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EUROPEAN CROSS-BORDER COOPERATION TO SAFEGUARD STABILITY AND MANAGE CRISES IN THE FINANCIAL SECTOR

For the conference "Global Financial Crisis: Lessons for the Stability of the Financial Sector", Warsaw May 21, 2010. By Per Callesen[1]. Slightly revised August 28, 2010.

This note is devoted to cross-border cooperation for financial stability and crisis management. As illustrated by recent events, financial stability is closely intertwined with macroeconomic stability and fiscal policy. These are fundamental components

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1 All assessments and recommendations are made on a personal basis and do not necessarily represent the positions of institutions where the author has or has had work-relations. The assessments have benefitted from experience and discussions related to the current position as (from January 2010) Executive Director of the Nordic-Baltic constituency in the International Monetary Fund and previous positions as Deputy Permanent Secretary in the Danish Ministry of Finance and the chairing of working groups of the EU Economic and Financial Committee, and previously the Economic Policy Committee on Financial Stability arrangements (2006–2008), examinations of Stability and Convergence programs (EFC-Alternates) 2005–2009, and examinations of structural reform (Lisbon-strategy) 2000–2002. The note has benefitted from much inspiration and comments provided by current and previous colleagues, in particular Nathalie Tuxen from the Danish Ministry of Finance who played a key role in servicing the EFC Ad Hoc Working Group on Financial Stability Management 2006–08.

of the overall framework and also require strong cross-border cooperation. In addition, crisis management is closely linked to and dependent on both the quality of macroeconomic policy management and the built-in stability of the financial system in general. The presentation will therefore be grouped in four parts:

1) Policy-implications of the sovereign debt crisis.
2) The European financial crisis management undertaken in the autumn 2008 from the perspective of the EU 2008 (spring) Memorandum of Understanding (MoU).
3) Revisiting some of the controversies in preparing for the 2008 MoU from the perspective of the subsequent crisis management and policy innovation since then.
4) Selected broader considerations about building a stable financial system, including the need for automatic stabilizers.

The note discusses policy implications of the financial and fiscal crisis 2008–10 in the context of the policy framework until then, and does only fragmentally relate to ongoing work and proposals for financial and fiscal reform in the EU.

1. POLICY – IMPLICATIONS OF THE SOVEREIGN DEBT CRISIS

The sovereign debt crisis in Greece, and broader market concerns for the situation in a number of other high-deficit/high debt countries (in spite of Greece being in a class of its own in terms of fundamentals), has exposed that neither financial institutions nor sovereign states can be left alone to bear the consequences of their historical decisions. Financial markets are strongly intertwined, a lack of transparency on credit and counterparty risk create uncertainty, sovereign debt problems risk spilling over to banks, and financial markets are rightly or wrongly lumping problems in institutions and countries together. Contagion is a major concern. And we cannot have financial stability without sound and credible public finances.

This is not the fault of the euro. On the contrary, in the absence of the euro numerous additional problems would have been added to the current ones, including higher spreads triggered by currency concerns, unpredictable financial implications of currency crisis within the EU, competitive devaluations and continuously high inflation in affected countries.

It is not an economic crisis of the "euro". It is a crisis of sovereign debt and financial stability in the EU, including the euro-area. Which has triggered a sort of political crisis of policy cooperation in the EU and in particular the euro-area, as well as revealed flaws in the governance and implementation of fiscal policy coordination? Considerations are now[2] given to how cooperation has been

2 Including by the European Commission in "Reinforcing economic policy making", May 2010.

undertaken so far. It is rather the political discussions than the economic factors, which have raised concerns about the common currency.

But the stability provided by the euro allowed for large imbalances to build up stronger and for longer periods of time. Otherwise, reactions from financial markets would have enforced policy adjustment at an earlier stage. Why did policy cooperation not prevent this from happening and what kind of reforms are needed in European institutions? One answer is that there is a limit to how much other countries, even members of the EU and the euro area, can do to prevent a sovereign Member State from running unsustainable policies. However much more can be done, including in the following four areas:

a) **The role of the ECOFIN council in EU economic policy making should be strengthened substantially.** Fiscal policy coordination has little chance of success without fundamental changes in the way the Commission, all formations of the Council, and the European Council work. The key coordinating role in the 1990s of Finance Ministers embedded in consistent fiscal concerns has long been replaced by a decoupling between overall fiscal policy and its underlying decisions. On the one hand, fiscal surveillance is undertaken by Finance Ministers. On the other hand, spending decisions with formulation of sectoral and structural policies are made by many others. Inter alia in the context of the Lisbon strategy this has in part been build bottom up by other Council formations, taking into account the civil society and NGO's. In part it has also been build top down by the European Council adopting conclusions with general formulations on the fiscal situation, but specific formulations on sectoral policies, often implying larger spending. A simple unofficial[3] scrutiny of recommendations in the context of the Lisbon strategy revealed 164 objectives of which 66 have fiscal implications. Of those 66, 86 percent required more spending or lower taxes, 8 percent required less spending or higher taxes and 6 percent were fiscally neutral. It is not enough to call in Finance Ministers to manage crises, they need to be continuously in charge of the components which add up to overall fiscal policy. Macroeconomic policy mistakes are very costly, but unfortunately attention to this has eroded over time since the last time mistakes were made.

b) **Macroeconomic crisis management needs stronger sophistication and differentiation.** Few references are any longer made to the "European Economic Recovery Plan" launched in late 2008 with a call for a strong fiscal stimulus from all Member States and without sufficient attention to the significant number of countries vulnerable to financial market risk. The plan

3 By the Danish Ministry of Finance.

put (as intended) governments under pressure by triggering a competition to get appraisal for providing the largest stimulus. This pressure was backed by the media. In early 2009 the process of fiscal surveillance based on the Stability and Convergence programs had to check if countries expanded fiscal policy enough to comply with the recovery plan. In practice, differentiation between countries turned out better than expected, but not sufficiently strong. While a fiscal stimulus from countries with strong fundamentals was warranted, it is not unexpected that the combination of deep recession and fiscal stimulus in weaker economies would create trouble now.

c) **Fiscal policy surveillance and recommendations has to take current account deficits and inflation differentials into account.** Large current account deficits have – once again and irrespective of participation in the common currency – proven to be fundamental indicators of impending trouble. They reflect lax fiscal policy and/or unhealthy incentives and institutions in the private sector leading to overspending. Countries where the counterpart to government borrowing – directly or indirectly – is not their own private sector but foreign creditors are much more vulnerable. Competitiveness problems are the 2^{nd} round impact of not tuning demand management to potential output for a sustained period rather than the initial cause of problems. High inflation is another strong indicator of an unbalanced economy and imminent trouble. Neither large current account deficits nor high inflation are necessarily driven by lax fiscal policy. But in the absence of other policy adjustments tight fiscal policy can and should in any case work as a backstop policy to contain domestic demand. Building fiscal surpluses in good times would also create the fiscal buffer badly needed when unsustainable economic booms eventually stop. In regards to current account surplus countries with continuous high private financial savings, structural policy recommendations should focus on removing disincentives and barriers towards investment and consumption.

d) **The political follow up has to be stronger by reacting to clearly identified cases of unbalanced economies and unsustainable fiscal policy.** One may argue that more formal, public, and transparent exposure and discussion of such problems would work as political sanctions more effectively than informal discussions. Another issue is how effective peer pressure can be among a large group of countries that simultaneously interact politically in many areas. Also, a strong role should be taken by institutions such as the OECD and the IMF. In addition, economic sanctions, including by implementing already available sanctions, and selected suspension of voting rights should be used and/or considered.

2. THE EUROPEAN FINANCIAL CRISIS MANAGEMENT PUT INTO PERSPECTIVE

The 2008 MoU[4] was more limited in scope than the broad variety of factors contributing to the crisis and the many factors subsequently identified as weaknesses in the financial system. The focus was to prepare for a cross-border financial crisis, implicitly assuming that such crisis would affect a specific and limited number of institutions and countries. Although acknowledging that the distinction is difficult, it was considered possible to manage liquidity problems, before they develop into solvency problems, far better than it turned out in the crisis. The crisis which came in the second half of 2008 was different. It was global, it affected all countries and financial institutions at the same time, and escalating liquidity problems proved to be a main driving factor as deleveraging set in.

Expectations for the MoU were never that it would set a recipe to be followed in any crisis. The MoU was one of many components of the ongoing work with financial issues in the EU. It was clear when preparing for the MoU, that much work remained to develop appropriate tools for managing both single institutions and cross-border events. One of the most operational ingredients of the MoU was the establishment of cross-border stability groups by each grouping of countries sharing a specific concern. This did not get a chance to be implemented before the crisis unfolded. It was also clear that the MoU as such was hardly the first document to be sought for in a real crisis. Rather, the many discussions and preparations related to both the MoU and cross-border stability groups would help facilitate more efficient management of crisis.

Nevertheless it can be of interest to benchmark the eventual crisis management in the autumn of 2008 against the MoU and the discussions leading up to it. Among the more general conclusions in this context may be that[5]…

❖ In the initial phase of the crisis many assumed that it could be managed on a case-by-case basis, implying intervention where specific institutions faced trouble. After the first week of October, however, management of the crisis became systemic, based on general national schemes of extended and wide-ranging guarantees of deposits and wholesale funding as well as a general approach to recapitalization. Intervention in specific institutions became less pronounced as the need for it was overtaken by general measures. EU

[4] "Memorandum of Understanding on Cooperation Between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on Cross-Border Financial Crisis Situations", Brussels June 2008.

[5] Inspiration for the assessments in this section comes in part from "EFC-AHWG Report on a European Policy coordination framework for crisis prevention, management and resolution, including burden sharing arrangements", Brussels, March 2010 and "Crisis Management and Resolution for a European Banking System", IMF Working paper WO/10/70, March 2010.

cooperation on the general measures arguably worked fairly well, given the circumstances. However, this followed a short but intense period of unhealthy and uncoordinated launches of extended national guarantees.

- Protection of creditors and uninsured depositors went far beyond expectations in the MoU and this fact must give rise to more fundamental considerations for crisis prevention and management.
- Where intervention in specific institutions was undertaken it was not particularly cooperative; countries were fast to protect their isolated national interests and quick to ring-fence. There were, on the other hand, examples of fairly well coordinated bilateral solutions.
- Competition rules proved, not unexpectedly, to be a major issue and related discussions took up a large share of the time devoted to joint discussions of crisis management in the economic EU-institutions. The positive aspect of this was that competition policy prevented a much worse outcome of crisis management in terms of discrimination and negative spill-over. The difficult part was how time-consuming specific decisions were. Problems were by and large handled by the Commission increasing its flexibility on the issue.
- Contagion became an issue clearly beyond what was expected in the preparations for the MoU giving rise to concerns for wider sectors and smaller institutions. One implication of this contagion environment effect might have been an alleviation of the risk that large cross-border institutions would sell off or abandon subsidiaries, limit their funding, or close branches in host countries. That did not happen even in severely affected countries, probably in part due to reputational risk.

More specifically, it can be of interest to test the extent to which the main objectives of the 9 principles adopted as part of the MoU was adhered to:

Principle 1. The objective is to protect the stability ... in all countries involved and the EU as a whole ... The objective is not to prevent bank failures. *Yes*. This objective was clearly adhered to. However, crisis management went clearly beyond that as very few banks were allowed to fail, no doubt partly due to the fears for contagion and partly due to the sheer number of banks facing trouble at the same time.

Principle 2. ... Primacy will always be given to private sector solutions ... shareholders will not be bailed out and creditors and uninsured depositors should expect to face losses. *No*. Solutions were overwhelmingly public, or at least publically supported or facilitated, as few private institutions were in a position to take over others. Shareholders lost their investment in most cases of failed banks. But few banks were allowed to fail and, in particular, creditors and uninsured depositors were protected almost in full across the board.

Principle 3. The use of public money to resolve a crisis can never be taken for granted…Strict and uniform conditions shall be applied to any use of public money. ***Mainly yes***. The problem with this principle was that while it was sought to be applied, pretty often it was also shortly afterwards overtaken by events. It can be argued that the attempt to apply this principle – also called "constructive ambiguity" – in the crisis created disruptive uncertainty which illustrates a key dilemma in crisis resolution. Strict conditions were generally applied. Clearly, fundamental reform is needed to prevent such use of public money in future financial crises.

Principle 4. Managing a cross-border crisis is a matter of common concern for all Member States affected… authorities … will carefully cooperate and prepare in normal times as much as possible for sharing a potential fiscal burden. ***Yes and no***. The crisis was treated as a matter of common concern when it came to the general measures, although with a difficult beginning. However national interests prevailed in a number of cases and there had been no careful preparations for burden sharing, although also examples of fairly cooperative solutions.

Principle 5. Arrangements and tools for cross-border management will be designed flexibly… Authorities should be in a position to promptly assess the systemic nature of the crisis. ***Mainly yes***. Almost all possible remedies were used to address the crisis. A prompt assessment was difficult due to the special nature and global panic in the crisis. It might have been overestimated how much and how quickly guarantees would loosen up frozen liquidity markets. This freeze was probably as much due to a mutual deleveraging effect as concerns for counterparty risk.

Principle 6. Arrangements for crisis management and crisis resolution should be consistent with arrangements for supervision and crisis prevention. ***Yes***. Rescue operations seemed to strictly follow national responsibilities – possibly too much, since cooperation could have been better.

Principle 7. Full participation in management and resolution of a crisis will be ensured at an early stage for those Member States that may be affected. ***Probably not***. Many countries and authorities no doubt would have wished for better information and participation during the crisis, although it is not clear to what extent that would have been feasible.

Principle 8. Policy action … will preserve a level playing field… comply with EU competition and state aid rules. ***Mainly yes, but problematic***.

There were examples of discriminatory action taken, some were corrected later, and in general there was much confusion about the implication of state aid rules. However, the application of state aid rules was a key coordination factor for guarantees, capital injections and the purchase of bad assets. In its absence large distortion and destructive competition for aid could have taken place with negative spill-over.

Principle 9. The global dimension will be taken into account. *Yes*. The crisis was global and this fact was taken into account. There was much global cooperation in practice, although not enough.

The 9 principles are sufficiently overarching to serve also in part as a benchmark for management of the big 2008 crisis, although it was very different from the events perceived at the time of the MoU. The assessment is broadly positive but in particular any attempt to hold back public money to spur private sector solution and induce responsible behavior failed entirely and proved impossible.

3. REVISITING CONTROVERSIAL ISSUES FROM THE PREPARATION OF THE 2008 MOU

Work in the 2008 MoU was initiated in late 2006 with the establishment of an EFC Ad Hoc Working Group (AHWG) on financial stability management. Following intensive work throughout 2007 the report[6] was the basis for an ECOFIN discussion in September 2007 (the same weekend where the UK bank Northern Rock fell into trouble). The report dealt with a broad range of cross-border financial issues. It was in part analytical, and in part it provided recommendations for the road ahead. It included a roadmap for further work and proposed to extend the 2005 MoU. Work on the MoU was undertaken in the spring of 2008 and the MoU was signed by 118 authorities in 27 Member States in June 2008. It concentrated on practical cooperation arrangements.

Only in part due to their wide range and complexity many issues were controversial throughout the entire process of the AHWG. Members were extremely knowledgeable and came from different institutions (Ministries, Central Banks, supervisors and the Commission) and different countries. They had in many instances well argued opposing views – which were helpful to explore the full range of concerns and ways forward.

Among the three most contentious issues were:

6 "Developing EU Financial Stability Arrangements – Final report", Economic and Financial Committee, Bruxelles, September 2007.

How to manage moral hazard. It is a serious concern if financial institutions and their shareholders operate in the expectation that public intervention will cover or in part cover the loss of risky investments while they keep the gains if investments succeed. This may lead some to believe that preparations for crisis management should be done without even mentioning the possibility of public intervention. However, expectations for public intervention are rather formed on the basis of the perception of the financial stability framework and the occurrence of past intervention.

The AHWG took the view that it was better to specify strict circumstances for public intervention than to neglect the fact that such intervention takes place. Such strict circumstances were specified in the principles, cf. above, but as regards to their practical implementation much remained to be developed. Subsequently, the 2008 crisis has overtaken this discussion with massive public intervention at all levels of bank activities and, as mentioned, on the basis of a broad interpretation of what implies contagion-risks.

In addition to better prevention, focus has therefore rightly shifted to how public intervention takes place in practice and towards how dysfunctional financial institutions can be allowed to fail without triggering large contagion and financial crisis. Probably the two basic options to follow are a contribution system, where the sector in aggregate contributes financially ex ante to cover trouble from failed institutions, and a much better and comprehensive resolution regime with living wills to ensure an orderly transmission of activities from a failed institution to others. Such measures in addition to offering a fairer distribution of costs and smoother crisis management may also help reduce moral hazard to some extent.

Preparing for burden sharing. The need to prepare for burden sharing relates to the risk that timely intervention fails to achieve full effectiveness because authorities from different countries cannot agree on how to share the public sector costs or outlays. It may, for example, imply that an important branch in a host country disrupts the system. This could happen if home country authorities are not willing to sponsor the full burden of a bank rescue, or do not find host country contributions appropriate, as offered.

The unfolding of the crisis during 2008 and 2009 seems to indicate a lower than expected risk of disregarded institutions (very few were allowed to fail), possibly due to the perceived risk of reputation and contagion. However, burden sharing continues to be contentious. Initial discussion on burden sharing was at first related to the moral hazard problem, as the concept of burden sharing automatically implies that there is a possible public sector intervention. While the relevance of such fear of signaling has been overtaken by events, there is still strong resistance to any ex ante agreements on cost sharing; not to mention ideas of creating a fund at the EU-level to assist troubled cross-border institutions.

As agreed already in the principle 4 of the MoU, budgetary net costs are to be shared on the basis of the economic impact and supervisory powers. What is interesting is that this principle states that burdens actually are to be shared. On the other hand, the concept of supervisory powers is an effective caveat. Essentially, burden sharing is the issue following a longer chain of decisions such as regulation and supervision, a form of intervention and resolution strategy. The basic problem with ex ante burden sharing is that while lending money (providing liquidity) is less of a concern, countries or authorities are very reluctant to commit to co-share a real fiscal burden which eventually may turn out to be due to failures by authorities in another country. In particular, a rescue fund at the EU level would imply contributions from countries which do not bear any relation to a specific crisis involving possibly only a few Member States. In other words, there is a very high perceived "exchange rate" between money spent on behalf of taxpayers in their own country and money spent for other countries. Such decisions easily move to the highest political level.

One reading of the debate in Europe about both burden sharing in the financial sector – and in the fiscal sphere – is the strong wish to keep up the pressure for as much and as long as possible on authorities to bear the full responsibility of their actions. It can be rightfully argued that the absence of such pressure would create a moral hazard for authorities. While this is right and necessary, the implication is almost by definition that rescue operations are bound to happen quickly, late, and in a fairly chaotic environment.

The solution appears in European discussions to have advanced a bit since the MoU was signed, but the ideas are basically the same. Authorities should cooperate as much in advance in relation to any systemically important cross-border bank by exchanging information, taking preventive measures and discuss how burden sharing – should the need arise – can be managed in practice, including on which criteria. The most operational ideas center on indicators for the weight of the institution in countries affected and a qualitative assessment of responsibility of which the latter can probably not be settled in advance.

Setting up cross-border stability groups. The original controversies surrounding this issue can almost be detected from the labeling undertaken in 2008-drafting: "voluntary specific cooperation agreement", and the fact that the more in-depth practicalities of such possible groups were relocated to the annexes. One concern was to avoid a prescriptive arrangement, which would not match the need between specific countries or would run counter to their priorities. Another concern was to avoid heavy procedures and workload, including overlap with existing supervisory colleges, and – in part related to this – an institutional wish not to have other authorities (read Finance Ministries) interfering too much.

It is, however, clear that the need to prepare for burden sharing makes the participation of Finance Ministries necessary. They will shoulder the preparation for budgetary decisions in an actual crisis. In order to do that, they need the insight they can only get by cooperating in advance not only with other Finance Ministries on the possible issues, but also by working closely with supervisors and central banks who have in-depth knowledge about specific institutions and markets.

It is overall positive that work on setting up cross-border stability groups is proceeding[7]. Although preparations may appear well founded from the perspective of single countries, no authority should underestimate the institutional, cultural, and political differences arising from interacting with authorities in other countries in the absence of continuous dialogue and specific cooperation. Work in cross-border stability groups can ensure that authorities get to know the mindset of their counterparts much better in advance, provided they are based on formulating specific joint work in writing[8].

4. CONCLUDING REMARKS ON STABILITY IN THE FINANCIAL SYSTEM

Insufficient cross-border co-operation about specific financial institutions was arguable not the main problem in managing the 2008 financial crisis. That does not make further work and preparations to that end less important.

Much effort is also made in Europe and globally to improve supervision and the supervisory structure, including the establishment of the European Systemic Risk Board and the system of European Supervisors. This is important, and can no doubt help improve the prevention of future crises. There are however inherent problems in relying heavily on the capacity to undertake discretionary action towards the financial system (as there is in fiscal policy management).

The political system hardly ever accepts the notion of having good times – until such times are over. It is difficult politically to acknowledge the existence of good times, as it implies that even more progress cannot be expected in the near future. Often such a stance is supported by selected economists, and in particular the media, inventing terms such as “the new economy” to push a perception of “the end of the business cycle”. Supervisors will have to operate in that environment

7 ”EFC-AHWG Report on a European Policy coordination framework for crisis prevention, management and resolution, including burden sharing arrangements”, Economic and Financial Committee, March 2010.

8 The 8 Nordic and Baltic countries have signed a joint Memorandum of Understanding , which is probably the first of its kind in terms of establishing a cross-border stability group and providing specific criteria and procedures in preparing for possibly burden sharing, see http://www.danmarksnationalbank.dk/C1256BE9004F74D0/side/_Memorandum_of_Understanding_uk

and they will in good times be under pressure from the political system and the financial sector not to take away the punch-bowl. Also, supervisors may have their own doubts in a long recovery as one can never be sure about the future.

This is a strong argument for much better built-in automatic stabilizers in the financial system, such as countercyclical provisioning and capital buffers and adjusting accounting standards accordingly. In reality, risks are at their highest at the peak of the business cycle, where accounting standards and provisioning rules have traditionally suggested that they are at their lowest – as no problems have been detected yet. Such an approach is not only bad for financial stability, but it also does not inform investors about the underlying profitability and risk undertaken by investments.

The 2008 crisis has also exposed the harsh dilemma between increasing competition in the financial sector and safeguarding financial stability. Rather than regulation, stronger competition and transparency are the optimal answer to a sector having wages – and in good times – profitability at levels which one would expect only in protected monopolies. But strong competition increases the risk of having failed institutions. Establishing a system which can allow such failure to happen is therefore important.

One should not forget that the 2008 crisis was only in part due to failures of the financial system. The crisis was in major part due to failure in macroeconomic management of the boom and bubbles which preceded it. Monetary policy was too lax and, not least, fiscal policy was very lax as many countries ran fairly high deficits even at the peak of the boom, where budgets should have been in substantial surplus to dampen activity and establish buffers towards future downturns.

The 2008-2010 real economic crisis has indeed been deep, but benchmarking the slow-down against a continued path of the preceding decade exaggerates the output loss. Rather, economies took an unhealthy sudden shift from a position much above trend to one clearly below trend. A shift in that direction was unavoidable, but it could have been much smoother had macroeconomic policies been driven better in good times and had the financial sector not proven to embed so many deficiencies.

Finally, there is a strong real economic need to bring the financial sector back in a position of good shape. Arguably bringing back a bit of the features driving the previous bubble is needed, especially in countries with large private sector financial savings, and of course, provided it can be managed well. Almost every country now needs a long period of large fiscal consolidation. Including necessary pension reform, typical advanced countries will have to take discretionary fiscal action in the order of 5 to 15 percent of GDP.

While the slump on private investment and consumption is no doubt in part due to a psychological overreaction, a strong impulse from the financial sector is also needed to bring back private spending as the necessary driver of recovery.

Economies will not be rebalanced or grow appropriately if the private sector in advanced countries continues to strive for large financial savings surpluses, while the public sector has to reduce its deficits very substantially. In addition to bringing back a financial sector in good shape, this is a challenge for monetary policy in general. While countries with high fiscal deficits should be in the frontline making strong fiscal consolidation, countries with high private sector savings surpluses should assess and reform incentives and institutions which hold back private spending, such as barriers in the financial system, in the tax system, in welfare systems and in housing markets.

Assessment	**Primary Principle**	**Secondary Principle**
1. Yes, but	Protect stability in all countries	Not prevent bank failures
2. No	Primacy to private sector solutions	Creditors to expect losses
3. Mainly Yes	Public money, never taken for granted	Only used strictly
4. Yes and No	Common concerns for all MS	Coop. in normal times
5. Mainly Yes	Arrangements & tools designed flexibly	Shared assessments
6. Yes	Consistent with supervision & prevention	
7. Probably No	Full participation ensured for affected MS	
8. Mainly Yes	Preserve level playing field/state aid rules	
9. Yes	Global dimension taken into account	