Council of the European Union

PRESS

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BACKGROUND[1]

Brussels, 8 February 2019

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

Tuesday 12 February in Brussels

*Proceedings will start with a breakfast meeting at 9.30 to discuss items related to the **economic situation and the Eurogroup debrief**. The Council is scheduled to start at 10.00.*

The Council will be chaired by Eugen Teodorovici, Romanian minister of finance.

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Ministers are expected to agree the Council's general approach on the review of the **existing architecture of financial supervision**, proposed by the Commission in September 2017.

They will also exchange views on the Commission communication **"Towards more efficient and democratic decision-making in EU tax policy"** which suggests a roadmap for a progressive and targeted transition to qualified majority voting and ordinary legislative procedure in certain areas of EU taxation policy.

The Council is also expected to adopt conclusions on the **fiscal sustainability report for 2018.** The agenda also includes issues related to the **EU budget**.

Finally, depending on the outcome of the Eurogroup, the Council may issue a recommendation on the nomination of a new member of the Executive Board of the European Central Bank.

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On Monday 11 February, the Eurogroup will meet at 15:00 in a regular format. It will discuss the post-programme surveillance of Ireland and Portugal, as well as the election process of a new ECB executive board member. The Eurogroup will meet at 16:00 in an inclusive format to discuss the reform of the Economic and Monetary Union.

Press conferences:

- after the Eurogroup *(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

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

Review of the European system of financial supervision

The Council is expected to **confirm a general approach on proposals to review the functioning of the current European system of financial supervision (ESFS),** other than the anti-money laundering part which has already been agreed.

In December 2018, EU ambassadors approved a **partial mandate for negotiations** on the anti-money laundering component of the ESFS package. On 22 January, the Council held a policy debate on the ESFS review, where the Presidency **committed to work at technical and political levels to advance on the rest of the ESFS package**. On this basis, the Presidency put forward a new compromise proposal on all elements of the file except for AML. Member states reached an agreement at technical level which was further endorsed by EU ambassadors on 6 February.

In parallel, the economic and financial committee of the European Parliament adopted its position on the full review of the European system of financial supervision on 10 January 2019.

Following the Council's confirmation of the general approach, both co-legislators will be in a position to start trilogue negotiations on the basis of the complete ESFS mandate, with a view to reaching an agreement at first reading. The first trilogue is scheduled to take place on 14 February.

The European system of financial supervision was established in 2011 and consists of:

- three **European supervisory authorities (ESAs)**: the European banking authority (EBA), the European insurance and occupational pensions authority (EIOPA) and the European securities and markets authority (ESMA). Those supervise and provide regulatory guidance for individual sectors and institutions.
- the **European systemic risk board (ESRB)** which oversees the financial system as a whole and coordinates EU policies for financial stability.

Following the financial crisis, the EU overhauled its financial system, the way it is regulated and overseen. It introduced a single rulebook, i.e. a set of regulations agreed at EU level and directly applicable in all EU member states, and created the ESAs. **The authorities play a key role in ensuring that the financial markets across the EU are well regulated, strong and stable**. They contribute to the development and consistent application of the single rulebook, solve cross-border problems, and thereby promote both regulatory and supervisory convergence.

In September 2017, the Commission put forward a package of proposals to review the tasks, powers, governance and funding of the ESAs and the ESRB, so as to adapt the authorities to the changed context in which they operate, in particular the establishment of the banking union and the build up of a capital markets union. In addition, the Commission put forward in October 2018 an amended proposal containing provisions **reinforcing the role of the EBA as regards risks posed to the financial sector by money laundering activities.**

The Council has been examining the package of proposals at technical level since October 2017.

In its mandate, the Council suggests to introduce **improvements to the existing system for supervisory convergence** in order to improve the efficiency, coherence and overall transparency of the process. The Council position introduces new tools, for example the elaboration of a strategic supervisory plan at EU level, while reinforcing existing mechanisms, such as peer reviews or consultation of the stakeholders groups.

The general approach also reviews the existing **governance structure**. It maintains the principle that **decisions have to be taken by the board of supervisors and ensures a key role for national competent authorities** within the ESAs governance structure: no decision should be taken against the will of a majority of national supervisors, and the ultimate decision-making body of the Authority is the board of supervisors. In parallel, the Council recommends to **reinforce the role and powers of a management board** as the main body preparing the board of supervisors' meetings and decisions. It should be composed of a chairperson, six members of the board of supervisors and two full-time members, selected on the basis of their merit, managerial skills and experience of financial supervision. The chairperson and the fulltime members of the management board should be accountable to the European Parliament and to the Council.

As regards the **authorities' funding scheme**, the **Council position generally preserves the existing system of contributions** stemming partly from the EU budget and partly from national competent authorities. The general approach maintains the contribution key of each national competent authority, while introducing limits for balancing the contribution from the EU budget.

The reform also reviews the **powers of each of the three ESAs**. In this context, the Council recommends to give **ESMA direct supervision powers over new critical benchmarks** as well as services offering consolidated trading data covering trade in equity and non-equity instruments in the EU, the so-called **"consolidated tape providers"**. In addition, the Council proposes to **strengthen information exchange and cooperation between national authorities and the ESAs to better take into account cross-border activities**.

Finally, the reform aims **to improve the functioning of the European Systemic Risk Board** (ESRB) with target amendments. In the its position, the Council aims in particular to clarify the role and competences of the ESRB in order to **minimise potential risks of conflict of interests** between the ECB's different responsibilities in the fields of monetary policy, micro-prudential supervision (as the SSM) and macro-prudential supervision (as the ESRB).

- Text of the general approach on the ESAs review
- Text of the general approach on the ESRB review
- Text of the general approach on the MIFID/Solvency 2 amendments

Decision-making in EU tax policy

The Commission will present its communication "Towards a more efficient and democratic decision making in EU tax policy" published on 15 January 2019. The aim of the communication is for the Commission to **start a debate on a progressive and targeted transition from unanimity voting to qualified majority voting (QMV)** and use of the "ordinary legislative procedure" (OLP) in certain areas of shared EU taxation policy.

Ministers are expected to hold an exchange of views on the issue.

In its communication, the Commission suggests a gradual, four-step transition towards QMV, using **the "passerelle clause" in the treaty on the EU (Article 48(7)) which allows a change of voting rules** under certain circumstances.

The passerelle clause provides that the European Council, after obtaining approval from national parliaments and the EP, unanimously takes a decision to change the existing voting rules. It has never been used in the past.

As a first step, the Commission proposes to move swiftly to QMV/OLP decision-making and calls on the European Council to decide quickly on a change for:

- measures aimed at **improving cooperation and mutual assistance between member states** in the area of taxation, such as administrative cooperation, harmonisation of reporting obligations or initiatives at international level;
- measures in which **taxation supports other policy goals** (climate change, public health,…).

Then, the **Commission suggests that member states consider moving towards QMV/OLP by 2025** in the following areas:

- measures aiming at **modernising already harmonised EU rules** (VAT, excise duties);
- **all other tax projects**, such as the common consolidated corporate tax base or digital taxation.

The European Council is not legally bound to act on the basis of the Commission's communication, as the Commission does not have the right of initiative to propose activating the passerelle clause**.** It is up to the European Council to consider whether a transition towards QMV and/or the ordinary legislative procedure would be desired and what could be the scope of such a decision.

The legal basis for the EU to act on certain taxation matters is established by the EU treaties. The general rule is that the Council acts unanimously as the sole legislator on tax proposals, under the special legislative procedure (articles 113 and 115 of the Treaty on the Functioning of the European Union (TFEU)).

Fiscal sustainability report 2018

The Council is expected **to adopt conclusions on the Commission's latest fiscal sustainability report**, published on 18 January 2019.

The report, which is published every three years and for the fifth time since 2006, provides an **analysis of the fiscal sustainability challenges faced by member states** in the short, medium and long term, according to a horizontal assessment framework. Its aim is to **contribute to the monitoring and coordination of member states' fiscal policies**, as well as of the aggregate fiscal stance of the euro-area.

The 2018 edition finds that despite an overall improvement of EU public finances over the last few years, **fiscal risks are still present**. The following countries are found to be at **high risk** of fiscal stress:

- **in the short term:** Cyprus - due to high or increasing debt levels;
- **in the medium term:** Belgium, France, Hungary, Italy, Portugal, Spain, UK - mainly due to weak fiscal positions, sensitivity to adverse shocks and projected age-related public spending;
- **in the long term:** Belgium, Hungary, Italy, Luxembourg, Spain, UK - mainly due to projected rising costs of ageing and in some cases due to vulnerabilities linked to elevated government debt levels.

In its conclusions, the Council welcomes the Commission's report and reaffirms the importance of the fiscal sustainability analysis, in particular in the framework of the Stability and Growth Pact and of the European Semester.

The conclusions highlight that the appropriate combination of policies to deal with the fiscal sustainability challenge should focus on ensuring macro-financial stability and sound public finances, including through **reforming pension, health care and long-term care systems, as well as reforms that increase productivity, growth and employment**. They also emphasise that current conditions, with low levels of interest rates, should be used to **rebuild fiscal buffers**, in particular in member states with high government debt.

EU budget

Discharge for 2017

The Council is expected to recommend that the European Parliament give a discharge to the Commission for the implementation of the EU's 2017 budget.

The decision is to be taken by the Parliament.

The recommendation has been prepared on the basis of an annual report from the Court of Auditors, published in October 2018.

. The estimated level of error in payments from the EU budget continues to improve. Therefore, for 2017, for the second time in a row, the Court issued a qualified (rather than an adverse) opinion on payments from the EU budget. This means that a significant part of the audited expenditure was not affected by a material level of error (error rate is below the materiality threshold of 2 %). And as for each year since 2007, the Court gave a clean opinion on the reliability of the accounts. This year also, in view of this sustained improvement in the management of the EU's finances, the Court has taken the first steps towards modifying the approach for the statement of assurance by taking greater account of internal controls at the European Commission and in Member State administrations.

The Council is also due to adopt recommendations on the discharge to be given to the directors of 32 EU 'decentralised' agencies, 6 executive agencies and 8 joint undertakings for the implementation of their 2017 budgets.

These recommendations follow the Court's 2017 annual report on EU agencies and annual reports on Joint Undertakings. They will be adopted without discussion.

The recommendations require a qualified majority for adoption by the Council. (Legal basis: article 319 of the Treaty on the Functioning of the European Union).

- Draft Council recommendation on the 2017 budget discharge
- Court of Auditors report on management of the EU's general budget for 2017
- Draft Council recommendation on 2017 discharge to the decentralised agencies
- Draft Council recommendation on 2017 discharge to the executive agencies
- Draft Council recommendation on 2017 discharge to the joint undertakings

Guidelines for 2020

The Council is due to issue budget guidelines for 2020.

The guidelines are intended as input for the Commission when it prepares the draft EU budget for 2020. The draft budget will be the basis for negotiations between the European Parliament and the Council.

The draft guidelines underline that the budgetary procedure for 2020 will be the last of the programming period 2014-2020. In this regard, the budget will play an important role in the delivery of the Union's objectives and priorities under the multiannual financial framework (MFF).

The Council considers that the budget for 2020 should ensure prudent budgeting and leave sufficient margins under the ceilings to deal with unforeseen circumstances. At the same time sufficient resources should be allocated to programmes and actions that contribute most towards achieving Union policies. In addition, the budget should allow commitments already made under the current MFF to be paid in due time, in order to avoid any unpaid claims, in particular in cohesion policy.

The Council considers that budgetary discipline must be maintained at all levels and that the MFF (as reviewed) and past commitments must be respected. It also stresses the need to respect budgetary principles, notably annuality and unity of the budget. Establishing an adequate level of payment appropriations for the last year of the programming period is of high importance, thereby pre-empting future accumulation of outstanding bills.

The Council takes note of the draft Agreement on the UK's withdrawal from the EU, according to which, for the years 2019 and 2020, the UK is to contribute to and participate in the implementation of the EU budgets.

As regards EU's administrative expenditure, the Council calls for further rationalisation. It urges all institutions to reduce or freeze their administrative expenditure and encourages them to continue, as a minimum, to apply decreases in full-time equivalents (FTEs) across all staff categories in order to offset any increases necessary in light of evolving policy priorities. The Council also reiterates its call upon the Commission to put forward appropriate follow-up measures in order to truly stabilise the administrative costs and to keep the overall number of staff, including contract agents, under control.

- Draft Council budget guidelines for 2020

ECB executive board - nomination of a new member

The Council is expected to issue a recommendation to the European Council on the nomination of a new member of the Executive Board of the European Central Bank.

This item isn't on the provisional agenda, but, depending on the outcome of a discussion by the Eurogroup the previous day, it is likely to be added at the start of the meeting.

Following his call for applications at the January 2018 Eurogroup meeting, the President of the Eurogroup received one candidature: Ireland has proposed Philip Lane, the Governor of its Central Bank.

The European Council is expected to take a final decision on 21-22 March 2019, after it has consulted the European Parliament and the ECB's Governing Council.

The new Executive Board member will succeed Peter Praet (Belgium), whose term of office expires on 31 May 2019. Members of the ECB's Executive Board serve a non-renewable 8-year term.

The Council adopts this recommendation by a 'reinforced' qualified majority of the euro area member states. which means the support of 72% of eurozone member states (i.e. 14 out of 19), representing 65% of the population of the euro area. (Legal basis: article 283(2) of the Treaty on the Functioning of the European Union.)

- Appointment of the ECB executive board - Council infographic

Other items

The Council will discuss the following under 'other business':

- **Financial services**: Ministers will be updated regarding work on legislative proposals;
  - February 2019 note on financial services legislative proposals (5937/19)
- **Carbon pricing and aviation tax**: the Dutch minister will provide information on the Netherlands' initiative to hold an international conference to discuss ways to enhance cooperation at EU level on carbon pricing in the aviation sector on 20-21 June 2019.