



**COUNCIL OF
THE EUROPEAN UNION**



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Economic and Financial Affairs

Luxembourg, 9 June 2009

President

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Minister for Finance of the Czech Republic

P R E S S

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Main results of the Council

*The Council approved conclusions on the reform of the EU's **supervisory framework for financial services**, and agreed to submit them to the **European Council** (18 and 19 June) along with certain issues that remain outstanding.*

The conclusions set out the Council's position on a communication from the Commission on European financial supervision, which builds on the recommendations of the De Larosière group. The new framework is aimed at strengthening the supervisory system and rebuilding trust in the financial system following the global financial crisis. It involves the creation of:

- a European Systemic Risk Board to continuously assess the stability of the financial system as a whole. Where necessary, it will issue risk warnings and recommendations to policy makers and supervisors, and monitor their follow-up;*
- three European supervisory authorities, dealing with the banking, insurance and securities industries, working in a network with national supervisors, inter alia in preparing technical standards, ensuring the consistent application of EU law and resolving disputes between national supervisors.*

The Commission has been asked to present legislative proposals with the aim of ensuring that the new supervisory framework will be in place during the course of next year.

*The Council adopted conclusions on the international financing of **climate change** measures, which will also be referred to the European Council, and on the promotion internationally of **good governance** in tax matters.*

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¹ 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.

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PARTICIPANTS

The governments of the Member States and the European Commission were represented as follows:

Belgium:

Mr Jean DE RUYT Permanent Representative

Bulgaria:

Mr Boyko KOTZEV Permanent Representative

Czech Republic:

Mr Eduard JANOTA Minister for Finance
Mr Tomáš ZÍDEK Deputy Minister for Finance, International Relations and
Financial Policy Section

Mr Peter CHRENKO Deputy Minister for Finance, Tax and Customs Section
Ms Klára HÁJKOVÁ Deputy Minister for Finance, Financial Services

Denmark:

Mr Claus Hjort FREDERIKSEN Minister for Finance

Germany:

Mr Peer STEINBRÜCK Federal Minister for Finance

Estonia:

Mr Jürgen LIGI Minister for Finance

Ireland:

Mr Rory MONTGOMERY Permanent Representative

Greece:

Mr Ioannis PAPATHANASIOU Minister of Economic and Finance

Spain:

Ms Elena SALGADO Deputy Prime Minister and Minister for Economy

France:

Ms Christine LAGARDE Minister for Economic Affairs, Finance and Employment

Italy:

Mr Giulio TREMONTI Minister for Economic Affairs and Finance

Cyprus:

Mr Charilaos STAVRAKIS Minister for Finance

Latvia:

Mr Einars REPŠE Minister for Finance

Lithuania:

Mr Algirdas Gediminas ŠEMETA Minister for Finance

Luxembourg:

Mr Luc FRIEDEN Minister for Justice, Minister for the Treasury and the
Budget

Hungary:

Mr Péter OSZKÓ Minister for Finance

Malta:

Mr Tonio FENECH Minister of Finance, Economy and Investment

Netherlands:

Mr Wouter BOS Minister for Finance, Deputy Prime Minister

Austria:

Mr Josef PRÖLL Vice Chancellor and Federal Minister for Finance

Poland:

Mr Jan VINCENT-ROSTOWSKI Minister for Finance

Portugal:

Mr Manuel LOBO ANTUNES Permanent Representative

Romania:

Mr Cosmin COMAN

State Secretary, Ministry of Finance

Slovenia:

Mr Franc KRIŽANIČ

Minister for Finance

Slovakia:

Mr Ján POČIATEK

Minister for Finance

Finland:

Mr Jyrki KATAINEN

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Anders BORG

Minister for Finance

Mr Mats ODELL

Minister for Local Government and Financial Markets

United Kingdom:

Mr Alistair DARLING

Chancellor of the Exchequer

.....
Commission:

Mr Joaquín ALMUNIA

Member

Mr Charlie MCCREEVY

Member

Mr László KOVÁCS

Member

Ms Neelie KROES

Member

.....
Other participants:

Mr Jean-Claude TRICHET

President of the European Central Bank

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Thomas WIESER

President of the Economic and Financial Committee

Mr Christian KASTROP

Chairman of the Economic Policy Committee

ITEMS DEBATED

ECONOMIC AND FINANCIAL SITUATION

Update on the current situation

The Council took stock of the economic situation and the latest developments on financial markets, on the basis of an update provided by the Commission and the European Central Bank.

The Council was also informed by the Commission of its intentions regarding budgetary surveillance procedures in the light of the latest fiscal notifications by the member states.

International accounting standards

The Council held an exchange of views with Sir David Tweedie, chairman of the International Accounting Standards Board (IASB), and Gerrit Zalm, chairman of the trustees, the oversight body of the IASB, regarding international standards used for the valuation of financial instruments.

During the discussion, ministers reiterated a call they made at an informal meeting in Prague on 3 and 4 April for standard setters to work urgently to achieve clarity and consistency in the application of standards used for the valuation of assets in distressed and inactive markets.

PREPARATION OF THE EUROPEAN COUNCIL

European supervisory framework for financial markets

The Council approved the following conclusions, and agreed to submit them to the European Council (18-19 June).

"On 19-20 March 2009, the European Council examined the report prepared by the High-Level Group on Supervision, chaired by Mr. Jacques de Larosière, in light of the ensuing Commission Communication on "Driving European Recovery" and concluded by agreeing "on the need to improve the regulation and supervision of financial institutions in the EU and that the report from the High Level Group on financial supervision chaired by Jacques de Larosière is the basis for action. The Council is instructed to examine the report, as well as the proposals from the Commission, on strengthening EU financial sector regulation and supervision with a view to first decisions at the June 2009 European Council. More detailed legislative proposals will follow in the autumn."

Against this background, the Council has examined i.a. the Commission Communication on "European financial supervision" of 27 May 2009 and concludes as follows. The Council agrees with the objectives laid down in the Commission Communication and stresses that financial stability, regulation and supervision in Member States and in the EU must be enhanced in an ambitious way ensuring trust, efficiency, accountability and consistency with the allocation of responsibilities for financial stability, taking into account the responsibility of Finance Ministers in this area.

The Council **UNDERLINES** the need for a balanced assessment of all relevant systemic risks that could have an impact on financial stability and **CONSIDERS** that the EFC should be informed regularly and at an early stage of the ESRB's and ESAs' analysis in order to prepare Council discussions and provide timely policy advice to the Council. The Council could invite the ESRB and ESAs to look at some specific issues as deemed appropriate.

On the establishment of a European Systemic Risk Board:

1. The Council **AGREES** that an independent macro-prudential body covering all financial sectors, the European Systemic Risk Board (ESRB), should be established –without legal personality- and charged with the following tasks, without prejudice to the role and responsibilities of existing bodies:

- i. Define, have access to and/or collect as appropriate, and analyse all the information relevant for identifying, monitoring and assessing potential threats and risks to financial stability in the EU that arise from macro-economic developments and developments within the financial system as a whole;
 - ii. Identify and prioritise such risks;
 - iii. Issue risk warnings, where risks appear to be significant, to policy makers and supervisors;
 - iv. Where necessary give recommendations or advice on the measures, including where appropriate legislative ones, to be taken in reaction to the risks identified;
 - v. Carry out the mandatory monitoring of the required follow-up to warnings and recommendations; and
 - vi. Liaise effectively with the IMF, the FSB and third country counterparts.
2. The Council FINDS that the financial stability risk warnings and recommendations could be of a general nature or concern individual Member States or groups of Member States, and that they should be addressed to the Council and, as appropriate, to the new European Supervisory Authorities (ESAs), to be set up within the European System of Financial Supervisors (ESFS), for remedial action at the appropriate level. The deliberations of the Council will be prepared by the EFC in accordance with its role as defined in the Treaty.
3. The Council NOTES that the ESRB's recommendations are expected to exert a major influence on the addressees through the high quality of its analysis and the participants in its work, and by means of mechanisms which would require the addressees to provide adequate justifications in case of inaction (“act or explain”) to the Council and/or the ESAs as appropriate. If the ESRB judges that the reaction is inadequate, it shall also inform the Council as appropriate. On a case by case basis, the ESRB could decide to make the recommendations public after consultation of Council. In implementing all these processes, the role of the EFC should be fully taken into account.

4. The Council AGREES that the ESRB should be composed as follows (see more details in Annex):

A Steering Committee, the composition of which is also set out in Annex to Annex, shall set the work agenda, and prepare the decisions of the ESRB.

The General Board shall comprise 27 Central Bank Governors, the ECB President (and vice-President as appropriate - see Annex to Annex), 3 Chairs of the EU Committees of supervisors/European Supervisory Authorities and a Commission member as members with voting rights; and with the EFC president and representatives from national supervisory authorities (1 per Member State) as members without voting rights. The ESRB will act independently and members of the ESRB shall be guided, in the performance of their duties, by the general interests of the Community.

5. The Council CONSIDERS that the ECB should provide analytical, statistical, administrative and logistical support to the ESRB, also drawing on technical advice from national Central banks and supervisors. The ESRB could also seek the views of private sector stakeholders, including consumers, as appropriate.
6. With a view to ensuring accountability, the Council STRESSES the need for the ESRB to report, at least bi-annually and more often as necessary, to the Council and to the European Parliament.

On the establishment of a European System of Financial Supervisors:

7. Following up from the roadmaps agreed on 14 May 2008¹, the Council AGREES that the recommendation by the de Larosière Group to establish a European System of Financial Supervisors (ESFS) should be carried out and completed without delay. To this end, the Council invites the Commission and all other relevant parties to take the appropriate initiatives, which i.a. should aim at:
- Upgrading the quality of supervision and strengthening national supervisors by setting in motion a process leading to far stronger and consistent powers for supervisory and sanctioning regimes in the Member States, aligning supervisors' competences, mandates and powers to the fullest extent possible;

¹ See doc. 9056/08 EF 27 ECOFIN 158 + COR 1.

- Strengthening oversight of cross-border groups by completing the setting-up of supervisory colleges for all major cross-border financial firms in the EU by the end of 2009;
- Moving towards the realisation of a single rulebook, with a core set of EU-wide rules and standards directly applicable to all financial institutions active in the Single Market, so that key differences in national legislations are identified and removed.

8. The Council RECOMMENDS that a European System of Financial Supervisors be established as an operational European network with shared and mutually reinforcing responsibilities. At EU level, the current EU Committees of supervisors (CEBS, CEIOPS and CESR) should be transformed into European Supervisory Authorities (ESAs) with a legal personality under Community law: a European Banking Authority (EBA), a European Insurance and Occupational Pensions Authority (EIOPA), and a European Securities and Markets Authority (ESMA). National supervisors should remain responsible for day-to-day supervision of individual firms. A steering committee of the ESAs should be set up to reinforce mutual understanding, cooperation and consistent supervisory approaches, in particular in relation to financial conglomerates, and to coordinate the necessary information sharing between the ESAs and the ESRB.
9. The Council STRESSES that, without prejudice to the application of Community law and recognising the potential or contingent liabilities that may be involved for Member States, decisions under the mechanisms set out below should not impinge on the fiscal responsibilities of the Member States. The framework for the exercise of the above competences should be specified exhaustively and in precise detail in the relevant sectoral legislation in parallel with the creation of the ESAs. Moreover, any binding decision by the European Supervisory Authorities or the Commission must be subject to review by the Community Courts. Subject to these considerations, the Council FINDS that the ESAs should be entrusted with the following tasks and powers:
- i. Ensuring that a single set of harmonised rules and consistent supervisory practices is applied by national supervisors, by two means:
 - a) Developing binding harmonised technical standards in the areas to be specified in Community legislation. Such standards should apply from a fixed date, provided the Commission endorses them;

- b) Drawing up non-binding standards, recommendations and interpretative guidelines, which the competent national authorities would apply in taking individual decisions.
- ii. Ensuring a common supervisory culture and consistent supervisory practices:

The ESAs should be responsible for building a common European supervisory culture and consistent supervisory practices, and ensuring uniform procedures and consistent approaches across groups by i.a.:

- issuing guidelines on practical supervisory issues with a view to a common framework for supervision;
- coordinating ex ante the supervisory analyses of the risks and behaviours of financial institutions and groups;
- conducting peer analysis across financial institutions and groups, to ensure consistency in supervisory outcomes;
- participating as appropriate as observers in supervisory colleges, so as to identify and address possible inconsistencies;
- collecting practical issues emerging in the implementation of Community legislation and ESAs' standards and ensuring that there is consistent interpretation across the Single Market;
- developing on a much broader scale common training for supervisors and staff exchanges.
- without prejudice to the role of European institutions, the ESAs should be given a certain role as regards international issues, including technical arrangements and preparation of equivalence assessments.

- iii. Collecting micro-prudential information:

The ESAs should be responsible for the definition, collection and aggregation of all relevant micro-prudential information emanating from national supervisors.

To this end, a central European database should be established and managed by the ESAs. The information would be available for the relevant authorities in colleges of supervisors and should be shared with the ESRB subject to specific confidentiality agreements. The Commission is invited to examine the extent to which existing sectoral legislation would need to be amended.

iv. Ensuring consistent application of EU rules, in cases to be further clearly specified in Community legislation such as:

a) Manifest breach of EU law or ESAs' standards:

Without prejudice to the procedures laid down by the EC Treaty to ensure compliance with Community law, a mechanism should also be put in place to address non compliance by a national supervisory authority which is considered to be manifestly diverging from the existing Community legislation and ESAs' binding harmonised technical standards.

This mechanism should allow the ESAs to address recommendations to the relevant national supervisor. In the event that the non-compliance with Community law would persist, the Commission could require the national supervisory authority to either take specific action or to refrain from action in order to restore compliance with Community law.

b) Disagreement between national supervisors or within a college of supervisors:

In the case of diverging opinions between national supervisory authorities over the proper enforcement of EU legislation, or in the case of diverging opinions between national supervisory authorities within a college of supervisors, the ESAs should facilitate a dialogue and assist the supervisors in reaching a joint agreement. An overwhelming majority supports that, if, after a phase of conciliation, national supervisors or colleges of supervisors have not been able to reach an agreement, the ESAs should, through a binding decision, settle the matter. The other Member States do not agree with this approach, since they believe that it could impinge on Member States' fiscal responsibilities. The Commission's forthcoming legal text should define precisely the scope and modalities of this mechanism and ensure that such powers should not impinge in any way on Member States' fiscal responsibilities.

iv. Using full supervisory powers for some specific pan-European entities:

An overwhelming majority supports the Commission to propose EU legislation giving the ESAs the responsibility for the authorisation and supervision of certain specific entities with pan-European reach, e.g. credit rating agencies and EU central counterparty clearing houses. The other Member States do not agree with this approach, since they believe that it could impinge on Member States' fiscal responsibilities. All Member States agree that these full supervisory powers should not be extended to financial conglomerates, banks, insurance companies or investment firms and other financial institutions whose failure could result in fiscal burden for Member States. The Commission's forthcoming legal text should define precisely the scope and modalities of this mechanism and ensure that such powers would not impinge in any way on Member States' fiscal responsibilities.

v. Ensuring a coordinated response in crisis situations:

The Commission is invited to explore how ESAs could play a strong coordinating role amongst supervisors in crisis situations, i.a. by facilitating cooperation and exchange of information between the competent authorities and acting as mediator when needed, while fully respecting the responsibilities of national authorities in preserving financial stability and in crisis management in relation to potential fiscal consequences and fully respecting central banks' responsibilities, in particular with regard to the provision of emergency liquidity assistance. An overwhelming majority supports the Commission to examine whether the ESAs should have, in crisis situations, the power to adopt specific emergency decisions, as e.g. short selling restrictions, which should be defined in Community legislation. The other Member States do not agree with this approach, since they believe that it could impinge on Member States' fiscal responsibilities. The Commission's forthcoming examination should address precisely the scope and modalities of this mechanism and ensure that such power should not impinge in any way on Member States' fiscal responsibilities.

10. The Council STRESSES that ensuring the ESAs independence vis-à-vis national authorities other than supervisors and vis-à-vis the European Institutions will be crucial. The ESAs should have their own autonomous budget, commensurate with their responsibilities, and be governed by rules which ensure their efficiency, independence, and accountability towards the Council, the Parliament and the Commission. Building on the existing EU Committees of supervisors, they should comprise high-level representatives of all the relevant national supervisory authorities. Their precise management, organisation and funding should be specified in appropriate Community legislation. Furthermore, they should have full-time Chairs.
11. The Council SUPPORTS the acceleration of work to build a comprehensive cross-border framework to strengthen the EU financial crisis management systems and calls on the Commission to bring forward appropriate proposals in this regard, including on guarantee schemes and winding up of financial institutions and the EFC to pursue its activities in this area based on experiences from the MoU on Cross-border financial stability.

NEXT STEPS:

The Council CONSIDERS that the Commission should present all necessary proposals by early autumn 2009 at the latest. The draft legislation for the setting up of the ESRB and the ESAs should specify i.a. the above-mentioned organisational and structural aspects, and the mechanism through which the ERSB and the ESAs should work in close cooperation. The aim should be to have the new European Financial Supervision system, comprising both macro-prudential and micro-prudential components, fully in place in the course of 2010. The present conclusions do not prejudice the choice of legal basis for the establishment of the financial supervisory structures, which can only be determined in the light of the content and objectives of the legislative proposals. The Council AGREES that the functioning of the ESRB and ESFS should be reviewed no later than three years after their establishment.

Suggested composition of the ESRB and its steering committee:

The Steering Committee shall be composed as follows:

- the ESRB chair and vice-chair;
- two additional Central bank members of the ESRB (one from a euro area Member State and one from a non-euro area Member State);

- the Chairs of the three new European Supervisory Authorities;
- the Commission member;
- the EFC President.

The General Board shall be composed as follows:

- Chair: President of the ECB (or alternatively a Governor (elected by ESRB members));
- Vice-Chair: elected by ESRB members;
- Governors of the 27 national Central banks;
- President of the ECB (if the latter is the chairperson of the ESRB, the ECB would be represented by its Vice-President);
- Chairs of the three European Supervisory Authorities;
- Member of the European Commission;
- EFC President*;
- A representative of the national supervisory authorities*, accompanying the Central bank Governor in a 1 +1 formula.

The Steering committee shall also be chaired by the ESRB Chair, or the vice-Chair in the absence of the ESRB Chair.

* Members without voting right"

European economic recovery plan

The Council approved a report to the European Council (18-19 June) on implementation of the European economic recovery plan agreed in December in response to the global financial crisis and economic slowdown (*doc. 10771/09*).

The Council also took note of a report from the European Investment Bank on its response to recent trends in economic conditions (*doc. [10583/09](#)*).

The European economic recovery plan provides a framework for measures taken by each member state in response to its specific circumstances, and identifies a number of actions to be undertaken at EU level. At its meeting on 19 and 20 March, the European Council noted good progress and asked the Commission and the Council to assess and monitor implementation of agreed measures and to report back in June.

The overall budgetary support provided by member states is currently estimated at around five percentage points of gross domestic product in 2009 and 2010, of which nearly 2% represents measures taken specifically in the context of the European economic recovery plan.

Bank support schemes

The Council approved a report to the European Council (18-19 June) assessing the effectiveness of bank support schemes adopted by the member states with the aim of restoring the stability and functioning of financial markets (*doc. 10772/09 + 10772/09 ADD 1*).

It asked the Economic and Financial Committee (EFC) to further examine certain issues at its next meeting (25-26 June), notably requirements for bank restructuring in return for state support and the pricing of state guarantees, and to report back to the Council in July.

At its meeting on 19 and 20 March, the European Council called on the Council to assess the effectiveness of measures taken. Since then, the EFC has kept the support measures under review, establishing a task force to examine the effectiveness of measures and problems in their implementation.

In the wake of the global financial crisis, a large majority of member states have taken measures in support of the financial sector involving guarantees and recapitalisation. These are defined at national level, in accordance with principles established by the Council at its meeting on 7 October (*see press release [13784/08](#)*). More recently, a limited number of member states have also implemented or announced measures to deal with impaired assets. Here, principles agreed by ministers at the Council's meeting on 10 February provide the necessary guidance.

The level of public resources that are potentially committed by the support measures varies widely from one member state to another; the overall effort is considerable, amounting to 31.4% of gross domestic product.

International financing of climate change measures

The Council adopted the following conclusions, and agreed to submit them to the European Council (18-19 June).

"The Council RECALLS its Conclusions on International Financing of Climate Change of 10 March 2009 and the European Council Conclusions of 19-20 March 2009 underlining the need to explore in more detail international financing mechanism.

The Council STRESSES that realising an emission path to keep the global temperature increase below 2°C will require very substantial mitigation efforts in all countries and REAFFIRMS that developed countries should take the lead by setting and implementing ambitious and binding medium- and long-term targets for reducing their emissions. Developing countries should undertake substantial nationally appropriate policies and actions to contain their emissions, with the support of developed countries in line with the principles enshrined in the UN Framework Convention on Climate Change.

The Council REITERATES that the private sector will be the main source of financing for mitigation. Driven by appropriate policies and regulation including a broad and liquid carbon market, investments in low-carbon technologies and accompanying lending will be redirected accordingly, in part by the prospect of energy cost savings and co-benefits.

The Council RECOGNISES that international financing including for technology diffusion and deployment will be required to facilitate developing countries' mitigation efforts, including by enhancing institutional capacity.

The Council UNDERLINES that international private and public financing should be linked to each country's mitigation efforts and level of development, providing incentives for additional effort in the recipient countries. Public support will also be needed to support mitigation actions in sectors where it may be difficult or inefficient to immediately devise and implement effective market-based incentives, including forestry. In addition, public financing and investments will be required for adaptation and to accelerate research, development and demonstration of advanced clean technologies, including joint global research cooperation efforts.

The Council RECALLS the substantial scale of needs as outlined by the Commission and other relevant institutions and mentioned in the Council (ENVIRONMENT) conclusions of March 2009. Raising the amounts needed to cover the incremental costs of global climate action is a challenge. The Council STRESSES that effectively governing and channelling the money towards climate activities and action (realising climate value for climate money) is an even greater challenge. Mitigation-related financial support to developing countries through carbon market mechanisms and from public funds should be fully recognised and scaled up over time dependent on the level of ambition of the Copenhagen agreement, the ambition of low-carbon development strategies adopted by developing countries, and the delivery over time of substantial and growing emission reductions.

The Council looks forward to further work and HIGHLIGHTS the main findings of the report by the EFC and EPC on international financing mechanisms for supporting climate policies for ensuring efficient, effective and equitable financing mechanisms for mitigation:

All countries, except the least developed, should contribute their fair share of international financing for climate action in developing countries, with developed countries taking the lead. The main principles of contribution should be the ability to pay and the responsibility for emissions¹. This could be implemented based on a universal, comprehensive and specific contribution key, and contributions met through usual or specific new sources. Contributions based on the key should develop over time in line with the world economy. Also, global instruments addressing emissions in international aviation and maritime transport would be welcome. Irrespective of its source, all support paid for by taxpayers should comply on an ongoing basis with the principles of accountability, sound fiscal management, efficiency and effectiveness. Contributions could be channelled through a variety of multilateral and bilateral delivery mechanisms building on their comparative advantages and aligning them with the overall objectives of the convention, requiring a framework to measure report and verify (MRV) mitigation financing inside or linked to the UNFCCC.

¹ This is without prejudice to the internal EU burden sharing which will be determined in good time before the Copenhagen Conference.

Comprehensive low carbon development strategies by developing countries, except the least developed, covering key emitting sectors, should be the basis for the contribution of developing countries to the global mitigation effort and a pathway to access to support mechanisms. Low carbon development strategies should identify autonomous nationally appropriate mitigation action and actions for which support is requested. They should also integrate longer-term perspectives in terms of emission pathways and related mitigation policies, including setting up emissions trading in key sectors. Appropriate mechanisms are needed to review, assess and verify low carbon development strategies. Validation by an international high-level body on an agreed basis could facilitate access to support mechanisms and could within a broader context be accepted by all relevant international, regional and bilateral institutions as recommended entry criteria for support. Own action by developing countries, especially harvesting negative and low cost abatement opportunities, is indispensable for a substantial leveraging of international financing, in particular in advanced developing countries. Strategies should be appropriately differentiated according to ability and level of development, whilst as a minimum demonstrating the potential for gradual transition towards a sustainable low carbon economy.

Specification and implementation of concrete mitigation action should be entered into a registry covering three levels: own effort, supported effort and effort enabled by financial support and investment generated through the international carbon market. A comprehensive system to measure, report and verify (MRV) mitigation actions in developing countries is needed. MRV of international support is also warranted. The allocation of support should move towards a performance-based system, strongly incentivising the promotion of actions which maximise climate value for climate money, such as mechanisms which rely on the principle of competition, based on effectiveness of emission reductions to access support.

A new mechanism including sectoral crediting and trading, should be developed to operate at sectoral levels, ensure environmental integrity, provide the administrative simplicity required to handle efforts at much larger scale and help advanced developing economies to make a stronger contribution to mitigation. Sectoral crediting should be based on no-lose targets whereby offset credits are issued for achieving emissions below an agreed benchmark, which is defined appropriately below the business-as-usual trend. Sectoral trading and no-lose targets would provide an important incentive for developing countries to take own actions whilst receiving support through offset credits. The project-based CDM should be reformed to ensure environmental integrity, and contribute to achieving real emission reductions. Advanced developing countries should gradually move to sectoral mechanisms and project-based CDM should be increasingly focused on least developed countries and areas where other crediting mechanisms are not feasible. An orderly transition to sector specific carbon mechanisms and in the longer term participation in cap and trade should be provided for. Sectoral approaches could also address carbon leakage concerns and assist with generating a more balanced distribution of support across developing countries.

The Council also HIGHLIGHTS:

Effective adaptation policies should aim at building resilience and ensuring capacity handle emerging threats and respond to urgent and immediate hazards, as well as move towards a long term strategic approach. In this respect the Council RECALLS its proposal for a Framework for Action on Adaptation. Substantial financing for adaptation should be directed primarily to the poorest as well as the most vulnerable countries in the context of the global climate policy framework. In the long run, greater mitigation effort will require less adaptation. Substantial adaptation support would have to be based on international public finance. The fight against climate change impacts should be fully integrated in development strategies and programmes, taking on board the lessons of aid effectiveness. Financial support for action to adapt to or mitigate climate change should support other sustainable development action.

The implementation of international climate change financing both for mitigation and adaptation should as far as possible build on existing and reformed elements and institutions of the international financial architecture. The potential of existing institutions and mechanisms should be carefully assessed, including with respect to governance, and their reform envisaged before considering the creation of new bodies. The Council RECOGNISES the need for international up-front support for the development of climate-resilient and low-carbon development strategies, including adaptation.

The Council REITERATES that in the context of a global and comprehensive agreement, the EU stands ready to contribute its fair share of international support including through public support and offset credits linked to EU's ambitious mitigation targets. The EU encourages parties to agree to a fair and comprehensive global contribution key. The Council will assist the European Council to determine well in advance of the Copenhagen Conference

1) the EU positions on main approaches for financing mitigation, adaptation, technology support and capacity building, 2) the specifics of the EU's contribution and 3) principles of burden sharing among Member States.

All provisions therein have equal substance and value."

TAXATION

Good governance in tax matters

The Council adopted conclusions to be found in document 10252/4/09 REV 4, as follows:

- "1. The Council takes note of the Commission Communication on promoting good governance in tax matters (9281/09) presented to the Council on 5 May 2009 and, subsequent to its May 2008 Conclusions, recalls the importance of implementing the good governance tax principles of transparency, exchange of information and fair tax competition as a means of ensuring a level playing field and of combating cross border tax fraud and evasion.
2. The Council welcomes the suggestion in this Communication to accelerate the ongoing work on legislative proposals concerning the savings taxation directive (15733/08), the administrative cooperation directive (6035/09) and the recovery directive (6147/09).
3. The Council is committed to further discuss and promote the principle of good governance in the tax area at international level and towards third countries without prejudice to Community and Member States' competences. It recalls the March 2009 European Council joint position that refers in this respect to the fight against tax evasion and the application of appropriate and gradual countermeasures towards uncooperative third country jurisdictions.
4. Recalling the Council Conclusions of 10 February 2009 the Council urges the Commission to swiftly present the negotiating result on the anti-fraud agreement with Liechtenstein. The Council notes the intention of the Commission to present negotiating directives for anti-fraud agreements with Monaco, Andorra, San Marino and Switzerland.
5. The Council welcomes the emerging broad international consensus on the need to enhance administrative cooperation and mutual assistance in the tax area and to apply the OECD standard as regards exchange of information on request (Article 26 paragraphs 4 and 5 OECD Model Convention), i.e. that provision of information can no longer be refused on the sole ground that the information is held by certain financial institutions, or on the sole ground that the requested state has no domestic interest in such information.

6. More specifically, as regards the ongoing review of the savings taxation directive, the Council notes the Presidency progress report. It welcomes the progress made and agrees that circumvention of savings taxation should be prevented and that the functioning of savings taxation should be improved in the framework of an overall agreement in particular by:
- an extension of the scope of the Directive to at least other substantially equivalent income than just interest from savings,
 - the introduction of a look through approach for payments to certain non-EU entities and arrangements and a more systematic application of paying agent upon receipt responsibilities, and
 - a broader use of personal identification numbers and the use of the information on actual tax residence, when available, in identification procedures.

It calls for a rapid continuation of work in order to find constructive solutions to outstanding issues, among others possible options for covering certain insurance products, detailed provisions to ensure the coverage of certain untaxed entities and arrangements within the EU and in the dependent and associated territories as well as questions on further decision making. The work should continue with a view to reaching a balanced political agreement in the autumn of 2009.

The Council also calls on the Commission to open consultations with Switzerland, Liechtenstein, Andorra, Monaco and San Marino on revising their respective agreements on savings taxation with the aim to ensure application of equivalent measures in line with international standards and the improvements agreed at EU level.

The Council encourages Member States with dependent or associated territories to consult with them to apply the same measures in the area of savings taxation as will apply at EU level.

The Council recalls that the issue of the transitional period remains to be addressed in accordance with Article 10 paragraph 2 of Directive 2003/48/EC subject to the conditions set out therein.

7. The Council also welcomes the proposals for the directives on administrative cooperation and recovery, expanding their scope as regards taxes and duties covered, simplifying the exchange of information by means of standardised forms, formats and channels of communication and facilitating recovery by using new or improved instruments. The Council stands ready to examine both proposals further and to continue its efforts in the autumn of 2009 to find solutions to outstanding issues that are fully consistent with the OECD standard (Article 26 OECD Model Convention).

8. The Council invites the future Presidency to report back on progress in the area of good governance in tax matters in the autumn of 2009."

MEETINGS IN THE MARGINS OF THE COUNCIL

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

- ***Eurogroup***

Ministers of the euro area member states attended a meeting of the eurogroup on 8 June.

- ***EIB annual governors' meeting***

Ministers met in their capacity as governors of the European Investment Bank for the EIB's annual governors' meeting.

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Over lunch, ministers discussed preparations for forthcoming G-20 meetings, in particular with regard to reform of the International Monetary Fund and the World Bank.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

VAT - Tax evasion linked to import*

The Council reached political agreement on a directive tightening the rules for the exemption from value added tax (VAT) upon importation which is currently subject of abuse through fraud ([10430/09](#)).

The new directive forms part of a Commission proposal on two anti-fraud measures linked to cross-border transactions. The second part of the proposed measures concerns joint and several liability on which negotiations continue.

VAT - Technical amendments

The Council agreed on a general approach, pending the European Parliament's opinion in first reading, with a view to incorporating technical amendments into directive 2006/112/EC on the common system of value added tax.

It instructed the Council's preparatory bodies to finalise its decision-making process once the Parliament has delivered its opinion.

Packaged retail investment products - *Council conclusions*

The Council adopted the conclusions set out in document [10496/09](#).

Risk management of credit institutions

The Council decided not to oppose the adoption by the Commission of a directive on technical provisions concerning the risk management of credit institutions.

International accounting standards

The Council decided not to oppose the adoption by the Commission of a regulation concerning certain international accounting standards.

By adopting the regulation, the EU is adopting amendments that the International Accounting Standards Board (IASB) has made to International Accounting Standard 39 and International Financial Reporting Standard 7. The regulation clarifies the effective date and transition measures of the amendments to the two standards issued by the IASB in October 2008.

VAT - Treatment of insurance and financial services

The Council took note of a progress report on two related proposals as regards the value added tax treatment of insurance and financial services ([10219/1/09](#)).

Taxation on interest payments

The Council took note of a progress report on a draft directive concerning taxation on interest payments ([10277/1/09](#)).

Payment services in the EU - Approval of a corrigendum

The Council approved a corrigendum to directive 2007/64/EC, adopted by the Council in October 2007, on payment services in the internal market ([9602/09](#)).

EUROPEAN SECURITY AND DEFENCE POLICY

EU rule of law mission in Kosovo

The Council adopted a joint action amending joint action 2008/124/CFSP¹ on the EU rule of law mission in Kosovo (EULEX KOSOVO), increasing the financial reference amount to cover the mission's expenditure until 14 June 2010, from EUR 205 million to EUR 265 million ([9652/09](#)).

¹ OJ L 42, 16.2.2008, p. 92.

In February 2008, the Council adopted the abovementioned joint action, which applies until 14 June 2010. However, that joint action provided a financial reference amount intended to cover the expenditure related to the mission only until 14 June 2009.

The mission, which is conducted under the EU's European security and defence policy, assists Kosovo authorities, judicial authorities and law enforcement agencies in their progress towards sustainability and accountability and in further developing and strengthening an independent multi-ethnic justice system and multi-ethnic police and customs service, ensuring that these institutions are free from political interference and adhering to internationally recognised standards and European best practices.

For more information see also the EULEX KOSOVO mission website: <http://www.eulex-kosovo.eu/>.

EU exercise programme for the 2010-2014 period

The Council approved a draft EU exercise programme for the 2010 - 2014 period. This programme will be transmitted to NATO for information purposes.

EUROPEAN ECONOMIC AREA

Amendment to the EEA agreement

The Council approved a draft decision, to be adopted by the European Economic Area (EEA) joint committee, amending protocol 30 to the EEA agreement on specific provisions on the organisation of cooperation in the field of statistics ([9872/09](#)).

STATISTICS

Data requirements for the balance of payments, trade in services and foreign investment

The Council decided not to oppose measures proposed by the Commission in a draft Regulation amending regulation 184/2005 on Community statistics concerning the balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements ([7774/09](#)).

Regulation 184/2005 ¹ establishes a common framework for the systematic production of Community statistics in this field. Due to economic and technical developments in the area of balance of payments, it is necessary to regularly update the data requirements and to adapt the level of the breakdown laid down in this regulation.

¹ OJ L 35, 8.2.2005, p. 23.