

## **Immediate responses to financial turmoil**

Council Conclusions - Ecofin Council of 7 October 2008

In the current troubled situation in the financial sector, and building on our Heads of State and Governments' declaration of 6 October, we agree that the priority is to restore confidence and proper functioning of the financial sector.

We have agreed to support systemic financial institutions. We all commit to take all necessary measures to enhance the soundness and stability of our banking system and to protect the deposits of individual savers. EU authorities and Member States will remain in daily contact through the EFC in order to share information and ensure a comprehensive and coordinated response to the current situation and our continued effort to work on our common principles, ahead of the European Council.

We welcome the actions taken by the ECB and the national central banks since the beginning of the turmoil. The liquidity of the financial system shall be ensured by all authorities in order to preserve confidence and stability.

We reaffirm our call on financial institutions in Europe to achieve full transparency and we will closely monitor the progress achieved in this regard.

We agree to coordinate closely in our actions and to take into consideration potential crossborder effects of national decisions. We agree that public intervention has to be decided at national level in a coordinated framework.

To protect the depositors' interests and the stability of the system, we stress the appropriateness of an approach including, among other means, recapitalisation of vulnerable systemically relevant financial institutions. We are prepared to act accordingly in this context.

We agree on EU common principles so as to guide our action:

- Interventions should be timely and the support should in principle be temporary;
- we will be watchful 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 aid rules;
- negative spillover effects should be avoided.

We will ensure rapid cooperation within the EU, with reference to the Memorandum of Understanding, in particular as regards cross-border financial institutions.

We underline the necessity of avoiding any distortion of treatment between US and European banks due to differences in accounting rules. We take note of the flexibility in the application of mark to market valuation under IFRS as outlined in recent guidance from the IASB. Ecofin strongly recommends that supervisors and auditors in the EU apply this new guidance immediately. We also consider that the issue of asset reclassification must be resolved quickly. To this end, we urge the IASB and the FASB to work together on this issue and welcome the readiness of the Commission to bring forward appropriate measures as soon as possible. We expect this issue to be solved by the end of the month, with the objective to implement as of the third quarter, in accordance with the relevant procedures.

We welcome the Commission's continued commitment to act quickly and apply flexibility in state aid decisions, within the framework of the single market and state aid regime. The Council welcomes the Commission's commitment to shortly 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.

Several Member States have recently increased the level of coverage of national deposit guarantee schemes. We agreed that all Member States would, for an initial period of at least one year, provide deposit guarantee protection for individuals for an amount of at least 50 000 euros, acknowledging that many Member States determine to raise their minimum to 100 000 euros. We welcome the intention of the Commission to bring forward urgently an appropriate proposal to promote convergence of deposit guarantee schemes.

This short term strategy is fully consistent with the framework established by the Ecofin since October 2007, which aims at fostering transparency and responsibility within the financial sector, in coordination with our partners, notably within the FSF.