

- A shorter deadline for reimbursing depositors. The deadline will be reduced to 20 business days, with an optional extension to 30 business days (as opposed to the current 3-month deadline, with an optional extension to 9 months).

3. Solvency Directive for the insurance sector (Solvency II), for reinforced supervision of the industry

- The Solvency II Directive aims at combining the 14 insurance and reinsurance directives already in force into a single text. The proposal also introduces a new solvency regime for insurance and reinsurance undertakings, with a view to **boosting integration of the EU insurance and reinsurance market, reinforcing protection for policyholders and beneficiaries, enhancing the international competitiveness of EU insurers and reinsurers and promoting improved legislation.**
- Discussion on this topic was initiated as of the July 2007 ECOFIN Council meeting. **At the 7 October Council meeting, it became apparent that the idea of expanding the powers of the parent company supervisor raised many concerns,** fanned by the financial crisis.
- **The Presidency submitted a compromise text to the COREPER¹, which was adopted** by a qualified majority vote. **The ECOFIN Council is expected to set forth a general approach to this directive on 2 December.** It will then be up to the European Parliament to vote on this proposal.

Taxation

Examination of the Directive on reduced VAT rates, specifically on labour-intensive services.

Before the July ECOFIN Council meeting, the European Commission submitted a proposal for a directive concerning the widespread implementation – optional for Member States – of reduced VAT rates, which are currently authorised by special dispensation granted in some Member States until the end of 2010. The proposal should thus allow for a more durable and fairer legal framework for reduced VAT rates, specifically on labour-intensive services such as the hospitality industry.

Discussions were held at the informal Nice meeting and the October ECOFIN Council meeting on the economic impact of VAT rates and their use to achieve industry-specific policy goals. **On 2 December, the Ministers are expected to continue their examination of the directive proposal,** initiated at the November ECOFIN Council meeting.

¹ – The Committee of Permanent Representatives, or COREPER, is in charge of preparing the work of the Council of the European Union. It is made up of ambassadors of Member States to the European Union ("Permanent Representatives") and is chaired by the Member State holding the chair in the Council.

Taxation of savings income reform

The 2003 Directive on the Taxation of Savings Income provides for its operation to be assessed by the Commission every three years. Following the tax fraud case in Germany involving Liechtenstein, at its 14 May 2008 meeting, the ECOFIN Council asked the Commission to present a report and propose amendments to the Directive as rapidly as possible. The Commission submitted this report on 15 September 2008. The Member States expressed their views during their technical work and the Commission presented its directive proposal on 13 November 2008. It calls for **closing loopholes in the 2003 Directive, in particular by extending the range of instruments and income covered as well as the scope of persons to which the provisions of the Directive apply.** Most Member States wish to move forward along the lines of the Commission's proposal. The French Presidency would therefore like the ECOFIN Council to adopt conclusions acknowledging the desire of Member States to pursue work along the lines of the Commission's proposals.

Code of Conduct for business taxation

The so-called Code of Conduct Group works to fight harmful tax competition between Member States, as defined by the Code of Conduct adopted by the ECOFIN Council on 1st December 1997. The group established its proposed work programme on 18 November. **The ECOFIN Council will approve the group's activity report and work programme.**

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Christine Lagarde, the French Minister for the Economy, Industry and Employment, will be chairing on 2 December her fifth and last ECOFIN Council meeting. One item on the agenda will be to **prepare the European Council meeting of next 11 and 12 December.** The aim is to **submit a European strategy for stimulating the EU economy** to the heads of State and government, to **make concrete proposals on how to overhaul the architecture of the international financial system,** following the Washington Summit, and to **assess the responses provided so far to the financial crisis.** To do so, the Ministers will review the efforts to implement the financial stability roadmaps previously adopted by the ECOFIN Council and the emergency measures introduced in the last few weeks. **Tax issues will also be addressed** at the ECOFIN Council meeting, including reduced-rate VAT, taxation of savings income and the code of conduct on business taxation.

A European strategy to stimulate the economy

The deepening of the financial crisis since last September has produced a much bleaker economic outlook. In the forecasts it issued on 3 November, the Commission observed an economic slowdown in all European Union Member States, and even the onset of recession in some of them. **The situation therefore calls for a rapid response** in the form of measures adopted in a common European framework.

On 15 and 16 October, the European Council mandated the Commission and the ECOFIN Council to “submit to the next European Council meeting a European strategy, building on the Lisbon Strategy and the Stability and Growth Pact ... to cope with the economic slowdown”. Drawing on the Commission’s Communication of 26 November on “The European Economic Recovery Plan”, the ECOFIN Council will be putting forward **a concerted European approach to stimulating the economy, based on a shared “toolkit”**. The “toolkit” will be made up of **Community instruments** (resources from the EIB and the EU budget), **while enabling each Member State to adopt the stimulus programs dictated by their specific macro-economic and financial conditions**. Those national stimulus plans require Community-wide coordination, given the high level of integration between the various European economies. This common approach to economic slowdown will be designed not only to **provide short-term stimulus**, but also to **initiate the reforms needed to make Europe’s economies more resilient to crisis and to restore long-term growth and job creation in the European Union**.

Towards an overhaul of the international financial architecture: preparing the next stages after the Washington Summit

At the Washington Summit on 15 November, the heads of State and government from the G20 countries joined together in an effort to outline a new architecture for the international financial system. **The meeting was held in large part at the urging of the French Presidency**. In addition, **the final Summit declaration reflected to a considerable extent the principles and policies advocated by the EU** (at the ECOFIN Council meeting of 2 October and the European Council meeting of 7 November): **strengthening transparency and accountability of financial market operators, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation and reforming international financial institutions**.

The G-20 finance ministers and experts have been tasked with **making specific recommendations on implementation of the principles and decisions agreed upon in Washington** by 30 March 2009 in order to prepare the ground for the next Summit of heads of State and government, to be held in London on 2 April

2009. **The ECOFIN Council will begin as of its meeting on 2 December to work on how to implement the Washington Summit**.

Implementing a European response to the financial crisis

Financial stability: a long-standing goal of the ECOFIN Council.

The subprime lending crisis broke out in the United States in the summer of 2007. As early as October 2007, the European Union moved to adopt a first financial stability roadmap. In December 2007, the ECOFIN Council adopted a second roadmap on the architecture of European supervision with the aim of restoring confidence in the financial markets and overall financial system stability, particularly through greater supervision over financial institutions.

Emergency measures to deal with the deepening crisis.

In October, the Member States agreed upon a set of common policies and principles for implementing emergency measures to ensure the solidity of the banking system and help restore adequate conditions for financing the real economy.

Three legislative proposals containing elements of a structural response to the financial crisis will be examined at the ECOFIN Council meeting on 2 December. They involve revision of the Capital Requirements Directive (CRD) for banks; revision of the Directive on Deposit Guarantee Schemes (DGS); and the Solvency II Directive on prudential rules for insurance companies.

1. Revision of the Capital Requirements Directive (CRD) should lead to progress in five key areas:

- **Greater supervision of banks with cross-border business**. The goal is to **promote a model better suited to the growing integration of Europe’s banking industry and to the specific nature of trans-national banking groups**. Several measures can contribute to achieving that goal: reporting obligations should be harmonised by 2012, so that such banks can submit a single report to all the national supervisory authorities; colleges of supervisors should be set up and led by the supervisory body in charge of the parent company of any financial institution engaged in cross-border operations; the Committee of European Banking Supervisors (CEBS) should be granted more extensive powers; and finally, the European perspective should be incorporated into the mandates of all national supervisory authorities.
- **Tighter control over securitisation**. The aim is to counterbalance the dysfunctional aspects of the “originate-to-distribute” lending model in response to

the financial crisis. Because originators of securitised assets have not been obligated in the past to keep part of those assets on their balance sheets, the related risk was transferred or sold to investors. This model has therefore led the issuers of such securities to take excessive risks, of which subprime mortgage loans are a prime example. A revised directive will require originators of securitised assets to maintain 5 percent of the risk related to those assets on their balance sheets in order to **reduce excessive risk-taking and foster more effective risk analysis**.

- **Tighter control over exposure to a single counterparty**. Risk diversification is one of the most basic principles in banking, the aim being to limit losses in the event that a given risk materialises. When a bank lends money in the form of more or less sophisticated financial instruments to a business or another bank, referred to as the counterparty, the lending institution is said to have exposure to that counterparty. **By concentrating its aggregate exposure on a single counterparty, the lender runs a greater risk of incurring losses if the counterparty ever happens to default**. The purpose of revising the directive is to place stricter limits on exposure to a single counterparty of any kind, even if that counterparty is a bank (“large exposures”). The difficulties encountered by a number of financial institutions in the past few months highlight how real the risk of counterparty default is and the extent to which it can shake the entire financial system.

- **Tighter control over liquidity risk**. Establishing new rules for assessing and managing liquidity risk is one of the essential responses to financial crisis.

- **A uniform definition of bank capital**. This goes particularly for hybrid instruments that contain both equity and debt features. At the present time, there is no uniform definition of equity in the European Union. The result is serious distortion in terms of reporting on equity and therefore assessments as to the soundness of bank balance sheets.

2. Revision of the Directive on Deposit Guarantee Schemes covering individuals (the DGS Directive): towards enhanced protection and greater harmonisation.

The ECOFIN Council resolved at its meeting of 7 October to revise this Directive. The Member States agreed at the time that one of the emergency measures for responding to the financial crisis would be for them to establish deposit guarantee schemes for an initial term of no less than one year that would cover retail deposits of at least €50,000. The main changes envisaged are as follows:

- **Higher coverage**. The minimum guarantee threshold will immediately be raised to €50,000 for all deposits. **As of 31 December 2011, this threshold will be increased to a uniform level of €100,000 in all Member States** (provided that the report by the Commission scheduled for late 2009 does not invalidate the proposed harmonisation).