



Brussels, 7 May 2007

## **BACKGROUND<sup>1</sup>**

### ***ECONOMIC and FINANCIAL AFFAIRS COUNCIL***

**Tuesday 8 May in Brussels**

*The Council will be preceded as usual by a meeting of the **eurogroup**, on Monday 7 May starting at 17.00, which will examine, in particular, the economic situation in the euro area and fiscal policy in the member states.*

*Also on Monday, the presidency troika will meet the social partners (European Trade Union Confederation, European Business Confederation), at 14.00, for their twice-yearly macroeconomic policy dialogue. This will cover the economic situation and policy response, with a specific focus on wage policy.*

*Ministers will hold a breakfast meeting on Tuesday at 9.30 to discuss the economic situation in the EU, in the light of the Commission's spring forecasts. The president of the eurogroup will report on deliberations the previous evening.*

*Starting at 11.00, the Council is due to adopt conclusions on three dossiers relating to financial markets: namely **hedge funds**, **asset management** and the financial consequences of **ageing**. It will discuss a forthcoming review of the Lamfalussy **financial services** regulatory process, and the Commission will present its preliminary draft for the EU's **2008 budget**.*

*Ministers will meet the finance ministers and central bank representatives of the EU candidate countries (Croatia, Turkey and the former Yugoslav republic of Macedonia) at 10.00 on Tuesday for their annual economic policy dialogue. The meeting will feature adoption of joint conclusions on the three countries' pre-accession economic programmes.*

*At lunch, ministers will discuss ongoing work on automobile taxation (refund system to avoid double taxation, CO2 emissions taxation, registration taxes).*

**Press conference**: at the end of the Council (as from 13.00).

**Press conferences and public events can be followed by video streaming:**  
**<http://www.consilium.europa.eu/videostreaming>**

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<sup>1</sup> This note has been drawn up under the responsibility of the press office

## **EU budget - Preliminary draft budget for 2008**

Commissioner Dalia Grybauskaitė will present the Commission's preliminary draft for the EU's general budget for 2008, with a view to the Council's first reading scheduled for 13 July.

At its meeting on 27 March, the Council agreed guidelines establishing principles for the preparation of the 2008 budget (*doc. 6894/07*).

For 2008, the Commission proposes a total of EUR 129.2 billion in commitment appropriations (+ 2% compared with 2007) and EUR 121.6 billion in payment appropriations (+ 5.3% compared with 2007). Commitment appropriations amount to 1.03% of EU gross national income and payment appropriations represent 0.97% of GNI.

## **Hedge funds and financial stability**

The Council is due to adopt conclusions on hedge funds as regards the stability of the international financial system (*doc. 9020/07*), following on from discussions by G7 finance ministers at Essen on 10 February and Washington on 13 April and by EU finance ministers at an informal meeting in Berlin on 20 and 21 April. It may hold an exchange of views.

The hedge fund industry has in recent years experienced tremendous growth in terms of total assets under management, and this is expected to continue.

The draft conclusions acknowledge that hedge funds have contributed significantly to fostering the efficiency of the financial system, whilst emphasising the potential systemic and operational risks associated with their activities. Close supervisory monitoring of credit institutions' exposure to hedge funds and the upgrading of risk management systems have so far enhanced resilience to systemic shocks. The draft however recalls the need for creditors, investors and authorities to remain vigilant and to adequately assess the potential risks that hedge funds present.

The text emphasises the need for a better understanding of hedge funds characteristics and for adequate investor protection, and takes note of concerns expressed in some member states regarding increased retail distribution of hedge fund products.

The Commission is expected to prepare a report, by the middle of next year, assessing the case for and against creating a single market framework for the retail fund industry (see investment funds and asset management, below).

## **Investment funds and asset management**

The Council is due to adopt conclusions on asset management (*doc. 9016/07*), in response to a white paper presented by the Commission in November, entitled "*enhancing the single market framework for investment funds*".

A large part of the investment fund industry is covered by the EU directive on UCITS<sup>2</sup>, adopted in 1985 and updated most recently in 2001. The Commission considers that the regulatory framework established by the directive requires further revision so as to cater for growth of the industry and to enhance its potential for further growth.

The draft conclusions call on the Commission to present accordingly a proposal, and notes that it is also examining the cross-border distribution potential of various types of funds (such as funds of hedge funds and open-ended real estate funds).

The Commission is expected to prepare a report, by the middle of next year, assessing the case for and against creating a single market framework for the retail fund industry. The draft conclusions call on the Commission to review the consistency of EU legislation regarding the different types of retail investment products (such as unit-linked life insurance, investment funds, certain structured notes and certificates), so as to ensure a coherent approach to investor protection.

## **Ageing and financial markets**

The Council will endorse a report from the financial services committee on the implications of ageing for financial markets (*4164/07 + ADD*), and is due to adopt conclusions (*doc. 9015/07*).

The draft conclusions call on the member states to work for increased participation and contribution levels of households in non-statutory pension schemes, and to address cases of insufficient access to pension products and schemes, e.g. for low-income households. They call on the Commission to consider whether further work is necessary for the development of a single market for retirement products, whilst encouraging the industry's efforts to enhance the supply of savings products.

The European Council in March 2006 noted that preparing for ageing populations, together with the challenges of globalisation, are the two main drivers for structural reforms in the EU. It considered that comprehensive reforms are needed in many member states to improve the sustainability of their welfare systems and to meet the economic and budgetary consequences of ageing.

A report on ageing prepared by the economic policy committee early last year provided public spending projections for pensions, health care, long-term care, education and unemployment transfers for the period from 2005 to 2050, assessing the impact of such expenditure on the sustainability of public finances. The report was endorsed by the Council in conclusions adopted in February 2006.

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<sup>2</sup> Undertakings for collective investment in transferable securities

## **Financial services - Review of the Lamfalussy process**

The chairman of an inter-institutional monitoring group will present an interim report on application of the Lamfalussy regulatory process for financial services (*doc. 6171/07*), and commissioner Charlie McCreevy will present the Commission's views on the subject.

The Council will hold an exchange of views on the priorities for a forthcoming review of the Lamfalussy process.

Originally developed in 2001 and named after Alexandre Lamfalussy, the chairman of the EU advisory committee that helped create it, the Lamfalussy process is aimed at providing increased flexibility in the legislative process, so as to allow it to better respond to technological change and market developments and to allow convergence in national supervisory practices<sup>3</sup>. Introduced initially for the securities sector, it was later extended to the banking and insurance sectors, and the mandate of the inter-institutional monitoring group was accordingly renewed and extended.

Review of the process is scheduled for the second half of this year, on the basis of a final report from the monitoring group and assessments by the Commission and the financial services committee.

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<sup>3</sup> The Lamfalussy process is composed of four "levels", each focusing on a specific stage of implementation. At the first level, the European Parliament and the Council adopt legislation establishing core principles and binding guidelines on implementation. At the second level, sector-specific committees and regulators advise on technical details. At the third level, national regulators work on coordination, whilst the fourth deals with compliance and enforcement of legislation.