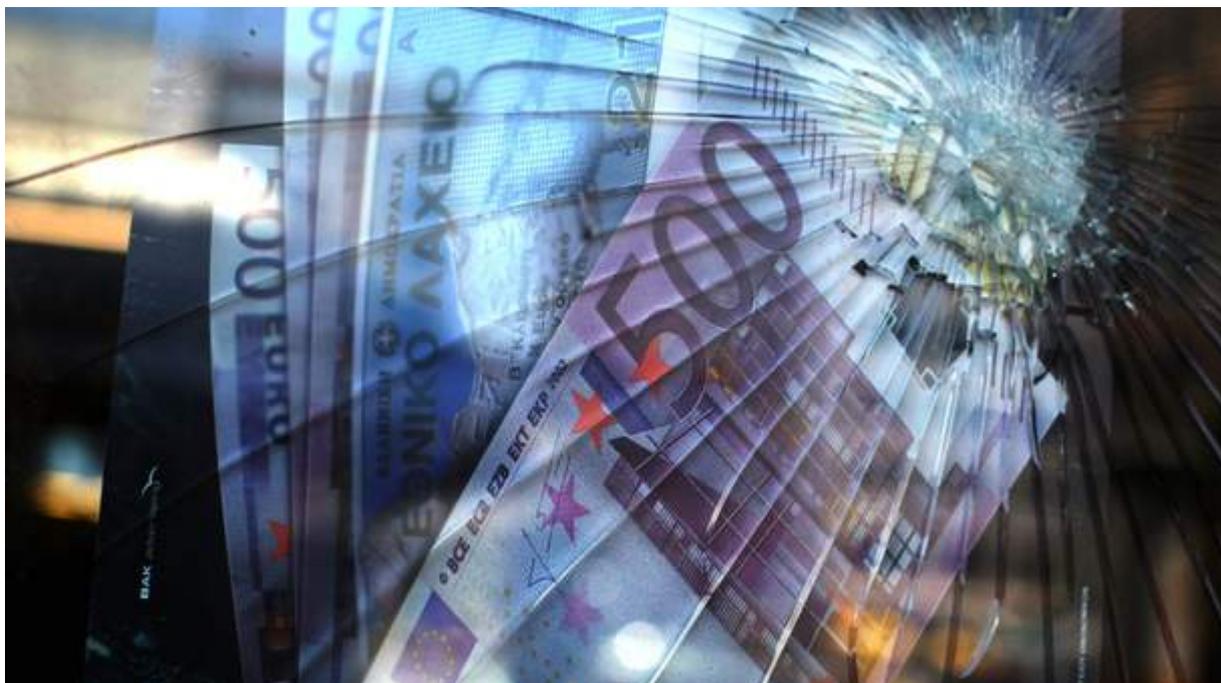


Brussels: Deal On ECB Banking Supervision



The deal reached just before dawn in Brussels follows months of negotiations and will be put before European Union leaders later on Thursday.

The political agreement will give the European Central bank oversight for banks in the 17 EU countries that use the Euro and any other country in the union that wants to opt in.

It will give the ECB sweeping powers and pave the way for Europe's bailout fund to give direct aid to ailing banks - a measure seen as vital to helping the Eurozone break free of its debt crisis.

"Piece by piece, brick by brick, the banking union will be built on this first fundamental step today," said EU Commissioner Michel Barnier.

The EU had promised markets to have an outline deal by New Year, and the finance ministers delivered - after yet another all-night emergency session.

"We stick to what we promised," said German Finance Minister Wolfgang Schaeuble. "Painstakingly, we advance the cause of Europe."

But markets seemed to largely shrug off the deal, perhaps because the broad strokes have been known for some time.

Under the deal, banks with more than €30bn (£23bn) in assets or those that represent 20% of gross domestic product of their national economies will be placed under the direct oversight of the European Central Bank.

The ECB can also decide to supervise any other bank it wants when it gains supervisory powers - which could be in place by 2014.

The deal marks a compromise for France and Germany, who had been at loggerheads on the structure of banking union.

EU leaders believe this first step towards banking union can be put in place without having to change current treaties - but the UK's House of Lords EU Committee has said it does not believe effective banking union can happen without new agreements.

Other issues are on the agenda at the summit of EU leaders, including how to enforce fiscal discipline in the Euro area and a push for implementation of the so-called "two-pack", which would involve Eurozone governments showing their budgets to EU officials before submitting them to their own parliaments.

So-called "out" countries which have retained their currencies, including the UK, are concerned that any move towards tightening the inner core could distort the single market.

David Cameron and the Swedish PM Fredrik Reinfeldt, want to ensure they retain their voice at the top table on financial matters and that the London-based European Banking Authority is not usurped by the new proposals.

A senior EU official has also indicated that Britain wants to ensure there is not a rush to amend the EU treaties, which is a long and often divisive process.

Any significant power-shift from London to Brussels could automatically trigger a referendum. The UK government knows a vote on Britain's involvement with the EU is perhaps unavoidable, but would rather wait until the next parliament.

The issue of the UK's budget spat with the European Union will not be discussed - that is waiting for another summit in the New Year.