

Declaration on a concerted European action plan of the euro area countries

- 1) Financial systems contribute essentially to the well functioning of our economies and are therefore a necessary prerequisite for growth and a high level of employment. Millions of depositors have trusted their wealth to our financial institutions. The consequences of the current financial market crisis jeopardize the crucial economic role of the financial system.
- 2) Since the beginning of the crisis, we have acted to address the challenges posed to our financial system: we have committed ourselves to take decisive action and use all available tools to support relevant institutions and prevent their failure and effectively acted in several cases ; we have increased transparency and disclosure on banks exposure ; we have enhanced retail deposit guarantee protection.
- 3) Further concerted action is urgently needed given the persistent problems of bank financing and the contagion from the financial crisis to the real economy.
- 4) We confirm today our commitment to act together in a decisive and comprehensive way in order to restore confidence and proper functioning of the financial system, aiming at restoring appropriate and efficient financing conditions for the economy. In parallel, Member States agree to coordinate measures to address the consequences of the financial crisis on the real economy, in line with 7th of October Ecofin conclusions. In particular, we welcome the EIB's decision to mobilise 30 billions € to support European SME's and its commitment to step up its ability to intervene in infrastructure projects.
- 5) As members of the Euro area, we share a common responsibility and have to contribute to a common European approach. We invite our European partners to adopt the following principles so that the European Union as a whole can act in a united manner and avoid that national measures adversely affect the functioning of the single market with a single currency.

This requires European Union and Euro area Governments, central banks supervisors to agree to a coordinated approach aiming at:

- ensuring appropriate liquidity conditions for financial institutions;
- facilitating the funding of banks, which is currently constrained;
- providing financial institutions with additional capital resources so continue to ensure the proper financing of the economy;
- allowing for an efficiency recapitalisation of distressed banks;
- ensuring sufficient flexibility in the implementation of accounting given currency exceptional market circumstances;
- enhancing cooperation procedures among European countries.

Ensuring appropriate liquidity conditions for financial institutions

6) We welcome the recent decisions by the European Central Bank and Central banks in the world to cut their interest rates.

7) We also welcome the decisions by the European Central Bank to implement the conditions for the refinancing of banks and for providing more term funding. We look forward to the European Central Bank considering all available means to react flexibly to the current market environment.

[We also look forward to the European Central Bank to create liquidity, commercial paper facility and similar instruments so as the current financial turmoil prevails.]

Facilitating the funding of banks which is currently constrained

8) With a view to complementing the action taken by the European Central Bank in the interbank money market, the Government of the Euro Area ready to take proper action in a concerted manner to improve market functioning over long terms maturities. The objective of initiatives should be to address specific failures in present refinancing conditions.

To this aim Governments would make available for an interim period (...) appropriate commercial terms, directly or indirectly, a Government guarantee, insurance, direct purchase or other similar arrangements notably exchange of ineligible collateral with Government securities - of medium term (up to 5 years) bank senior debt issuance. Depending on domestic market conditions in each country, actions at some specific and relevant types of debt issuance.

In all cases these actions will be designed in order to avoid any distortion in the level playing field and possible abuse at the expense of non beneficiaries of these arrangements. As a consequence:

- in the price of those instruments will reflect at least their value with respect to normal market conditions;
- all the financial institutions incorporated and operating in our countries and subsidiary of foreign institutions with substantial operations will be eligible, provided they meet the regulatory capital requirements and other non discriminatory objective criteria;
- Governments may impose further conditions for the beneficiaries of these arrangements, including conditions to ensure support to real economy;
- the scheme will be limited in amount, temporary and will be applied under close scrutiny of financial authorities, until December 31 2009.

While acting quickly as required by circumstances, we will coordinate in providing these guarantees as significant differences in national implementation could have a counter-productive effect, creating distortions in the global banking markets. We will also work in cooperation with the European Central Bank so as to ensure consistency with the management of liquidity by the Eurosystem.

Providing financial institutions with additional capital resources so as to continue to ensure the proper financing of the economy

9) So as to allow financial institutions to continue to ensure the proper financing of the Eurozone economy, each Member State can make available to financial institutions Tier 1 capital, e.g. preferred shares or other instruments including non dilutive ones. Price conditions shall take into account the market value and the rating of each involved institution. Governments commit themselves to provide capital when needed in appropriate volume while favouring by all available means the raising of private capital. Financial institutions might be obliged to accept additional restrictions, notably to preclude possible abuse of such arrangements at the expense of non beneficiaries.

10) Given the exceptional market circumstances, we urge national supervisors, in accordance with the spirit of Bâle 2 rules, to implement prudential rules also with a view to stabilising the financial system.

Allowing for an efficient recapitalisation of distressed banks

11) Governments remain committed to avoid any failure of systematic relevant institutions, through appropriate means including recapitalization doing so, we will be watchful regarding the interest of

taxpayers and (...) of the existing shareholders and management bear the due consequences of intervention. Emergency recapitalisation of a given institution shall be followed by an appropriate restructuring plan.

Ensuring sufficient flexibility in the implementation of accounting given current exceptional market circumstances

12) We urge the Commission to take immediate steps to implement conclusions of the 7th October Ecofin regarding the classification of financial instruments by banks between their trading and banking books.

Under the current exceptional circumstances, financial institutions shall be allowed to value their assets consistently with risk of default assured rather than immediate market value which, in illiquid markets may be no longer appropriate.

We ask the competent authorities to take the next steps within the following days.

Enhancing cooperation among European countries

13) In such circumstances, efficient crisis management requires timely accurate information of all actors. We will therefore set up and strengthen procedures allowing the exchange of information between our Governments the acting President of the European Union, the President of the European Commission, the President of the European Central Bank and the President of the Eurogroup. We ask the European Council on next Wednesday submit a proposal to improve crisis management between European countries.

14) The Ecofin Council with the support of the Commission and in cooperation with the European Central Bank will report to the European Council on the implementation of these decisions.