



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	Council (Ecofin)
to:	European Council
Subject:	Council (Ecofin) Conclusions on exit strategies for the financial sector for the 10-11 December European Council

Delegations will find attached Council (Ecofin) Conclusions of 2 December on exit strategies for the financial sector, for the 10-11 December European Council.

Encl.:

**Council conclusions on
Exit strategies for the financial sector**

1. Member States have implemented a wide range of extraordinary support measures in order to restore financial stability and support the economic recovery. The Council NOTES that these tools have been effective in addressing the problems caused by the financial crisis. In this context, the Council UNDERLINES that the recovery is nonetheless still fragile and that, depending on the situation of each Member State, it would be premature to initiate an exit from the support schemes at this point of time.

2. The Council also STRESSES that banks must continue the work of cleaning up their balance sheets and strengthening of their risk-bearing capacity and Member States should ensure that there are strong incentives for doing so. The Council also STRESSES that public assistance and bank profits should be used in building up capital buffers and not to increase bank dividends or compensations. The Council CALLS on Member States to incorporate urgently within their national frameworks the FSB principles and CALLS on the financial sector to immediately implement these sound compensation practices. The Council INVITES the Commission to regularly report to the Council on the implementation of sound remuneration policies at its upcoming meetings.

3. The Council CALLS upon CEBS to provide, at least on a six-monthly basis, insights as to the strength of banking systems' balance sheets, particularly the quality of assets and the adequacy of capital. Information, through stress testing, on the dependence of EU banks on public support and on the amount of capital available for further lending in the context of exit strategies should be provided.

4. The Council RECOGNISES that it is appropriate to start designing the strategy for a transparent and coordinated phasing out of the different support schemes.
5. The Council ADOPTED in October general principles for coordinated fiscal exit strategies which should start in 2011 at the latest, provided that the Commission forecasts continue to indicate that the recovery is strengthening and becomes self-sustaining. However, there is a need for more broad-based exit strategies, also taking into account the need to unwind financial support schemes.
6. Against this background, the Council AGREES on the following principles for exit strategies from financial support schemes:
 - Phasing out of public support schemes should be duly coordinated among Member States to avoid negative spill-over effects, taking into account country-specific specificities. In this respect, a coordinated strategy should be based on:
 - facilitating adequate incentives to return to a competitive market;
 - ex-ante exchange of information on the intentions to phase out; the Commission should centralize the information provided by Member States and make it available to all Member States on a regular basis;
 - transparency towards the public and the financial sector;
 - an assessment of the stability of the financial system.

- The timing of exit should take into account a broad range of elements, including macro-economic and financial sector stability, the functioning of credit channels, a systemic risk assessment and the pace of natural phasing out by banks. Since the crisis has affected Member States and their financial sector differently, Member States specific circumstances should be taken into account, thereby allowing Member States to exit from support schemes at different points of time, while maintaining an adequate level of competition.
 - Depending on individual Member State's circumstances, the phasing out of support should start with government guarantees. Action to phase out guarantee schemes would incentivise the exit of sound banks and give other banks incentives to address their weaknesses.
 - The exit of individual measures must take into account the legal framework, including the relevant state aid decisions, which provide a coherent framework for exit.
 - The withdrawal of state support should also take into account the legitimate interest to minimize the potential loss of public money.
7. Finally, the Council INVITES the EFC, with the cooperation of the Commission, CEBS and the ECB, to closely monitor the developments and further discuss possible ways forward on the phasing out of public support schemes. The EFC should report about such progress to the Council by February 2010 and then on a regular basis.