Situation of the global financial system

2008/2649(RSP) - 07/10/2008

The Council prepared the proceedings of the European Council on 15 and 16 October 2008 concerning the economic situation and the situation on the financial markets, and financial supervision. In particular, it adopted conclusions giving immediate responses to financial turmoil.

The conclusions relate in particular to the support of systemic financial institutions and EU common principles to guide action. These common principles are as follows:

- interventions should be timely and the support should in principle be temporary;
- vigilance regarding the interests of taxpayers;
- existing shareholders should bear the due consequences of the intervention;
- the government should be in a position to bring about a change of management;
- the management should not retain undue benefits – governments may have inter alia the power to intervene in remuneration;
- legitimate interest of competitors must be protected, in particular through the state aids
- rules;
- negative spillover effects should be avoided.

The Council underlined the necessity of avoiding any distortion of treatment between US and European banks due to differences in accounting rules and welcomes the readiness of the Commission to bring forward appropriate measures as soon as possible. Member States would, for an initial period of at least one year, provide deposit guarantee protection for individuals for an amount of at least **EUR 50 000**. Many Member States are determined to raise their minimum to **EUR 100 000**.

The Council welcomes the Commission's commitment to issue guidance setting out the broad framework within which the state aid compatibility of recapitalisation and guarantee schemes, and cases of application of such schemes, could be rapidly assessed.

The application of the Stability and Growth Pact should also reflect the current exceptional circumstances, in accordance with the provisions of the Pact.

The Council also adopted certain conclusions on the economic slowdown, executive pay, and financial supervision. With regard to the **slowdown**, a strategy for Member States could build on the following elements:

a) at the macroeconomic and structural level, ensure domestic policies are in place to support growth in a sustainable manner ;

b) restore confidence on financial markets and avoid excessive tightening of credit toward SMEs in the EU;

c) on the external front, contribute to a more favourable environment. Europe should continue to act proactively in international fora, notably at the FSF and the IMF.

The Council agrees that in view of the developments regarding **executive pay** in the last few years, the effectiveness of some existing provisions warrant further examination and possibly policy at the national level, taking into account the different regulatory frameworks in Member States.The Council agrees on the following objectives:

a) the governance framework should be conducive to an effective control by shareholders and the governing bodies of the company, including on remuneration policy;

b) performance should be properly and comprehensibly reflected in executives' pay, including leaving pay ("golden parachute"), which should be appropriately linked to the contribution of the executive to the company's success;

c) performance criteria should provide the right incentives;

d) care should be taken to prevent potential conflicts of interest for executives conducting mergers and acquisitions, for example whilst they hold shares or stock-options of the offered company.

With regard to **financial supervision**, the Council invites all banks to make further progress concerning transparency on risks valuation and management methodologies. It urges supervisors and accounting standards-setters to ensure that the financial reporting framework functions properly with clear guidelines on valuation that can be applied consistently across institutions. In respect of the convergence of supervisory practices, the Council agrees to make EU-wide common reporting formats for a single set of data requirements and reporting dates operational by 2012. At this date, there should indeed be a common set of reporting formats and no extra time should be allowed. Regarding supervision of financial groups, the Council emphasises the need for a more efficient system of European supervision of cross border groups.