy of the US Federal Reserve (FED). Ms MATIAS (GUE/NGL, PT) asked what could be done to break the link between bank and sovereign risk and restore credit channels for SMEs.

In response, Mr DRAGHI said that he was glad to lead the ESRB and that his mandate was in the hands of the Council and the European Parliament (EP).
He reiterated the position of the ESRB on MMFs, namely that it viewed CNAV funds as entailing systemic risks and said that the US FED shared the same position.

Mr DRAGHI therefore advocated the conversion of CNAVs into VNAVs and explained that the discussion in the ESRB had taken place before the Commission's proposal of a 3% capital buffer on CNAVs for a certain period before its conversion into VNAVs and that the ESRB had not assessed it. Nevertheless, he considered it a second-best option, and noted that a 3% threshold was not meaningless, as it was considered quite expensive by the industry.

He noted that the euro area had coped quite well with the recent turbulence in financial markets and especially to the US tapering and that the bond yields of stressed countries had came out lower as a consequence of the second wave of US tapering. However he acknowledged the existence of spillovers on the emerging markets which had hit the most vulnerable economies, which had very large budget and current-account deficits, high debt levels and low levels of foreign reserves. Yet he stressed that apart from five countries, the remaining emerging economies had coped quite well. He said that emerging countries had to make their economies more resilient, that central banks from the major financial jurisdictions had to better consider their actions and their consequences on emerging markets, and that international financial institutions such as the International Monetary Fund had to improve the resilience of emerging market economies and limit the impact of spillovers of monetary policy decisions.

He said that the ESRB did not have a position on conflicts of interest between state aid and resolution decisions. Nevertheless, he was convinced that the SRM should have an independent board which should take decisions compatible with state-aid rules to protect tax payers from subsidising the banking industry. He advocated a strict separation between the two roles of the Commission in the SRM, identical to that maintained in the ECB between its monetary and supervisory competences.

He claimed that the link between sovereign and bank risk had receded to a significant extent as far as banks were concerned but that there was still fragmentation on the lending side, and that much more needed to be done to overcome that. He said that the Single Supervisory Mechanism would further reduce the link, since the whole EU banking sector would be assessed by a common supervisor and would therefore overcome suspicions about purely national assessments. However, he noted that a complete breaking of the link could only be achieved by the creation of the SRM with a common backstop that would mutualise risk at some point.

Agenda item 7 on the agenda

Any other business

There was no other business.

Agenda item 8 on the agenda

Date of next meeting

The next meeting will be held in Strasbourg on 10 March 2014.

ANNEX I

Speech by Mr Mario Draghi, ***President of the European Central Bank*** **(ECB)**

Madame Chair,

Honourable Members,

This is my last hearing in ECON before the end of this legislature. I would like to first of all thank you, Sharon, for the way you have guided this committee throughout a challenging period.

Let me also thank all of you for the frank and fruitful exchanges we have had in the last two-and-a-half years. It has been an invaluable experience for me. In these difficult crisis times, discharging accountability in front of an assembly with a true European perspective has been helpful for the public acceptance of our actions. Moreover, the hearings have always been a welcome occasion to discuss the state of Economic and Monetary Union between two genuinely European institutions and to debate about what is the right way forward. I am very much looking forward to continuing this approach with the new ECON committee from July onwards.

I would like to take the opportunity of this last hearing to take stock of the monetary policy that the ECB has conducted over the last five years and to review what has been achieved in the euro area over the course of these years. Let me then also offer our assessment of the challenges that lie ahead and that will await the new Parliament and the new Commission.

Before I start to go into detail in these three areas, let me however remind you that the next meeting of the ECB Governing Council takes place on Thursday. In view of the so-called purdah period, you will understand that I will not be able to give detailed answers on our monetary policy stance today.

Five years of monetary policy – the ECB has delivered

In the last five years, the ECB has continued to take the necessary measures with a view to maintaining price stability in the euro area.

Let me turn back to the first hearing of this Parliament's term which took place with my predecessor in September 2009. At the time, the economy was just bottoming out in the aftermath of the great contraction which had ensued after Lehman's failure. We were witnessing negative inflation rates. In this environment, the outlook was seen to be broadly in line with price stability. Inflation was projected to increase toward levels close to 2%.

The key ECB interest rates were kept on hold at the very low level to which they had been brought in several stages since the autumn of the preceding year. Some phasing-out of non-standard measures was announced.

However, in May 2010, sovereign debt markets froze in various euro area Member States. Financial fragmentation took a new and unfamiliar form, with financial conditions and the transmission of our monetary policy varying to a great extent across Member States. We responded by introducing the Securities Markets Programme, focused on purchases of government bonds.

Initially, while the economic impact of the sovereign debt crisis was limited and largely confined to vulnerable economies, the rapid global recovery put upside pressure on energy prices. This drove up inflation also in the euro area. We decided to raise interest rates in early 2011 given upside risks to the medium term inflation outlook stemming from energy prices and from ample monetary liquidity.

However, the sovereign debt crisis deepened and the euro area entered a second recession. The inflationary pressures that had emerged before receded. Therefore, we lowered interest rates in a series of steps. Stress in sovereign debt markets quickly undermined the wholesale funding conditions of banks based in those Member States. To forestall a credit crunch, we introduced refinancing operations with maturities of up to three years, in a context of full liquidity allotment at a fixed rate.

As the mutual exposures of banks and their sovereigns fed an adverse, self-reinforcing confidence crisis, investors started to fear that public and private liabilities issued in certain Member States would not be redeemed in our common currency. A significant redenomination risk arose.

As you know, the integrity of the euro area is an absolute precondition for us to be able to deliver on the mandate prescribed by the Treaty and in particular to ensure a smooth transmission of our monetary policy. In order to preserve this integrity, we thus announced our readiness to conduct Outright Monetary Transactions with the specific purpose of removing compensation for that risk from the financial pricing of securities. This announcement reversed the destabilising capital flows that redenomination fears had encouraged in spring 2012.

While financial markets had been on a steady course toward normalisation for some months, in late spring and summer of 2013 the euro area money market – not unlike elsewhere in the global financial system – became subject to external shocks. We noted a sustained increase in expected interest rates. This was unwarranted in view of our underlying macroeconomic conditions, and was not in line with the Governing Council's policy intentions. In July last year we therefore clarified the orientation of monetary policy going forward: we offered forward guidance on the future path of policy conditional on the evolving outlook for price stability.

All our measures, standard and non-standard, have been taken to serve our primary objective of maintaining price stability. And they have delivered: since June 2009 (i.e. the start of this legislature) the average inflation rate in the euro area has been 1.8%. In exceptional circumstances, our measures were exceptional. But our commitment to our primary objective has not changed, and our strategy has remained the guide of our action. Our credible commitment to these core elements is reflected in medium to longer-term inflation expectations remaining firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term.

Five years of economic and governance reforms – the euro area is more stable and resilient

The last five years have not only seen effective monetary policy-making in the euro area – we should also remind ourselves that much has been achieved in the field of economic policy-making.

Four years after the first Member States requested financial assistance, today we can safely say that the worst has been averted. The political will of all actors involved has been strong enough to defend the integrity of the euro area. Many had underestimated this will.

And more than that: Contrary to the bleak picture that some are trying to paint these days, the euro area is – in terms of economic fundamentals and institutional set-up – on a better footing than it was at the beginning of this Parliament's mandate. It is clearly moving in the right direction – the glass is at least half-full.

To a large extent, this can be attributed to the correction of economic policies at the national level. Imbalances are receding and foundations are being laid for improved competitiveness and stronger growth. This is especially true for programme countries, which have undertaken a remarkable effort to consolidate public balance sheets, repair their financial sectors and reform the structure of their economies.

Beyond national policies, the euro area as a whole has become more resilient. In these turbulent years, when the return to national remedies often looked tempting, the European Parliament with its true European perspective played a crucial role in ensuring truly European solutions. I am aware that the institutional approach that had to be taken at some instances has created some discomfort especially within your house. But overall, let us recognise what has been achieved:

First, the six-pack, the two-pack and the Fiscal Compact have made the governance framework more commensurate to the challenges of a monetary union. This was an important step towards sound public finances in the euro area.

Second, improved financial regulation (as exemplified by CRD IV and by the compromise reached on the BRRD) and the gradual steps towards a true banking union (with a single supervisor, a single resolution mechanism and a harmonised framework for national deposit guarantee schemes) will importantly reduce the risk that a crisis of the magnitude that we have just experienced will materialise again.

Third, in 2010, there had been no arrangements in place to deal with Member States losing market access. This absence had created major uncertainty in markets about the way forward. With the ESM and the two-pack, both a permanent funding instrument and a governance framework have been created. This has been a major step forward and will ensure that in the future, the euro area will be better prepared to respond to such crises.

In historic perspective, five years are a blink of an eye. In less than five years, the euro area has taken a remarkable leap forward that has kept us together. This cannot be highlighted enough in the weeks to come.

The next five years ahead – towards completing the Union

I have no doubt that from July on the next parliament will continue to assume the important role this house has played in the last legislature. The challenges that still lie ahead of us are too important and too complex to indulge in complacency. It is too early to claim “mission accomplished”.

People in the euro area are still suffering from the inevitable adjustment process following years of accumulated imbalances. Unemployment remains unacceptably high. Citizens are judging Europe on its capacity to deliver jobs and sustainable growth. The years to come are about creating a more perfect union that caters to these objectives.

Foremost, this means delivering on commitments made in the past. Member States need to keep their promises to correct imbalances and to reform the structure of their economies.

Fiscal policies have to be brought in line with the provisions of the Stability and Growth Pact and of the Fiscal Compact. Fiscal consolidation should be designed in a growth friendly manner while structural reforms will boost potential growth.

This concerns all Member States, not just those who looked at some point into the abyss of losing market access. This concerns also the European institutions. They have to ensure that common rules are thoroughly and evenly applied.

Delivering on past commitments also means keeping the promise made by Heads of States or Governments in June 2012 to complete banking union. It means swift transposition of agreed directives into national law and a stringent application of the adopted regulatory framework. It also means that a strong second pillar of banking union, a Single Resolution Mechanism, needs to be agreed before the end of this legislature.

Creating a more perfect union also requires filling the remaining gaps in the architecture of Economic and Monetary Union. A genuine and comprehensive Economic and Monetary Union as outlined in the Four Presidents Report should still remain our long-term objective.

This does not mean pushing integration as far as we can. This is neither economically necessary nor politically realistic. It means aligning economic governance and policies of Member States where appropriate to ensure that positive spillovers are enforced while negative externalities are minimised. Sharing sovereignty in crucial policy areas is certainly one way to accomplish this.

It is not for a central bank to prescribe solutions. This is a political prerogative. But it is my hope both as a central banker and as a European citizen that the upcoming electoral campaign will serve as an opportunity to engage in a debate on solutions for Europe's common way forward.

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

ANNEX II

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

Madam Chair,

Honourable Members,

It is a great pleasure for me to appear before this Committee to report on the activities of the European Systemic Risk Board (ESRB). The economic and social costs of the recent financial crisis need no reminder. Continued progress in delivering a healthier financial system is therefore essential. The ESRB plays a key role in achieving this objective. Today, I would like to update you about on-going work at the ESRB towards this end.

Developing a framework for macro-prudential policy and making it operational

Since the start of the crisis, important steps have been taken to address the weaknesses in the financial system. On 1 January of this year, new prudential rules entered into force providing a better regulatory framework for the EU banking system. I would like to acknowledge the key role played by the Parliament in its capacity as co-legislator in achieving this milestone.

With these new prudential rules in force, the EU is well placed to implement macro-prudential policy. Making this policy operational is now the challenge ahead of us. I am therefore pleased to inform you that, since my last appearance before this Committee, the ESRB has taken major steps in meeting this challenge.

As I speak, we are posting on our website a number of documents on how authorities can use the macro-prudential instruments provided for under the new prudential rules to address risks to financial stability. We expect the authorities to find the ESRB material helpful in guiding their policy action.

Europe still needs to emerge fully from the crisis. A key contribution of macro-prudential policy is to foster the build-up of buffers and the repair of bank balance sheets.

Nonetheless, the use of macro-prudential instruments may be appropriate in the near future and the ESRB material will help in their application.

There are instances of countries where there are concerns about leverage and developments in the real estate sector, and several countries have already activated macro-prudential instruments.

In the course of 2013, Sweden, for example, introduced a risk-weighting floor for mortgages and a macro-liquidity measure; the Netherlands activated a loan-to-value cap to address developments in the residential real estate sector, while in the UK, the Bank of England and HM Treasury decided to re-focus the "Funding for Lending" scheme by removing the direct incentives to expand lending to households. And only a few weeks ago, the Deutsche Bundesbank expressed concerns about the rapid development of residential real estate prices in large German cities.

The ESRB material on operationalizing macro-prudential policy in the banking sector

I would now like to say a few words on the material we have just released. Let me start by pointing out that this set of documents is our third major contribution as a catalyst for developing a macro-prudential framework in the EU.

You may recall that in 2012 we issued a recommendation addressed to Member States proposing the establishment of national authorities with a macro-prudential mandate. While our assessment is still ongoing, l can already say that the recommendation triggered a wave of legislative initiatives in the Member States. At this juncture, 19 Member States have already passed macro-prudential legislation, while bills are before parliament in four others.

Last year we backed up this recommendation with another one to provide the national macro-prudential authorities with the necessary instruments to fulfil their mandate. We wanted to make sure that the authorities have the tools at their disposal to achieve intermediate objectives that ultimately contribute to financial stability. They include objectives such as preventing and mitigating excessive credit growth, leverage, maturity mismatches and risk concentrations.

The documents we are publishing today take us a step further in operationalizing macro-prudential policy. A central feature of our material is a Handbook targeted at macro-prudential authorities.

It offers detailed, instrument-specific advice on how to design and implement macro-prudential policies for the banking sector.

The Handbook is accompanied by a short Flagship Report aimed at high-level policy makers, providing an overview on how to operationalize the new macro-prudential instruments. We also see the Flagship Report as a useful tool for communicating on macro-prudential policy to our various stakeholders, including this Parliament, in plain language.

In the Handbook we cover the whole panoply of macro-prudential instruments, going from the countercyclical capital buffer, through real estate and liquidity instruments, to instruments that address systemic banks and structural systemic risks. We systematically review each instrument, covering the objectives to be achieved with it, how its use may affect the financial system and the economy, the indicators that can be used for its activation and deactivation, as well as various legal and institutional aspects.

The Handbook also addresses a number of important themes that cut across individual instruments, including:
how to select the most appropriate instrument for a given risk;
how to reduce the bias towards inaction that authorities face when confronted with immediate costs but only longer-term benefits when using an instrument;
how to communicate to the wider public on macro-prudential policy;
and, how to take into account the effects on other countries that the use of an instrument has.

The role of the ESRB under the new prudential rules

This last point brings me to the role of the ESRB under the new prudential rules. We have been entrusted with a number of new tasks, in addition to our general authority to issue warnings and recommendations. These tasks include providing guidance, opinions and recommendations on selected macro-prudential instruments. We are also asked to participate in the consultation on the review of the prudential rules.

We will need to build a solid infrastructure and economic framework to cope with these new demands. But here too, we are well on track.

Drawing on our membership, we have created a team that will assess the various macro-prudential policy measures to be notified to the ESRB under the new rules; this team will also assist the ESRB in preparing its opinions. To ensure consistent application throughout the EU, we are furthermore working on guiding principles to authorities for the setting of rates for the countercyclical capital buffers. I intend to update you on both initiatives when I next appear before this Committee.

Looking ahead

Madam Chair, Honourable Members, let me conclude with a brief look into the future at some key strategic challenges for the ESRB.

Our additional tasks under the new prudential rules will force us to strengthen our systemic risk and policy analysis. We will also have to strengthen our role in monitoring and guiding macro-prudential policy in the EU. At the same time we will need to examine our decision-making process to meet the tight deadlines foreseen by the legislation to provide our opinions.

I firmly believe that the new rules also provide us with a great opportunity. The ESRB can become the central hub for the collection and dissemination of information about macro-prudential policy measures in the EU. As a first step, we have already established a space on our website where we will publish all national measures that are brought to our attention in relation to our very first recommendation on lending in foreign currencies.

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