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Confidential

Draft

MINUTES
OF THE 259th MEETING OF THE COMMITTEE OF GOVERNORS
OF THE CENTRAL BANKS OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON MONDAY, 28th OCTOBER 1991 AT 10.00 a.m.

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I. Discussion and finalisation of:

- the draft Statute of the European Monetary Institute;
- draft Chapter IX of the Statute of the ESCB and of the ECB.

1. Draft Statute of the European Monetary Institute

(a) Introductory remarks by the Chairman

The Chairman reminded the Committee that the mandate received by the Presidency requested the Committee to send a draft Statute of the EMI to the Presidency before the end of this month and that the Dutch Presidency would publish a proposal regarding the EMI tonight. The Committee should, therefore, finish its work today.

The Committee of Alternates had made a great effort in trying to pave the way for a compromise on a common text, although full agreement had not been achieved. The pending issues could be summarised as falling into two major fields. One concerned the tasks of the EMI which broadly consisted of: firstly, coordinating monetary policies, along the same lines as in the Committee of Governors; secondly, preparing the entry into Stage Three and thirdly, performing some banking functions connected with the takeover of the European Monetary Cooperation Fund, but which could also be extended over time to other fields. The second issue concerned the structure of the EMI where the Committee should try to find a compromise between two different views. One view was that the structure of the EMI should not be fundamentally different from the one of the present Committee, while the other view favoured the appointment of two outside members - the President and the Vice President - who would be at the helm of the work of the EMI. Between those views, a compromise could consist in the appointment of an external Managing Director who, albeit having no right to vote on the Council, would not only be responsible for the daily management of the EMI but could also be a driving force in the preparation of Stage Three.

(b) Statement by Mr. Rey, Chairman, Committee of Alternates

Mr. Rey emphasised the quality of the preparatory work which had been done by the Secretariat and recalled that the Statute of the EMI dwelled on three basic reference documents: i) the Council Decision of 1990 redefining the mandate of the Committee of Governors; ii) the Conclusions of the Presidency of the European Council in Rome which had mentioned two additional tasks for the new monetary Institution, namely the technical

preparation of Stage Three and the oversight of the development of the ecu; iii) the Statute of the ESCB and of the ECB which the Committee had adopted earlier.

The first major controversial area related to the question of whether the EMI should have some sort of financial capacity beyond that needed to take over the functions of the EMCF. One aspect in this respect was the question of whether the EMI should be allowed to engage in banking activities by managing foreign exchange reserves voluntarily handed over by some central banks and to act as fiscal agent for the Community. The subject of controversy here was whether such activities should be subject to unanimous agreement or to a less stringent majority requirement. The main argument given in favour of carrying out banking functions was that the EMI would have the advantage of gaining practical experience, which might be useful at a later stage for the ECB. The argument against such activities was that the EMI would be involved in market operations which might be misinterpreted by markets as the new monetary Institution having a role in exchange rate policies. The second aspect related to the financial capacity was whether the EMI should be endowed with capital to generate the income necessary to finance its expenditures or whether expenditures should be merely financed by contributions by central banks. The two alternatives, however, were not mutually exclusive to the extent that they could be sequential i.e. the calling of capital would be subject to a decision which the Council of the EMI might take in the future.

The other major point of controversy related to the administration of the EMI. The two alternatives outlined by the Chairman stressed different aspects of the work of the EMI: one emphasising the national responsibility for the conduct of monetary policy; the other stressing the preparation for Stage Three. One possible compromise would consist in leaving the decision-making clearly in the hands of central bank Governors, while at the same time, upgrading the permanent character of the institution by the appointment of a Managing Director, who would sit on the Council of the EMI, but would not vote. The question whether he would chair the Council meetings had been left open. The Managing Director could be appointed by the Governors or by the Council of the European Communities on the proposal of the Governors. In any case, the Managing Director would act as Chief of Staff, would be responsible for the day-to-day management and, could preside over a perhaps permanent Committee of senior representatives of central banks.

(c) Discussion by the Committee

Mr. Leigh Pemberton held the view that the EMI should not perform any function which would prejudice the integrity of national monetary responsibilities. Its activities should be confined to promoting coordination of monetary policies, preparing Stage Three and to the banking functions presently performed by the EMCF. The EMI should not have an externally appointed President and Vice-President; however, Mr. Leigh Pemberton could accept an outside General Manager (rather than a Managing Director) who would not be a member of the Council of the EMI, but, would take part in the Council's deliberations. He could also preside over a standing Committee which would have as its tasks the preparation of the ECB; however, there should be no binding decisions.

Mr. Tavares-Moreira favoured a compromise with respect to both the wording of the Article defining the role of the EMI in the ecu market and the Managing Director solution. He thought the EMI should have its own capital base.

Mr. Duisenberg shared the views expressed by Mr. Leigh-Pemberton.

Mr. Jaans said that the EMI should have its own capital and a Managing Director who would also be empowered to convene meetings and to set the agenda.

Mr. Ciampi recalled that, in the Delors Report, Stage Two of EMU had been envisaged as being devoted to the active preparation for the move to the final phase. Consequently, the EMI should be endowed with all the necessary powers to carry out this preparatory task effectively. Unanimity in decision-making would necessarily undermine the effectiveness of the preparatory role of the EMI and might produce undesirable results as the veto power of each central bank would tend to give greater weight to national considerations and thus, block developments beneficial to the Community as a whole. Furthermore, if the EMI did not possess the powers needed to perform its functions, the move to the final phase could be delayed owing to the insufficient technical preparations enacted during Stage Two. Given that the final responsibility for monetary policy during Stage Two rested in national hands, it would be acceptable if some of the guidelines issued by the EMI acquired a legally binding force only from the beginning of Stage Three.

Mr. Doyle agreed with the views expressed by Mr. Leigh Pemberton. One could envisage the possibility of a progressive transfer of competences

to the EMI except for monetary policy decisions. These latter functions could not be gradually handed over in to a new institution but only on a precise date and after adequate institutional preparation. The Managing Director solution could constitute a reasonable compromise, provided he had no right to vote.

Mr. de Larosière shared Mr. Ciampi's view. While monetary policy responsibilities should remain with the central banks, the EMI should play a very active role in the preparation for Stage Three, thereby becoming a qualitatively different institution from the present Committee of Governors. The Managing Director solution could be acceptable only if the Managing Director presided over the meetings of the Council of the EMI. The Managing Director should be appointed by the Council of Ministers on a proposal from the Governors but an appointment by the Governors themselves would also be acceptable.

Mr. Rubio agreed with Mr. Ciampi's and Mr. Larosière's views and stressed the need for the Managing Director to act as Chairman of the Council of the EMI.

Mr. Chalikias could agree with the Managing Director compromise, but found it unnecessary to state in the Statute that the Managing Director should preside over the Council of the EMI; the Council of the EMI itself could decide this at a later stage.

Mr. Tietmeyer presented Mr. Schlesinger's apologies for being unable to attend the meeting. He agreed with the views expressed by Mr. Leigh Pemberton and Mr. Duisenberg. The question on the capital endowment of the EMI could be solved along the compromise lines suggested by the Chairman of the Committee of Alternates. The Managing Director compromise could be acceptable only under the condition that the Managing Director would neither vote nor chair the meetings of the EMI Council. The Managing Director should be appointed by the Council of Ministers on a unanimous proposal from the Governors.

Mr. Verplaetse said that he could agree with either the EMI having a small capital or it being financed by central banks' contributions. As regards the administrative structure, he would prefer no appointment of outside members, but he could go along with the Managing Director compromise provided that he did not act as a Chairman of the EMI Council, although, he could have the right to submit proposals for discussion.

(d) Article by Article examination of the Statute

(see attached draft dated 22nd October 1991)

Articles 1,3,8,11,12,13,17,18,19,20,21 and 22 were approved in their current wording. The discussions focused on the following Articles:

Article 2

Following a suggestion made by Mr. Ciampi on the second indent, the term "technical" was deleted (this also applied to Articles 4.3 and 7.1). After the term "creation" the terms "of the European System of central banks" were added.

Article 4.1

Mr. Ciampi suggested adding a sentence which would enable the EMI to set general monetary policy orientation for the Community. After a brief discussion, the Committee agreed that no amendment to the text was necessary as the current wording already conveyed the substance of Mr. Ciampi's suggestion.

Article 4.4

The Committee disagreed on the degree of involvement of the EMI in the ecu market. Some members considered that the EMI should "promote" the ecu, while others felt that such an active role could imply a de facto discrimination against national currencies. No compromise could be reached and the Committee adopted the following wording; "The EMI shall oversee [and promote] the development of the ecu, including the smooth functioning of the ecu clearing system".

Article 5

Mr. Tietmeyer said that he could withdraw the reservation on the part of the Bundesbank regarding the consultative role for the EMI in the prudential and financial field (Article 5.3), if agreement on all other points was reached.

Article 6

The Committee agreed on the current wording of the Article except for Article 6.4 which would enable the possibility the EMI to manage on the owner's behalf, foreign reserves transferred to it by EC central banks. Some members felt that the EMI should perform this task only if a unanimous decision was taken by the Council of the EMI. Indeed, instances might occur where markets misinterpreted the operations of the EMI as stemming from an authority charged with powers in the monetary field. Other members found the unanimity requirement too stringent, given that the operations would be carried on behalf, and at the risk, of the central banks transferring reserves on a voluntary basis; furthermore, these operations would provide a useful training opportunity in preparation of Stage Three. The two views could not be bridged and the term "unanimous" (between brackets) was added.

Article 7

Following a proposal by Mr. Larosière, the text of Article 7.1 was expanded to specify that the report in question would include an assessment of the progress towards convergence.

Article 8

While commenting on this Article, which itself was not disputed, Mr. Duisenberg suggested that the draft Statute of the EMI should be preceded by a recital making reference to the political commitment of strengthening the autonomy of national central banks during Stage Two. This proposal, however, was not accepted by the Committee, as it was generally felt that such a recital would interfere with the political negotiations on this issue which are currently in progress.

Article 9

This Article was the object of intense discussions. The proponents of the alternative providing for the appointment of an external President and Vice-President found that the Managing Director compromise proposed by the Chairman of the Committee of Alternates could be acceptable only if the Managing Director were to chair the meetings of the Council of the EMI. This condition however, was unacceptable to those who favoured the alternative providing for the appointment of no external member of the Council of the EMI. In an effort to bridge the two positions, the Chairman proposed a compromise whereby the Managing Director would be the Vice-President of the EMI who would chair the meeting in the absence of the President elected from among the Governors. Furthermore, the Managing

Director would chair a group of permanent representatives of national central banks which would prepare the transition to Stage Three of EMU, would be empowered to express his opinion in public about these items and would be the Chief of Staff of the EMI. The Managing Director would be appointed by the Council of Ministers on a proposal from a committee comprising three members appointed by the Council of Ministers and three members appointed by the Governors.

This compromise proposal of the Chairman did not meet with the agreement of the Committee and it was decided to maintain the current text providing for two alternative versions of Article 9 and to specify in the commentary that a majority of Governors favoured the solution with no external appointees (Alternative A). There was, however, agreement reached that if an external President and Vice-President were to be appointed, they would not have the right to vote.

Article 10

Articles 10.2, 10.3 and 10.4 were slightly modified as a result of the agreement that, if the President and Vice-President were not appointed from among the Governors, they would have no voting right.

Mr. Ciampi thought that, in Article 10.4, the provision for unanimity with reference to the decisions taken by the EMI pursuant to Article 4.3 was in contradiction with an active role of the institution in the preparation for Stage Three. The Chairman and Mr. Larosière pointed out that this was not necessarily the case since the guidelines laying down the methods for the implementation of the technical conditions necessary for the ESCB to perform its functions in the final stage - mentioned in Article 14.3 - would be, according to Article 10.4, subject to qualified majority. In order to make this point clearer, the Committee agreed to insert "decisions on" before "guidelines" in Article 10.4. Furthermore, the brackets around 5.5 were deleted and the reference to Article 6.4 in Article 10.4 was removed following the change in Article 6.4 previously discussed.

Article 10.5 was redrafted following the change in Article 15 about the key for capital subscription.

Article 14

Following a suggestion by Mr. Rey, the reference to Article 4.3 was deleted from Article 14.3.

Article 15

Under this heading, the Committee discussed whether the EMI should be endowed with capital or whether its expenses should be covered by contributions on the part of national central banks. Some members of the Committee found the capital endowment unnecessary, given that the tasks of the EMI should not involve the execution of operations involving financial risks and the provision of capital could be misinterpreted as implying that the EMI would perform such operations. Other members felt that endowing the EMI with capital would give a positive signal on the importance of the new institution and would mark the enhanced role for the EMI in comparison with the Committee of Governors. A compromise between these views was reached by not endowing the EMI with capital at its establishment but, at the same time, providing for the Council of the EMI to be empowered to call for a capital subscription. Disagreement remained on whether the decision of the Council of the EMI to call for capital subscriptions should be taken by qualified majority or by unanimity.

Mr. Leigh Pemberton suggested to add the word "administrative" in front of "expenditure" in Article 15.3 to stress that the possible capital subscription would be limited in size. This proposal was not unanimously agreed.

Mr. Ciampi objected to the use of the quotas in the medium-term financial assistance mechanism as the key for capital subscription and proposed the use of the same key as that provided for in the Statute of the ECB. Given the limited size of the capital, the Committee agreed to leave the choice of the key for capital subscription to the Council of the EMI.

Article 16

This Article was subject only to technical amendments made necessary by the change in Article 15.

Seat of the EMI

Mr. Jaans noted that the Statute did not define the seat of the EMI. This omission would affect the technical consistency of the Statute. The majority of the Governors were in favour of omitting any reference to the seat of the EMI.

2. Discussion on Chapter IX of the Statute of the ECB

(see draft dated 22nd October 1991)

(a) Introduction by the Chairman

The Chairman reminded the Committee that Articles 47 and 48 laid down the institutional framework for monetary cooperation between the countries which would have moved to Stage Three of EMU and would have locked the parities of their currencies and the countries which would be unable or unwilling to do so. The discussion in the Committee of Alternates had revealed that there had been broad agreement on the substance of the matter: central banks of Member States with derogations or exemption status would retain their own monetary sovereignty and hence they would neither be bound by ECB decisions nor participate in the formulation of any aspect of monetary policy in the single-European-currency area. Cooperation in monetary affairs between the two groups of Member States would continue, especially with a view to making the necessary preparations for the full participation in EMU of Member States with derogations. Notwithstanding the agreement on these fundamental matters, views differed sharply on which institutional arrangements could best suit the pursuit of the above objectives. In particular, some central banks would consider it desirable for central banks of Member States with derogations or exemption status to join the ECB, and even subscribe to its capital, without having a voting right on monetary policy matters (Alternative B). Other central banks instead held the view that such an arrangement was inappropriate as it could generate confusion on the respective monetary responsibilities and it could expose the members of the Council of the ECB to undesirable pressures. These central banks preferred an institutional arrangement whereby central banks of Member States with derogations and exemption status would not be part of the ESCB and monetary cooperation between such Member States and the others would take place within a separate body from the ECB, the so called "Assembly" (Alternative A).

Even if the issue was very sensitive from a political point of view, it would be important for the Committee to reach a common position on a text.

(b) Discussion by the Committee

Mr. Leigh Pemberton said that he favoured the Alternative A as it would separate monetary responsibilities in a clearer way.

Mr. Tavares Moreira found that Alternative A gave the impression to classify Member States into "League A and B" classes. He therefore preferred the participation in the ECB of central banks of Member States with derogations or exemption status (Alternative B).

Mr. Duisenberg advocated Alternative A since any other approach would entail confusion about monetary responsibilities.

Mr. Jaans favoured Alternative B since it would provide the strongest incentive for everybody joining the ESCB in all its aspects as soon as possible.

Mr. Dini said that Mr. Ciampi was against Alternative A. The possibility of having sessions of the ECB Council restricted to Governors of central banks of Member States without derogations or exemption status could represent a reasonable compromise, which would accommodate the concerns underlying the divergent views within the Committee.

Mr. Doyle thought that Alternative A would be a form of lock-out, in contradiction with the political agreement already reached in the IGC.

Mr. Larosière supported Alternative A, as it would avoid any possible confusion over monetary responsibilities while allowing for the confirmation of cooperation among all EC central banks.

Mr. Rubio favoured Alternative B; Mr. Chalikias considered that Alternative B should duly apply to central banks of Member States with derogations which should also have the right to subscribe to the capital of the ECB.

Mr. Tietmeyer supported Alternative A.

Mr. Verplaetse thought that the Assembly solution was not viable from a political point of view and favoured the participation of all central banks within the ECB Council associated with the possibility of holding meetings restricted to Governors of central banks of Member States without derogations or exemption status.

Finding the positions within the Committee too far apart to reach a compromise solution, the Chairman asked the the Committee for its opinion on whether it would be preferable not to send to the IGC any text for Articles 47 and 48 as opposed to sending two alternatives which would show

the disagreement within the Committee. Mr. Duisenberg thought that the Presidency of the IGC had possibly interpreted the mandate assigned in Apeldoorn to the Committee of Governors as not extending to the presentation of draft Articles for Chapter IX of the ECB Statute; he, therefore, was in favour of not sending Chapter IX at all. Mr. Tietmeyer shared this view whereas Mr. Rubio, Mr. Doyle and Mr. de Larosière were in favour of transmitting the alternatives. Finally, the Committee decided to send the two alternatives to the IGC in order to enable the negotiations to benefit from the preparatory work underlying the drafting of the two alternatives.

Following a proposal by Mr. Ciampi, the Committee also agreed to extend the length of the temporary derogation from the application of the scheme for the distribution of the income of the ECB, as stated in Article 45, from three to five years.

Mr. Tietmeyer noted that Article 48a.2 would limit the possibility of building up hidden reserves, an issue which should be examined further.

II. Other matters falling within the competence of the Committee.

No other matters were discussed.

III. Date and place of next meeting

The next meeting will take place in Basle on Tuesday, 12th November 1991. The meeting will be preceded by a restricted session starting at 9.30 a.m.

259th MEETING OF THE COMMITTEE OF GOVERNORS
28th OCTOBER 1991

Those present were:

Chairman	Mr. E. Hoffmeyer
Banque Nationale de Belgique	Mr. A. Verplaetse
	Mr. J.-J. Rey [*]
	Mr. J. Michielsens
Danmarks Nationalbank	Mrs. B.N. Andersen
	Mr. K.A. Hansen
Deutsche Bundesbank	Mr. H. Tietmeyer
	Mr. W. Rieke
Bank of Greece	Mr. D.J. Chalikias
	Mr. L.D. Papademos
	Mr. N. Karamouzis
Banco de España	Mr. M. Rubio
	Mr. L.M. Linde
	Mr. J.L. Durán
Banque de France	Mr. J. de Larosière
	Mr. P. Lagayette
	Mr. J.-P. Redouin
Central Bank of Ireland	Mr. M.F. Doyle
	Mr. M.P. Coffey
	Mr. G. Reynolds
Banca d'Italia	Mr. C.A. Ciampi
	Mr. L. Dini
	Mr. C. Santini
Nederlandsche Bank	Mr. W.F. Duisenberg
	Mr. A. Szász
	Mr. A.F.P. Bakker
	Mr. C. van den Berg
Banco de Portugal	Mr. J.A. Tavares Moreira
	Mr. A.C. Borges
	Mr. V. Bento
Bank of England	Mr. R. Leigh-Pemberton
	Mr. A.D. Crockett
	Mr. J.A.A. Arrowsmith
Institut Monétaire Luxembourgeois	Mr. P. Jaans
Commission of the European Communities	Mr. G. Ravasio
	Mr. J.-F. Pons
Secretariat of the Committee of Governors	Mr. G.D. Baer
	Mr. H.K. Scheller
	Mr. C. Monticelli

* Chairman of the Alternates