



**COUNCIL OF
THE EUROPEAN UNION**

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COVER NOTE

from : Presidency

to : Delegations

Subject : **BRUSSELS EUROPEAN COUNCIL
18/19 JUNE 2009**

PRESIDENCY CONCLUSIONS

Delegations will find attached the Presidency Conclusions of the Brussels European Council (18/19 June 2009).

In the midst of the deepest global recession since the Second World War the European Council again demonstrated the Union's determination to rise above present difficulties and to look to the future by taking a series of decisions intended to meet, rapidly and effectively, a wide range of challenges.

Convinced that the Lisbon Treaty will provide a better framework for action by the Union in a large number of fields, Heads of State or Government agreed on legal guarantees designed to respond to concerns raised by the Irish people, thus paving the way for them to be consulted again on that Treaty. Heads also took first steps in the process of designating the President of the next Commission.

The economic crisis remains of paramount importance to citizens. The significant measures taken so far in support of the banking sector and the wider real economy have been successful in preventing financial meltdown and in beginning to restore the prospects for real growth. The European Council took a number of decisions intended to lead to the creation of a new financial supervisory architecture with the aim of protecting the European financial system from future risks and ensuring that the mistakes of the past can never be repeated. Top priority must be given to tackling the effects of the crisis on employment by helping people stay in work or find new jobs.

Successfully combating climate change will also contribute to moving to a sustainable economy and create new jobs. The European Council took further steps towards forging the EU's position for the Copenhagen Climate Change Conference at the end of the year. It sent out a strong signal of its intention to maintain a driving role in this process and called on the rest of the international Community to play its full part in bringing about a successful and ambitious outcome at Copenhagen.

European leaders expressed great concern at the dramatic situation in the Mediterranean area and agreed on a number of measures in order to help the Member States in the frontline to respond to the influx of illegal immigrants and to prevent further human tragedies.

The EU's role in the world remains of particular interest to European leaders. The European leaders underlined the strategic importance of transatlantic relations and welcomed the launch of the Eastern Partnership. They also stressed that the Middle East Peace Process remained a top priority for the EU in 2009. The European Council reconfirmed the great importance of stability and security in Afghanistan, Pakistan and the wider region. The European Council adopted the declarations on Iran and the Democratic People's Republic of Korea. In the declaration on Burma/Myanmar leaders called for the immediate and unconditional release of Aung San Suu Kyi.

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II. Economic, financial and social situation

11. The European Union, like the rest of the world, still faces the effects of the deepest and most widespread recession of the post-war era. It is imperative for the EU to continue to develop and implement the measures required to respond to the crisis. This should be done by building on the important achievements of the past months in line with the European Economic Recovery Plan agreed last December, which will amount to an overall budgetary support of around 5% of GDP in 2009/2010. As evidenced by the Council's report assessing national recovery measures (10771/09), the significant measures taken by governments and central banks are contributing to limiting the negative effects of the downturn and helping to safeguard jobs. They also pave the way towards a sustainable economic recovery.
12. The European Council reaffirms its strong commitment to sound public finances and to the Stability and Growth Pact. Future developments remain uncertain. The economic and budgetary outlook forecast by the Commission in early May will be discussed by the Council (ECOFIN). The European Council re-iterates its determination to do what is necessary to restore jobs and growth. It is important that consolidation keeps pace with economic recovery. There is a clear need for a reliable and credible exit strategy, inter alia by improving the medium-term fiscal framework and through coordinated medium-term economic policies.
13. The European Council supports the adoption of the new budgetary measures in Latvia aiming at sizeable fiscal consolidation this and next year. It stresses that rigorous implementation of the measures adopted together with credible medium-term strategy will deliver a successful outcome of the current adjustment programme. The European Council strongly supports the intention of the Commission to propose the swift disbursement of the next instalment of the Community balance-of-payments assistance in the framework of the adjustment programme.

14. The European Council discussed the current situation on the dairy market. It invited the Commission to present an in-depth market analysis within the next two months, including possible options for stabilising the dairy market, while respecting the outcome of the Health Check.

Building a new order in financial markets

15. The Council's report on the effectiveness of financial support schemes (10772/09 + ADD 1) underlines the extent to which state guarantees and recapitalisation operations have been crucial in preventing a meltdown of the financial sector and have played a positive role in protecting the interests of depositors. By supporting the flow of credit to the real economy they also contribute to protecting jobs.
16. Although this coordinated strategy at the EU level has been effective in stabilising financial markets, the operating environment of the financial institutions remains challenging and credit flows continue to be constrained. Governments must therefore stay alert to possible further measures which may be needed to recapitalise or to clean up balance sheets. The ongoing EU-wide stress-testing exercise will help to better assess the financial system's resilience, contribute to enhancing confidence of financial markets and facilitate coordinated policy measures at EU level. All actions must be consistent with single-market principles, ensure a level playing field and take into account a credible exit strategy. The Commission is invited to continue to monitor the measures taken in support of the financial sector and to provide further guidance on the return of the banking sector to viability.
17. The financial crisis has clearly demonstrated the need to improve the regulation and supervision of financial institutions, both in Europe and globally. Addressing the failures exposed by the present crisis will contribute to preventing future ones. It will also help restore confidence in the financial system, in particular by enhancing the protection of depositors and consumers, and will thus facilitate the recovery of the European economy.

18. Significant progress has already been achieved on improving the EU's regulatory framework, in particular with the agreement reached on the Capital Requirements Directive, the Credit Rating Agencies Regulation and the Solvency II Directive. The European Council calls for further progress to be made in the regulation of financial markets, notably on the regulation of alternative investment funds, the role and responsibilities of depositaries and on transparency and stability of derivatives markets. The European Council also calls on the Commission and the Member States to accelerate their work and make rapid progress on countering the pro-cyclical effects of regulatory standards, e.g. as regards capital requirements and impaired assets. It also invites the Member States to take action rapidly on executives' pay and on remunerations in the financial sector, taking account of the recommendations made by the Commission.

19. The communication presented by the Commission on 27 May 2009 and the Council conclusions of 9 June 2009 set the way forward to the establishment of a new framework for macro- and micro-prudential supervision. The European Council supports the creation of a European Systemic Risk Board which will monitor and assess potential threats to financial stability and, where necessary, issue risk warnings and recommendations for action and monitor their implementation. The members of the General Council of the ECB will elect the chair of the European Systemic Risk Board.

20. The European Council also recommends that a European System of Financial Supervisors, comprising three new European Supervisory Authorities, be established aimed at upgrading the quality and consistency of national supervision, strengthening oversight of cross border groups through the setting up of supervisory colleges and establishing a European single rule book applicable to all financial institutions in the Single Market. Recognizing the potential or contingent liabilities that may be involved for Member States, the European Council stresses that decisions taken by the European Supervisory Authorities should not impinge in any way on the fiscal responsibilities of Member States. Subject to this and supplemental to the Council conclusions of 9 June 2009, the European Council agrees that the European System of Financial Supervisors should have binding and proportionate decision-making powers in respect of whether supervisors are meeting their requirements under a single rule book and relevant Community law and in the case of disagreement between the home and host state supervisors, including within colleges of supervisors. ESAs should also have supervisory powers for credit rating agencies. The European Council further emphasizes the importance of ensuring that the new framework supports sound and competitive EU financial markets.
21. The European Council welcomes the Commission's intention to bring forward, by early autumn 2009 at the latest, the legislative proposals to put in place the new framework for EU supervision, fully respecting the balance of competences and financial responsibility and taking full account of the Council conclusions of 9 June 2009. These proposals need to be adopted swiftly in order for the new framework to be fully in place in the course of 2010. The European Council will take stock of progress at its meeting in October 2009 and will if necessary provide further direction.

22. It is equally important to further advance work on building a comprehensive cross-border framework for the prevention and management of financial crises. The European Council invites the Commission to make concrete proposals for how the European System of Financial Supervisors could play a strong coordinating role among supervisors in crisis situations, 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.

23. The European Union will continue to play a leading role at the global level, in particular within the G20. It calls on its international partners to implement fully the commitments given in Washington and London, in particular as regards providing additional resources to international financial institutions and accelerating the reform of the financial and regulatory framework. The European Council invites the Council and the Commission to ensure that a coordinated EU position is thoroughly prepared in advance of the 24/25 September 2009 G20 Summit. It also calls on the Presidency and the Commission to take up the issue of global regulation and supervision systematically in their contacts with international partners, including at the highest level.

24. Regarding the resources of the IMF, Member States have already stated their readiness to provide fast temporary support to a total amount of EUR 75 bn. In principle, Member States stand ready to take their share of further financing needs, as they arise over the medium term, in line with their economic weight, as reflected by their quota shares, through the New Arrangements to Borrow, in the context of fair burden-sharing at the global level recognizing the necessary link between contribution and representation. To ensure a fair and sustainable recovery for all, the EU reaffirms its commitments to support developing countries in meeting the Millennium Development Goals (MDGs) and to achieve our respective Official Development Assistance (ODA) targets.