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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 3 and 4 November 2014
- Items 2-10 and 12

- The public hearing with the Chair of the ECB Supervisory Board, Ms NOUY, concentrated on the comprehensive assessment, with MEPs asking for clarifications on its methodology and impact.
- During the first exchange of views on bank structural reform, the rapporteur, Mr HÖKMARK (EPP, SV), expressed his support to the concept of universal banks and basing the work on risk based criteria, rather than a structure based approach.
- Mr SORU (S&D, IT), the rapporteur on securities financing transactions, also mapped, with the shadows, the main issues to be discussed with regard to his file.
- In preparation for the review of 6-pack and 2-pack, ECON discussed economic governance and the Chair announced a range of workshops, debates and hearings with the Commission and experts for taking the discussions forward.

2. Public Hearing with Danièle Nouy, Chair of the Supervisory Board of the ECB ECON/8/00551

Ms NOUY gave an overview of the results of the comprehensive assessment published on 26 October, as well as of the preparatory work in the ECB on the legal and operational framework of the SSM. She pointed out that the comprehensive assessment exercise had created a solid basis for cooperation with the national authorities and stated that the exercise, which was unprecedented in its scope, had been widely received as credible. She highlighted the important progress made towards establishing the Banking Union in a short time, while also stressing that there was no room for complacency, given that there was now a need to complete the recapitalisation of the banks with a capital shortfall, to work on the borrowing capacity for the SRF and to create a level playing field for all the financial institutions, with the Single Rulebook.

In the following debate several MEPs asked Ms NOUY for clarifications regarding the methodology used for the comprehensive assessment, some criticising the omission of a deflationary scenario, others asking clarifications about the treatment of derivatives and reliance on internal risk models of banks. In addition, MEPs wondered about the impact of the exercise on the availability of credit to SMEs and Mr OŽÓG (ECR, PL) wanted to know about Ms NOUY's views on bank structural reform. Mr LAMASSOURE (EPP, FR) and Mr GIEGOLD (Greens/EFA, DE) asked Ms NOUY to comment on the workings of the global structure of supervision now in place.

In her answers Ms NOUY defended the approach followed in the comprehensive assessment and pointed out that some characteristics of the deflationary scenario had been covered in it indirectly, while also stressing that it was important to have a holistic view on the situation and take into account that a number of other possible stresses that were tested were not going to materialize. Ms NOUY also explained the approach taken to the more opaque market risks related to derivatives and pointed out that in 2015 the models used by the banks were going to be revisited, to make sure that they delivered prudent risk-weighted assets and that their validation was going to be done in a consistent fashion. More generally, she said that a post mortem was going to be done on the whole process and that the results of the exercise were going to be used in the ongoing assessment of banks' risks, as part of the Supervisory Review Process.

Regarding bank structural reform, Ms NOUY did not see problems with a ban of proprietary trading for the most risky market risk in the future, arguing, however, that market making activities that were supporting the funding of the economy had to be protected and stay in the retail part of the banks.

Responding to questions on SMEs, she said that she considered the transparency offered by the comprehensive assessment exercise to provide confidence to the investors, so that they would be able to provide funding for the banks to be able to do their work. She also stressed, however, that other actors also had to play their role, to have a new departure for the economies.

Commenting on the general workings of the supervisory structure in place, Ms NOUY gave a positive assessment of the cooperation with EBA and the national authorities. She explained that the division of roles between SSM and EBA was clear and took the view that the very close cooperation with national authorities helped the system to benefit from the best of both worlds – to have the experience of national supervisors, while also keeping some distance from individual banks in the Supervisory Board.

3. Collection of statistical information by the European Central Bank

ECON/8/00831, *2014/0808(CNS)

Rapporteur: Roberto Gualtieri (S&D, IT)

· Consideration of amendments

In his introductory remarks, Mr GUALTIERI (S&D, IT) gave an overview of the amendments that he had received. On behalf of the political groups:

- Mr BALZ (DE) reiterated his concern that reporting obligations had to be proportional with regard to SMEs and expressed himself against the idea to increase the fines.
- Ms SWINBURNE (ECR, UK) pleaded for any amendment concerning fines to be consistent with her report on ECB sanctions.
- Ms VAN NIEUWENHUIZEN (ALDE, UK) said that her group would be in favour of any amendments supporting confidentiality and proportionality, while not agreeing with the proposed amendments on increasing fines.

No other groups intervened and the Chair recalled that the Committee would vote on this file, as well as the one on ECB sanctions, on 11 November.

4. The powers of the European Central Bank to impose sanctions

ECON/8/00746, * 2014/0807(CNS)

Rapporteur: Kay Swinburne (ECR, UK)

· Consideration of amendments

Introducing this item, Ms SWINBURNE (ECR, UK) said that she had received only 25 amendments on the report on ECB sanctions and saw large areas of agreement between the groups. She pointed out that despite a pushback from the ECB regarding the publication of sanctions, the groups agreed that it had been given too much discretion in the original text. She asked the shadows for feedback on their groups' preferred time limit for sanctions.

On behalf of the political groups:

- Mr FERBER (EPP, DE) drew attention to his amendment providing that ECB sanctions could only be published once all legal means of appeal against them had been exhausted. He also referred to his amendment stipulating that in case of direct supervision by the ECB, competent national authorities would remain responsible for imposing administrative penalties, in consultation with the ECB.
- Mr MAVRIDES (S&D, EL) stressed the importance of equal treatment of all credit institutions with regard to publication, reflected in his amendment. Regarding the time limits for the decision to initiate an infringement procedure, he expressed his support to Mr VAN OVERTVELDT's proposal (3 years from the decision to initiate infringement procedures).
- Ms VAN NIEUWENHUIZEN (ALDE, NL) said that she supported the ECB proposal on the time limits of sanctions, i.e. 5 years from the occurrence of the infringement.
- Mr GIEGOLD (Greens/EFA, DE) reiterated his group's position that any amendments on publication would have to be compatible with what is applicable in the rest of the common market. He added that on other issues he was on a similar line with the other groups.

Ms SWINBURNE said in conclusion that she was going to discuss the issue of the time limits of sanctions with the shadows and propose compromise amendments, while also making sure, with the help of the secretariat, that these would be consistent with the existing legislation.

5. European Central Bank Annual Report for 2013

ECON/8/00962, 2014/2157(INI)

Rapporteur: Pablo Zalba Bidegain (EPP, ES)

· Consideration of draft report

Mr ZALBA BIDEGAIN (EPP, ES) opened the discussion by giving an overview of the main lines of his draft report. On behalf of the political groups:

- Mr MARIAS (ECB, EL) said that the main issues for him were the need to create employment, especially in Southern-European countries, as well as deflation and liquidity, with money having to go into the real economy.
- Ms MATIAS (GUE/NGL, PT) said that her group did not agree with the monetary policy of the ECB, arguing that it did not work with austerity and that expansionary monetary policy did not solve problems if money did not get in the real economy.
- Mr URTASUN (Greens/EFA, ES) criticized the ECB for having done too little too late, especially compared to other central banks, including the Fed, which had obtained positive results with QE. He also disagreed with the wording in points 15 and 16 of the draft report because it seemed to point to withdrawing the stimulus. He argued that the EP's report had to address the issue of legal restrictions that were limiting the ECB's actions and called for more transparency in its proceedings, as well as for a truly independent supervisory authority at the European level.

Mr SORU (S&D, IT), who said that he was not yet in a position to speak on behalf of his group, focused on unemployment and the need to considerably increase investment. Pointing to the limits of monetary policy, he called for innovative thinking and referred to the idea of ECB buying bonds from the EIB. Mr ZALBA BIDEGAIN concluded by pointing to the limits of what monetary policy could do to stimulate demand and by agreeing to clarify points 15 and 16 of his report on the ECB stimulus.

Timetable:

- Deadline for amendments: 11 November
- Consideration of amendments and vote in ECON: 8 December

6. Chair's announcements

The Chair announced the decisions from the previous Coordinators' meeting:

- ECON was going to organise hearings for all SRM Board positions in line with the legislation (timing to be communicated in due course).
- Nominations for reports: report on the European Semester for economic policy coordination was assigned to EPP; report on Commission's role in the framework international financial, monetary and regulatory institutions to ALDE; impact report on financial services legislation to EPP; own-initiative report on investment to S&D; and discharge opinion for the ESAs was going to be done by the Bureau members.
- A hearing was going to be organised with the selected candidate for the Chair of ESGAB (date to be communicated later).
- In the framework of economic governance, economic dialogue was planned with Commissioner Moscovici on 24 November in Strasbourg to discuss Member States' draft budgetary plans.

7. **Commission Delegated Regulation (EU) No .../.. on the provisional system of instalments on contributions to cover the administrative expenditures of the Single Resolution Board during the provisional period**

ECON/8/01552, 2014/2882(DEA)

- Adoption of motion for a resolution on a recommendation to raise no objections to a delegated act

The motion for a resolution was adopted, with 45 votes for, 5 against and 4 abstentions.

8. Structural measures improving the resilience of EU credit institutions

ECON/8/00346, ***I 2014/0020(COD)

Rapporteur: Gunnar Hökmark (EPP, SV)

· First exchange of views

Mr HÖKMARK (EPP, SV) said, by way of an introduction, that he planned to present his draft report on 18 December and continued by giving an overview of his basic approach to the file. For him, the draft legislation had to be considered in the context of under-investment and the discussions about the Capital Markets Union, while having also to be connected to the legislation already in place, including BRRD. He defended the concept of universal banks, arguing that their existence as such was not a problem, as the crisis in financial markets was mainly a matter of retail and real estate. Instead, he considered that universal banks could play a crucial role in a Capital Markets Union and in increasing the credibility of BRRD. He explained that the latter worked better in a diversified banking system with different types of capital, as in case of retail only banks depositors would have to be involved in bail-in and it would be politically difficult for governments to implement these provisions.

Mr HÖKMARK therefore indicated that, for him, the work on the file had to be guided by risk based criteria, rather than structure based approach, focusing on the remaining risks universal banks were exposed to. More specifically, he took the view that proprietary trading had to be banned as the Commission proposed, while regarding market making, there had to be a risk based approach, using also the provisions in BRRD, which gave national authorities the opportunity to enter into discussions with a bank to indicate that they are not recoverable or resolvable and would have to change their business model.

On behalf of the political groups:

- Mr VON WEIZSÄCKER (S&D, DE) pointed out that ECB's comprehensive assessment exercise had brought to the fore the problem of low leverage ratios in banks, which made them vulnerable in case of only small errors in their models. He argued that the new legislation had to make the system more resilient with regard to such modelling risks, which is why it was important not to rely too heavily on risk based criteria. He also took the view that the draft legislation had to include a prohibition of large-scale lending to leveraged shadow banks and limit the discretion given to EBA, the Commission and the supervisors by a backstop beyond which they would not be able to go, to help them deal with the strong lobbying pressure they were going to get under in their work.

- Mr KAMALL (ECR, UK) indicated that he had not made any firm decisions yet regarding the direction in which he would want to go with the file and recalled the principles ECR had called for during the previous mandate: banks had to be allowed to fail as any in other competitive market and tax payers did not have to be called upon to rescue them; bankers had to be able to earn vast amounts of money when the bank performed well, but they did not have to get a reward in case they presided over failure; the issue of accounting standards had to be tackled, so that banks could not have risky exposures because of accounting standards allowing for that. He added that, for him, universal banks did not have to benefit from implicit subsidies regarding those of their activities that did not have to be supported, and stressed that individual member states that wanted to go further in their legislation had to be allowed to do so.
- Ms GOULARD (ALDE, FR) was critical of the positions expressed in the Council regarding giving the supervisory authorities more discretion and regarding this legislation more generally. She stressed that it was important to be extremely vigilant to avoid a possible fragmentation of the internal market, while considering applying national legislation in some Member States. More generally, she argued against black-and-white approaches, taking the view that universal banks were useful and solutions based on one model had to be avoided, just certain undesirable activities regulated.
- Mr DE MASI (GUE/NGL, DE) said that his first thoughts were along the lines of Jacob VON WEIZSÄCKER: that there was need to address lending to shadow banks, to decrease the level of discretion given to supervisors regarding the suitable metrics and to move away from reliance on internal risk models of banks that greatly failed during the crisis.

- Mr LAMBERTS (Greens/EFA, BE) strongly supported market-liberal solutions regarding bank failure and an ambitious approach regarding separation (ideally, along the lines of Glass-Steagall Act). For him, the objective of the legislation had to be to avoid contagion from one part of a system to another and limit public subsidies to activities that were essential to the economy, defining such essential activities clearly. Regarding the more detailed provisions, he took the view that the regulation had to apply to the 130 banks of the Eurozone and corresponding banks outside it, for prevention. He also argued in favour of a wider definition of proprietary trading and, regarding the separation of other trading activities, preferred a traffic light system: a red situation where according to all metrics a mandatory separation was required; a green indicator where banks operated clearly below the thresholds; and an amber situation where there would be close monitoring and higher capital ratios and where discretionary separation could be considered, while framing the discretion left to the supervisors. Regarding member states' legislation, for him the ideal was to take the UK ambition to the EU and preserve the unity of the single market; otherwise, it could have an exception, so as to be able to have a more rigorous approach.

In the following debate some MEPs wanted to take into account also wider issues, such as helping the banks to lend money to real economy or avoiding too much overall legislative burden on them. Others took the view that the work had to be based more narrowly on the Liikanen report and the Commission proposal. Mr FERREIRA (S&D, PT) and Mr GIEGOLD (Greens/EFA, DE) warned against letting national agendas, rather than European interest, drive the debate. Echoing Mr LAMBERTS, Mr GIEGOLD pleaded for respecting the general principles of market economy in the banking sector and avoiding the de facto public subsidy in the form of deposit guarantees being used to cross-subsidize other banking activities. He also wanted to look at conflicts of interest, arguing that one of the key principles behind the Glass-Steagall Act was that the ones that constructed financial products could not sell them to the ones who had much less information. Ms GILL (S&D, UK), as the rapporteur for MMFs, stressed the importance of addressing shadow banking and the sponsorship element.

In its comments the Commission explained that the aim of its proposal was to address the residual risks in the market: the fact that too-big-to-fail banks were not resolvable and that the work on the new capital framework had not really addressed the issue of a great dispersion in the way banks treated risks related to trading. It stressed that it was not against universal banks per se, but aimed to address risks related to large banks carrying out too many trading activities. Regarding Ms GOULARD's remarks on the positions in the Council, it stressed that the wish to have a more discretionary framework was not a unanimous view in the Council, adding that it considered its proposal to be balanced on this point and that it was doing a lot of explanatory work in the Council in this regard.

In conclusion Mr HÖKMARK reiterated the main points of his introductory statement, stressing that the proposal had to be seen as part of overall regulation, that it was important not to idealise retail banks as the most secure ones and that he did not want retail to be isolated from opportunities for liquidity making. Rather, for him, the point of departure had to be that there were a variety of risks that needed to be addressed.

Timetable:

- Public hearing: 2 December
- Presentation of draft report: 21 January
- Deadline for amendments: 30 January
- Consideration of amendments: 23 February
- Vote in ECON: 23 March
- Vote in plenary: April 2015

9. Reporting and transparency of securities financing transactions

ECON/8/00344, ***I 2014/0017(COD)

Rapporteur: Renato Soru (S&D, IT)

· First exchange of views

Mr SORU (S&D, IT) first explained that the work on SFTs was going to be aligned with that on bank structural reform, with his report due on 18 December. He then gave an overview of the issues identified after his initial meetings with the shadows and the different stakeholders: there were clearly some difficulties with terminology to be solved, e.g. “re-use” and “re-hypothecation”; many stakeholders wished to leave a possibility for the Commission to apply the principles of the regulation also to any new instruments devised; the political groups disagreed on whether the operations involving central banks had to be exempted from the regulation, to protect their confidentiality; when discussing reporting requirements, the other markets had to be taken into account also, e.g. the systems currently used in the US context; the new regulation had to be consistent with the existing legislation, e.g. EMIR; and the issue of haircuts also had to be discussed.

On behalf of the political groups:

- Ms HÜBNER (EPP, PL) took the view that ECON still had to consider whether to keep the proposal together with the one on bank structural reform or split the package and move faster with the SFT proposal. She stressed the importance of aligning work with the one done in FSB, possibly by means of a review clause, and outlined her views on what she considered to be outstanding issues: the definitions had to be worked upon, to align them with the existing legislation, to add possibly some new ones (such as "sell/buy transaction" or "buy/sell back transaction") and to have a more precise approach on others (e.g. regarding "reuse" and "re-hypothecation"); situations where central bank counterparties are involved probably had to be exempted from disclosure requirements; and different proposals for reducing the costs related to the new regulation had to be considered. Among the latter proposals she mentioned exempting SMEs from reporting requirements, so that their transactions would be reported by their financial counterparty; reducing the timespan (10 years) during which the counterparties would have to keep the record of any SFT they have concluded, modified or terminated; having a differentiated approach regarding disclosure from the point of view citizens and asset managers; and using existing instruments, e.g. the existing trade repositories, as much as possible. Regarding collateral for short-term loans and haircuts, Ms HÜBNER stressed the importance of taking into account the work done in FSB, using a review clause, if necessary.

- Ms SWINBURNE (ECR, UK) expressed hope that the proposal would allow to finally have a comprehensive approach to SFTs. Regarding the future-proofing of definitions, she took the view that the legislator had to avoid delegating its power to the Commission, clearly spelling out, at least, the definition of SFTs. She stressed that "reuse" and "re-hypothecation" were legally distinct terms and that it was important to discuss whether one of them or both were to be used in the act. She also supported different proposals aimed at reducing the costs related to new regulation and suggested distinguishing better between financial and non-financial counterparties in the proposal, reducing the burden for non-financial counterparties as much as possible. Regarding haircuts, she argued that these did not have to be introduced in the text without a proper impact assessment by the Commission. Finally, she took the view that the fees for trade repositories had to be included in EMIR, not in the proposal on SFTs, and that there had to be a transparent mechanism for setting and increasing charges levied by ESAs.
- Mr DE BACKER (ALDE, BE) expressed agreement with the EPP and ECR shadows on many issues, stressed the importance of clear definitions and aligning the new regulation with the existing legislation, to reduce the burden to those having to comply with it, and agreed with Ms SWINBURNE that a more fundamental debate on haircuts was needed, including on whether government securities had to be considered a normal product or be subject to special treatment.
- Ms JOLY (Greens/EFA, FR) said that the Greens saw the merit of an EMIR style use of trade repositories to store the information on SFTs for prudential use and outlined the following views of his group: the proposal had to cover also the ECB, at least for supervisory reporting and aggregated disclosure; regarding the future-proofing of the definition of SFTs, the Commission had to be given more Level 1 guidance as regards what should be taken into account; and along the lines proposed by FSB: the transparency to investors provisions had to be extended to cover all SFT counterparties, requiring them to publish in their corporate disclosure the kind, volumes and purposes of SFTs; these counterparties had to be also required to disclose to the supervisor and publish in an aggregate form the results of appropriately designed stress tests on their securities lending; the right to re-hypothecate assets had to be made conditional on conformity with the guidelines on minimum standards

on liquidity risk management and re-hypothecation did not have to be used to finance proprietary trading; regarding supervision, ESMA could be required to provide aggregate reports on SFTs, showing the types and volumes and the interconnectedness of different classes of SFT counterparty. Ms JOLY added that, in addition, the Greens hoped that the shadows would consider some issues beyond transparency, including reviews and recommendations for SFTs insolvency regimes, special SFT resolution tools, and binding standards for collateral valuation and management.

Mr SORU concluded the debate but stressing that although the file had some technical aspects to it, it was important for improving confidence in the financial system, in order to be able to achieve the wider goals currently on the agenda.

Timetable:

- Debate on the draft report: 21 January
- Deadline for amendments: 27 January
- Consideration of amendments: 23 February
- Vote in ECON: 23 March
- Vote in plenary: April 2015

10. The review of the economic governance framework: stocktaking and challenges

ECON/8/01152, 2014/2145(INI)

Rapporteur: Pervenche Berès (S&D)

· First exchange of views

Introducing her report, Ms BERES (S&D, FR) said that the idea behind it was to discuss in the Committee the issues related to the review of 6-pack and 2-pack before the Commission would produce its evaluation. She expressed her satisfaction with the decision of the Coordinators regarding the title of the report, which allowed to have a wider look at economic governance. She then went on to give an overview of her working paper, in which she raised different questions on whether the economic governance framework in place allowed to have an appropriate policy-mix in place, the flexibility clauses in the existing rules, democratic accountability and longer-term measures required for completing the economic governance framework. She referred to criticism that aggregate demand had not been taken into account in the EU approach, leading to the current problems of weak growth, low inflation and high unemployment, and wondered what could be done to improve the situation.

On behalf of the political groups:

- Ms DE LANGE (EPP, NL) pointed out that the problems were partly due to the Member States not adhering to the rules in place and took the view that the national element had to be more addressed in the report. She also argued that the report had to concentrate on the concrete legislation in question, evaluating whether it enabled to make the countries more resilient and ultimately to reduce their debt to meet the 60% limit in place. She added that this meant looking at the role of the Commission in implementing it and the implementation of CSRs by Member States.
- Mr LUCKE (ECR, DE) added to the remarks of Ms BERES that the growth rates outside eurozone and in the other parts of the world were better, offering however a different analysis of the measures needed, which would leave more scope for action for the Member States and avoid increasing the debt levels.
- Mr THEURER (ALDE, DE), like Ms DE LANGE, suggested looking at how the instruments in place have been used and on how to improve the implementation of CSRs in Member States, while also creating an investment friendly environment. He stressed that all the Member States had to abide by the SGP in an equal way, so as to not penalise the countries that had embarked on structural reforms.
- Ms MATIAS (GUE/NGL, PT) argued that the objectives of the policies had not been met, as the countries that implemented them could not decrease their over indebtedness. She took the view that these measures had therefore been wrong, adding that in the future structural unemployment had to be taken into account.
- Mr URTASUN (Greens/EFA, ES) said that he agreed with many of the concerns raised by Ms BERES in her working paper regarding the problems related to pro-cyclical austerity policies and took the view that the legislation had to be reviewed.
- Mr O'FLYNN (EFDD, UK) expressed support to the initiative of Italian Five Star Movement to push for a referendum on euro, arguing that the best democratic and probably also economic solution was to allow people to choose whether they wanted the whole package, including EU's involvement in their economic policy choices.

In conclusion, Ms BERES promised to continue cooperating with the shadows on this report and the Chair announced that a workshop with external experts, a workshop with the Commission, a debate in ECON and in the plenary with the Commission and a public hearing with high-level experts were planned for discussing the issue.

12. Next meeting

- 11 November (full day) in Brussels
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