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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 1 April 2014 Chair: Ms Lulling (EPP, LU)

ECON agreed to table for plenary the texts agreed between the European Parliament and the Council on three codecision files including the SRM. The Committee also held a public hearing on the prospects of establishing a debt joint issuance scheme. The Group of Experts from the Commission concluded that joint issuance schemes could never replace the efforts required to reduce debt and that it would be prudent first to gain experience of the reformed economic governance in the euro area before taking any decision.

Agenda item 1

Adoption of the agenda

The agenda was adopted

Agenda item 2

Public Hearing: The prospects of establishing a debt redemption fund and introducing Eurobills - Presentation of the final report

ECON/7/15527

In their introductory statements, the Commission Expert Group presented their findings.

Ms BÉNASSY-QUÉRÉ, Professor, Paris School of Economics, Paris 1 University, and Chairperson, French Council for economic analysis, said that the joint issuance of debt had three distinct objectives: to enhance debt sustainability by reducing refinancing costs in normal times, to enhance debt market stability by reducing roll-over risk and refinancing costs in crises times, and to contribute to financial re-integration and stability. She pointed out that a single instrument would not fulfil all objectives.

Ms TUMPEL-GUGERELL, Chair of the Group, listed some of the options considered. She cited the creation of a debt redemption fund by transferring existing government debt above a certain threshold into a common fund. She pointed out that a fund with joint and several guarantees would lower rates for countries with higher debt and reduce debt overhang, whereas a fund with pro rata guarantees would not achieve the interest rate savings necessary to reduce the debt overhang. She stressed that the creation of a debt redemption fund would entail substantial commitments and Treaty change, and could potentially reduce the need for recipient countries to meet their obligations and raise interest rates for countries with high credit quality. It would also imply setting strict fiscal and economic policy rules in advance which she considered would not always be easy to comply with.
The group therefore also considered a smaller fund with an equal share of debt in terms of percentage of GDP from each country and with a shorter lifespan which would mitigate some of the risks but would not solve the problem of starkly differing debt levels among euro area countries. It also envisaged the creation of Eurobills through the joint issuance of short term government paper. Ms TUMPEL-GUGERELL pointed out that Eurobills could have either joint and several or pro rata guarantees, a lifetime of 10 to 25 years, and that the size of the fund would depend on the maturities covered. She explained that, unlike Eurobills with pro rata guarantees, Eurobills with joint or several guarantees would require Treaty change. In both cases, she warned against overreliance and

moral hazard which could be minimised by binding commitments, additional EU intervention powers, financial incentives and the threat of exclusion from joint issuance schemes.

Moreover, Ms TUMPEL-GUGERELL preferred the use of the Community method and advocated parliamentary accountability/scrutiny.

Ms WEDER DI MAURO, Professor of International Macroeconomics at the University of Mainz in Germany, explained that, unlike other joint issuance schemes, a deposit redemption fund was a one-time flow operation that would prevent a bail-out regime in the Euro area in the long run and that membership should be granted to countries in good standing and should be extendable to countries which had successfully completed an adjustment programme.

Mr BISHOP, consultant, expert in European economic and financial affairs, concluded that only a pro rata guarantee would be politically and legally feasible at present and so proposed a Temporary Eurobills Fund (TEF), which could come into operation without any Treaty change and with as much as possible of the technical structure of coordination under EU regulation and with the decision-making structure made up of Finance Ministers. He claimed that such an option would serve both as an insurance policy against future crises and as a series of small but reversible steps towards deeper integration.

Mr VIHRIÄLÄ, Director of the Economic Research Institute for the Finnish Economy (ETLA), said that financial penalties would tend to further weaken the debt sustainability of a country. He felt that the EU lacked the necessary conditions and tools to prevent moral hazard regarding debt mutualisation and referred to the differences that existed among experts on both the gravity of moral hazard and on the feasibility of different arrangements for limiting it. Some did not consider the problem overwhelming in the case of small pro rata and experimental Eurobill schemes combined with the current governance mechanism, whereas others viewed moral hazard as a potentially serious issue and excluded market discipline as a feasible way to contain it, proposing instead the reinforcement of economic governance at EU level. Mr VIHRIÄLÄ viewed market discipline and a mechanism for orderly sovereign debt restructuring as indispensable in order to contain moral hazard in the long term, either alone or as a complement to reinforced governance.

The group therefore concluded that joint issuance schemes could never replace the efforts required to reduce debt and that it would be prudent first to collect experience with the reformed economic governance in the euro area before taking any decision on schemes of joint issuance.

In the debate that followed, Ms THYSSEN (EPP, EP) said that the report had failed to provide concrete answers. She called for additional discipline and appropriate legal certainty, and questioned the need for debt mutualisation as a political orientation for the EU in the short term. Ms FERREIRA (S&D, PT) was concerned with the current debt and growth levels in the EU. She asked if the group had envisaged any transitional solutions to mitigate speculation on sovereign debt. Mr TREMOSA I BALCELLS (ALDE, ES) advocated a strong democratic mandate to underpin the joint issuance of debt and considered Eurobills more realistic than a redemption fund. He also raised the question of the adequate level of conditionality and of EU powers over national budget policies. Mr STREJČEK (ECR, CZ) linked the joint issuance of debt with the political will to relinquish some sovereignty. He quizzed the group on the expected yield of the Eurobills and on the type of collateral required to ensure their creditworthiness. Mr LAMBERTS (Greens/EFA, BE) questioned the need for an intergovernmental agreement and the cost of not doing anything regarding the pooling of debt. Mr LANGEN (EPP, DE) asked if it would be possible to have a zero risk weight for sovereign bonds and Ms PODIMATA (S&D, EL) asked whether the current economic governance framework sufficed to address moral hazard, while Ms BERÈS (S&D, FR) advocated Treaty reform to enable a fully-fledged solution.

In response, Ms TUMPEL-GUGERELL admitted that the current levels of debt overhang remained a serious obstacle to robust growth in the EU. She said that the degree of cooperation and solidarity among participants would determine the level of conditionality and of EU intervention in national budget policies, and that Eurobills only required capital as a basis for quality. She also noted that Eurobills would have a greater impact on stability than on pricing (sovereign bond market). Mr BISHOP said that his TEF proposal depended only on political will and that the expected yield of Eurobills would be mostly based on the European Central Bank's repo rate since most Eurobills would be held by banks.
Ms TUMPEL-GUGERELL explained that the competencies enshrined in the Treaty did not allow for the establishment of a scheme of joint issuance and therefore justified either an intergovernmental agreement and/or Treaty change. Mr BISHOP added that at present the Treaty only referred the coordination of fiscal policy and not to prohibiting Member States from issuing short term bonds through the TEF. Ms TUMPEL-GUGERELL said that joint issuance schemes could not replace the need for fiscal reform but could mitigate some of the effects of the policies required to reduce debt overhang. Moreover, she held that such schemes should be perceived as a political choice to pursue further integration.

Ms WEDER DI MAURO noted that the cost of not dealing with the issue of debt overhang could be potentially high and that the pooling of debt was not the only instrument available. Ms BÉNASSY-QUÉRÉ claimed that it was essential to discuss legacy assets in parallel with fiscal capacity at EU level and risk sharing. Mr VIHRIÄLÄ reiterated the need to have all the necessary measures in place to avoid moral hazard since it would be very difficult to correct the situation once a joint issuance scheme had been set up. Mr BISHOP mentioned that a TEF could be followed by a debt redemption fund which would require Treaty change and additional market discipline from banks and governments. He claimed that Eurobills would be the safest possible and most liquid asset in the euro area for banks, and proposed setting up a system that would discourage banks from holding government bonds as a major asset class. Finally, Ms TUMPEL-GUGERELL advised the Committee to consider carefully the risks when envisaging joint issuance schemes since it could create additional burdens and instability.

Agenda item 3
Chair's announcements

Ms LULLING (EPP, LU) told the Committee that the European Parliament had adopted its first reading position on the Market Abuse Regulation on 10 September 2013 and the Market Abuse Directive on 4 February 2014, upon reaching political agreement with Council before the legal linguistic verification of both texts. She explained that the revision by lawyer-linguists of the EP and the Council had been completed and that the revised texts would be presented in the form of corrigenda for examination by the Committee in accordance with Rule 216 of the Rules of Procedure and that, in the absence of any objections from the committee, the corrigenda would be announced at the April I part-session in Brussels and would be deemed approved unless a request was made by a political group or at least 40 Members that the corrigendum be put to the vote.

She also announced that a first-reading agreement on the Payment Accounts Directive had been reached on the 20 March. She said that the main elements of the agreement reached included the obligation for Member States to set up a system for ensuring the right of access to a basic payment account for consumers across the union, rules for enhanced transparency and comparability of payment accounts, harmonised rules for national switching of payment accounts, and specific rules to facilitate the opening of accounts by consumers cross border. She added that COREPER was

expected to approve the agreed text on 4 April and the Committee would be reconsulted in accordance with rule 70 on 7 April in order to table it for plenary in April II.

Agenda item 4

Reconsultation of the Committee: (Rule 70 of the Rules of Procedure):

Uniform rules and procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund (rapporteur: Elisa Ferreira)

Rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the EU (rapporteur: Andreas Schwab) Statistics relating to trading of goods between Member States as regards conferring of delegated and implementing powers upon the Commission for the adoption of certain measures, the communication of information by the customs administration, the exchange of confidential data between Member States and the definition of statistical value (rapporteur: Hans-Peter Martin)

ECON/7/12108

Ms LULLING (EPP, LU) noted that the agreement on the Single Resolution Mechanism ensured that the Executive session of the board would be in charge of all resolution cases unless a significant share of the fund was used, in which case the plenary would have a say on the use of the fund. She said that the agreement also provided for the simplification of the decision-making process so that decisions on resolution could be effectively taken within a weekend and that the Council would be involved only at the Commission's express request, and to assess the public interest criteria or to approve greater or lesser use of the fund proposed by the Commission. She stressed that the Council had agreed that the borrowing capacity of the fund would be enhanced and that the period for both the mutualisation and the pay in for the fund would be shortened from ten to eight years (40% in the first year and 20% in the second year). She added that the text agreed between the European Parliament (EP) and the Council would be submitted to the Committee and tabled for vote in plenary together with the Deposit Guarantee Scheme and the Bank Recovery and Resolution Directive during the April II session. She also pointed out that the text that would be put to the vote was a non-finalised version and would require further revision by lawyer-linguists from both institutions until mid-May. The EP would then be reconsulted through the written procedure on the corrigenda which should then be announced during the July plenary session and deemed approved unless an objection was raised within 24 hours. She added that the adoption of the final

text by the Council and the signature of the regulation would follow in July or September and would then be published in the Official Journal.
Mr LANGEN (EPP, DE) asked if the weighting of bank contributions was covered by a risk assessment and set out by a Council Regulation.
Mr GIEGOLD (Greens/EFA, DE) said that this was the case and that the EP had obtained agreement from the Commission that a delegated act in the implementing framework had to be provided at the same time as the Council's legal act, so that the EP would have the possibility to look into the delegated act and take it hostage if it considered the result of the Council Regulation to be inappropriate. He viewed this as a weakness in the agreement since the Council Regulation would deal with EUR 55 billion. Mr LANGEN believed that the Council would find a suitable risk-based approach.
Ms FERREIRA (S&D, PT) noted that the delegated acts would require the next EP to monitor carefully the ratification process of the intergovernmental agreement and that, as from 2015, the EP would have to produce a monthly follow-up report covering the ratification process. She said the next EP and Committee would need to make sure that all the political commitments were respected.
Mr GIEGOLD viewed the intergovernmental agreement as a serious precedent since the EP had accepted for the first time that an intergovernmental agreement had been included in parallel with a codecision procedure. He proposed considering challenging such an approach in the European Court of Justice. Despite considering the legal and democratic aspects highly questionable, he justified the agreement owing to the urgent need to complete the banking union.

Finally, the Committee decided to table the three agreed texts during the April II plenary session.

Agenda item 5
Any other business

There was no other business.

Agenda item 6
Date of next meeting

The next meeting will be held in Brussels on 7 April 2014.