



**COUNCIL OF
THE EUROPEAN UNION**



Council Conclusions on on financial stability and financial supervision

*2894th ECONOMIC and FINANCIAL AFFAIRS
Luxembourg, 7 October 2008*

The Council adopted the following conclusions:

"The Council DISCUSSED the economic situation, recent developments in financial markets as well as policy responses.

RECOGNISING that the EU and euro area economies are likely to experience slow growth in 2008 and 2009, reflecting in particular stronger effects of the US market correction on the global economy, higher commodity prices (albeit partially reversed in more recent weeks) and tighter credit standards; and

TAKING ACCOUNT OF the current extraordinary stress in global financial markets and the potential impact of the economic situation,

The Council AGREED on the need to continue pursuing a coordinated response at the European level, within the scope of Member States' respective responsibilities, coupled with Member States' flexibility to adjust their response to their individual situation, and to continue to implement sound structural reforms at the national level to strengthen resilience to future shocks.

Since the early stages of the current turmoil, public authorities developed policy responses in view of restoring confidence and safeguard financial stability. The Council has discussed progress with the implementation of the October 2007 roadmap.

P R E S S

In this context, the Council reached the following conclusions.

The Council

- WELCOMES the work of the Committee of European Banking Supervisors' (CEBS) on transparency and the efforts of most banks in following CEBS' guidelines on good reporting practices. The Council INVITES all banks to make further progress concerning transparency on risks valuation and management methodologies.
- RECALLS the urgency to enhance banks' practices for the evaluation of exposures AND URGES supervisors and accounting standards-setters to ensure that the financial reporting framework functions properly with clear guidelines on valuation that can be applied consistently across institutions.
- WELCOMES the Commission proposals for amendments to the Capital Requirement Directive (CRD), covering areas such as risk management, a possible supervisory framework for cross-border groups, crisis management and enhanced requirements for securitisation in view of further strengthening the existing prudential framework and risk management in the financial sector, as well as the Commission's proposals for amendments to ensure that the risks associated with the 'originate-and-distribute model' (ODM) are properly mitigated. While RECOGNISING the numerous benefits the 'originate and distribute model' has delivered in recent years, it has also introduced complexity and opacity, thus raising a number of concerns in respect of potential conflicts of interest and proper incentives to assess the securities traded. In this context, the Council LOOKS FORWARD to the Commission proposals in respect of credit rating agencies in follow-up to the Council conclusions of July 2008.
- STRESSES the need to continue to closely monitor the economic and financial developments; CALLS for full and timely implementation of the roadmap on follow-up actions to the ongoing financial turmoil and for coordination with initiatives being considered being considered in international fora, in particular the Financial Stability Forum, the International Monetary Fund and the international standards setting bodies.
- RECALLS that in the current situation it is important to monitor and remedy potential pro-cyclical effects. In prudential matters, Basel II and the CRD remain the relevant frameworks to improve risk management. In implementing the new framework, banking supervisors will monitor the potential pro-cyclical effects of the new regulation and asses whether remedial measures are needed. Consistent with the FSF and Basel committee work, the Council AGREES to set up a European working group that will assess more broadly the range of policy responses that might help to mitigate undue potential pro-cyclical effects of the financial system.

- STRESSES the need to ensure the functioning of the cross-border stability arrangements as envisaged in the Memorandum of Understanding on financial stability agreed in June 2008 between Ministers, Central banks and the financial supervisors in the EU.

The Council remains fully committed to enhancing the effectiveness of supervision of the financial sector in Europe: this requires more convergence and harmonisation in the implementation of rules and a strengthening of supervision of cross border groups.

In respect of the convergence of supervisory practices, the COUNCIL

- AGREES to make EU-wide common reporting formats for a single set of data requirements and reporting dates, which is much needed both to ensure an efficient and convergent supervision and to reduce administrative burden for groups, operational by 2012. At this date, there should indeed be a common set of reporting formats and no extra time should be allowed.
- LOOKS FORWARD to the revision of the Commission's Decisions, in follow-up to the Council conclusions of 14 May 2008, and STRESSES the need to assign specific tasks to the committees of supervisors by the end of the year, such as, for example, mediation, providing non-legally binding recommendations and guidelines and training and staff exchange. These tasks should be reflected appropriately in the revised Decisions.
- WELCOMES the agreement reached by supervisory authorities in the three committees of supervisors to include qualified majority decision-making in their charters, together with a "comply or explain" procedures, which will encourage supervisors to comply with the committees' recommendations as far as possible, and STRESSES the need to monitor the implementation of these new procedures; and,
- RECALLS the agreement of the 14 May 2008 Council conclusions that Member States ensure, at the latest by mid-2009, that the mandates of national supervisors allow them to take the EU dimension into account in exercising their duties. The Council INVITES the FSC to report in December on the way each Member State will fulfil its commitment.

Regarding supervision of financial groups, the Council EMPHASIZES the need for a more efficient system of European supervision of cross border groups."
