Eurogroup
The President

Brussels, 05 December 2019

To Mr Charles Michel, President of the Euro Summit

Dear President,

The June Euro Summit of 21 June 2019 invited the Eurogroup in inclusive format to continue working on all the elements of the comprehensive package of deepening Economic and Monetary Union (EMU). Building on the broad agreement reached at the Eurogroup last June, we have continued working on the full package of ESM reforms, on the further strengthening of the Banking Union and on the pending issues on the budgetary instrument for convergence and competitiveness (BICC) for the euro area.

ESM Reform

I would like to inform you that we have reached an agreement in principle, subject to the conclusion of national procedures, on the package of documents related to the ESM reform. The reform is intended to further develop the ESM to strengthen the resilience and crisis resolution capacities of the euro area, while continuing to fully respect European Union law.

First, we have agreed on the ESM legal framework on the common backstop. This includes the Backstop Guideline, the Pricing Guideline and three Board of Governors (BoG) resolutions[1]. In this context, we have also agreed on a nominal cap for the backstop of 68 billion euro, which is the

---

[1] More specifically the three BoG resolutions are: i) the BoG resolution determining the nominal cap and setting out provisions on the permanence of legal framework; ii) the BoG resolution granting the backstop facility and determining the key financial terms and conditions thereof and for the termination of the backstop facility; iii) as well as the BoG resolution confirming that the Direct Recapitalisation Instrument (DRI) of the ESM will be cancelled at the time the common backstop is introduced.

absolute limit to the amount that the ESM could lend to the SRB. This figure is expected to be above the target level of the Single Resolution Fund (SRF) in 2024 to which the size of the backstop is aligned. The legal documents underlying the agreement will be adopted by the ESM Governing Bodies in due time, in line with the applicable procedures.

The political decision on the early introduction of the backstop will be taken in 2020 and it will be informed by the risk reduction assessment of the institutions and of the competent authorities, as laid down in terms of reference of December 2018. If agreed, this should be implemented in an effective manner. This would be achieved through limited changes to the Intergovernmental Agreement (IGA), which would bring forward the mutualisation of ex-post contributions to the Single Resolution Fund. We have also agreed on the technical modalities for this mutualisation.

Second, we agreed on the amended Guideline on Precautionary Financial Assistance reflecting the political agreement found last June. We also welcomed the finalisation of the working document on a common methodology on debt sustainability and repayment capacity analysis prepared by the Commission and the ESM and of the Memorandum for Cooperation between the European Commission and the ESM.

Third, we reached an agreement in principle on the terms of reference and explanatory note of the single limb Collective Action Clauses (CACs) to be introduced by the 1st of January 2022, subject to the completion of the national procedures. The terms of reference and the explanatory note set the modalities for sub-aggregating series of bonds for voting purposes. The legal status of the terms of reference will be clarified ahead of the signature of the Treaty.

In view of the finalisation of the ESM package of reforms, we expect to sign the Amending Agreement of the ESM Treaty early next year.

Further strengthening the Banking Union and a European Deposit Insurance Scheme

We continued our work on the further strengthening of the Banking Union. In this context we took note of the report from the Chairman of the High–level Working Group on a roadmap on further strengthening the Banking Union, including a European Deposit Insurance Scheme (EDIS) and of the steady progress made with risk reduction, as shown in the semi-annual risk reduction report by the Commission, ECB and SRB.

There was broad recognition that the report contains important elements for a strengthened Banking Union.

It is important that we move forward to unlock the Banking Union's benefits in terms of private risk sharing, financial stability and economic growth, while reducing opportunities for arbitrage between Member States. Ultimately, we should ensure Europe's financial and economic sovereignty.

We have therefore asked the High-Level Working Group to continue work on all elements on a consensual basis. Follow-up work will also be taken forward by the institutions and, in due course, the respective Council working parties. We will take stock regularly on progress made and report back in June in view of bringing this work forward within this institutional cycle.

Budgetary Instrument for Convergence and Competitiveness

Finally, on the BICC, as reported ahead of the October European Council in my letter to the President of the European Council[2], the Eurogroup reached an agreement on a term sheet covering the remaining open issues on the BICC, complementing the agreement reached in June. We also agreed that appropriate arrangements should be defined for non-euro area Member States not participating in the BICC. The Council working group is making good progress in translating the agreements reached at the Eurogroup into legislation. Technical work on the need, content, modalities and size of an IGA has started and the EWG will report to us next year, in due time to allow for a final decision in the context of the MFF.

Let me finish by stressing that the Eurogroup stands ready to continue its work on deepening EMU in view of the new institutional cycle and the new proposals of the Commission.

Yours sincerely,

Mário Centeno

Mario Centeno

[2] https://www.consilium.europa.eu/media/41008/091019_eurogroup-president-letter.pdf