

OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation from the Banque de France under Article 109f (6) of the Treaty establishing the European Community and Article 5.3 of the Statute of the EMI; the consultation concerns a draft Decision of the Monetary Policy Council of the Banque de France amending the present Regulation of Money Market Interventions (“the Draft”).

CON/95/13

- 1 The present consultation was initiated on 15th August 1995 by the Banque de France, under Article 1.1, second indent, of Council Decision 93/717/EC of 22nd November 1993.
- 2 The Draft is purported to amend the present regulation of money market interventions of the Banque de France, namely the regulation dated 19.7.1973 as amended in 1985, 1987, 1989 and 1993. The principal objectives of the Draft are (i) to confirm the exclusive responsibility of the Monetary Policy Council (MPC) in deciding interest rates in repurchase operations (“repos”), short-term secured loans, and auctions for loans and repos; (ii) implementation of Law dated 4.8.1993 authorizing the Banque de France to issue interest-bearing bonds; (iii) adaptation of money market regulations to Law dated 31.12.1993 defining the legal status of repo transactions; (iv) to increase the maturity term of loans eligible as collateral; and (v) suppression of 7-years time-limit for maturities of bonds eligible as collateral. Other amendments relate to the clarification of former regulations and to the consistency of such regulations with respect to recent legislative developments.
- 3 From a legal perspective, the EMI welcomes the clarification of some of the instruments used by the Banque de France in its money market interventions. The Draft explicitly admits reverse repos, and clearly distinguishes between repos, collateralised loans, and discounts. The Draft is fully consistent with the provisions of the ESCB Statute and in line with present EMI preparatory work concerning the use of open-market operations and standing facilities by the ESCB in Stage Three of EMU.
- 4 The suppression of the seven-year limit for bonds eligible as collateral has the effect of broadening the range of assets eligible as collateral, therefore increasing the number of assets available for mobilisation and pledging under the aegis of the ESCB. The EMI welcomes such approach, fully in line with current preparatory work on this area.

- 5 The Draft permits Banque de France to draw liquidity from the market by way of issuing and selling interest-bearing bonds. The range of instruments available to decrease market liquidity is thus broadened, responds to the principle of market-orientation, and is fully in line with the criteria of the EMI. From a legal viewpoint it is highly probable that such bonds might not qualify as eligible paper for pledging, but may nevertheless be the subject of repo agreements.
- 6 The Draft broadens the eligibility of counterparties for repos, discounts, collateralised loans and borrowings, by deleting the former requirement of admittance by a Governor resolution. Institutions admitted to the interbank market are eligible as counterparties for such transactions. The EMI welcomes a broadening of the range of eligible counterparties.
- 7 The current practice of the MPC determining interest rates for collateralised loans and repos, and the fixing of conditions for calls for tender of repos and collateralised loans, is legally recognised in the Draft under consideration. The present regulation vests such responsibility on the Governor. This institutional reallocation of responsibilities is thus the explicit recognition of a normal practice in a legal text and has no objection from the EMI. The Draft does not specify the governing body responsible for the determination of rates in discount operations; however, the fixing of the discount rates is no longer relevant for present monetary policy and, in the absence of precision, it is assumed that the fixing of discount rates would be within the responsibilities of the MPC according to article 7 of the Law of August 4th 1993 on the Banque de France; however, legal clarity would be served if the responsible governing body was specified in the Draft.
- 8 The Draft, as a whole, introduces changes in the present regulation of money market interventions which are consistent with the main lines of thought of the EMI in its preparatory work for Stage Three, and thus merits a favourable assessment. The range of possible intervention techniques to be prepared for the ESCB might be, however, broader and might merit in due time supplementary regulations.
- 9 The EMI has not yet finalized the preparatory work on the instruments and procedures for money market interventions; the present opinion is given in accordance with the present status of preparatory work. The final framework in this area will be submitted for decision to the ECB at the date of its establishment.

Frankfurt, 12th October 1995.