



**EUROPEAN COUNCIL
THE PRESIDENT**

Brussels, 18 October 2012

European Council conclusions on completing EMU¹

Adopted on 18 October 2012

1. In the light of the fundamental challenges facing it, the Economic and Monetary Union needs to be strengthened to ensure economic and social welfare as well as stability and sustained prosperity.
2. Following the interim report presented by the President of the European Council in close collaboration with the Presidents of the Commission, the Eurogroup and the European Central Bank (ECB), informal consultations will continue with Member States and the European Parliament on the different issues to be explored. The European Council looks forward to a specific and time-bound roadmap to be presented at its December 2012 meeting, so that it can move ahead on all essential building blocks on which a genuine EMU should be based.
3. The process towards deeper economic and monetary union should build on the EU's institutional and legal framework and be characterised by openness and transparency towards Member States which do not use the single currency and by respect for the integrity of the Single Market. The final report and roadmap should include concrete proposals for how to achieve this.

¹ This text will be included in the final version of the European Council conclusions

Integrated financial framework

4. We need to move towards an integrated financial framework, open to the extent possible to all Member States wishing to participate. In this context, the European Council invites the legislators to proceed with work on the legislative proposals on the Single Supervisory Mechanism (SSM) as a matter of priority, with the objective of agreeing on the legislative framework by 1 January 2013. Work on the operational implementation will take place in the course of 2013. In this respect, fully respecting the integrity of the Single Market is crucial.
5. There is a need to ensure a clear separation between ECB monetary policy and supervision functions, and the equitable treatment and representation of both euro and non-euro area Member States participating in the SSM. Accountability takes place at the level at which decisions are taken and implemented. The SSM will be based on the highest standards for bank supervision and the ECB will be able, in a differentiated way, to carry out direct supervision. It will also be in a position to use the effective powers conferred on it by the legislation as soon as it comes into force. In addition, it is of paramount importance to establish a single rulebook underpinning the centralised supervision.
6. It is important to ensure a level playing field between those Member States which take part in the SSM and those which do not, in full respect of the integrity of the single market in financial services. An acceptable and balanced solution is needed regarding changes to voting modalities and decisions under the European Banking Authority (EBA) Regulation, taking account of possible evolutions in the participation in the SSM, that ensures non-discriminatory and effective decision-making within the Single Market. On this basis, the EBA should retain its existing powers and responsibilities.
7. The European Council calls for the rapid adoption of the provisions relating to the harmonisation of national resolution and deposit guarantee frameworks on the Commission's legislative proposals on bank recovery and resolution and on national deposit guarantee schemes. The European Council calls for the rapid conclusion of the single rule book, including agreement on the proposals on bank capital requirements (CRR/CRD IV) by the end of the year.

8. In all these matters, it is important to ensure a fair balance between home and host countries.
9. The European Council notes the Commission's intention to propose a single resolution mechanism for Member States participating in the SSM once the proposals for a Recovery and Resolution Directive and for a Deposit Guarantee Scheme Directive have been adopted.
10. The Eurogroup will draw up the exact operational criteria that will guide direct bank recapitalisations by the European Stability Mechanism (ESM), in full respect of the 29 June 2012 euro area Summit statement. It is imperative to break the vicious circle between banks and sovereigns. When an effective single supervisory mechanism is established, involving the ECB, for banks in the euro area the ESM could, following a regular decision, have the possibility to recapitalize banks directly.

Integrated budgetary and economic policy frameworks and democratic legitimacy and accountability

11. The European Council invites the legislators to find an agreement with a view to adopting the "two-pack" by the end of 2012 at the latest. This is a key piece of legislation necessary for the reinforcement of the new economic governance in the EU, alongside the reinforced Stability and Growth Pact, the Treaty on Stability, Coordination and Governance (TSCG) and the "six-pack". It calls on national authorities and European institutions to implement all of these fully in accordance with their roles under the EU Treaties. Related to the ongoing regulatory work in the EU banking sector, the European Council takes note of the proposals of the high level expert group on the structure of the EU banking sector, which the Commission is now examining, including their possible impact on the objective of establishing a stable and efficient banking system.
12. An integrated budgetary framework is part of an economic and monetary union. In that context, further mechanisms, including an appropriate fiscal capacity, will be explored for the euro area. The process of exploration will be unrelated to the preparation of the next Multiannual Financial Framework.

13. The smooth functioning of EMU calls for stronger and sustainable economic growth, employment and social cohesion and requires stronger coordination, convergence and enforcement of economic policy. In this respect, the idea of the euro area Member States entering into individual arrangements of a contractual nature with the EU institutions on the reforms they commit to undertake and on their implementation will be explored. Such arrangements could be linked to the reforms identified in the country-specific recommendations adopted by the Council and build on EU procedures.
 14. Governance within the euro area should be further improved, building on the TSCG and taking into account the euro area Summit statement of 26 October 2011. Ways to ensure that all planned major economic policy reforms are discussed ex ante and, where appropriate, coordinated within the framework of the EU's economic governance, in line with Article 11 of the TSCG, should be explored by participating Member States. The euro area Heads of State or Government shall adopt rules of procedure for their meetings.
 15. Strong mechanisms for democratic legitimacy and accountability are necessary. One of the guiding principles in this context is to ensure that democratic control and accountability take place at the level at which decisions are taken and implemented. In this spirit, ways to ensure a debate in the context of the European Semester, both within the European Parliament and national parliaments, should be explored. In this respect, the European Council notes the intention of the Member States parties to the TSCG to improve the level of cooperation between national parliaments and the European Parliament, building on Article 13 of the TSCG and Protocol 1 to the TFEU.
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