

Secretariat



NOTE CONCERNING DECISIONS TO BE TAKEN WITH A VIEW TO  
IMPLEMENTING THE NEW EUROPEAN MONETARY SYSTEM

With a view to the implementation of the new European monetary system, which the European Council decided at its recent meeting in Brussels will be set up on 1st January 1979, the central banks will have to amend a number of documents that are currently in force. Some of the documents to be revised are fundamental texts governing the rights and obligations of the participants in the system while others relate solely to provisions for implementing these fundamental texts.

It has been agreed that the replacement of the EMUA by the ECU and the extension of the duties of the EMCF will be effected by the adoption on 18th December 1978 of two proposed regulations submitted by the Commission to the Council on 27th October 1978.

I. FUNDAMENTAL TEXTS

The Secretariat's proposals for adapting the fundamental texts are based on the Resolution of the European Council of 5th December 1978, in which the central banks of the EEC were requested to amend:

- their Agreement of 10th April 1972,
- the regulations governing short-term monetary support.

1. The Agreement of 10th April 1972 on the narrowing of the margins of fluctuation between the currencies of the Member States must be amended by means of an instrument with regard to the following provisions:

- the duration of initial financing,
- possibly the remuneration of these operations,

- the settlement procedures, bearing in mind the rôle of the ECU as an instrument of settlement,
- the requirement for central banks participating in the exchange rate mechanism, and the possibility in the case of those not participating in it, to hold 20 per cent. of their gold assets and 20 per cent. of their dollar reserves on deposit with the EMCF on conditions to be determined by the latter.

2. The provisions of the Agreement setting up a system of short-term monetary support among the central banks of the EEC that relate to:

- the amounts of the quotas and rallonges,
- the maximum duration of support

must be amended by means of an instrument duly signed by the central banks.

Furthermore, it would be useful to take the opportunity afforded by amendment of the Agreement setting up the system of short-term monetary support to clear up a minor contradiction in the rules at present in force. Article IV, paragraph 2, of the Agreement states that "The monetary support shall be financed by each participating Central Bank other than the beneficiary Central Bank proportionately to and within the limits of its quota." In 1973, on the other hand, the central banks of the EEC agreed that if monetary support were granted as a prolongation of a very short-term financing operation the creditor institution under the latter mechanism would prolong the financing for an amount up to the equivalent of its quota\* under the short-term monetary support arrangements (cf. the minutes of the seventieth meeting of the Committee of Governors of 14th May 1973, page 5, item III, and Report No. 13 of 8th May 1973 of the Group of Experts under the chairmanship of M. Théron, pages 1 and 2). It would therefore be advisable to ascertain whether this rule, which was adopted before the facility of automatic renewal of very short-term financing was introduced in 1975, should remain in force and, if so, to confirm it by making an appropriate annotation in the text of the Agreement setting up the system of short-term monetary support.

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\* At that time no distinction was made between debtor and creditor quotas; this distinction was not introduced until March 1974.

If the Governors agree that the drawing rights and financing obligations of the central banks not participating in the exchange rate mechanism shall continue to be determined by their present debtor and creditor quotas, this point should be formally established by including in the minutes of the Committee of Governors a note to that effect, which would then be appended to and form an integral part of the instrument concerning short-term monetary support.

3. The Resolution of the European Council requests the Council of Finance Ministers to discuss the increase in medium-term financial assistance and to take a decision on this on 18th December 1978. The increase must come into effect by 30th June 1979. The resolution states that "in the meantime, countries which still need national legislation are expected to make their extended medium-term quotas available by an interim financing agreement of the central banks concerned". The Committee of Governors should therefore examine whether such an interim agreement should be drawn up.

4. The Board of Governors of the EMCF has to take the following decisions:

- Two decisions whereby the EMCF would adopt the provisions laid down in the two instruments mentioned in points 1 and 2 above as rules for its management of the mechanisms in question; the first of these decisions should state that as a transitional measure the claims and liabilities in EMUAs outstanding when the European monetary system comes into operation would continue to be subject to the present provisions of the Basle Agreement.
- Another decision governing the arrangements for the issue of ECUs against the deposit of reserve assets, determining in particular:
  - . the form in which reserve assets are to be contributed,
  - . the rate for converting these reserve assets into ECUs,
  - . the rate of interest to be paid on ECU assets,
  - . the use of ECU assets,
  - . the periodic adjustment of ECU assets.
- Finally, a decision whereby the Board of Governors would establish rules for the management of the reserves that will be contributed to the EMCF.

5. Another point is whether the time has not now come to annul the provisions relating to settlements in gold, which have already been suspended. If so, the instrument relating to the Basle Agreement should be annotated accordingly and, in addition, the Board of Governors should cancel its Decision No. 2 of 28th June 1973.

6. Another question that remains to be settled concerns the form in which the provisions relating to

- the method for calculating the subsequent values of the ECU and
- the working of the indicator of divergence

are to be ratified.

It does not seem necessary to embody these provisions, which are described in Report No. 43 of the Group of Experts under the chairmanship of M. Heyvaert, in a formal agreement; instead, they should be noted in the minutes of the Committee of Governors.

## II. TEXTS RELATING TO IMPLEMENTING PROVISIONS

1. In order to implement the fundamental texts mentioned above, the Board of Governors of the EMCF will have to take the necessary measures in the form of directives to the Agent. It will therefore be advisable:

- to amend the First Directive of 14th May 1973 to the Agent to take account of the new provisions concerning financing and the settlement of balances arising from interventions in Community currencies;
- to cancel the Second Directive of 28th June 1973; the first part of this directive, dealing with gold settlements, could be annulled (see the point considered above), while the second part, which relates to the implementation of short-term monetary support as an extension of very short-term financing, should be amended to suit the new situation and incorporated in the First Directive,
- to issue a Directive:
  - . defining the technical tasks entrusted to the Agent in connection with the creation, use and remuneration of ECU assets,
  - . giving the necessary instructions with regard to the management of the reserves held by the EMCF.

2. In connection with the management of the EMCF's reserves the BIS will have to be authorised to open accounts in the name of the EMCF and to deal with the funds and securities of the EMCF placed on these. Authorisation could be given in the form of a decision of the Board of Governors of the EMCF or it could be granted to the BIS by the Chairman of the Board of Governors. In this case, however, the powers of the Chairman of the Board of Governors would have to be widened by means of a decision of the Board of Governors, as at present the Chairman possesses such powers only in connection with the management of Community loans.

Should part of the dollar reserves of the EMCF be placed with the BIS upon the instructions of the Board of Governors, it would be necessary to authorise the BIS to carry out operations with itself in the name of the EMCF.

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The Secretariat proposes that it should prepare the necessary draft texts in conjunction with the appropriate departments of the Agent; the texts would be finally vetted by the Group of Experts under the chairmanship of M. Heyvaert and would then have to be adopted by the central banks of the EEC and by the Board of Governors of the EMCF before the European monetary system came into operation.