

Europe: Coordinating Responses to the Financial Crisis

Meeting of EU Heads of State & Government

By [Global Research](#)

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The Heads of State or Government of the European Union met in Brussels on 7 November 2008 ahead of the international summit on the financial crisis which will be held on 15 November in Washington, a summit which should pave the way for reform of the international financial system. The Heads of State of Government once again expressed the unity of the EU Member States as they confront the crisis, and agreed on a number of specific principles and approaches which could be adopted at the summit of 15 November.

1. The unity of the Heads of State or Government of the European Union in coordinating responses to the financial crisis has been a key factor for responsiveness and effectiveness. Now that it is time to step up that action and devise long term ways of reforming the international financial system, we reaffirm our resolve to work together to that end.

2. Such unity must first be shown in support for Member States experiencing financial difficulties. The Treaty makes provision for such assistance. It has been used to help one Member State over the last few days. We have agreed on the need to raise to EUR 25 billion (from EUR 12 billion) the ceiling on loans which the EU can provide for this purpose. The necessary measures will be adopted by the time of the next European Council meeting, on the basis of the Commission's proposals.

3. The international summit on 15 November 2008 must pave the way for reform of the international financial system. Europe must play a major part in it in three respects: common principles upon which to build a new international financial system; a working method to deliver real decisions swiftly; a full set of responses, some of which should be adopted without delay.

4. Those principles are as follows:

(i) No financial institution, no market segment and no jurisdiction must escape proportionate and adequate regulation or at least oversight.

- All financial players of systemic importance, such as rating agencies or geared funds, will accordingly have to be subject to rules or at least to oversight, wherever they operate. Means of actually putting that principle into practice will have to be introduced by national authorities, if appropriate under international financial institutions' supervision.

- Every step will be taken, nationally and internationally, to protect the stability of the international financial system from uncooperative centres.

- In more general terms, the rules applicable will have to be so designed as to create common standards between financial centres in ways not detrimental to international financial stability.

(ii) The new international financial system must be based on principles of accountability and transparency.

- Transparency of financial transactions must be ensured by means of a more comprehensive information system, which no longer omits vast swathes of financial activity from auditable, certifiable accounts.

- Arrangements conducive to excessive risk taking must be overhauled, particularly debt securitisation procedures and pay policy.

- Both prudential and accounting standards applicable to financial institutions will have to be revised to ensure that they do not contribute to creating speculative bubbles in periods of growth and make the crisis worse at times of economic downturn.

- Standards bodies, in particular in the area of accountancy, will have to be reformed to allow a genuine dialogue with all the parties concerned, in particular prudential authorities.

(iii) The new international financial system must allow risks to be assessed so as to prevent crises.

- The large international financial groups will have to be monitored in a coordinated manner as between the different national authorities concerned, by the setting up of colleges of supervisors.

- An early warning system must be established to identify upstream increases in risks or the formation of bubbles in the valuation of different economic assets.

- More generally, multilateral surveillance will have to be reformed in order to prevent and eliminate world imbalances.

(iv) Give the IMF a central role in a more efficient financial architecture

- The task of preventing financial crises will fall to the IMF, which enjoys the legitimacy and universality necessary to become increasingly the pivot of a renewed international system. To that end, its role will be better coordinated with that of the Financial Stability Forum.

- The IMF's intervention tools will have to be modernised to enable it to intervene preventively and its resources will have to be increased to enable it to give effective assistance to countries affected by the crisis.

5. In application of these principles, five specific approaches could be adopted on 15 November:

- submit rating agencies to registration, surveillance and rules of governance;

- adopt the principle of convergence of accounting standards and review the application in the financial sector of the fair value rule in order to improve its consistency with prudential rules;
- decide that no market segment, no territory, and no financial institution should escape proportionate and adequate regulation or at least oversight;
- establish codes of conduct to avoid excessive risk-taking in the financial sector, including in the area of systems of remuneration. Supervisors will have to take them into account in evaluating the risk profile of financial institutions;
- give the IMF the initial responsibility, together with the FSF, of recommending the measures needed to restore confidence and stability. The IMF must be given the necessary resources and appropriate instruments to support countries in difficulty, and must fully exercise its role of macroeconomic surveillance.

6. The Washington summit must be the occasion to integrate this reform of the international financial system into the larger series of 21st century challenges which we remain determined to tackle : food security, the fight against poverty and climate change, and the promotion of free trade through the rapid conclusion of the Doha Round.

7. We hope that the Washington summit can establish a method of working which enables regular and rapid progress to be made towards reform of the international financial system.

A period of 100 days starting on 15 November should be used for drawing up measures to implement the principles that have just been restated. At the end of that period, we will propose holding a new summit with three items on its agenda:

- a report on the implementation of the initial measures adopted on 15 November;
- a set of new decisions taken to implement the principles adopted on 15 November to improve the regulation of the financial system;
- a set of proposals on the international economic architecture to enable current and future macro economic challenges to be met.

The December European Council will be the occasion to take the necessary measures at the end of this first stage in a reform that Europe supports and earnestly hopes for.

8. The unity of the European Union must also be reflected in effective consultation on each Member State's economic policy response to the present situation. The work carried out over the last few weeks in together establishing a set of principles and a list of possible solutions in the financial sphere can serve as a model for improving economic consultation. We would ask the ECOFIN Council and the Commission to submit to the next European Council meeting a European strategy, building on the Lisbon Strategy and the Stability and Growth Pact and comprising principles for action and specific measures to cope with the economic slowdown and maintain growth and employment.

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