



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: General Secretariat
to: Delegations
Subject: Financial Markets Stability Roadmaps

Please find enclosed three updated roadmaps on:

- Enhancing the Lamfalussy framework, incl. financial supervision;
- Financial Stability Arrangements;
- Actions taken in response to the financial turmoil.

These have been prepared by the EFC and are intended for submission to the Council (ECOFIN) together with the draft Council conclusions on the EU Supervisory Framework and Financial Stability Arrangements, see doc. 8515/3/08 REV 3 EF 23 ECOFIN 137.

**Updated ECOFIN Roadmaps on
'Review of the Lamfalussy process';
'Strengthening EU arrangements for financial stability'; and
'Actions taken in response to the financial turmoil'**

The Council reviewed the three roadmaps agreed by ECOFIN, on 9 October 2007 and 4 December 2007, as follows:

1. Enhancing the Lamfalussy process, incl. financial supervision:

Ongoing (final: end 2008, interim: September 2008)	Commission to revise the Decision on the EU Committees of Supervisors to include specific tasks to foster convergence and cooperation; and by September 2008 consideration by the Commission and the FSC on which specific tasks should be given to the EU Committees of Supervisors and which legal instrument should be used;
On-going (April 2008):	Member States, with the contribution of the EU Committees of Supervisors as appropriate, to adopt common formats, where appropriate, to disclose national transposition and implementation of EU legislation;
May/June 2008:	Draft work programmes of the EU Committees of Supervisors. Programmes for 2009 have been transmitted to the Commission, the European Parliament and the Council to allow them to express their view on the key priorities and give policy advice on supervisory convergence and cooperation. The EU Committees of Supervisors will then report annually on the achievement of their objectives. ;

On-going (June 2008):	The EU Committees of Supervisors by the <i>mid of 2008</i> to explore the possibilities to strengthen the national application of their guidelines, recommendations and standards, without changing their legally non-binding nature;
June 2008:	The EU Committees of Supervisors by the <i>mid of 2008</i> to introduce in their charters the possibility to apply qualified majority voting where necessary. While these committees' decisions are not legally binding, those who do not comply should explain their decisions publically;
Mid 2008:	The EU Committees of Supervisors to study the possibilities to introduce a common set of operational guidelines for the operation of colleges of supervisors and monitor the coherence of the practices of the different colleges;
June 2008:	The EU Committees of Supervisors to propose timetables for the introduction of EU-wide reporting formats for single data requirements and reporting dates; and Commission and the FSC in autumn 2008 to consider next steps for the convergence of regulatory and financial reporting;
December 2008:	The Commission has progressed, in cooperation with the EU Committees of Supervisors, with its studies on sanctioning powers, provisions for supervisory cooperation, information exchange and delegation of tasks as specified in the roadmap;
December 2008:	Commission to finalise its considerations on financial support under the EU budget for specific EU wide projects that are requested from the EU Committees of Supervisors;

On-going (mid-2009):	Commission to carry out by the <i>mid of 2009</i> cross sectoral consistency checks, where still necessary to foster coherence of terminology and effect across all EU financial services law;
Mid-2009:	Member States to ensure that their supervisory authorities are able to take into account the EU dimension in the performance of their duties, including having regard to the financial stability concerns in other member State sin exercising their duties;
End-2008 and end-2009:	The ECOFIN Council shall review overall progress before the end of 2008; and by the end of 2009, to consider the need for further policy priorities based on an examination by the Commission, the FSC and the EFC on the achievements made, and on the testing of the MoU in the crisis simulation exercise.

2. Financial Stability Arrangements – enhanced preparedness on Financial Crisis Management: Procedures, Principles and Tools:

<p>May-December 2008:</p>	<p>Implementation of the Memorandum of Understanding agreed in May 2008 by EU Supervisory Authorities, Finance Ministries and Central Banks Cross-Border Financial Stability (key aspects are: the implementation of common principles; setting-up cooperation mechanisms, including Cross-Border Stability Groups where relevant; updating the existing (non-legally binding) cooperation arrangements; implementing the common framework for assessing systemic impacts of a crisis; and developing tools for crisis management; enhancing preparedness in line with the Common Practical Guidelines; and conduct of EU wide crisis simulation exercise);</p>
<p>On-going (2007-2009):</p>	<p>the Commission to propose ways to clarify cooperation obligations including possible amendments to EU-banking legislation, especially to: clarify the existing obligations for Supervisory Authorities, Central Banks and Finance Ministers to exchange information and to cooperate in a crisis situation; increase the information rights and involvement of host countries; clarify the role of the consolidating supervisors and facilitate the timely involvement of relevant parties in a crisis situation; and examine whether, to this end, legislative changes are necessary, including to reinforce the legal requirements for supervisory collaboration and information sharing. Commission proposal September 2008; and adoption by EP/Council by April 2009.</p>

<p>May 2008-Spring 2009:</p>	<p>the Economic and Financial Committee to conduct an EU wide crisis simulation exercise to test the proposed arrangements and to report to ECOFIN Ministers on its conclusions in autumn 2009. The technical work will start in May 2008. The objectives of the exercise are to test the key objectives and procedures set out in the Memorandum around genuine cross-border financial groups on which authorities in different countries share stability concerns, as well as the challenges and tools related to cross-border crisis management, including on financial burden sharing, as outlined in the EFC Report of 5 September 2007.</p>
<p>On-going (by 2008):</p>	<p>the Commission has undertaken work towards clarifying when a banking crisis could be considered by the Commission as “<i>a serious disturbance for the economy</i>” (under the Treaty and State aid rules) and considered the streamlining of procedures focusing on how State aid enquiries under critical circumstances can be treated rapidly. Dialogue has taken place between the Member States and the Commission on these issues; and the Economic and Financial Committee is expected to consider them by summer 2008.</p>
<p>On-going (until 2009):</p>	<p>the Commission to assess the possible extension of the scope of the present EU-Directive on winding up of credit institutions to include insolvent subsidiaries with the objective to increase the efficiency, the optimal reorganisation and winding up of cross border banking groups taking due consideration of the interests of all stakeholders concerned. The Commission to launch a public consultation October 2007; legal study of obstacles mid 2008; and release a Commission Green Paper by end 2008.</p>

<p>June and Autumn 2008:</p>	<p>Orientation discussion by the ECOFIN Ministers on Deposit Guarantee Schemes in 3 June 2008 ECOFIN; and a strategic discussion in autumn 2008 by the ECOFIN Council on the basis of report from the Commission on the Deposit Guarantee Schemes in the EU (focusing e.g. on improving the speed of payouts, depositors information, and cross-border interoperability) and consideration of connected measures for authorities to apply early intervention and reorganisation measures to cross-border groups; and guidance by the FSC and EFC</p>
<p>November 2008:</p>	<p>Feasibility study by the Commission on the obstacles to asset transferability that could hinder crisis-management of cross-border groups. The overall objective is to reinforce the primacy of private solutions, avoid counter-productive ring-fencing of assets, and facilitate a smooth management of a crisis.</p>
<p>December 2008:</p>	<p>The FSC and the Commission to review the availability of tools for crisis management and resolution in the EU Member States, also so as to be ready in time for the next crisis simulation exercise; a detailed plan on the organisation of the exercise shall be approved by the EFC in December.</p>

3. Actions taken in response to the financial turmoil:

The Council in October 2007 endorsed a specific roadmap for action taken in response to the financial turmoil, identifying **four main areas** of priority in response to the turmoil, i.e. (i) improving transparency, (ii) valuation of financial products, (iii) strengthening prudential requirements and (iv) making markets function better. On most issues identified in the roadmap, action is ongoing and scheduled to be completed by mid-2008 (on transparency, valuation and Credit Rating Agencies) or the third quarter of 2008 (on prudential rules and risk management). This update also takes into account work already undertaken and progress made at the EU and international level.

I. Enhance transparency for investors, markets and regulators	
By the time of publication of mid-year results	Full and prompt disclosure by financial institutions of on- and off-balance sheet risk exposures, depreciations and losses (write-downs, and fair value estimates for complex and illiquid assets), consistent with leading disclosure practices (at EU-level: the industry);
June 2008	The review of Public disclosure of types and amounts of securitization exposures, significant individual transactions and SPV exposures by banks has revealed heterogeneities in these practices. Banking Supervisors are invited to work intensively on these issues and in particular to consider complementary guidelines (at EU-level: CEBS in coordination with the industry and the Commission in monitoring capacity);
June 2008	Organize comprehensive, frequent statistical data on credit markets for supervisors and, where appropriate, the public (at EU-level: the industry and the Commission in monitoring capacity);

II. Improve valuation standards, including of illiquid assets	
<p>Mid-2008</p> <p>And, update on international efforts at July 2008 ECOFIN</p>	<p>Agree on a common approach to the accounting valuation of illiquid assets and implications for risk management practices by banks;</p> <p>Ensure the proper functioning of the financial reporting framework by means of clear guidelines by on valuation that can be applied consistently across institutions;</p> <p>Consider improvements in market valuations more generally. (At EU-level: CEBS,-auditing profession, industry and the Commission.; at global level: FSF, IASB, IOSCO, BCBS);</p>
<p>Advanced from Q3 2008 to Mid-2008</p>	<p>Assess the deployment of sound asset valuation standards in non-bank investors (e.g. asset managers, pension funds etc), particularly in relation to (potentially) illiquid assets (at EU-level: auditing profession, industry, CEIOPS, CESR and the Commission; at global level: IASB, IOSCO, BCBS).</p>

III. Reinforce prudential rules and risk management in the financial sector	
Orientation debate at the June 2008 ECOFIN and guidance to the ECOFIN in Q4 2008	Review possible enhancements of Deposit Guarantee Schemes in the EU, including issues related to communication between authorities and depositors (at EU-level: Commission, FSC);
Q3 2008	Assess the level of risk management standards in non-bank investors (e.g. asset managers, pension funds etc), particularly in relation to (potentially) illiquid assets (at EU-level: CESR, CEIOPS, the industry and the Commission; at global level: IOSCO);
Advanced from end 2008 to September 2008	Enhance liquidity risk assessment and management by banks by agreeing on robust minimum standards for banks to withstand stressed market conditions (at EU-level: ECB/BSC and Commission, in coordination with CEBS; at global level: BCBS);
Advanced from end 2008 to Q3 2008	Examine the need for a wider concept of concentration risk, including wholesale and interbank markets, and intra-group exposures, as part of the EU Large Exposure Review (at EU-level: CEBS and Commission);

<p>Advanced from end 2008 to Q3 2008</p>	<p>Examine the Basel2/CRD regulatory framework for banks' liquidity exposures to ABCP conduits and SPV's to reflect lessons concerning banks': (1) incentives to move risk off-balance sheet; (2) regulation and management of liquidity and reputational risks transferred to SPVs and Conduits; (3) valuation and treatment of SPV's and forced asset buy-backs. (at EU-level: Commission; at global level: BCBS);</p>
<p>Postponed from Q3 2008 to end 2008</p>	<p>Identify and remove any regulatory arbitrage opportunities and examine the Basel2/CRD framework for banks' own trading book exposures, including the treatment of 'warehousing' and 'pipeline' risks (at EU-level: Commission, in coordination with CEBS; at global level: BCBS).</p>

IV. Improve market functioning including the role of credit agencies	
Mid--2008	Examine the incentive structures in credit markets and the implications of the 'originate to distribute' models of banks for credit markets (ECB/BSC, in coordination with Commission and CEBS);
Postponed from mid-2008 to end-2008	Examine rules covering the origination and (mis-) selling of mortgage credit (Member States and the Commission);
Advanced from December 2008 to Q3 2008 End 2008	Consider how to improve (global) cooperation between supervisors including outside the EU, taking into account the proposals to enhance cooperation, renew and improve crisis management tools as set out by the ECOFIN on 9 October 2007 based on EFC recommendations (at EU-level: the EFC and, the Commission for planned changes to the CRD; at global level: FSF);
June 2008 for the July 2008 ECOFIN End-May 2008	Examine the role of credit rating agencies and the uses of credit ratings, in particular as regards structured finance instruments, conflicts of interest, transparency of rating methods, time-lags in rating reassessments and regulatory approval processes; By end-May 2008, IOSCO should revise its Code of Conduct fundamentals for credit rating agencies (a revised code has been published on 26 March for consultation). (At EU-level: Commission, based on reports CESR and ESME; at global level: IOSCO);
Mid-2008	Examine the organisation of non-regulated debt markets (CESR, FSC).