

Committee of Alternates

OUTLINE OF AN AGREEMENT ON THE EUROPEAN MONETARY SYSTEM



I. INTERVENTION MECHANISM

1. Fixing the ECU central rates

The ECU central rates will be fixed by mutual agreement among all member countries of the EEC. The countries participating in the intervention mechanism will announce their ECU central rates as well as their bilateral central rates and the corresponding intervention limits.

Adjustments to the ECU central rates will be effected by mutual agreement in line with the procedure referred to in the Resolution of the European Council of 5th December 1978.

2. Method of calculating subsequent ECU values in each currency

Such values will be calculated in accordance with the techniques agreed on by the experts (see Report No. 43, Section I, 2).

3. Rules for intervention

In principle, interventions will be carried out in the participating currencies and will be compulsory whenever the intervention points defined by the intervention margins are reached.

4. Functioning of the indicator of divergence

A basket ECU formula will be used as an indicator of divergences between Community currencies. A "divergence threshold" will be fixed for each currency at 75 per cent. of the maximum range of divergence. This threshold will be calculated on a uniform basis, taking into account the weights assigned to the various currencies and their margins of fluctuation.

An identical corrective procedure, such as that proposed by the experts (see Report No. 42, Section II, 1 and 2), will be applied when one or more currencies adopt wider margins, do not participate in the mechanism or withdraw from it temporarily.

## II. VERY SHORT-TERM FINANCING

### 1. Unlimited amount principle

For purposes of the intervention provided for in the European Council's Resolution of 5th December 1978 on the establishment of the European Monetary System (EMS) and related matters, very short-term credit facilities ("very short-term financing") for an unlimited period shall be granted. The value date of the very short-term financing operations shall be the same as the value date of the interventions on the market.

### 2. Booking of very short-term financing operations

(a) Very short-term financing operations shall be entered in ECUs in the books of the European Monetary Co-operation Fund.

(b) The currencies involved in a very short-term financing operation shall be converted into ECUs at the daily rates for the ECU as established by the Commission staff.

### 3. Remuneration

The rate of interest to be applied to ECU balances arising from very short-term operations shall be fixed by the Board of Governors of the EMCF on the basis  $\left[ \text{of the simple arithmetic mean of the discount rates of the central banks participating in the exchange rate mechanism} \right] \left[ \text{of the arithmetic mean of the discount rates of all the EEC central banks, weighted according to the weights of their currencies in the ECU basket} \right]$ .

### 4. Initial settlement date

The initial settlement date of very short-term financing operations shall be  $\left[ 45 \text{ days} \right]$  after the last working day of the month in which their value date fell.

5. Automatic renewal
6. Renewal by mutual agreement
7. Order of reimbursement of claims
8. Automatic offsetting
9. Advance repayment

The provisions concerning items 5 to 9 shall be those of the Agreement of 8th July 1975 amending the provisions of the Agreement of 10th April 1972 setting up a system for the narrowing of margins of fluctuation between the currencies of the European Economic Community.

10. Means of settlement

When the financing operations fall due for repayment the debtor central bank may settle its debt with assets in the currency of a creditor of the EMCF /and, as regards any balance,

- up to 50 per cent. in ECUs
- the remainder in assets denominated in SDRs and in currencies in a proportion based on the composition of its own reserves.]

One central bank would like it to be possible for all debts to be settled in ECUs and, if an arrangement for settlement in reserve assets were to be adopted by way of compromise, would like gold assets to be included in the calculation of the composition of the debtor's reserves, with the debtor having the option of settling in gold.

Settlement in full or in part by means other than those indicated above may be agreed upon between the creditor and debtor central banks.

III. CREATION OF ECU ASSETS AGAINST CONTRIBUTIONS OF GOLD AND DOLLARS

1. Swap operations

The contributions of gold and dollars shall be made in the form of three-month renewable swaps against ECUs.

2. Conversion rates

The rates to be applied for the conversion of dollars shall be the market rates, and those for gold 75 per cent. of the average of the prices observed during the previous three months. [Some central banks are in favour of adopting the average of those prices without any reduction.]

3. Calculation of contributions

The contributions of each central bank shall represent 20 per cent. of its gold stock and 20 per cent. of its gross assets in dollars as reported by the central banks under the provisions laid down by the Board of Governors of the EMCF.

4. Adjustment of the contributions

At the end of each quarter the swaps of ECUs against gold and dollars shall be adjusted, if necessary, so as to ensure, on the one hand, that each central bank has deposited at least 20 per cent. of its gold and dollar reserves with the EMCF and, on the other hand, to take account of value changes that may have occurred since the first contribution or the previous adjustment.

5. Delivery arrangements

Arrangements for delivery shall be established by the Board of Governors of the EMCF, taking into account:

- the advisability of avoiding any duplication of reserves in the balance sheets of the central banks,
- the respective central banks' choice between managing the reserves themselves and having them managed by the EMCF,
- the legal and accounting possibilities, which may vary from one central bank to another,
- the problem of the legal personality and fiscal status of the EMCF vis-à-vis third countries,
- the problem of remuneration.

6. Use of ECU assets

(a) ECU assets shall be used as an instrument of settlement in accordance with the conditions laid down for the settlement of very short-term financing operations.

(b) Apart from this use, ECU assets may be transferred from one central bank to another by mutual agreement.

(c) Between two periodic adjustments of reserve contributions ECU assets may be converted into US dollars by winding up in advance of maturity a swap of ECUs against dollars of the type referred to under III, 1 above, if the central bank applying to do so has suffered losses of US dollars.

7. Remuneration of assets in ECUs

Assets in ECUs shall be remunerated on a net basis. The rate of interest shall be fixed by the Board of Governors of the European Monetary Co-operation Fund on the basis of the arithmetic mean of the discount rates of all the EEC central banks, weighted according to the weights of their currencies in the ECU basket.