

**EUROPEAN COMMISSION**

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

**FINANCIAL SYSTEM SURVEILLANCE AND CRISIS MANAGEMENT  
EU/Euro area financial system**

Brussels,  
DG FISMA-E1/pg/ah

**Subject: Your e-mail to Mr. Selmayr, Head of President Juncker's Cabinet, on  
6 October 2017**

Dear Mr. Messori, dear Mr. Micossi,

Thank you very much for your e-mail of 6 October 2017 to Mr. Selmayr and for sharing your concerns and opinions regarding the future of the Economic and Monetary Union (EMU). I was asked by Mr. Selmayr to reply to you on his behalf.

Although a lot of progress was made, there is a broad consensus that the current setup of EMU remains incomplete. In order to launch and shape an open and honest debate, the Commission has with its *Reflection Paper on the deepening of the Economic and Monetary Union* (May 2017) and President Juncker's *State of the Union speech* (September 2017) put forward a number of steps and options to help build a vision of a deepened EMU by 2025.

Regarding the Banking Union in particular, the Commission also called for the completion of all parts of the Banking Union by 2018 in its October *Communication*. One guiding principle in the aim of achieving an even more integrated and better functioning financial system is of particular importance: the parallel progress on risk reduction and risk sharing. A lot has been achieved as regards the primer, and this should continue further in parallel with progress on risk sharing measures.

In the *Communication*, the Commission has presented ideas on how to move forward with a European Insurance Deposit Guarantee Scheme and reiterates the importance of the set-up of a common backstop to the Banking Union, calling for completion of the negotiations on both files in 2018. On the backstop, the Commission had identified a credit line from the European Stability Mechanism (ESM) as the most effective option in the *Reflection Paper*. Ongoing work on this will need to be articulated within the forthcoming package of proposals for the deepening of the EMU, which will include a proposal to transform the ESM into a European Monetary Fund.

Mr Marcello Messori, SEP Director

Mr Stefano Micossi, SEP Chairman

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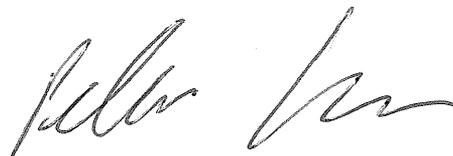
We understand and share some of your concerns regarding a sovereign debt restructuring mechanism and possible changes to the regulatory treatment of sovereign exposures (RTSE). They are both very sensitive and complex issues that need to be assessed in much more detail before any action is taken:

The analysis of different concepts of a public debt restructuring mechanism stands only at the beginning and further reflection is needed in this regard. In any case, the emphasis in our aims to deepen EMU should rather focus on tools that reduce the need for such a mechanism. Also, the introduction of Collective Action Clauses (CACs) on all euro area government securities with a maturity of more than one year in 2013, already allows for an efficient debt renegotiation in a formal model.

Changes to the regulatory treatment of sovereign exposures (RTSE) are an equally sensitive matter because of the impact on sovereign debt funding costs and wider financial stability. Furthermore, the international dimension needs to be considered in order to avoid regulatory arbitrage and competitive disadvantage. Therefore the Commission is committed to coordination at Basel level. Also, as presented in the *EMU deepening Reflection Paper*, the Commission is of the view that changes to the RTSE should be only considered in the longer-term and should only be taken ahead once specific preconditions are met in order to avoid any potential risk to financial stability. These preconditions would include: (1) the completion of the Banking Union with a functioning backstop to the Single Resolution Fund and a common deposit insurance and sufficient progress of the Capital Markets Union; as well as (2) the introduction of a suitable common European safe asset.

We would be happy to discuss the matter of EMU deepening further, if you deem this useful.

Kind regards,



Peter Grasmann  
Head of Unit