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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Partial summary record of the meeting of the **Committee on Economic and Monetary Affairs (ECON)** of the European Parliament, held in Brussels on 21 January 2015 - Items 4-8 and 11

- **The committee discussed the priorities of the Latvian Presidency, focusing on Latvia's experience, flexibility and the implementation of the investment plan. The presidency's approach to these issues was broadly welcomed by centre-right groups, while somewhat more sceptical views were expressed from the left.**
- **During the discussions on Money Market Funds, despite differences, several groups, including EPP, expressed readiness to work towards a compromise in view of achieving a robust EP position. In contrast, the groups remained clearly divided on bank structural reform.**
- **ECON's report on the ECB Annual Report 2013 was adopted by a large majority.**

4. Money market funds

ECON/8/00218, 2013/0306(COD)

Rapporteur: Ms GILL (S&D, UK)

- Consideration of amendments

Ms GILL gave an overview of the more than 700 amendments tabled. She stressed that despite these numerous amendments, the groups shared many objectives. There was cross party support to broadening the type of corporate debt MMFs could invest in, in particular towards asset-backed securities of high quality, and to include 'repo' contracts. There was also considerable support to the prohibition of sponsorship of MMFs by banks. Regarding diversification and liquidity requirements, a variety of figures had been put forward but a compromise could probably be reached. She also welcomed the support for increased transparency. The main political differences concerned the approach toward Constant Net Asset Value (CNAV) MMFs, on which several options had been proposed. The rapporteur also shared the concerns expressed by the Greens and GUE/NGL in terms of making sure that there would be no link with tax havens. She stressed the importance of striking a fair and balanced compromise and called on the groups to show some flexibility in order to avoid a blockage.

In the discussions several shadows (EPP, ECR, ALDE, GUE/NGL) responded positively to this call, expressing their readiness to be constructive in view of achieving a robust EP position. Regarding the main issues:

- Mr HAYES (EPP, IE) stressed the importance of having a proportionate approach and respecting the fact that the industry had different forms. He took the view that regulating CNAV MMFs out of existence was not the way to go. He also presented his compromise package based on three types of new MMFs: retail CNAV MMFs available to charities and small local investors, government MMFs that would have to invest 99.5% of their assets in government securities, and low volatility MMFs.
- Mr KAMALL (ECR, UK) agreed that it was important to address the problems of CNAV MMFs without killing them off. He stressed in particular the importance of diversification and suggested looking for a compromise around liquidity fees and redemption gates.
- Mr JEŽEK (ALDE, CZ) took the view that the most reasonable and balanced option was that of variable share CNAV MMFs as it preserved the main CNAV MMF characteristics while addressing the most important concerns.

- Mr DE MASI (GUE/NGL, DE) suggested following the approach of the International Organization of Securities Commissions (IOSCO) and the European Systemic Risk Board and treating CNAV MMFs as banking like activities, regulating them accordingly. He took the view that retail investors were not to invest in CNAV MMFs due to possible misunderstandings about their nature and proposed phasing out CNAV MMFs in the coming five years.
- Ms JOLY (Greens/EFA, FR) said the her group was in favour of reinforcing the Commission proposal providing for a transition period for converting CNAV MMFs into VNAV MMFs.
- Mr WOOLFE (EFDD, UK) took the view that there was no problem in this particular market in Europe and warned against unintended consequences of new regulation, possibly driving MMFs out of Europe.

Mr LAMASSOURE (EPP, FR) also took a cautious approach, taking the view that it was important to take more time for the debate to make sure that the proposal was properly worked through. The Commission representative, on the other hand, called for more rapid action and said that, on balance, the Commission saw a lot of merit in applying bank-like regulation to CNAV MMFs (amendment 397 and related).

Ms GILL concluded by insisting that it was time to make progress and promised to put forward some compromises for discussion at the shadows meeting scheduled for 26 January. She also asked the Commission for more background information on the variable share and low volatility NAV MMF proposals.

Timetable:

- Vote in ECON: 23 or 24 February
- Plenary vote: March II session

5. European Central Bank Annual Report for 2013
ECON/8/00962, 2014/2157(INI)
- Adoption of draft report

The report was adopted as amended with 39 votes for, 10 votes against and 8 abstentions.

6. Economic Dialogue and exchange of views with Janis Reirs, ECOFIN President and Minister for Finance of Latvia

ECON/8/02466

In his introductory statement Mr REIRS argued that in the current context of uneven recovery, insufficient growth and high unemployment it was important to continue to implement structural reforms and sound fiscal policies, while also promoting investment. The Presidency would not spare efforts to implement the investment plan, aiming to reach an agreement on the European Fund for Strategic Investments (EFSI) within the Council by mid-March. It would also implement the streamlined European Semester, continue discussions on better economic governance, facilitate the implementation of the Banking Union and actively work on financial market regulation, bearing in mind the overarching goal of facilitating credit flows toward the real economy. An extensive exchange of views on the setting-up of a Capital Markets Unions was planned and tackling tax evasion would be given particular attention.

In the debate several comments and questions from MEPs concentrated on Latvia's experience with austerity policies and its assessment of the necessary policy mix in the current economic situation. Mr BALZ (EPP, DE) congratulated Latvia on its reforms, while Mr VIEGAS (GUE/NGL, PT) pointed out its severe social costs. Mr KARIŅŠ (EPP, LV) asked Mr Reirs as former Chair of the budget and finance committee in the Latvian parliament to give his views on how fiscal discipline could go together with investment.

In reply Mr REIRS stressed that the reforms carried out in Latvia had led to one of the highest growth levels in Europe, while unemployment had decreased considerably by now. He pointed out that during the period of austerity in Latvia investments had actually grown as all the financing available to Latvia had been directed toward co-financing cohesion fund projects. All these measures together had led to renewed trust in the state among businesses, which meant that they had started investing again.

Asked what the Presidency intended to do for growth beyond promoting financial discipline and structural reforms, he agreed that countries could not come out of the crisis with just those elements. Therefore, the Latvian presidency attached great importance also to investment and the single market. The Minister stressed, however, that investment without structural reforms and discipline would lead to just more debt.

In this context he welcomed the Commission communication on flexibility, which made the Commission's intentions in this regard much more clear for the Member States. However, as a Latvian minister he was also pleased that the Commission was going to use flexibility without changes in legislation, leaving the fiscal discipline and structural reform objectives intact.

There were also a number of questions from MEPs about the investment plan. Mr BALZ wanted to know how the Presidency was going to make sure that the best projects would be selected. Ms GILL (S&D, UK), on the other hand, argued that the idea had been to look at projects that had not been able to attract bank finance and Mr ZĪLE (ECR, LV) expressed concerns that most of the projects would be carried out in Western Europe and not peripheral countries. Mr Reirs pointed out that in the current context it was important to avoid additional spending in the state budgets, which is why solutions had to focus on private funding and investments had to pay back. It was clear that large projects in large Member States were going to materialize, but there were large projects also in small Member States, like Rail Baltic, and part of the money was earmarked for SMEs. Therefore the distribution of funding was going to be rather even and there was going to be money available also for the new Member States. As to the possible overlapping between cohesion funds and EFSI, raised by Ms MALETIC (EPP, HR), he pointed out that 80% of the money from the cohesion funds was flowing to the new Member States. The fear that cohesion investment would be reduced had not materialized.

Mr REIRS also received questions on the democratic legitimacy of the Troika, a possible Greek government debt conference, expected ECB measures and problems with Swiss franc denominated loans. The minister suggested, as regards the Troika, that first the Four presidents' report would have to be presented and on this basis Member States would decide on the further steps to be taken. As to monetary policy, this was an ECB prerogative and its independence had to be safeguarded. While Swiss franc denominated loans were a serious issue, planning some kind of a compensation mechanism, paid by taxpayers, would go against the general direction in the EP during the previous term of not making taxpayers pay for the financial losses incurred by private actors.

Ms GILL (S&D, UK) also raised the issue of fair taxation and taking the MMFs (money market funds) file forward in the Council. Mr REIRS reiterated, in reply, that taxation issues were an important priority for Latvia. In the wake of the crisis the country had taken several measures at the national level to deal with the problem of tax evasion and it was ready to move the different files forward in the Council as soon as they were ready. As to the MMFs file, while progress was desirable, some issues continued to be sensitive in the Council and the Commission had been asked to undertake further analysis and propose solutions. Work would resume once the Commission provided this new input.

7. Structural measures improving the resilience of EU credit institutions
ECON/8/00346, 2014/0020(COD)
Rapporteur: Mr HÖKMARK (EPP, SV)
- Consideration of draft report

Mr HÖKMARK (EPP, SV) stressed the overarching priority of supporting growth and jobs and emphasised that the investment plan would need to be supplemented by further bank lending. He therefore urged the groups not to threaten the universal banking model through preconceived separation. Liquidity provision by big banks, re market making, had to be preserved to support the economy. Irrespective of the model, banking measures had to rather follow a risk based approach and supervisors had to have the ability to call for more capital or separation. More generally, the rapporteur stressed the importance of proportionality in devising new measures given the work already undertaken (bail-in rules, improved capital requirements and enhanced supervision).

In the discussions his proposals were generally well received by EPP, ECR and ALDE, while S&D, GUE/NGL, Greens/EFA and EFDD remained more critical:

- Mr VON WEIZSÄCKER (S&D, DE) pointed out that despite new banking regulation the too-big-to-fail problem had not been solved. He stressed the importance of stopping implicit subsidies going to banks' trading activities and took the view that it was their focus on trading activities that prevented big banks from lending to the real economy. He also warned against relying too much on risk models, which involved subjective elements. He further argued that separation decisions were not to be triggered entirely based on the notion of resolvability, as proposed by the rapporteur, because in this case the more systemic considerations would be neglected. Regarding market making, he pointed out that, from an economic perspective, it was difficult to distinguish it from proprietary trading, which is why he suggested looking at the size of banks' total trading book and deciding on a threshold beyond which separation would be called for. As regards accommodating UK's legislation, he warned against the risk of renationalising decisions on too-big-to-fail institutions within the Banking Union.

- Mr KAMALL (ECR, UK), while stressing that his group supported the rapporteur's approach, raised questions about relying on bail-in during a systemic crisis. He also pointed to the remaining problem of cross-subsidization and called for more work to be carried out on better distinguishing between core and non-core banking activities.
- Ms GOULARD (ALDE, FR) stressed the importance of horizontal investment concerns and preserving the international competitiveness of European banks. She also warned against a fragmentation of the single market in case national legislation was applied in some Member States.
- Mr DE MASI (GUE/NGL, DE) largely supported the main S&D arguments. He disagreed that too-big-to-fail institutions were conducive to growth, pointed to the problem of interconnectedness in the banking sector, warned against relying on banks' internal risk models and called for establishing clear guidelines for the supervisors on when separation would have to be triggered. He was more open regarding the derogation issue, however, considering it important to find a solution for meeting the UK's concerns, while avoiding a renationalisation of responsibilities.
- Mr LAMBERTS (Greens/EFA, BE) argued along similar lines and warned against watering down the Commission proposal based on bank lobbying. In addition, he called for a wide scope of the regulation, covering all SSM banks and not just the 30 banks contemplated by the Commission. He also advocated a robust definition of core banking activities and proprietary trading.
- Mr ZANNI (EFDD, IT) argued in favour of strong rules and stressed the importance of looking at the size of banks' derivatives positions.

Mr HÖKMARK concluded by commenting on the issue of systemic shocks. In his view, a possible systemic risk build-up leading to the next crisis would in future rather stem from the macroeconomic environment (weak growth) and the interconnectedness of financial actors than from an excessive size of banking players. He argued, instead, that increasing the number of specialized banks and forcing some of them out in the shadow, with less supervision, would be harmful from the point of view of systemic risks. Also, he did not agree that he was watering down the Commission proposal by focusing on risks and resolvability and argued that, in this way, he also dealt with systemic risks in the context of "unknown unknowns". Finally, he took the view that the need to get investment to move in Europe was going to be the litmus test for this file.

Timetable:

- Deadline for amendments: 30 January
- Consideration of amendments: 23 February
- Vote in ECON: 23 March
- Plenary vote: April session

8. Reporting and transparency of securities financing transactions
ECON/8/00344, 2014/0017(COD)
Rapporteur: Mr SORU (S&D, IT)
- Consideration of draft report

Mr SORU (S&D, IT) said that his ambition had been to improve the Commission proposal on a number of key issues, including:

- improving the terminology ("reuse" of collateral) and fixing the challenge of adapting the list of covered transactions (with a delegation to the Commission to extend it in future);
- the imposition of a Legal Entity Identifier (LEI);
- the extension of disclosure requirements to credit institutions and listed companies to achieve enhanced transparency on volumes;
- clarifying the requirements applicable to central banks and their counterparts (exemptions mitigated by the obligation for central banks to provide information to other public authorities);
- achieving safer markets through a cap on the number of times securities can be reused and through haircuts on collateral.

This latter addition was a totally new area with respect to the Commission proposal. Whilst it drew inspiration from a November 2014 Financial Stability Board (FSB) report, ESMA would be empowered to take stock of final FSB work and incorporate it through technical standards.

On behalf of the political groups Ms HÜBNER (EPP, PL), Ms SWINBURNE (ECR, UK), Mr DE BACKER (ALDE, BE), Ms KARI (GUE/NGL, DK) and Ms JOLY (Greens/EFA, FR) took the floor. The main issues in the draft report which received cross-cutting criticism included mandatory haircuts, where EPP, ALDE and ECR urged caution pending the completion of FSB work in 2016, and extension of disclosure requirements, which was also challenged by the centre-right groups. Specific criticism concerned ESMA's empowerment, most particularly on haircuts (EPP) and the definition of reuse, which was considered too narrow by EPP, whereas ALDE criticised the extension to title transfer collateral arrangements. EPP, ALDE, GUE/NGL and the Greens also raised the issue of central banks and their counterparties, arguing against complete exemption.

Responding to these concerns, Mr SORU showed some openness to review the implementation deadlines for haircuts, to give time to ESMA to consider final FSB standards. He was also ready to consider expanding the list of transactions included, while also relying on the delegation to the Commission to allow it to take up other transactions that were not covered. Regarding the exemption of central banks and their counterparties, he agreed that some compromise would have to be found between a full exemption and the need for transparency.

In his intervention the Commission representative urged caution on haircuts, referring to FSB timelines and the legal problems concerning a possible delegation of powers to ESMA when the legislator did not yet know what it would have to delegate, and having regard to the Court of Justice's Meroni case-law. He commended the rapporteur's work on the definition of reuse, whilst suggesting that he look at the Council text on this. He also agreed that a solution had to be found to the issue of central banks, probably based on central banks' mandatory information sharing with public authorities. Finally, he expressed a positive opinion on the extension of disclosure requirements to banks and listed companies and the requirement on double-side reporting.

Timetable:

- Deadline for amendments: 3 February
- Consideration of amendments: 23 February
- Vote in ECON: 23 March
- Plenary vote: April session

11. Next meetings

– Monday, 26 January (afternoon) and Tuesday, 27 January (full day)