**COUNCIL OF THE EUROPEAN UNION**

**Brussels, 18 May 2010**

**9921/10**

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**UEM 188**

**NOTE**

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| from: | The General Secretariat of the Council |
| to: | Delegations |
| Subject: | Council Conclusions on financial exit strategy |

Delegations will find attached Council Conclusions on financial exit strategy, as adopted by the (Ecofin) Council on 18 May 2010.

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Encl.:

**Council conclusions on**
**Financial exit strategy**

The Council AGREED in December 2009 that it was appropriate to start designing a coordinated and transparent strategy for the phasing out of the different support schemes in favour of financial institutions.

The Council also AGREED on a number of elements that should be taken into account while undertaking such exit strategies, mainly related to macro-economic and financial stability, the functioning of credit channels and the pace of natural phasing out by banks, as well as to start with the phasing out of government guarantees on banks' debt, and INVITED the EFC, in cooperation with the Commission, CEBS and the ECB, to further discuss possible solutions.

Following-up to this, the Council in March WELCOMED the preliminary analysis by the Commission services of the actual use of guarantee schemes and INVITED the Commission to continue its work, in cooperation with the ECB, in particular on the cost of guaranteed and non guaranteed funding in the EU banking sector. It also URGED the EFC to discuss the findings resulting from this work, to promote a coordinated phasing out and analyse how to take country-specific circumstances into account, reporting to the Council on a regular basis in view of the European Council of June 2010.

The Council WELCOMES the work of the Commission, on the basis of close cooperation with the ECB, which includes a thorough assessment of the use and costs of government guarantees, also in comparison with non-guaranteed market funding. The Council SHARES the view that risks of competitive distortion between banks whose funding is obtained at market prices and banks strongly relying on government guarantees persist.

The Council WELCOMES the thrust of the comprehensive orientations announced by the Commission with a view to further incentivising the phasing out of guarantee schemes. In particular, the Council RECOGNISES that it is appropriate to apply an adequate increase of the guarantee fees in order to bring funding costs closer to market conditions and URGES the application of new conditions as from July 2010.

The Council also AGREES that, at the current juncture, access to liquidity in markets is generally less difficult than it was in the most acute crisis period and that cases of extended use of government guarantees should be monitored. Therefore, the Council WELCOMES the Commission's intentions to introduce specific prerequisites in view of the renewed provision of guarantees after the deadline of 30 June 2010. To this end, banks continuing to heavily rely on guarantees and drawing on new guarantees thereafter and not under restructuring obligations should undergo a review of their long-term viability which will be conducted by the Commission. The combination of tighter pricing conditions and the need to present a viability plan would incentivise banks to either gradually exit guarantee schemes or address their structural weaknesses, including by going through a restructuring process if needed. This approach will also allow sufficient flexibility so that the risk of negative spill-over effects, the possibility of setbacks or of renewed stress in financial markets and the diversity of circumstances in individual Member States, can be duly taken into account.

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