



EUROPEAN COMMISSION

SECRETARIAT-GENERAL

**PV(2009)1873 final**

Brussels, 13 May 2009

**MINUTES**

**of the 1873rd meeting of the Commission  
held in Strasbourg  
(Winston Churchill building)  
on Tuesday 5 May 2009  
(afternoon)**

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**Single sitting: Tuesday 5 May 2009 (afternoon)**

The sitting opened at 13.06 hours with Mr BARROSO, President, in the chair.

**Present:**

|                    |                |        |
|--------------------|----------------|--------|
| Mr BARROSO         | President      |        |
| Ms WALLSTRÖM       | Vice-President | Item 9 |
| Mr KALLAS          | Vice-President |        |
| Mr TAJANI          | Vice-President |        |
| Ms REDING          |                |        |
| Mr DIMAS           |                |        |
| Ms HÜBNER          |                |        |
| Mr POTOČNIK        |                |        |
| Mr FIGEL'          |                |        |
| Mr REHN            |                |        |
| Mr MICHEL          |                |        |
| Ms FISCHER BOEL    |                |        |
| Ms FERRERO-WALDNER |                |        |
| Mr ŠPIDLA          |                |        |
| Mr PIEBALGS        |                |        |
| Ms KUNEVA          |                |        |
| Mr ORBAN           |                |        |
| Ms VASSILIOU       |                |        |

Absent:

Mr VERHEUGEN

Vice-President

Mr BARROT

Vice-President

Mr ALMUNIA

Mr BORG

Ms GRYBAUSKAITĖ

Mr KOVÁCS

Ms KROES

Mr McCREEVY

Baroness ASHTON

(5 May 2009)

The following sat in to represent absent Members of the Commission:

|                 |                                              |
|-----------------|----------------------------------------------|
| Mr SAGREDO      | A member of Mr BARROT's staff                |
| Mr QUERO MUSSOT | Deputy Chef de cabinet to<br>Mr ALMUNIA      |
| Mr KOEHLER      | Chef de cabinet to Mr BORG                   |
| Ms SAMNADDA     | A member of Mr McCREEVY's staff              |
| Mr PETERS       | Deputy Chef de cabinet to<br>Baroness ASHTON |

The following also sat in:

|                 |                                                                |                  |
|-----------------|----------------------------------------------------------------|------------------|
| Mr THEBAULT     | Deputy Chef de cabinet to the<br>PRESIDENT                     |                  |
| Ms DURAND       | Director-General, Legal Service                                |                  |
| Mr CARVOUNIS    | Deputy Director-General, DG<br>Communication                   |                  |
| Mr LAITENBERGER | Commission Spokesman                                           |                  |
| Mr GASPAR       | Acting Director-General, Bureau of<br>European Policy Advisers |                  |
| Ms MARTINHO     | Chief adviser in the PRESIDENT's<br>Office                     | Item 9 (in part) |

Secretary: Ms DAY, Secretary-General, assisted by Mr AYET PUIGARNAU, Director in the Secretariat-General.

**1. AGENDAS**

**(OJ(2009)1873/3; SEC(2009)590/2)**

The Commission took note of that day's agenda and of the tentative agendas for forthcoming meetings.

**2. WEEKLY MEETING OF CHEFS DE CABINET**

**(SEC(2009)1873)**

The Commission considered the Secretary-General's report on the weekly meeting of Chefs de cabinet held on Monday 4 May.

**3. APPROVAL OF MINUTES AND SPECIAL MINUTES OF 1871st MEETING  
(21 APRIL)**

**PV(2009)1871, Part II and /2)**

The Commission approved the minutes of its 1871st meeting.

**4. MINUTES OF 1872nd MEETING (29 APRIL)**

**(PV(2009)1872)**

The Commission held over approval of the minutes of its 1872nd meeting for the following week.

**5. INTERINSTITUTIONAL RELATIONS**

**(SEC(2009) 596)**

The Commission took note of the record of the meeting of the Interinstitutional Relations Group held on Thursday 30 April (SEC(2009)596).

It paid particular attention to the following points.

### **5.1. *LEGISLATIVE MATTERS***

#### **i) *Preparation of Parliament's May part-session***

(point 1.3 of the IRG record)

In accordance with the rules in force, the Commission authorised the Commission Members responsible, in agreement with the PRESIDENT and Ms WALLSTRÖM and any other Members associated, to take a position on Parliament's amendments to its proposals.

It considered the following in particular:

#### Codecision – 2nd reading

- Common regulatory framework for electronic communications networks and services, access to and interconnection and authorisation of such networks and services (Directive) / Universal service, users' rights relating to electronic communications networks and services, processing of personal data, protection of privacy, consumer protection cooperation (Directive) / Creation of the European Electronic Communications Market Authority (Regulation) – TRAUTMANN / HARBOUR / DEL CASTILLO VERA reports – 2007/0247 (COD) / 2007/0248 (COD) / 2007/0249 (COD).

The Commission approved the line set out in SP(2009)2135/2 and /3, further to document SP(2009)2135 already approved by the Commission at its 1871st meeting on 21 April.

Codecision – 1st reading

- European Globalisation Adjustment Fund (Regulation) – SILVA PENEDA (ex-STAUNER) report – 2008/0267 (COD)

The Commission approved the line set out in SP(2009)2197.

- Banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (Directive) – KARAS report – 2008/0191 (COD)

The Commission approved the line set out in SP(2009)1821/3.

- Organisation of the working time of persons performing mobile road transport activities (Directive) – PANAYOTOPOULOS-CASSIOTOU report – 2008/0195 (COD)

The Commission approved the line set out in SP(2009)2145/2, further to document SP(2009)2145 already approved by the Commission at its 1871st meeting on 21 April.

- Programme to aid economic recovery by granting Community financial assistance to projects in the field of energy (Regulation) – MALDEIKIS report – 2009/0010 (COD)

The Commission approved the line set out in SP(2009)2445.

- Application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity and repeal of Directive 86/613/EEC (Directive) – LULLING report – 2008/0192 (COD)

The Commission approved the line set out in SP(2009)2446 and /2.

(5 May 2009)

- Introduction of measures to encourage improvements in the safety and health at work of pregnant workers and workers who have recently given birth or are breastfeeding (Directive) – ESTRELA report – 2008/0193 (COD)

The Commission approved the line set out in SP(2009)2448 and /3.

- Minimum standards for the reception of asylum seekers in the Member States (Directive – recast) / Criteria and mechanisms for determining the Member State responsible for examining an application for international protection lodged in one of the Member States by a third-country national or a stateless person (Regulation – recast) / Establishment of 'Eurodac' system for the comparison of fingerprints (Regulation – recast) – Establishment of a European Asylum Support Office (Regulation) – MASIP HIDALGO / HENNIS-PLASSCHAERT / POPA / LAMBERT reports – 2008/0244 (COD) / 2008/0243 (COD) / 2008/0242 (COD) / 2009/0027 (COD)

The Commission approved the line set out in SP(2009)2449/2, SP(2009)2450/2, SP(2009)2451 and SP(2009)2452/2.

- MEDIA Mundus audiovisual cooperation programme with professionals from third countries (Decision) - HIERONYMI report – 2008/0258 (COD)

The Commission approved the line set out in SP(2009)2453, further to the note SPI(2009)55 already approved by the Commission at its 1870th meeting on 8 April.

- Community programme to support specific activities in the field of financial services, financial reporting and auditing (Decision) – HOPPENSTEDT report – 2009/0001 (COD)

The Commission approved the line set out in SP(2009)2454/4.

- Common rules for the allocation of slots at Community airports (Regulation) – COSTA report – 2009/0042 (COD)

The Commission approved the line set out in SP(2009)2574, further to note SPI(2009)61/2 already approved by the Commission at its 1871st meeting on 21 April.

- Procedure for the negotiation and conclusion of bilateral agreements between Member States and third countries concerning sectoral matters and covering applicable law in contractual and non-contractual obligations (Regulation) / Procedure for the negotiation and conclusion of bilateral agreements between Member States and third countries concerning sectoral matters and covering jurisdiction, recognition and enforcement of judgments and decisions in matrimonial matters, parental responsibility and maintenance obligations, and applicable law in matters relating to maintenance obligations (Council Regulation) – ZWIEFKA / DEPREZ reports – 2008/0259 (COD) / 2008/0266 (CNS)

The Commission approved the line set out in SP(2009)2576, further to note SPI(2009)60 already approved by the Commission at its 1871st meeting on 21 April.

- Ship source pollution and the introduction of penalties for infringements (Directive) - DE GRANDES PASCUAL report – 2008/0055 (COD)

The Commission approved the line set out in SP(2009)1829/2, further to document SP(2009)1829 already approved by the Commission at its 1870th meeting on 8 April.

#### Consultation

- Protection of animals at the time of killing (Council Regulation) – WOJCHIECHOWSKI report – 2008/0180 (CNS)

The Commission approved the line set out in SP(2009)2456 and /2.

(5 May 2009)

**ii) Preparation of Council meeting (Economic and Financial Affairs) on 5 May**

(point 1.4 of the IRG record)

- Cooperation Agreement between the Community and its Member States, of the one part, and the Principality of Liechtenstein, of the other part, to combat fraud and any other illegal activity to the detriment of their financial interests (Council Decisions) – 2008/0234 (CNS)

The Commission took note of the draft document and the intention of Mr KALLAS and Mr KOVÁCS to transmit it to the Council (Economic and Financial Affairs) on 5 May, following the line set out in SI(2009)102.

**5.2. RELATIONS WITH THE COUNCIL**

**iii) Programming of Council business**

(SI(2009)111)

The Commission took note of the information in SI(2009)111 on the Council meetings between 7 and 20 May.

**5.3. RELATIONS WITH THE EUROPEAN PARLIAMENT**

**iv) Preparation of Parliament's May part-session – Oral questions**

(point 3.4 of the IRG record)

H-0206/09, H-0208/09, H-0209/09, H-0211/09, H-0212/09, H-0214/09, H-0216/09, H-0218/09, H-0220/09, H-0222/09, H-0224/09, H-0225/09, H-0226/09, H-0228/09, H-0230/09, H-0232/09, H-0234/09, H-0236/09, H-0238/09, H-0240/09, H-0241/09, H-0242/09, H-0244/09, H-0245/09, H-0247/09, H-0248/09, H-0251/09, H-0252/09, H-0254/09, H-0256/09, H-0257/09, H-0258/09

The Commission approved the draft answers set out in SP(2009)2440 to /3, following the agreement reached between the Chefs de cabinet on revisions to some of these draft answers, and certain draft supplementary answers,

revisions to answers and draft answers as set out in SP(2009)2440/4 *et seq.*

**v) Regulatory procedure with scrutiny – draft resolutions**

(point 3.7 of the IRG record)

- Objections to draft Commission Directives implementing Directive 92/75/EEC with regard to energy labelling of refrigerating appliances and televisions

The Commission approved the line set out in SP(2009)2437.

**5.4. RELATIONS WITH THE ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS, THE EUROPEAN OMBUDSMAN AND NATIONAL PARLIAMENTS**

**vi) Follow-up to Committee of the Regions opinions – October 2008 session**

(point 4.1 of the IRG record)

The Commission approved the replies to the opinions adopted by the Committee of the Regions during the October 2008 session, contained in the document distributed as SR(2009)10/2, for transmission to the Committee of the Regions.

**5.5. OTHER MATTERS**

**vii) Decision on the organisation and operation of the Official Publications Office of the European Communities**

(point 5.1 of the IRG record)

The Commission authorised the PRESIDENT to sign on its behalf the Decision on the organisation and operation of the Official Publications Office of the European Communities, following the line set out in SI(2009)103.

## **6. WRITTEN PROCEDURES, EMPOWERMENT AND DELEGATION OF POWERS**

### **6.1. *WRITTEN PROCEDURES APPROVED***

***(SEC(2009)592 ET SEQ.)***

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 27 and 30 April.

### **6.2. *EMPOWERMENT***

***(SEC(2009)593 ET SEQ.)***

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 27 and 30 April.

### **6.3. *DELEGATION AND SUBDELEGATION OF POWERS***

***(SEC(2009)594 ET SEQ.)***

The Commission took note of the Secretariat-General's memoranda recording decisions adopted under the delegation and subdelegation procedure between 27 and 30 April, as archived in e-Greffe.

### **6.4. *SENSITIVE WRITTEN PROCEDURES***

***(SEC(2009)595 AND /2)***

The Commission took note of the sensitive written procedures for which the time limit expired between 4 and 8 May and of the "finalisation" written procedure initiated following the weekly meeting of Chefs de cabinet on 4 May.

## **7. ADMINISTRATIVE AND BUDGETARY MATTERS**

**(SEC(2009)591)**

### **ADMINISTRATIVE MATTERS**

**(PERS(2009)63)**

#### ***7.1. DG JUSTICE, FREEDOM AND SECURITY – APPOINTMENT OF AD14 DIRECTOR (EU-12)***

***(PERS(2008)90 TO /6)***

The Commission had before it applications under Article 29(2) of the Staff Regulations for the post of Director (Immigration and Asylum) in DG Justice, Freedom and Security (PERS(2008)90 to /4).

The Commission took note of the opinions of the Consultative Committee on Appointments of 16 December 2008 and 19 March 2009 (PERS(2008)90/5 and /6).

It proceeded to compare the applicants' qualifications for the post. On a proposal from Mr KALLAS, in agreement with the PRESIDENT and Mr BARROT, it then decided to appoint Ms Marta CYGAN to the post.

This decision would take effect on 16 July 2009.

#### ***7.2. DG JUSTICE, FREEDOM AND SECURITY – APPOINTMENT OF AD14 DIRECTOR (EU-12)***

***(PERS(2008)91 TO /5)***

The Commission had before it applications under Article 29(2) of the Staff Regulations for the post of Director (Fundamental Rights and Citizenship) in DG Justice, Freedom and Security (PERS(2008)91 to /3).

The Commission took note of the opinions of the Consultative Committee on Appointments of 15 December 2008 and 19 March 2009 (PERS(2008)91/4 and /5).

(5 May 2009)

It proceeded to compare the applicants' qualifications for the post. On a proposal from Mr KALLAS, in agreement with the PRESIDENT and Mr BARROT, it then decided to appoint Mr Aurel-Viorel CIOBANU-DORDEA to the post.

This decision would take effect on 16 June 2009.

### **7.3. *DG RESEARCH– APPOINTMENT OF AD14 DIRECTOR***

On a proposal from Mr KALLAS, in agreement with the PRESIDENT and Mr POTOČNIK, the Commission decided, under Article 7 of the Staff Regulations, to fill the post of Director (Biotechnologies, Agriculture, Food) in DG Research by transferring in the interest of the service Ms Maive RUTE, AD14 official and currently Director (Promotion of SMEs' Competitiveness) in DG Enterprise and Industry.

This decision would take effect on 1 July 2009.

### **7.4. *DG ENTERPRISE AND INDUSTRY – EXTERNAL PUBLICATION OF VACANCY NOTICE FOR AN AD14 (EU-8) DIRECTOR POST (PERS(2009)64)***

On a proposal from Mr KALLAS, in agreement with the PRESIDENT and Mr VERHEUGEN, the Commission decided to authorise the publication, under Article 29(2) of the Staff Regulations, of the vacancy notice in PERS(2009)64 for the post of Director (Promotion of SMEs' Competitiveness) in DG Enterprise and Industry, which was reserved for nationals of Bulgaria, the Czech Republic, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

This decision would take effect immediately.

(5 May 2009)

**7.5. *DG ENTERPRISE AND INDUSTRY – TERMINATION OF THE EXTERNAL SELECTION PROCEDURE TO APPOINT AN AD14 DIRECTOR (EU-12)***  
***(PERS(2008)92 TO /5)***

The Commission took note of the information set out in point 5 of PERS(2009)63 and, on a proposal from Mr KALLAS, in agreement with the PRESIDENT and Mr VERHEUGEN, decided to terminate external selection procedure COM/2008/10090 for the post of Director (Regulatory Policy) in DG Enterprise and Industry without making an appointment.

This decision would take effect immediately.

The vacancy notice for this post would be published internally.

**7.6. *INITIAL COMMUNICATION UNDER ARTICLE 50 OF THE STAFF REGULATIONS***

The Commission decided to initiate the procedure laid down in Article 50 of the Staff Regulations with respect to an AD15 official.

**8. OTHER BUSINESS**

**8.1. *GENERAL REFORM OF THE EUROPEAN SCHOOL SYSTEM***  
***(SEC(2009)634)***

The Commission took note of the information note from Mr KALLAS in SEC(2009)634.

**8.2. *ONLINE GUIDE TO THE RIGHTS OF INTERNET USERS – eYouGuide***  
***(SEC(2009)631)***

The Commission took note of the information note from Ms REDING and Ms KUNEVA in SEC(2009)631.

**8.3. UPDATE ON INFLUENZA A (H1N1)**  
**(SEC(2009)638; SI(2009)110)**

The Commission took note of the information from Ms VASSILIOU in SEC(2009)638.

**9. REPORT OF THE HIGH-LEVEL EXPERT GROUP ON FINANCIAL SUPERVISION IN THE EU**  
**(SEC(2009)261 AND /2)**

The PRESIDENT welcomed Mr Jacques de Larosière, chairman of the high-level expert group which had produced the report on financial supervision, and thanked him for accepting the invitation to take part in the Commission meeting that day.

He also thanked him, on behalf of the Commission, for the high quality of the report and for his excellent work as chairman of this group, which had been set up at the Commission's instigation.

The PRESIDENT began by explaining that the report had highlighted the pressing political need for rapid and decisive action to redress the failings in the regulation and supervision of the financial markets laid bare by the financial crisis. In his presentation to the Members of the Commission Mr de Larosière would explain the underlying causes of the crisis, which formed the starting point for his report, but the PRESIDENT noted that the crisis was remarkable both for its exceptional severity and for the lack of understanding on the part of the financial markets operators of the nature of certain transactions, their real impact and the risks entailed.

The quality of the analysis of the causes of the crisis – with which he concurred – and the relevance of Mr de Larosière's recommendations reflected his pre-eminent experience in the course of a career that had taken him from head of the French Treasury to the highest level of the International Monetary Fund, before being appointed Governor of the Bank of France and then President of the European Bank

for Reconstruction and Development.

The PRESIDENT also noted that the Commission had drawn very heavily on the recommendations of the group chaired by Mr de Larosière when presenting its programme for the reform of the financial markets on 4 March. It was gratifying that the same priorities had also been recognised in the conclusions of the recent G20 summit. He stressed that the global nature of the crisis demanded a response on a similar scale. The European Union could play a pioneering role here by encouraging other countries to press ahead with the same ambitious policies.

He then turned to the specific measures the Commission was presenting in the area of regulation, which were precisely those identified by Mr de Larosière's group as being essential for tackling the financial crisis, and which concerned matters such as the credit rating agencies, insurance, the revision of capital requirements (Basel II), securitised products, mark-to-market accounting rules and addressing the procyclicality of regulatory measures.

He pointed out that on 29 April the Commission had presented major proposals on hedge funds and private equity and on directors' remuneration. He welcomed the consensus reached by the Commission Members on these complex questions and the generally positive reactions from the parties concerned and the public. The PRESIDENT added that the Commission would resolutely pursue its efforts to update the regulatory framework over the coming weeks and months, one example being the amendment to the Capital Requirements Directive, scheduled for June, which would give supervisory authorities the power to penalise financial institutions that continued to pursue high-risk remuneration policies.

Finally the PRESIDENT mentioned the reform of the European system of supervision of financial markets, in connection with which the Commission would shortly be tabling proposals for a new structure to be discussed at the European Council in June. The Commission would soon be adopting a communication setting out in detail its vision of a new European system of financial supervision, which reflected Mr de Larosière's ideas. The two complementary elements of the new system would be (1) a European Systemic Risk Council to monitor the stability of

the financial system as a whole, and (2) a European System of Financial Supervisors to improve micro-prudential supervision and ensure coherence between the decisions of the national supervisors. Their coordination role would, if necessary, extend to arbitration. The creation of European authorities would, in his view, ensure that effective control could be exercised over the large, cross-border institutions, while balancing this with the supervisors' responsibilities in their respective national spheres.

The PRESIDENT was pleased to see that the report of the group chaired by Mr Jacques de Larosière and the guidelines set out in the Commission communication of 4 March had already led to a clear convergence of views between the Member States in favour of this new approach, as evidenced by their very positive initial reactions. The June European Council would give its verdict on the Commission's ambitious initiatives, which would be followed by legislative proposals in October.

He concluded his presentation by reiterating the Commission's thanks to Mr de Larosière and the group which he had chaired. The Commission and all of the European institutions were greatly indebted to them for having produced recommendations that would shape the course of future policy during such a difficult and uncertain period.

He felt sure that Mr de Larosière could continue to provide valuable assistance to the Commission and invited him to present the main points of his report and his analysis of the current economic and financial situation to the Commission Members.

Mr Jacques de Larosière thanked the PRESIDENT for his welcome and for the confidence that had been placed in him by appointing him to chair the high-level group on financial supervision whose work had resulted in the report being presented that day. He laid particular emphasis on the complete independence enjoyed by the group throughout its work.

He began by reviewing the general economic situation and the outlook for the

future, admitting that the situation remained very difficult. Although references to a great depression were no longer appropriate, the economy was still in recession, as could be seen from rising unemployment rates, the huge debt-reduction and deleveraging efforts being made in the public and private sectors and the restructuring that was required. He did, however, detect certain positive signs, particularly some encouraging figures on the property market in the United States and better than expected business demand and confidence in several countries. So although it was impossible to say whether the crisis was nearing an end, the views of economists being divided on this point and the situation being different in each country, Mr de Larosière did indicate that the speed of recovery from the crisis would undoubtedly depend on the debt-reduction strategies, the more indebted countries needing longer and requiring more sustained efforts to return to a reasonable level of debt.

He pointed to the strategies that would have to be devised in preparation for the recovery period, particularly fiscal restraint to ensure sustainable levels of debt and spending, recapitalisation of the financial institutions and the creation of shock absorbers. This was exactly what the report set out to do, namely to propose the systems that would be needed looking ahead to recovery, though he was at pains to point out that their implementation would require strong political will. Factors such as lack of confidence and the banks' reluctance to provide credit brought with them the risk of a repeat of the disastrous events that had led to the crisis. He remained convinced that open financial markets and trade were the best way to ensure a sounder recovery and that in times of crisis it was more necessary than ever to underline the dangers of protectionism.

Following this presentation of the economic situation, Mr de Larosière turned to the report itself, pointing out that it had been produced by a team of eight people from very different backgrounds who had not always had the same approach to certain problems. However, because of the group dynamic it had been possible to reach agreement on 31 recommendations. He praised the quality of the work and the personal dedication shown by all the group members.

The objective had not been to produce more regulation, which would have been a mistake given the current crisis, but to look at existing regulation and correct or supplement it where necessary. Accounting rules and the Basel II framework rules on capital requirements contained a certain number of incentives that encouraged financial operators to go for rapid returns and short-term strategies without, however, taking sufficient account of cyclical risks as a whole. This had had a pro-cyclical effect and had accelerated the crisis. Thus it was a question of proposing a fundamental review of these rules and of the practices of financial regulators in order to limit the negative aspect of these incentives. In addition to evaluating the existing rules, the report revealed their inadequacy in certain domains, for instance in relation to certain types of funds such as hedge funds, and recommended that these "non-banking" aspects should in turn be regulated. An important measure in this respect was the recent proposal for a Directive on Alternative Investment Fund Managers adopted by the Commission the previous week.

Mr de Larosière then discussed each one of the four chapters of the report which, following an examination of the financial crisis, focused on the goals of regulatory policy, feasible supervisory solutions at European level and, lastly, ways of integrating these solutions into the global system. A distinction must be made between the concept of regulation, which involved laying down rules, and supervision, which was designed to oversee financial institutions to ensure that the rules adopted by legislators were being applied. However, the two concepts were often intertwined even though they were not performed by the same actors, thus creating a risk of confusion of responsibilities.

The crisis had essentially been caused by structural balance-of-payment problems and, more particularly, by the significant debt problem in the United States coupled with the surpluses generated in emerging economies in conjunction with China's monetary policy. The root of the crisis had been a combination of this structural imbalance and an excessively lax monetary policy. This brought us back again to the pro-cyclical nature of accounting rules and the Basel II framework rules which had permitted financial innovation, leading to increasingly complex and opaque products which had dramatically expanded the leverage effect, and to incentives to

seek higher returns in the short-term, risk-taking and indebtedness. Pushed to an extreme, the system was bound to collapse, bringing in its wake a general crisis in confidence. It would be impossible to emerge from this crisis without focusing on and correcting the inbuilt causes.

Turning to regulation, Mr de Larosière pointed to the paradoxical situation in the European Union where regulation which, on the surface, was harmonised, was in practice subject to interpretation and exemptions, resulting in very diverging systems. The report was intended to correct this diversity and remedy defects by means of appropriate legal instruments, and more generally to ensure that national exceptions were not allowed to become the norm in future. More specifically, there was a need to correct the pro-cyclical nature of accounting rules and the shortcomings in the Basel II framework, particularly regarding capital requirements based on risk-sensitivity.

There were also disparities in Europe as regards supervision, in terms of the structure and organisation of supervisory authorities, performance and operating rules. The need to correct the system was even more pressing for cross-border banks. For micro-prudential supervision, the report recommended setting up a European System of Financial Supervision (ESFS) consisting of national supervisory authorities which would retain responsibility for day-to-day supervision at local level, three new European authorities responsible for banks, insurance companies and the securities markets, and supervisory colleges with special powers over cross-border banks, entrusted with the final decision when interpretations by the home and host supervisors differed. This system of binding mediation based on independent bodies would be particularly important in certain new Member States whose banking systems were largely run by groups with head offices in other Member States.

In relation to macro-prudential issues, efforts made in the past to ensure stable financial systems had been insufficient. The report contained a recommendation to set up a European Systemic Risk Council to be chaired by the President of the European Central Bank (ECB). It would consist of members of the ECB General

Council, the Chairpersons of the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR), and one representative of the European Commission. The role of this Council would be to monitor systemic risks upstream, make recommendations to prevent any problems, and set up an early warning mechanism for the competent authorities. The ECB would be the logical contact point for this institution, which would be the core element in the system and must be availed of to ensure stability.

Lastly, Mr de Larosière referred to the international dimension, the subject of the last chapter in the report, whose main lines were reiterated in the conclusions of the G20 Summit in London. It was important to reinforce the international dialogue on macro-financial supervision, for instance with the national and international bodies at G20 level, the Financial Stability Board (formerly the Forum) and the International Monetary Fund. This cooperation would be essential to ensure fair competition conditions and the convergence of financial supervision standards at world level.

Mr Jacques de Larosière concluded his comments on this subject, once again thanking the Commission for having given the report such a positive welcome.

The Commission then held an exchange of views with Mr de Larosière, during which the following points were raised:

- the ethical dimension of the economic crisis and the need for the European Union to draw lessons from it, particularly as regards public confidence and the balance to be struck between adherence to the rules of the market and social responsibility;
- the contribution that European integration made to the EU's resistance to the current economic and financial crisis and its capacity to withstand future crises;
- the importance of drawing a clear distinction between the concepts of regulation

and supervision and whether it was possible to have this distinction accepted by countries which did not practise it;

- a query about the scope of the measures recommended in the expert group's report to protect the EU from external and internal structural imbalances: for these measures to be effective, they would have to be implemented globally and not just in Europe;
- the implications which the measures proposed to tackle the crisis would have for representation of the Union in international bodies;
- a question about the expert group's decision not to propose a single European supervisory authority in its report.

Mr de Larosière replied to the various comments and questions raised. He agreed that the ethical dimension of the crisis had to be fully taken into account and argued that the main protective factor at European level - for those Member States in the euro area - had been the stability of the exchange rate. Given the extent and severity of the current crisis, no country could afford to do without regulation, although the measures applied must be reasonable and appropriate. The EU had a key role to play here in leading the way forward.

Mr de Larosière also remarked that the EU could not remain unaffected by external structural imbalances and must devote all its efforts to establishing a sound and effective European system of financial supervision as soon as possible. He stressed the importance of the conclusions of the recent G20 summit and acknowledged that the EU needed to be properly represented in the various international economic and financial institutions. Finally, he noted that, although the establishment of a single, independent financial supervisory authority was not formally proposed in the report, it was mentioned as a possible and desirable course of action, provided that the EU Member States agreed.

The PRESIDENT pointed out that the Commission was a fully-fledged member of

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the G20 and its various bodies. Indeed, it was the Commission's extensive and continuous efforts at all levels which had paved the way for the adoption at the recent G20 summit of what could be regarded as very satisfactory conclusions. He added that the Commission had also recently been accepted as a full member of the Financial Stability Board.

The PRESIDENT concluded by stressing that the proposals which the Commission had made and would make on financial supervision were important both for the countries of Europe and for the rest of the world. He warmly thanked Mr Jacques de Larosière and the members of the expert group he had chaired.

The Commission took note of these points and of the report drawn up under the chairmanship of Mr Jacques de Larosière, distributed as SEC(2009)261.

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The Commission's other discussions on certain agenda items are recorded in the special minutes.

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The meeting closed at 14.37.