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3227th Council meeting

Economic and Financial Affairs

Brussels, 5 March 2013

President **Michael Noonan**
Minister for Finance of Ireland

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6083 / 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/Newsroom

Main results of the Council

*The Council broadly endorsed the outcome of the latest political trilogue with the European Parliament on two proposals, the "CRD 4" package, amending EU rules on **capital requirements for banks** and investment firms.*

It mandated the Permanent Representatives Committee to complete negotiations with the Parliament on outstanding technical issues, with the aim of reaching a final deal in the second half of March.

The proposals set out to amend and replace existing bank capital rules and prudential requirements. Their purpose is to transpose into EU law an international agreement approved by the G20 in November 2010 – the so-called Basel 3 agreement - concluded by the Basel Committee on Banking Supervision. The compromise with the European Parliament also introduces provisions on banker bonuses.

*Ministers discussed the economic adjustment programmes in **Ireland and Portugal** and whether to consider an adjustment of loan maturities in order to smooth the debt redemption profiles of the two countries. They agreed to ask the troika of international creditors to make a proposal for the best possible option in each case.*

*The Council adopted conclusions on the quality of **public spending**.*

*It also welcomed a compromise reached with the European Parliament on two legislative proposals aimed at further strengthening **economic governance** in the EU.*

CONTENTS[1]

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

PARTICIPANTS

Belgium:	
Mr Dirk WOUTERS	Permanent Representative
Bulgaria:	
Mr Dimiter TZANTCHEV	Permanent Representative
Czech Republic:	
Mr Miroslav KALOUSEK	Minister for Finance
Denmark:	
Ms Margrethe VESTAGER	Minister for Economic Affairs and the Interior
Germany:	
Mr Wolfgang SCHÄUBLE	Federal Minister for Finance
Estonia:	
Mr Jürgen LIGI	Minister for Finance
Ireland:	
Mr Michael NOONAN	Minister for Finance
Mr Brian HAYES	Minister of State with responsibility for Public Service Reform and the OPW (Department of Public Expenditure and Reform)
Greece:	
Mr Ioannis STOURNARAS	Minister for Finance
Spain:	
Mr Luis DE GUINDOS JURADO	Minister for Economic Affairs and Competitiveness
France:	
Mr Philippe ETIENNE	Permanent Representative
Italy:	
Mr Vittorio GRILLI	Deputy Minister for Economic Affairs and Finance
Cyprus:	
Mr Michael SARRIS	Minister for Finance
Latvia:	
Mr Andris VILKS	Minister for Finance
Lithuania:	
Mr Rimantas ŠADŽIUS	Minister for Finance
Luxembourg:	
Mr Luc FRIEDEN	Minister for Finance
Hungary:	
Mr Zoltán CSÉFALVAY	State Secretary, Ministry for National Economy
Malta:	
Mme Marlene BONNICI	Permanent Representative
Netherlands:	
Mr Jeroen DIJSSELBLOEM	Minister for Finance
Austria:	
Ms Maria FEKTER	Federal Minister for Finance
Poland:	
Mr Jacek ROSTOWSKI	Deputy Prime Minister, Minister for Finance
Portugal:	
Mr Vítor GASPAR	Ministro de Estado, Minister for Finance

Romania:	
Mr Liviu VOINEA	Minister Delegate for Budget, Ministry of Public Finance
Slovenia:	
Mr Andrej ŠIRCELJ	State Secretary, Ministry of Finance
Slovakia:	
Mr Peter KAŽIMÍR	Deputy Prime Minister and Minister for Finance
Finland:	
Ms Jutta URPILAINEN	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr George OSBORNE	Chancellor of the Exchequer

Commission:	
Mr Olli REHN	Vice President
Mr Michel BARNIER	Member
Mr Algirdas ŠEMETA	Member

Other participants:	
Mr Jörg ASMUSSEN	Executive Board Member of the European Central Bank
Mr Thomas WIESER	President of the Economic and Financial Committee
Mr Hans VIJLBRIEF	President of the Economic Policy Committee

The government of the acceding state was represented as follows:

Croatia:	
Mr Slavko LINIĆ	Minister for Finance

ITEMS DEBATED

BANK CAPITAL REQUIREMENTS

The Council broadly endorsed the outcome of the most recent political trilogue with the European Parliament[1] on legislation amending the EU's rules on capital and liquidity requirements for banks and investment firms.

On that basis, it mandated the Permanent Representatives Committee to finalise negotiations with the Parliament on outstanding technical issues. Once all technical work has been completed, the Council and Parliament will sign off on the final deal at a closing trilogue, expected in the second half of March.

The package, known as "CRD 4", sets out to amend and replace existing capital requirements directives[2] with two new legislative instruments: a *regulation* establishing prudential requirements that institutions must fulfil, and a *directive* governing access to deposit-taking activities.

Its purpose is to transpose into EU law an international agreement approved by the G20 in November 2010. The agreement, "Basel 3", concluded by the Basel Committee on Banking Supervision, tightens up bank capital requirements, introduces a mandatory capital conservation buffer and a discretionary countercyclical buffer, and provides a framework for new regulatory requirements on liquidity and leverage, as well as additional capital surcharges for systemically important banks.

The Council's discussion focused on the five key issues agreed on the latest round of negotiations between the presidency and the Parliament:

– requirements for national systemic risk buffers and buffers for systemically important institutions;

– flexibility for member states so that they can impose stricter national measures to address greater macro-prudential risks;

1 On 27 February.
2 Directives 2006/48/EC and 2006/49/EC.

– reporting requirements for banks on a country-by-country basis;

– restrictions on bankers' bonuses;

– additional own-initiative mediation powers for the European Banking Authority.

For details, see press release *7088/13*.

COMBATING VAT FRAUD

The Council held an exchange of views on the way forward for two legislative proposals aimed at combating VAT fraud better and more rapidly. A broad majority of member states indicated that they could support the way forward suggested by the presidency in the form of a package encompassing both proposals.

In the light of the Council's discussion and the guidance received, the presidency announced its intention to carry forward work on the compromise package at the level of experts, on the basis of guidelines set out in annex II of 6717/1/13 REV 1.

The presidency remains open to explore any concrete proposals by member states supporting the objectives of the package, in particular in delivering the requisite speed to tackle sudden and massive fraud.

It remains the aim of the presidency to seek adoption of the legislative proposals by the Council before the end of June.

The package includes:

– a proposal for a directive aimed at enabling immediate measures to be taken in cases of sudden and massive VAT fraud ("quick reaction mechanism")[1];

– a proposal for a directive intended to allow member states to implement, on an optional and temporary basis, a reversal of liability for the payment of VAT on the supply of certain goods and services ("reverse charge mechanism")[2].

Weaknesses in the VAT system, particularly in respect of cross-border transactions, leave member states vulnerable to fraud, often with serious consequences for national exchequers.

[1] 13027/12.
[2] 13868/09.

Fraud schemes evolve rapidly, giving rise to situations that require rapid responses. One example is "carousel" fraud, where supplies are rapidly traded several times without payment of VAT. Until now, such situations have been tackled either by amendments to the VAT directive (2006/112/EC) or through individual derogations granted to member states under that directive. Both require a proposal from the Commission and a unanimous decision by the Council, a process that can take several months.

The proposed "quick reaction mechanism" would provide the Commission with implementing powers, to speed up the procedure for authorising member states to derogate from the provisions of the VAT directive.

The proposed "reverse charge mechanism" is intended to close off certain types of VAT fraud – in particular carousel schemes – by allowing liability for the payment of VAT to be shifted from the supplier (as normally required by EU rules) to the customer.

ECONOMIC GOVERNANCE - TWO-PACK

The Council welcomed an agreement reached with the European Parliament on 20 February on the "two-pack" of draft regulations aimed at further improving economic governance in the eurozone (*6726/13* + *6727/13*).

The compromise was endorsed by the Permanent Representatives Committee on 28 February, paving the way for adoption of the texts at first reading. If the Parliament approves the package as agreed in the trilogue, the Council will adopt it at a future meeting without further discussion, once the texts have been finalised.

The "two-pack" includes:

– a regulation on enhanced monitoring and assessment of draft budgetary plans of euro area member states, especially those subject to an excessive deficit procedure;

– a regulation on enhanced surveillance of euro area member states which are experiencing severe financial disturbance or which request financial assistance.

For details, see press release *6866/13*.

EUROPEAN SEMESTER

The Council held an exchange of views on the quality of public expenditure in the context of the current *European Semester* exercise. It adopted the following conclusions:

"The Council (Ecofin),

having regard to:

– the Council conclusions on quality of public finance of 5 June 2007; and

– the Council conclusions on the Commission's Annual Growth Survey 2013 of 12 February 2013,

1. WELCOMES the Commission report on "quality of public expenditure in the EU" which is a response to the mandate of the European Council of 28-29 June 2012 to:

– monitor the impact of tight budget constraints on growth-enhancing public expenditure and on public investment and

– report on the quality of public spending and the scope for possible action within the boundaries of the EU and national fiscal frameworks.

2. In view of the serious growth and debt challenges confronting the EU economy, UNDERLINES the need of increasing the efficiency and effectiveness of public spending, in support of growth-friendly fiscal consolidation strategies, while safeguarding essential social safety nets.

3. Therefore, in support of Member States' and the EU efforts focused on enhancing the quality of public expenditure and while fully respecting the competences of Member States, the Council EMPHASISES the role of dialogue among Member States, including peer reviews and sharing of good practices on selected issues; and INVITES the Economic Policy Committee, using existing processes and procedures and drawing on all available expertise, and the Commission to:

– Pursue further analytical work on drivers of current and future health expenditure and to assess possible consequences that some of these drivers, including demography, could have on the financial sustainability of health systems in the long run. This is particularly relevant in view of the fiscal challenges related to an ageing population.

– Review budgetary processes and practices conducive to enhanced expenditure performance (e.g. spending reviews, performance-based budgeting, top – down budgeting etc.) aiming at achieving efficiency gains and sustainability in the public sector.

4. EMPHASISES that a better monitoring of expenditure quality ultimately rests on the availability of consistent and high quality data. Progress was achieved in this respect, due to Member States' efforts to increase the availability and dissemination of data on the functional breakdown of expenditures (COFOG).STRESSES the need for Eurostat to continue to play a leading role and in cooperation with Member States' statistical offices to improve the process of data collection with the aim to further improve reliability and timeliness of the COFOG II breakdown data. Member States are encouraged to keep up their efforts to improve further the timeliness and detail of COFOG expenditure. Furthermore, INVITES the Eurostat to continue assessing the comparability of COFOG data and to report on it. Finally, NOTES that a clarification of links and synergies among different data sources by the Commission would be helpful as for specific items, e.g. R&D and energy-related expenditures; for these alternative sources may provide more accurate figures than COFOG.

5. STRESSES, in line with the Conclusions of the European Council of 13 – 14 December 2012, that the consolidation of EMU rests not only on completing its architecture but also on pursuing differentiated, growth - friendly and sound fiscal policies. While fully respecting the Stability and Growth Pact, the possibilities offered by the EU's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives can be exploited in the preventive arm of the SGP."

ECONOMIC AND MONETARY UNION

The Council held an exchange of views on the further development of the EU's economic and monetary union, ahead of the European Council's meeting on 14 and 15 March.

The presidency will now send a letter to the president of the European Council summarising the debate.

The discussion focused on three issues:

- *ex-ante* coordination of national economic policy reforms;
- mutually agreed contracts (between individual member states and EU institutions) for competitiveness and growth;
- solidarity mechanisms that can enhance efforts made by the member states that enter into contractual arrangements for competitiveness and growth.

In December 2012, the European Council called on its president to present possible measures and a time-bound "roadmap" on these issues in June 2013, after consultations with the member states.

The Commission is expected to present communications by the end of March on *ex-ante* coordination of national reforms and on a "convergence and competitiveness instrument".

FOLLOW-UP TO G20 MINISTERIAL MEETING

The Council took stock of the outcome of a meeting of G20 finance ministers and central bank governors held in Moscow on 15 and 16 February.

Discussions at the meeting focused on the global economy and framework for growth, reform of the international financial system, financial regulation and inclusion, financing for investment, and energy, commodities and climate finance.

The next G20 finance meeting will be held in Washington on 18 and 19 April.

OTHER BUSINESS

The Council was informed by the presidency of developments with regard to the following legislative dossiers:

– **Bank supervision** (single supervisory mechanism);

– **Bank recovery and resolution**;

– **Markets in financial instruments** ("MIFID");

– **Mortgage credit.**

MEETINGS IN THE MARGINS OF THE COUNCIL

The following meetings were held in the margins of the Council:

– ***Macroeconomic dialogue with the social partners***

A dialogue on macroeconomic issues was held on 4 March between the presidency troika, Commission, European Central Bank and president of the Eurogroup, on the one hand, and the social partners (employers and trade unions at EU level and representatives of public enterprises and SMEs), on the other.

– ***Eurogroup***

Ministers of the euro area member states attended a meeting of the Eurogroup on 4 March.

– ***Ministerial breakfast meeting***

Ministers held a breakfast meeting to discuss the economic situation.

They also discussed EFSF/EFSM[1] loan maturities for Ireland and Portugal and issued the following statement:

"*The Eurogroup yesterday and Finance Ministers today discussed the state of play of the adjustment programmes in Ireland and in Portugal.*

Both programmes are on track and performing well despite challenging macro-economic circumstances.

EU Finance Ministers commended the authorities' strong commitment to their respective adjustment programmes, which have already been successful in addressing previously accumulated imbalances. Both countries have taken successful steps to re-enter the markets. In both meetings views were exchanged on how best to support their efforts to regain full market access and successfully exit their programmes.

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[1] European Financial Stability Facility / European Financial Stabilisation Mechanism.

We discussed whether EU Finance Ministers would be ready in principle to consider an adjustment of the maturities on the EFSF and EFSM loans to Ireland and Portugal in order to smooth the debt redemption profiles of both countries.

We agreed to ask the Troika to come forward with a proposal for their best possible option for each of these two countries for EFSF and EFSM loans."

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Alternative investment fund managers - delegated act

The Council decided not to object to the adoption by the Commission of a regulation supplementing directive 2011/61/EU on alternative investment fund managers with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (*6687/13* + *ADD1 REV1*).

The draft regulation is a delegated act pursuant to article 290 of the Treaty on the Functioning of the European Union. Now that the Council has given its consent, the regulation can enter into force unless the European Parliament objects to it.

VAT derogation - Netherlands

The Council adopted a decision authorising the Netherlands, by way of derogation from Article 193 of directive 2006/112/EC, to implement, on a temporary basis, a reversal of tax liability (from supplier to recipient) for the payment of VAT on supplies of mobile phones, integrated circuit devices, game consoles and personal computers for mobile use (*6718/1/13 REV 1* and *6487/13*).

The derogation will apply to goods for which the taxable amount is at least EUR 10 000.

This decision will expire on 31 December 2013, or, if earlier, on the date of the entry into force of EU rules allowing all member states to adopt such measures.

FOREIGN AFFAIRS

Switzerland - Financial contribution

The Council and representatives of the member states approved conclusions on the renewal of Switzerland's financial contribution to the EU.

APPOINTMENTS

Economic and Social Committee

The Council appointed Ms Melanie BOUWKNEGT (The Netherlands), as member of the European Economic and Social Committee for the remainder of the current term of office, which runs until 20 September 2015 *(6612/13)*.