Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 6 November 2015

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 10 November in Brussels

The Council is expected to adopt conclusions on the development of a ***capital markets union****, in the light of a Commission action plan.*

It is due to adopt conclusions on ***climate change****, as part of the EU's position on a new climate agreement to be adopted at a UN conference in Paris in December 2015.*

The Council will discuss proposals for strengthening ***economic and monetary union****, as well as bridge financing for the EU's single* ***resolution fund for banks****.*

The agenda also includes implementation of ***banking union*** *and the follow-up to* ***G20 and IMF*** *meetings. The Council is furthermore expected to repeal the EU's directive on the* ***taxation of savings income****, eliminating an overlap that has developed with the strengthening of measures to prevent tax evasion.*

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The ***Eurogroup*** *will meet on Monday 9 November at 15.00. It will discuss Greece's economic adjustment programme, post-programme surveillance in Spain and implementation of banking union. The Eurogroup will discuss the economic situation in the euro area, in the light of the Commission's autumn economic forecast, as well as proposals for strengthening economic and monetary union.*

On Tuesday 10 November at 8.30, ministers will meet their counterparts from the ***EFTA countries****, Iceland, Liechtenstein, Norway and Switzerland, to discuss economic growth and structural reforms.*

At 10.30, they will hold a breakfast meeting to discuss the ***economic situation****, in the light of the Commission's autumn economic forecast. They will also discuss the ongoing* ***refugee crisis****: the Commission will report on how it intends to deal with refugee expenditure under the Stability and Growth Pact, the EU's fiscal rules; and the Council of Europe Development Bank and the European Investment Bank will report on action taken.*

The Council meeting is scheduled to start at 11.30.

Press conferences:

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday lunchtime).*

Eurogroup agenda highlights

Press conferences and public events by video streaming

Video coverage in broadcast quality (MPEG4) and photo gallery

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1 This note has been drawn up under the responsibility of the press office.

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Capital markets union

The Council is expected to adopt conclusions on the Commission's action plan for the development of a capital markets union.

The plan, published on 30 September 2015, is aimed at establishing a fully functioning EU capital markets union by the end of 2019.

It sets out a variety of measures to strengthen capital markets so as to attract more investment, including foreign investment, for European companies and infrastructure projects. One of the main aims is to improve access to finance for European SMEs and start-ups, especially in innovative industries.

The Council is expected to welcome the plan, responding to the various priorities for action identified therein.

Capital markets have expanded over recent decades in Europe, but remain fragmented. Bank financing remains the predominant source of financing for businesses. The Commission considers that stronger capital markets would make the financial system more resilient to shocks, as it would broaden the range of available funding sources.

According to the Commission, medium-sized companies in the United States receive five times more funding from capital markets than their counterparts in the EU. This is equivalent to a €90 billion investment shortfall over the 2008-13 period.

Whilst the aim is to reduce reliance on bank financing, banks will continue to play a central role in the financing of businesses. They will also themselves play a key role in the capital markets union.

Publication of the action plan follows a public consultation by the Commission on the basis of a green paper it published in February 2015. The Council adopted conclusions already in June, welcoming the initiative.

The plan is broader in scope than Europe's banking union, as it encompasses all 28 member states. It will require a number of steps, with action at different levels (EU, national or subnational), both legislative and non-legislative, depending on the issues to be addressed.

Measures foreseen for the short term include three legislative proposals:

- a legal framework for the securitisation of financial assets. This includes a regulation introducing criteria to identify simple, standardised and transparent securitisation. It also involves changes to the EU's regulation on capital requirements, reflecting a closer relationship between the riskiness of a securitisation and the prudential capital required from banks and insurance companies investing in it;
- changes to the EU's "Solvency II" regulation on insurance, to make it easier for insurers to invest in infrastructure and European long-term investment funds;
- a review of the directive on the publication of prospectuses for the trading of securities, with the aim of reducing administrative burdens, in particular for SMEs.

The Financial Services Committee and the Economic and Financial Committee have prepared conclusions for adoption by the Council.

The draft conclusions welcome the Commission's first package of specific proposals and initiatives, and emphasise the need for an ambitious agenda also for the longer term. They highlight the opportunities that the action plan presents for all member states, including those with less-developed capital markets. They recall that well-functioning cross-border capital markets benefit the smooth transmission of monetary policy and facilitate private risk sharing.

- Draft October 2015 Council conclusions on the capital markets union
- Commission action plan on capital markets union
- June 2015 Council conclusions on the capital markets union

Implementation of banking union

The Council is expected to briefly take stock of implementation of Europe's banking union.

The Commission will provide an update on:

- ratification of an intergovernmental agreement on the single resolution fund (SRF), for which the deadline is 30 November 2015. Entry into force is scheduled for 1 January 2016;
- transposition of a directive on bank recovery and resolution;
- transposition of a directive on deposit guarantee schemes.

At its meetings on 10 March, 19 June and 6 October 2015, the Council called on member states to speed up and complete transposition and ratification measures at national level.

The 19 countries of the euro area are participating in the banking union, whilst seven other member states have indicated their intention to also participate.

The single resolution fund is part of a single resolution mechanism (SRM) aimed at ensuring the orderly resolution of failing banks. Established by regulation in July 2014, the SRM will be applicable from 1 January 2016.

Entirely financed by banks, the SRF is being set up for possible intervention in resolution cases along with the bail-in of shareholders. It will be built up over eight years to reach an estimated €55 billion. The fund's target level is at least 1% of the covered deposits of all credit institutions in the participating member states.

The intergovernmental agreement on the SRF contains provisions on the transfer of contributions to the fund and the mutualisation of those contributions.

A single resolution board will be responsible for putting into place a resolution scheme in the event of a bank being placed into resolution. It will determine the resolution tools to be applied, and decide on the use of the single resolution fund. The board's six full-time members were appointed in December 2014, and Elke König took office as president of the board on 1 March 2015.

The bank recovery and resolution directive identifies the powers and instruments at the disposal of national authorities to resolve failing banks. It sets out to preserve essential bank operations and minimise taxpayers' exposure to losses in the event of a bank being resolved. Unlike the SRM, it applies to all 28 member states. It was adopted in May 2014.

For member states participating in the banking union, national resolution funds set up under the directive as of 1 January 2015 will be replaced by the SRF as of 1 January 2016.

The directive on deposit guarantee schemes (DGS) requires all banks to join a DGS so that deposits of up to €100 000 are protected. It sets requirements for supervision and for regular stress tests of such schemes.

- Press release on the adoption of the regulation establishing the SRM
- Press release on the signature of the intergovernmental agreement on the SRF
- Press release on SRF contributions and the appointment of members of the SRB
- Press release on the adoption of the bank recovery and resolution directive
- Press release on the Council's approval of the directive on deposit guarantee schemes

Bank resolution - Bridge financing under the single resolution mechanism

The Council will discuss bridge financing for the EU's single resolution fund (SRF) for banks during its initial phase when the fund's resources are not yet fully mutualised.

Ministers will be asked to endorse the approach suggested by the chairman of the Economic and Financial Committee (EFC), with a view to approving bridge financing rules at the Council's meeting on 8 December 2015.

Under the envisaged approach, the member states would establish national credit lines to back up their respective national compartments in the SRF. An agreement is necessary before the end of the year, because the SRF will be operational on 1 January 2016.

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Situations may arise where the SRF is insufficiently funded to handle calls on it for the purposes of bank resolution. During the eight-year transition period, bridge financing will be necessary to face up to such eventualities.

In December 2013, ministers committed to putting into place before 1 January 2016 "a system by which bridge financing would be available as a last resort and in full compliance with state aid rules".

In a statement, they agreed that during the transition period, bridge financing would be available either from national sources or from the European Stability Mechanism (ESM), the eurozone's crisis resolution agency. A common backstop would be developed during this period to facilitate borrowings by the SRF. It would be fully operational at the latest after ten years.

At an informal meeting in Luxembourg in September 2015, finance ministers discussed the operational arrangements for bridge financing. National credit lines were considered to be the most feasible solution for the short term. An ESM credit line to the SRF was also discussed, but this solution requires further work.

The EFC and a working group have worked intensively on a term sheet for national credit lines and on a draft loan agreement. However some issues remain, in particular the time schedule for the payment of national credit lines to the SRF and national approval procedures.

The Council will be called on to resolve these issues.

- Statement of Eurogroup and Ecofin ministers on the SRM backstop
- Press release on the adoption of the regulation establishing the SRM
- Press release on the signature of the intergovernmental agreement on the SRF

Economic and monetary union - "five presidents'" report

The Commission will present a package of measures to implement the so-called five presidents' report on the further development of the EU's economic and monetary union (EMU).

The Council will hold a first exchange of views.

The five presidents' report was submitted to the European Council in June 2015. It was prepared by the president of the Commission, in close cooperation with the presidents of the European Council, the Eurogroup, the European Central Bank and the European Parliament.

The European Council will revert to the matter at its meeting on 17 and 18 December, in the light of discussions within the Council.

The Commission’s package, issued on 21 October 2015, contains two legal acts that will require a decision by the Council:

- a proposal for a decision aimed at progressively establishing unified representation of the euro area within the IMF;
- a draft recommendation on the establishment of national competitiveness boards within the euro area.

The economic and financial crisis exposed a situation where unsustainable policies in some member states can undermine the development of the euro area as a whole. It uncovered shortcomings in the EU's economic governance framework. Despite progress made in recent years, particularly with the launch of a banking union, economic and monetary union remains incomplete.

In October 2014, the Euro Summit called for work on the development of stronger economic policy coordination. The five presidents' report follows the summit's request for them to identify next steps. It identifies measures to be implemented during three stages:

- Stage 1 (1 July 2015 to 30 June 2017): Using existing instruments under the current EU treaties to boost competitiveness and structural convergence, achieving responsible fiscal policies, completing financial union and enhancing democratic accountability;
- Stage 2: Far-reaching actions to make the convergence process more binding, through, for example, commonly agreed benchmarks for convergence of a legal nature, as well as a treasury for the euro area;
- Final Stage (at the latest by 2025). Once all steps have been taken, a deep and genuine EMU would provide a stable and prosperous place for all citizens of member states that share the single currency. It would be an attractive union for other EU countries to join if they are ready to do so.

The Commission’s package relates essentially to stage 1 of that process. It is composed as follows:

- a communication and a proposal for a Council decision on the external representation of the euro area. It is proposed that the president of the Eurogroup represent the euro area at the IMF in 2025;
- a Commission decision establishing an independent advisory European Fiscal Board, composed of five experts appointed by the Commission;
- a recommendation for a Council recommendation on the creation of national competitiveness councils in the euro area member states;
- a communication summarising these initiatives and announcing a legislative proposal by the end of 2015 on the first steps towards a European bank deposit guarantee system. Other suggestions include a revision of the European Semester economic and fiscal policy monitoring process, better use of the EU's economic imbalances procedure and a renewed convergence process.

To prepare the transition from stage 1 to stage 2, the Commission intends to present a white paper in spring 2017 outlining the next steps to be taken. In preparation for this, it will organise a broad consultation during 2016, including public debates, and will establish in mid-2016 a group of experts to look at the longer-term proposals.

- Commission October 2015 press release on completing economic and monetary union
- Five presidents’ report on completing Europe's economic and monetary union

Climate change

The Council will discuss preparations for the 21st conference of the parties to the UN framework convention on climate change, to be held in Paris from 30 November to 11 December 2015.

It is due to adopt conclusions, focusing on the financing aspects of a new UN climate agreement for the post-2020 period.

The conclusions will constitute a second component of the EU's negotiating mandate, given that the Environment Council already adopted conclusions on 18 September 2015.

The objective is to reach an agreement at the Paris conference. This will aim at limiting the global average temperature increase to within 2°C of pre-industrial levels, and guaranteeing sufficient public and private financing to achieve that.

Work on the financing aspects has intensified in recent months, given that financial contributions will be the key element if a deal is struck in Paris. Significant resources will be needed to help developing countries deal adequately with climate change, both to reduce greenhouse gas emissions and to adapt to the consequences of climate change.

The EU and its member states are committed to contributing their share of developed countries' goal to jointly mobilise $100 billion per year by 2020. Finance will come from a broad variety of sources: public and private, bilateral and multilateral and including alternative sources of finance.

In 2014 the EU and its member states contributed €14.5 billion, up from €9.5 billion in 2013. The EU and some member states have announced scaled-up amounts of public finance in the coming years.

An OECD report provides preliminary estimates of approximately $62 billion in 2014 and $52 billion in 2013 of public and private climate finance mobilised by developed countries. This indicates that substantial progress is being made. The Council is expected to highlight that further efforts are needed. Developed countries need to continue to work together towards further scaling-up climate finance to fulfil the 2020 goal.

The Council is expected to welcome the important contributions made by some emerging economies and developing countries. The draft conclusions call on such countries in a position to do so to contribute to the financing of climate mitigation and adaptation measures. The text welcomes recent commitments by multilateral development banks to strengthen the integration of climate mitigation and resilience considerations in their portfolios.

The Paris agreement is expected to send a strong signal to the private sector to reorient financial flows to low-carbon, climate resilient investments. The EU and its member states will continue to develop a broad set of instruments to mobilise private sector finance for international climate actions.

Public climate finance will continue to play an important role post-2020. The EU and its member states will continue to provide public climate finance for mitigation and adaptation action in developing countries. A particular focus will be put on the poorest and most vulnerable countries, and those with the least ability to mobilise resources.

- Draft November 2015 Council conclusions on the UN climate change conference in Paris
- September 2015 Council conclusions on the UN climate change conference in Paris

G20 and IMF meetings

The presidency and the Commission will report on a G20 finance ministers meeting and annual IMF meetings that took place in Lima from 8 to 11 October 2015.

Taxation of savings income

The Council is expected to adopt, without discussion, a directive repealing directive 2003/48/EC on the taxation of savings income.

Repeal of directive 2003/48/EC will eliminate a significant overlap that has developed with other legislation aimed at combating tax evasion.

Directive 2003/48/EC requires the member states to exchange information automatically so as to enable interest payments made in one member state to residents of other member states to be taxed in accordance with the laws of the state of tax residence. It was last amended in March 2014 to reflect changes to savings products and developments in investor behaviour since it came into force in 2005.

In December 2014, the Council adopted directive 2014/107/EU on the mandatory automatic exchange of information between tax administrations, extending the scope of that exchange to include interest, inter alia, dividends and other types of income, as well as the account balance or value. Directive 2014/107/EU will enter into force on 1 January 2016.

Directive 2014/107/EU is generally broader in scope than directive 2003/48/EC. It provides that in cases of overlap of scope, directive 2014/107/EU is to prevail.

Besides repealing directive 2003/48/EC, the directive to be adopted by the Council provides for transitional measures. These concern in particular a derogation granted to Austria under directive 2014/107/EU, allowing it to apply that directive one year later than other member states.

Based on article 115 of the Treaty on the Functioning of the European Union, the directive requires unanimity for adoption by the Council. The European Parliament gave its opinion in October 2015.

- Draft directive repealing the directive on the taxation of savings income
- Press release on the adoption of the directive on the automatic exchange of information

Other business

The Council will take note of on-going work on legislative proposals on financial services.