Brussels, 6 December 2004

BACKGROUND[1]

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Brussels, 7 December 2004

*The Council will be preceded as usual by a meeting of the **Eurogroup**, on Monday 6 December at 19.00 hrs, focusing on the economic situation, current excessive deficit procedures and the revision of budget data provided by Greece.*

A press conference will be held after the Eurogroup meeting, as from 21.00.

*Starting on Tuesday 7 December at 10.00 hrs, the Council will examine the issue of accountability as regards **revisions by Greece of data** that it had previously provided for assessment of its budgetary situation.*

*It is due to approve three draft Directives on financial services - on minimum requirements aimed at improving the reliability of **company financial statements** and new requirements on the **capital adequacy** of banks and investment firms - as well as a draft Directive aimed at strengthening provisions against **money laundering** and **terrorist financing**.*

*The Council will attempt to reach agreement on a change in the **place of supply** as regards **VAT** payments for business-to-business services and will debate the issues of VAT **reduced rates** and **excise duties on alcohol**.*

The Presidency will hold a press conference at the end of the Council. An intermediate press conference may take place before or after lunch.

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Three further events will take place in the margins of the Council:

16.00 Monday	*Troika meeting with the European Parliament on the broad economic policy guidelines*
17.00	*Dialogue with the social partners on macroeconomic policy*
12.30 Tuesday	*Signature of agreements with Liechtenstein, Monaco and San Marino on the taxation of savings income*

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1 This note has been drawn up under the responsibility of the Press Office

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Stability and Growth Pact
- Revisions of Greek budget data

The Council will examine a report by the Commission on the issue of accountability as regards revisions by Greece of data that it had previously provided for the assessment of its budgetary situation, as well as a report by Eurostat on the revisions of the figures, and it will hold an exchange of views.

The Council is expected early in 2005 to hold a more general discussion on statistical issues related to budgetary notifications under the Stability and Growth Pact, and to discuss the follow-up of the excessive deficit procedure for Greece that it launched in July.

At an informal meeting at Scheveningen on 11 September, Ministers issued a statement expressing concern at the size and scope of the Greek revisions and emphasising that reporting of budgetary statistics should not be vulnerable to political and electoral cycles. They requested the Commission to present by June 2005 a proposal for minimum standards for statistics.

On 21 October, the Council adopted conclusions acknowledging efforts made by the Greek authorities in working with the Commission to clarify the issues, and stressing that similar revisions of budgetary data must not occur again.

On 16 November, it adopted conclusions taking note of updated information on Greece's deficit and debt data for every year since 1997, which showed that budget deficits have been consistently above the 3% reference value provided for by the Treaty and that the debt to GDP ratio, rather than approaching the 60% reference value as the Treaty requires, has increased.

Convergence reports for 2004

The Commission and the European Central Bank will present their 2004 reports on convergence of the Member States' economic performances.

These will include for the first time an assessment of the ten new Member States' progress towards adoption of the euro.

EU financial framework for 2007-13

The Council will take note of progress in preparation of the EU's financial framework for the 2007-13 period, and is due to hold an exchange of views.

The Presidency's aim is for the European Council to define, at its meeting on 16 and 17 December, principles and guidelines for further work aimed at achieving political agreement next year. The Council in its General Affairs configuration (as the preparatory body for the European Council) has overall responsibility for the negotiations, although the particular interest of the Economic and Financial Affairs Council is recognised.

Examination of the Commission's proposals, using the so-called building block methodology, has focused recently on the content of individual policies and the spending amounts they entail with a view to identifying a range of policy choices together with their financial implications.

Terrorism and money laundering

- **EU strategy against terrorist financing**

Mr Gijs de Vries, EU Counter-Terrorism Coordinator, will brief the Council on preparation of an EU strategy aimed at preventing the financing of terrorists and terrorist groups.

The European Council on 17 and 18 June requested the Council to identify by December an approach for further strengthening the fight against terrorist financing, on the basis of proposals by the High Representative for Common Foreign and Security Policy and the Commission.

- **Directive on money laundering**

The Council will be called on to agree on a general approach, pending the opinion of the European Parliament in first reading, on a draft Directive aimed at preventing the use of the financial system for the purposes of money laundering and terrorist financing.

The draft Directive is intended to replace Directive 91/308/EEC whilst extending the scope of its provisions to cover terrorist financing as well as persons and institutions not currently included. It is also aimed at implementing recommendations issued recently by the Financial Action Task Force on Money Laundering set up at the initiative of the G7.

Under the Presidency's text, the Directive would apply to natural or legal persons trading in goods for payments made in cash for amounts of up to EUR 15 000, whether the transaction is carried out in a single operation or in several operations that appear to be linked. However, one delegation maintains a wish to provide the possibility for Member States to decide that payments of EUR 15 000 or more made on an occasional or limited basis are not covered where there is little risk of money laundering or terrorist financing.

Certain delegations also have concerns about the timescale for implementation of the Directive. Further, one delegation wishes to make an exemption as regards the prohibition to disclose to the client and to third persons that a suspicious transaction has been made.

The draft Directive is based on Articles 47 and 95 of the Treaty (Parliament-Council co-decision procedure, qualified majority required within the Council). The general approach could be used as a basis for contacts with representatives of the Parliament with a view to adoption in first reading.

Financial services

- **Capital adequacy requirements**

The Council will be called on to agree on a general approach, pending the European Parliament's opinion in first reading, on two draft Directives introducing new capital adequacy requirements for banks and investment firms in accordance with guidelines established on 26 June by the Basel Committee on Banking Supervision.

The two proposals are part of an EU action plan aimed at ensuring a single market for financial services, with a view to strengthening the competitiveness of the European economy by lowering capital costs for companies.

They are intended as a recast of Directive 2000/12/EC on the business of credit institutions and of Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions, whilst transposing the Basel Committee's so-called Basel II agreement into EU law.

Composed of members from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States, the Basel Committee formulates supervisory standards and guidelines and recommends statements of best practice for banking supervisory authorities. Member countries are represented by their central banks and by their authorities responsible for the prudential supervision of banking business.

The following issues remain outstanding:

- o Consolidated supervision. Under the new framework, supervisors would be required to work together so as to decide within six months on applications from cross-border banking groups; in the absence of such agreement, the competent authority of the parent company would take the decision. Whereas the Presidency's text requires supervisors to do everything within their powers to reach agreement, some delegations consider that applications should always be decided by all authorities concerned.
- o Implementation. The Presidency's texts follow the Basel agreement in setting the date at the end of 2006, with implementation of certain provisions at the end of 2007. One delegation maintains a preference for a single implementation date at the end of 2007.
- o The weighting applied to the exposure to risks of central governments and central banks. One delegation has a reservation on the treatment of national debt.

The draft Directives are based on Articles 44 and 95 of the Treaty (Parliament-Council co-decision procedure, qualified majority required within the Council). The Presidency has had contacts with representatives of the Parliament to explore the possibility of adoption in first reading.

- Audit of company accounts

The Council will be called on to agree on a general approach, pending the European Parliament's opinion in first reading, on a draft Directive aimed at establishing minimum requirements for the audit of company accounts in order to improve the reliability of company financial statements.

The draft Directive introduces a number of provisions intended to better ensure independence and ethics amongst statutory auditors and audit firms. These include a requirement for external quality assurance, ensuring public oversight over the audit profession and improved co-operation between the oversight bodies of the Member States.

The Directive, intended to replace Directive 84/253/EEC and amend Directives 78/660/EEC and 83/349/EEC, would also provide a basis for regulatory co-operation with oversight bodies in third countries so as to cater for the global dimension of capital markets.

The following issues remain outstanding:

- o Independence requirements for auditors and audit firms. Whereas some delegations would like to soften a provision referring to public interest entities that would allow auditors not to carry out a statutory audit in cases of self-review or self-interest, others would like the clause to be more far-reaching.

- Obligation to create an audit committee. Whereas the Presidency has endeavoured to accommodate concerns expressed by delegations by limiting the scope of this obligation, some delegations insist on the deletion of the entire provision.

The draft Directive is based on Article 44 of the Treaty (Parliament-Council co-decision procedure, qualified majority required within the Council). The general approach could be used as a basis for contacts with representatives of the Parliament with a view to adoption in first reading.

Regulatory reform

The Presidency will brief the Council on the follow-up given to conclusions adopted at its meeting on 21 October regarding the potential burden on businesses of compliance with EU legislation and regulations.

The briefing will cover work being done by the current Netherlands Presidency and the intentions of the future Luxembourg and United Kingdom Presidencies, as well as conclusions adopted by the Competitiveness Council at its meeting on 25 November.

In its 21 October conclusions, the Council requested the Commission to continue work on a methodology to measure the administrative burden of EU legislation and regulation, and to set up pilot projects in order to test the methodology. It called on the Commission to present and implement the methodology as soon as possible in 2005 after completion of the pilot phase.

Taxation

- VAT reduced rates and place of supply

The Council will be called on to reach a political agreement on a proposal for a Directive aimed at changing the place of taxation with regards to VAT payments for business-to-business services from the place where the supplier is located to the place where the customer is located.

At the request of the French delegation, it will also hold an exchange of views on the organisation of possible future work on the issue of VAT reduced rates.

Two delegations have reservations on the draft Directive on the place of supply, one as regards entry into force on 1 January 2007 and advanced entry into force on 1 January 2006 for the long-term leasing of motor vehicles, the other because it wishes certain banking, financial, insurance and reinsurance services to be excluded from exchange of information.

On the issue of reduced rates, the Presidency has endeavoured to refocus work in order to break the deadlock reached in the Council on a proposal made by the Commission in July 2003, but its contacts have so far revealed no change in the positions of delegations.

- Excise duties on alcohol

The Commission will present a report on the issue of excise duties on alcoholic beverages and the Council is due to hold a policy debate.

The report, approved by the Commission last May, covers a number of issues such as the possibility of increased minimum excise rates, further harmonisation of excise rates, changes in the structure of excise duties, for instance for still and sparkling wines, as well as customs nomenclature codes and the classification of alcoholic beverage products.

The Commission wishes to take note of the Council's views on these issues before deciding to present a proposal. Delegations are however divided on many of the issues.