

COMMITTEE OF GOVERNORS OF THE
CENTRAL BANKS OF THE MEMBER STATES OF THE
EUROPEAN ECONOMIC COMMUNITY

EUROPEAN MONETARY CO-OPERATION FUND

Texts
concerning the
European Monetary System

1979

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I.

Agreements between the Central Banks of the Member States of the European Economic Community

Agreement
between the Central Banks of the Member States of
the European Economic Community laying down the
operating procedures for the European Monetary System

THE CENTRAL BANKS OF THE MEMBER STATES OF THE
EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Resolution of the European Council of 5th December 1978 on the establishment of the European Monetary System (EMS) and related matters;

Having regard to Regulation (EEC) No. 907/73 of the Council of the European Communities of 3rd April 1973 establishing a European Monetary Co-operation Fund;

Having regard to Regulation (EEC) No. 3180/78 of the Council of the European Communities of 18th December 1978 changing the value of the unit of account used by the European Monetary Co-operation Fund;

Having regard to Regulation (EEC) No. 3181/78 of the Council of the European Communities of 18th December 1978 concerning the European Monetary System;

Whereas the European Council has agreed to set up a scheme for the creation of closer monetary co-operation leading to a zone of monetary stability in Europe;

Whereas the said Resolution provides that a European currency unit, the ECU, shall be at the centre of the European Monetary System and that the value and composition of the ECU shall, initially, be identical with the value and composition of the European unit of account (EUA);

Whereas under the terms of the said Resolution

- each currency will have an ECU-related central rate and the central

rates will be used to establish a grid of bilateral parities or central rates,

- fluctuation margins of 2.25 per cent. will be fixed around these bilateral central rates, although Member States not at present participating in the narrower margins mechanism may in the initial stage of the European Monetary System opt for wider margins of up to 6 per cent., which must be progressively reduced as soon as economic conditions permit;

Whereas the said Resolution further provides that a formula for an ECU-based basket shall be used as an indicator to detect divergences between Community currencies, and sets out the principles governing the operation of this indicator, which will be re-examined at the end of a period of six months;

Whereas this re-examination will also cover questions regarding imbalances accumulated by divergent creditor or debtor countries;

Whereas a Member State that does not initially participate in the exchange rate mechanism can do so at a later date and whereas it is therefore advisable to ensure co-operation between the central bank of such a State and the central banks of the participating States;

Whereas very short-term credit facilities of unlimited amount will be created;

Whereas the European Council has asked the central banks of the Member States of the Community to amend their Agreement of 10th April 1972 on the narrowing of the margins of fluctuation between the currencies of the Member States so as to embody the rules set forth in the said Resolution;

Whereas in order to make provision for means of settlement the central banks have been asked initially to transfer to the European Monetary Co-operation Fund, in the form of revolving swaps against ECUs, 20 per cent. of their gold holdings and 20 per cent. of their US dollar reserves, and thereafter to keep at least 20 per cent. of the said reserves on deposit with the European Monetary Co-operation Fund;

HAVE AGREED AS FOLLOWS:

I. Exchange rate mechanism

Article 1 – Central rates in terms of the ECU

Each participating central bank shall notify the Secretariat of the Committee of Governors of the Central Banks of the Member States of the European Economic Community of a central rate in terms of the ECU for its currency. The Secretariat shall pass on this information to the other central banks and the Commission of the European Communities.

Article 2 – Intervention rules

2.1 Each participating central bank shall notify the Secretariat of the Committee of Governors of the rates for compulsory intervention expressed in its currency, and the Secretariat shall pass on this information to the other central banks. These rates shall be fixed in relation to the bilateral central rates derived from the central rates in terms of the ECU referred to in Article 1 of the present Agreement. The market shall be notified of them.

2.2 Interventions shall in principle be effected in currencies of the participating central banks. These interventions shall be unlimited at the compulsory intervention rates. Other interventions in the foreign exchange market shall be conducted in accordance with the relevant guidelines that were adopted by the Committee of Governors in its Report of 9th December 1975 or that may be adopted in the future, or shall be subject to concertation among all the participating central banks.

Article 3 – Operation of the indicator of divergence

3.1 On either side of the central rate for its currency in terms of the ECU each participating central bank shall establish rates for its currency in terms of the ECU that will constitute “thresholds of divergence”. These thresholds of divergence shall be calculated in such a way as to neutralise the influence of the differences in weights on the probability of their

being reached; they shall be set at 75 per cent. of the maximum divergence spread, this being measured by the percentage difference between the daily rate and the central rate of a currency against the ECU when that currency is standing at the opposite pole from all the other currencies at the compulsory intervention rates referred to in Article 2.1 of the present Agreement. The necessary steps shall be taken to take account of the effects of the adoption of different maximum margins of fluctuation for the participating currencies and of the possible non-participation of a currency in the exchange rate mechanism.

3.2 If a currency crosses a divergence threshold, this shall entail the consequences set out in paragraph 3.6 of the Resolution of the European Council of 5th December 1978.

Article 4 – Method of calculating the values of the ECU in each currency

For the purposes of the operation of the indicator of divergence provided for under Article 3 of the present Agreement, the market value of the ECU in each currency shall be calculated by a uniform method as frequently as necessary and at least on the occasion of each daily concertation session among central banks.

Article 5 – Non-participation

Any central bank that is not participating in the exchange rate mechanism shall co-operate with the other central banks in the concertation and the other exchanges of information necessary for the proper functioning of the exchange rate mechanism.

II. Very short-term financing

Article 6 – Basic principles

6.1 To enable interventions to be made in Community currencies, the participating central banks shall open for each other very short-term credit facilities, unlimited in amount, in accordance with the conditions set out in Articles 7 to 16 of the present Agreement.

6.2 The financing operations concluded in this connection shall take the form of spot sales and purchases of Community currencies against the crediting or debiting of accounts denominated in ECUs with the European Monetary Co-operation Fund (hereinafter referred to as “EMCF”).

Article 7 – Accounting procedures

7.1 The accounts opened for the central banks in the books of the EMCF shall be denominated in ECUs. The conversion of currencies into ECUs shall be effected at the daily rates for the ECU as established by the Commission’s staff on the basis of the method adopted. The relevant rates shall be those ruling on the day on which the interventions were made.

7.2 The value date of the financing operations shall be identical with the value date of the interventions in the market.

Article 8 – Remuneration

8.1 The debtor and creditor interest rates applying to very short-term financing operations shall be the average of the official discount rates of all EEC central banks, weighted in accordance with their respective currencies’ weights as derived from the ruling ECU central rates. This average shall be calculated once a month on the basis of the discount rates ruling on the last working day of the month and shall apply during the following month to all outstanding amounts in respect of very short-term financing operations.

8.2 Accrued interest shall be paid in ECUs at each monthly settlement date or, between settlement dates, at the same time as advance liquidation of a debtor balance is effected.

Article 9 – Initial settlement date

The initial settlement date for a very short-term financing operation shall be the last working day preceding the sixteenth day of the second month following that in which the value date of the intervention fell.

Article 10 – Automatic renewal

At the request of the debtor central bank, the initial settlement date for a financing operation may be extended for a period of three months.

However:

- (a) any initial settlement date may only be automatically extended once for a maximum of three months;
- (b) recourse may only be had to the renewal facility referred to above if the relevant debt does not thereby remain continuously outstanding for more than six consecutive months;
- (c) the total amount of indebtedness resulting from application of the present Article may at no time exceed a ceiling equal to the debtor quota of the central bank concerned under the short-term monetary support arrangement;
- (d) if a central bank has recourse to the additional automatic borrowing facility for six consecutive months, the Committee of Governors shall take steps to ascertain whether the payments deficit of the country concerned is such that recourse to other means of financing, in particular short-term monetary support or medium-term financial assistance within the EEC, would be more appropriate.

Article 11 – Renewal by mutual agreement

11.1 Any debt exceeding the ceiling laid down in Article 10 (c) of this Agreement may be renewed once for three months subject to the agreement of the creditor or creditors in the EMCF.

11.2 Any debt already renewed automatically for three months may be renewed a second time for a further three months subject to the agreement of the creditor or creditors in the EMCF.

11.3 Debts and claims thus extended by mutual agreement shall be settled separately outside the provisions of Articles 12, 13 and 14 of this Agreement without prejudice, however, to the priority accorded to

settlements carried out under those Articles. Offsetting or advance settlement of debts and claims of the kind for which provision is made in the present Article shall be subject to the agreement of all creditors and debtors in the EMCF, whatever their status.

Article 12 – Order of repayment of claims

12.1 Claims arising from financing operations carried out in accordance with Articles 9 and 10 above shall be settled in order of seniority; however, if a central bank's claim exceeds the amount of its creditor quota under the short-term monetary support arrangement, that central bank may request that the excess be treated for purposes of the next settlement as equal in seniority to the most senior claims of other creditor central banks.

12.2 All claims arising within the same monthly accounting period shall be regarded as of equal seniority. When a settlement covers a number of claims regarded as of equal seniority, each of the components of the settlement shall be distributed in proportion to the respective amounts of the claims.

12.3 The rules governing the order or distribution of settlements may be departed from subject to the agreement of all the parties to the financing operations carried out in accordance with Articles 9 and 10 of the present Agreement.

Article 13 – Automatic offsetting

13.1 All the debts and claims of a single central bank arising from the operations provided for under Articles 9 and 10 of the present Agreement shall, where appropriate, be automatically offset against each other.

13.2 Any new liability shall be offset against the most senior claim of the same central bank. Any new claim shall be offset against the most senior debt of the same central bank.

Article 14 – Advance repayment

14.1 Any debtor balance recorded in accordance with Articles 9 and

10 of the present Agreement may be settled in advance at the request of the debtor central bank:

- at any time in the currency of a creditor in the EMCF under Articles 9 and 10 of the present Agreement,
- on the monthly settlement date by transfer of the means of settlement provided for in Article 16 of the present Agreement.

14.2 Any advance repayment shall be applied first to the most senior liabilities contracted under Article 10 of the present Agreement.

Article 15 – Working balances

The central banks may hold working balances in Community currencies within the limits laid down by the Committee of Governors. These limits may be exceeded only with the consent of the central bank concerned.

Article 16 – Means of settlement

16.1 When a financing operation falls due, settlement shall be carried out – insofar as it has not been settled in the first instance by means of holdings in the creditor’s currency – entirely or in part by transferring ECUs, with the proviso that a creditor central bank shall not be obliged to accept settlement by means of ECUs of an amount more than 50 per cent. of its claim which is being settled. The balance shall be settled by transferring other reserve components in accordance with the composition of the debtor central bank’s reserves as at the end of the month preceding the settlement.

These provisions shall be without prejudice to other forms of settlement agreed between creditor and debtor central banks.

Debtor balances in ECUs settled by means of assets denominated in currencies and in SDRs shall be converted into such assets on the basis of the daily rates for the ECU established by the Commission’s staff.

16.2 For the purposes of the preceding paragraph the composition of the debtor’s reserves shall be determined on the basis of assets de-

nominated in SDRs and in currencies. Nevertheless, gold holdings may also be taken into account if the price proposed by the debtor central bank is accepted by the creditor central bank. As far as assets denominated in SDRs and in currencies are concerned, the debtor central bank may choose which assets it will deliver in settlement.

16.3 If the debtor central bank no longer possesses ECUs and wishes to acquire some, it shall apply in the first instance to central banks that are net accumulators of ECUs or possibly to the EMCF. In the latter case, the ECUs shall be acquired against the contribution of an equal percentage of the gold and dollar assets held by that central bank.

III. Creation, utilisation and remuneration of ECUs

Article 17 – Creation of ECUs against contributions of gold and dollars

17.1 Each central bank participating in the exchange rate mechanism outlined in Chapter I of the present Agreement shall contribute to the EMCF 20 per cent. of its gold holdings and 20 per cent. of its gross dollar reserves as at the last working day of the month preceding the month in which the present Agreement takes effect; it shall be credited by the EMCF with an amount of ECUs corresponding to these contributions.

Central banks that are not participating in the exchange rate mechanism referred to above may likewise make contributions in accordance with the terms of the preceding sub-paragraph.

17.2 The contributions referred to in Article 17.1 of the present Agreement shall be made available in the case of the participating central banks at the latest ten working days after the implementation of the present Agreement or in the case of the non-participating central banks at the time of exercising the option referred to above.

17.3 The contributions of gold and dollars shall take the form of three-month revolving swaps against ECUs which may be unwound at two working days' notice. These operations shall be concluded at flat rates.

17.4 For the purposes of the swap operations referred to in the present Article the value of the reserve components transferred to the EMCF shall be established as follows:

- for the gold portion, the average of the prices, converted into ECUs, recorded daily at the two London fixings during the previous six calendar months, but not exceeding the average price of the two fixings on the penultimate working day of the period;
- for the dollar portion, the market rate two working days prior to the value date.

17.5 Contracts shall be concluded between each central bank and the EMCF detailing the arrangements for the delivery of the gold and dollars to the EMCF and for their management insofar as this is entrusted to the central banks.

17.6 At the beginning of each quarter, when the swaps referred to in the present Article are renewed, the central banks and the EMCF shall make the necessary adjustments to these swaps, firstly to ensure that each central bank's contribution to the EMCF continues to represent at least 20 per cent. of its gold and dollar reserves on the basis of its gross reserve position recorded on the last working day of the preceding quarter and, secondly, to take account of any price or rate changes that may have occurred since the initial contribution or previous adjustment.

Article 18 – Utilisation of ECUs

18.1 ECU assets shall be used in intra-Community settlements within the limits and on the terms set out in Article 16 of the present Agreement.

18.2 The central banks may transfer ECUs to one another against dollars, EEC currencies, Special Drawing Rights or gold.

18.3 For the purposes of meeting a decline in its dollar reserves a central bank may acquire dollars against ECUs from the EMCF between two periodic adjustments, initially by unwinding a swap transaction.

18.4 The operations referred to in Articles 18.2 and 18.3 of the present Agreement shall not be carried out for the sole purpose of altering the composition of a central bank's reserves.

Article 19 – Remuneration

19.1 Central banks whose ECU assets are less than their forward sales of ECUs shall pay interest to the EMCF on the difference between these two aggregates. The EMCF shall pay central banks whose ECU assets exceed their forward sales interest on the difference between these two aggregates. The amount of interest due shall be calculated in proportion to the average daily balances.

19.2 The rate of interest provided for in Article 19.1 of the present Agreement shall be determined in accordance with the provisions of Article 8 of the present Agreement. Such interest shall be paid monthly.

Article 20 – Liquidation

20.1 Save in the event of a unanimous decision to the contrary, the swaps of gold and dollars against ECUs referred to in Article 17.3 of the present Agreement, shall be unwound at the end of the two-year transitional period.

20.2 For this purpose central banks that are net users of ECU assets shall bring these back up to a level equal to that of their forward sales and central banks that are net accumulators shall transfer to the net users the excess of their ECU assets over their forward sales either directly or through the intermediary of the EMCF.

20.3 The transfers of ECUs provided for in the preceding paragraph shall be effected in exchange for the currency of the central banks that are net accumulators, or in accordance with any other arrangements agreed between the parties, or against the transfer of reserve components in proportion to the composition of the reserves of the central bank repurchasing ECUs, this composition being determined in accordance with the provisions of Article 16.2 of the present Agreement.

Article 21 – Institutional provisions

The Committee of Governors shall periodically review the operation of the present Agreement in the light of experience gained.

Article 22 – Termination of the Agreement of 10th April 1972

22.1 The present Agreement terminates and replaces, with effect from 13th March 1979, the Agreement of 10th April 1972, as amended by the Agreement of 8th July 1975, establishing a system for the narrowing of the margins of fluctuation between the currencies of the European Economic Community.

22.2 The present Agreement shall be drawn up in duly signed versions in English, French and German. A certified copy of the original in each language shall be sent to each central bank by the Secretariat of the Committee of Governors, which is required to retain the originals.

Done at Basle, 13th March 1979.

Banque Nationale de Belgique

C. de Strycker

Danmarks Nationalbank

Erik Hoffmeyer

Deutsche Bundesbank

Otmar Emminger Karl Otto Pöhl

Banque de France

B. Clappier

Central Bank of Ireland

C. H. Murray

Banca d'Italia

Paolo Baffi

Nederlandsche Bank

J. Zijlstra

Bank of England

Gordon Richardson

Instrument

relating to short-term monetary support

THE CENTRAL BANKS OF THE MEMBER STATES OF THE
EUROPEAN ECONOMIC COMMUNITY,

Having regard to the European Council's Resolution of 5th December 1978 concerning the establishment of the European Monetary System (EMS) and related matters,

HAVE AGREED on the following provisions:

Article 1

The provisions of the Agreement of 9th February 1970 setting up a system of short-term monetary support, as amended by the Instrument of 8th January 1973 relating to the accession of the Central Banks of Denmark, Ireland and the United Kingdom and the Instruments relating to short-term monetary support dated 12th March 1974 and 13th December 1977 respectively, shall be amended as follows:

Article VI: Technique of the operations

The text of *paragraph 2* shall be replaced by the following text:

“If the facilities made available under the terms of this Article are not utilised within one month they shall be cancelled. Utilisation shall be for a period of three months and may be renewed twice for a period of three months at the request of the beneficiary central bank.”

The following sentence shall be inserted at the end of *paragraph 4*:

“They shall be denominated in ECUs if the support is granted to a central bank in the form of a prolongation of a debt contracted by that central bank in the framework of the very short-term financing facilities, as defined by Article 6 of the Agreement of 13th March 1979 between the Central Banks of the Member States of the European Economic Community laying down the operating procedures for the European Monetary System.”

Article 2

The amounts of the debtor and creditor quotas assigned to each participating central bank in application of Article II.1 of the Agreement

of 9th February 1970 as well as the total of the creditor rallonges and that of the debtor rallonges provided for under Article II.4 shall be established as from the date referred to in Article 4 of the present Instrument by Annex 1 dated 13th March 1979, which shall cancel and replace all its precursors.

Article 3

Annex 1 dated 13th March 1979 referred to in Article 2 above is attached to the present Instrument and forms an integral part of it.

Article 4

The present Instrument shall enter into force on the date on which the Agreement of 13th March 1979 between the Central Banks of the Member States of the European Economic Community laying down the operating procedures for the European Monetary System takes effect. It shall be drawn up duly signed in English, French and German. Annex 1 referred to above shall be duly initialled. One certified copy of the original in each language shall be sent to each central bank by the Secretariat of the Committee of Governors and of the Board of Governors of the European Monetary Co-operation Fund, which is required to retain the originals.

Done at Basle, 13th March 1979.

Banque Nationale de Belgique
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Banca d'Italia
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Bank of England
Gordon Richardson

Quotas and rallonges in ECUs*

1. *Quotas*

(a) "*Debtor quotas*" and percentage distribution

	in millions of ECUs	percentages
National Bank of Belgium	580	7.34
National Bank of Denmark	260	3.29
Deutsche Bundesbank	1,740	22.03
Bank of France	1,740	22.03
Central Bank of Ireland	100	1.27
Bank of Italy	1,160	14.67
Netherlands Bank	580	7.34
Bank of England	1,740	22.03
Total EEC	<u>7,900</u>	<u>100.00</u>

(b) "*Creditor quotas*" and percentage distribution

	in millions of ECUs	percentages
National Bank of Belgium	1,160	7.34
National Bank of Denmark	520	3.29
Deutsche Bundesbank	3,480	22.03
Bank of France	3,480	22.03
Central Bank of Ireland	200	1.27
Bank of Italy	2,320	14.67
Netherlands Bank	1,160	7.34
Bank of England	3,480	22.03
Total EEC	<u>15,800</u>	<u>100.00</u>

2. *Rallonges*

The total of creditor rallonges, and that of debtor rallonges, may not exceed ECU 8,800 million.

* The value of one ECU is defined by Regulation (EEC) No. 3180/78 of the Council of the European Communities of 18th December 1978 changing the value of the unit of account used by the European Monetary Co-operation Fund.

Agreement

of 9th February 1970 setting up a system of short-term monetary support among the Central Banks of the Member States of the European Economic Community*

Having regard to the Commission's Memorandum to the Council on the co-ordination of economic policies and monetary co-operation within the Community;

Having regard to the letter of 10th July 1969 from the Chairman of the Committee of Governors to the President of the Commission setting out the Committee's opinion on the above-mentioned Memorandum;

Having regard to the Council's Decision of 17th July 1969 on the co-ordination of the short-term economic policies of the Member States;

Having regard to the procedure for the co-ordination of medium-term economic policies;

THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY HAVE AGREED ON THE FOLLOWING PROVISIONS:

Article I: Setting-up of the system

1. The central banks of the EEC Member States, noting the increasing solidarity among their countries, shall set up among themselves a short-term monetary support system of first resort.

* Text incorporating the amendments made by the Instrument of 8th January 1973 relating to the accession of the Central Banks of Denmark, Ireland and the United Kingdom and the Instruments relating to short-term monetary support dated 12th March 1974, 13th December 1977 and 13th March 1979 respectively.

2. Implementation of this system shall be closely linked with the standing arrangements for consultation on and co-ordination of economic policy among the Member States of the Community.

3. The possibilities offered by other international assistance mechanisms shall be taken into consideration when use is made of the system.

4. The way in which the system will function is determined by this Agreement.

The decisions necessary for its implementation shall be taken jointly by the Governors of the participating central banks assembled in the Committee of Governors of the Central Banks of the Member States of the European Economic Community, hereinafter referred to as "the Governors". The Chairman of the Committee of Governors of the Central Banks of the Member States of the European Economic Community, hereinafter referred to as "the Chairman", shall preside. The Commission representative on that Committee will hereinafter be referred to as "the Commission representative".

5. For the implementation of this Agreement the Governors shall employ an Agent and delegate to it such tasks as they may determine in accordance with arrangements to be concluded with it.

Article II: Quotas and rallonges

1. Each participating central bank shall be assigned a debtor quota and a creditor quota, the respective amounts of which are laid down in Annex 1 to this Agreement.

2. The debtor quotas shall determine the amount of support which each central bank may receive under the terms laid down in this Agreement; the creditor quotas shall determine the amount of support which each central bank undertakes to finance under these same terms.

3. The Governors may alter the quotas. Every five years they shall examine whether the quotas should be revised. They may, however, conduct such an examination before the expiry of this period.

4. In particular cases where this is justified by circumstances, and notwithstanding Section 2, the Governors may decide for an amount, for a period and on conditions to be determined by them:

(a) to increase over and above its quota the amount of support which a central bank may receive (“debtor rallonge”);

or

(b) to increase over and above its quota the amount of support which a central bank undertakes to finance (“creditor rallonge”).

The total of the creditor rallonges and likewise that of the debtor rallonges thus granted may not exceed the amount specified in Annex 1.

When assessing the circumstances justifying the granting of rallonges the Governors shall take particular account of the trend of the balance of payments and the foreign exchange reserve position of the Member State to which each central bank concerned belongs, as well as of the other facilities available to them under other international arrangements. As a general rule, no central bank may be granted more than one-half of the total of the debtor rallonges, but the Governors may waive this limit if the special situation and the particular needs of the applicant warrant it.

Article III: Application for support

1. A participating central bank that wishes to use the monetary support facilities provided for in this Agreement shall inform the Chairman that the need has arisen for short-term financing in consequence of a temporary balance-of-payments deficit which is due to unforeseen difficulties or to conjunctural divergences and which has emerged despite the co-ordination of economic policies. It shall notify him of the amount of support desired, giving particulars of any other sources of financing it might consider turning to in order to overcome the difficulties encountered.

2. No application for support may be made by a central bank which is indebted to the system in consequence of failure to fulfil its repayment obligations.

Unless the Governors decide otherwise, no application for support will be entertained in the case referred to in Article VI, Section 3.

Article IV: Granting and financing of support

1. The Chairman shall inform the participating central banks and the Commission representative of any application for support lodged in accordance with Article III.

The Chairman shall call a meeting of the Governors on his own initiative or when a central bank so requests.

2. 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.

3. The Governors may decide to apportion the financing burden in a proportion different from that of the quotas; in that event, the contributions determined in accordance with Section 2 of this Article shall be appropriately refinanced among the central banks participating in the financing, unless the Governors decide otherwise.

4. A central bank which during the consultations following an application for support informs the Chairman that its country is experiencing balance-of-payments difficulties and/or a disturbing decline in its foreign exchange reserves shall be entitled to receive from the other participating central banks, in principle in proportion to their quotas, the partial or total refinancing of its contribution to the financing of the support.

5. When the monetary support applied for cannot be financed out of the quotas the Governors may decide, to such extent as they consider most appropriate and with due regard to the scope for tapping other international assistance facilities, to establish one or more creditor arrangements in accordance with the provisions of Article II of this Agreement or, failing this, to scale down the amount of support applied for by the necessary amount.

6. After consulting the participating central banks, the Chairman shall inform the central banks and the Commission representative of the

granting of the support, its amount and its apportionment, and the timing of the provision of the funds.

Article V: Mobilisation of the claim

Any central bank that is a creditor in connection with this Agreement may, if the Member State to which it belongs experiences balance-of-payments difficulties and/or suffers a sudden decline in its foreign exchange reserves, apply to the Governors for the premature repayment or the transfer of its claim. For this purpose the Governors shall take such steps as they consider appropriate.

Article VI: Technique of the operations

1. The beneficiary central bank shall receive from its partners, direct or through the Agent, facilities in the form of swaps or deposits or in any other form agreed between the parties.

At the request of the participating central banks the Agent may advance for their account all or part of the contributions due from them.

2. If the facilities made available under the terms of this Article are not utilised within one month they shall be cancelled. Utilisation shall be for a period of three months and may be renewed twice for a period of three months at the request of the beneficiary central bank.

3. The beneficiary central bank shall refrain from making a further application for monetary support for a period equal to that for which the previous support was utilised.

4. The support facilities shall be expressed in the currency actually supplied by the granting central bank; this can be its national currency or any other means of payment agreed with the beneficiary central bank. They shall be denominated in ECUs if the support is granted to a central bank in the form of a prolongation of a debt contracted by that central bank in the framework of the very short-term financing facilities, as defined by Article 6 of the Agreement of 13th March 1979 between the Central Banks of the Member States of the European Economic Com-

munity laying down the operating procedures for the European Monetary System.

5. The charges to the debtor central bank for the support facilities shall be worked out in accordance with the rules laid down by the Governors.

6. The Governors shall take such steps as they consider appropriate in order to standardise as far as possible the conditions governing support operations.

7. The arrangements for each support operation shall be communicated to the Agent.

Article VII: Co-ordination of economic policies

1. The central banks agree that on each occasion when monetary support is granted the Committee of Governors shall undertake an examination of the monetary situation and of the monetary policy of the beneficiary country.

2. The Governors shall be regularly informed of the course of the Community procedures as regards co-ordination of short and medium-term economic policies.

Article VIII: Duration

This Agreement shall run for five years. It shall be tacitly extended for five years at a time, unless six months' prior notice is given.

Article IX: Winding-up of the system

In the event of the support system being wound up, this Agreement shall remain in force as regards the repayment of the credits granted in accordance with Article IV.

Quotas and rallonges in ECUs*

1. *Quotas*

(a) *“Debtor quotas” and percentage distribution*

	in millions of ECUs	percentages
National Bank of Belgium	580	7.34
National Bank of Denmark	260	3.29
Deutsche Bundesbank	1,740	22.03
Bank of France	1,740	22.03
Central Bank of Ireland	100	1.27
Bank of Italy	1,160	14.67
Netherlands Bank	580	7.34
Bank of England	<u>1,740</u>	<u>22.03</u>
Total EEC	7,900	100.00

(b) *“Creditor quotas” and percentage distribution*

	in millions of ECUs	percentages
National Bank of Belgium	1,160	7.34
National Bank of Denmark	520	3.29
Deutsche Bundesbank	3,480	22.03
Bank of France	3,480	22.03
Central Bank of Ireland	200	1.27
Bank of Italy	2,320	14.67
Netherlands Bank	1,160	7.34
Bank of England	<u>3,480</u>	<u>22.03</u>
Total EEC	15,800	100.00

2. *Rallonges*

The total of creditor rallonges, and that of debtor rallonges, may not exceed ECU 8,800 million.

* The value of one ECU is defined by Regulation (EEC) No. 3180/78 of the Council of the European Communities of 18th December 1978 changing the value of the unit of account used by the European Monetary Co-operation Fund.

II.

Decisions taken by the Board of Governors of the European Monetary Co-operation Fund

Decision (No. 12/79)
of the Board of Governors of 13th March 1979

THE BOARD OF GOVERNORS OF THE EUROPEAN MONETARY CO-OPERATION FUND,

Having regard to the Resolution of the European Council of 5th December 1978 on the establishment of the European Monetary System (EMS) and related matters;

Having regard to Regulation (EEC) No. 907/73 of the Council of the European Communities of 3rd April 1973 establishing a European Monetary Co-operation Fund, and in particular Articles 3 and 4 thereof;

Having regard to Regulation (EEC) No. 3180/78 of the Council of the European Communities of 18th December 1978 changing the value of the unit of account used by the European Monetary Co-operation Fund;

Having regard to Regulation (EEC) No. 3181/78 of the Council of the European Communities of 18th December 1978 concerning the European Monetary System, and in particular Article 3 thereof;

Whereas the European Monetary Co-operation Fund is charged with arranging for the concertation necessary for the proper functioning of the exchange rate mechanism set up within the Community;

Whereas it is responsible for taking the necessary executive measures with a view to supplying the central banks with ECUs against contributions of reserves,

HAS DECIDED as follows:

Chapter I

Exchange rate mechanism and very short-term financing

Article 1

The arrangements outlined in Chapters I and II of the Agreement of 13th March 1979 between the Central Banks of the Member States of the European Economic Community laying down the operating procedures for the European Monetary System (hereinafter referred to as the

“Agreement of 13th March 1979”) shall be adopted by the European Monetary Co-operation Fund (hereinafter referred to as “EMCF”) to govern its administration of the very short-term financing facility.

Chapter II

ECU reserve assets

Article 2 – Creation of ECUs against contributions of gold and dollars

2.1 The EMCF shall credit each central bank participating in the exchange rate mechanism outlined in Chapter I of the Agreement of 13th March 1979 with an amount of ECUs corresponding to the contribution of 20 per cent. of its gold holdings and 20 per cent. of its gross dollar reserves as at the last working day of the month preceding the month in which the present Decision takes effect.

Central banks that are not participating in the exchange rate mechanism referred to above may likewise make contributions in accordance with the terms of the preceding sub-paragraph.

2.2 The contributions referred to in Article 2.1 above shall be made available in the case of the participating central banks at the latest ten working days after the implementation of the present Decision or in the case of the non-participating central banks at the time of exercising the option referred to above.

2.3 The contributions of gold and dollars shall take the form of three-month revolving swaps against ECUs which may be unwound at two working days’ notice. These operations shall be concluded at flat rates.

2.4 For the purposes of the swap operations referred to in the present Article the value of the reserve components contributed to the EMCF shall be established as follows:

- for the gold portion, the average of the prices, converted into ECUs, recorded daily at the two London fixings during the previous six calendar months, but not exceeding the average price of the two fixings on the penultimate working day of the period;

- for the dollar portion, the market rate two working days prior to the value date.

2.5 Contracts shall be concluded between the EMCF and each central bank detailing the arrangements for the delivery of the gold and dollars to the EMCF and for their management insofar as this is entrusted to the central banks.

2.6 At the beginning of each quarter, when the swap operations referred to in the present Article are renewed, the EMCF and the central banks shall make the necessary adjustments to these swaps, firstly to ensure that each central bank's contribution to the EMCF continues to represent at least 20 per cent. of its gold and dollar reserves on the basis of its gross reserve position recorded on the last working day of the preceding quarter and, secondly, to take account of any price or rate changes that may have occurred since the initial contribution or previous adjustment.

Article 3 – Utilisation of ECUs

3.1 ECUs shall be used in intra-Community settlements within the limits and on the terms set out in Article 16 of the Agreement of 13th March 1979.

3.2 The central banks may transfer ECUs to one another against dollars, EEC currencies, Special Drawing Rights or gold.

3.3 For the purposes of meeting a decline in its dollar reserves a central bank may acquire dollars against ECUs from the EMCF between two periodic adjustments, initially by unwinding a swap transaction.

3.4 The operations referred to in Articles 3.2 and 3.3 above shall not be carried out for the sole purpose of altering the composition of a central bank's reserves.

Article 4 – Intra-Community settlements

4.1 When a financing operation falls due, settlement shall be carried out – insofar as it has not been settled in the first instance by means of holdings in the creditor's currency – entirely or in part by transferring ECUs, with the proviso that a creditor central bank shall not be obliged

to accept settlement by means of ECUs of an amount more than 50 per cent. of its claim which is being settled. The balance shall be settled by transferring other reserve components in accordance with the composition of the debtor central bank's reserves at the end of the month preceding the settlement.

These provisions shall be without prejudice to other forms of settlement agreed between debtor and creditor central banks.

Debtor balances in ECUs settled by means of assets denominated in currencies and in SDRs shall be converted into such assets on the basis of the daily rates for the ECU established by the Commission's staff.

4.2 For the purposes of Article 4.1 above, the composition of the debtor's reserves shall be determined on the basis of assets denominated in SDRs and in currencies. Nevertheless, gold holdings may also be taken into account if the price proposed by the debtor central bank is acceptable to the creditor central bank. As far as assets denominated in SDRs and in currencies are concerned, the debtor central bank may choose which assets it will deliver in settlement.

4.3 If the debtor central bank no longer possesses ECUs and wishes to acquire some, it shall apply in the first instance to central banks that are net accumulators of ECUs or possibly to the EMCF. In the latter case, the ECUs shall be acquired against the contribution of an equal percentage of the gold and dollar assets held by that central bank.

Article 5 – Remuneration

5.1 Central banks whose holdings of ECUs are less than their forward sales of ECUs shall pay interest to the EMCF on the difference between these two aggregates. The EMCF shall pay central banks whose ECU assets exceed their forward sales interest on the difference between these two aggregates. The amount of interest due shall be calculated in proportion to the average daily balances.

5.2 The rate of the interest provided for in Article 5.1 above shall be determined in accordance with the provisions of Article 8 of the Agreement of 13th March 1979. Such interest shall be paid monthly.

Article 6 – Liquidation

6.1 Save in the event of a unanimous decision to the contrary, the swaps of gold and dollars against ECUs referred to in Article 2.3 above shall be unwound at the end of the two-year transitional period.

6.2 For this purpose central banks that are net users of ECUs shall bring these back up to a level equal to that of their forward sales and central banks that are net accumulators shall transfer to the net users the excess of their ECU assets over their forward sales either directly or through the intermediary of the EMCF.

6.3 The transfers of ECUs provided for in Article 6.2 above shall be effected in exchange for the currency of the central banks that are net accumulators, or in accordance with any other arrangements agreed between the parties, or against the transfer of reserve components in proportion to the composition of the reserves of the central bank repurchasing ECUs, that composition being determined in accordance with the provisions of Article 4.2 of the present Decision.

Article 7 – Rescinding clause

This Decision rescinds:

- Decision (No. 2/73) of the Board of Governors of 28th June 1973 concerning settlements in gold,
- Decision (No. 6/75) of the Board of Governors of 8th July 1975 concerning the system for the narrowing of the margins of fluctuation between the currencies of the European Economic Community.

Article 8 – Entry into force

This Decision shall enter into force with effect from 13th March 1979.

Done at Basle, 13th March 1979.

On behalf of the Board of Governors
The Chairman
C. de Strycker

Decision (No. 13/79)
of the Board of Governors of 13th March 1979
modifying the short-term monetary support arrangement

THE BOARD OF GOVERNORS,

Having regard to the Council Regulation (EEC) No. 907/73 of 3rd April 1973 establishing a European Monetary Co-operation Fund, with particular reference to Article 3, third indent, and Article 4 thereof,

HAS DECIDED:

Article 1

The provisions contained in the Instrument relating to short-term monetary support, concluded this day by the central banks of the Member States of the European Economic Community, are herewith adopted by the European Monetary Co-operation Fund as regulations governing its administration of the short-term monetary support arrangement.

Article 2

This Decision shall apply as soon as the Instrument referred to in Article 1 above enters into effect; it shall be communicated to each central bank by the Secretariat of the Board of Governors of the Fund.

Done at Basle, 13th March 1979

On behalf of the Board of Governors
The Chairman
C. de Strycker

Annexes

Resolution

of the European Council of 5th December 1978 on the establishment of the European Monetary System (EMS) and related matters

A. THE EUROPEAN MONETARY SYSTEM

1. Introduction

1.1 In Bremen we discussed a “scheme for the creation of closer monetary co-operation leading to a zone of monetary stability in Europe”. We regarded such a zone “as a highly desirable objective” and envisaged “a durable and effective scheme”.

1.2 Today, after careful examination of the preparatory work done by the Council and other Community bodies, we are agreed as follows:

A European Monetary System (EMS) will be set up on 1st January 1979.

1.3 We are firmly resolved to ensure the lasting success of the EMS by policies conducive to greater stability at home and abroad for both deficit and surplus countries.

1.4 The following chapters deal primarily with the initial phase of the EMS.

We remain firmly resolved to consolidate, not later than two years after the start of the scheme, into a final system the provisions and procedures thus created. This system will entail the creation of the European Monetary Fund as announced in the conclusions of the European Council meeting at Bremen on 6th and 7th July 1978, as well as the full utilisation of the ECU as a reserve asset and a means of settlement. It will be based on adequate legislation at the Community as well as the national level.

2. The ECU and its functions

2.1 A European Currency Unit (ECU) will be at the centre of the EMS. The value and the composition of the ECU will be identical with the value of the EUA at the outset of the system.

2.2 The ECU will be used:

- (a) as the denominator (numeraire) for the exchange rate mechanism;
- (b) as the basis for a divergence indicator;
- (c) as the denominator for operations in both the intervention and the credit mechanisms;
- (d) as a means of settlement between monetary authorities of the European Community.

2.3 The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25 per cent.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria.

3. The Exchange Rate and Intervention Mechanisms

3.1 Each currency will have an ECU-related central rate. These central rates will be used to establish a grid of bilateral exchange rates.

Around these exchange rates fluctuation margins of ± 2.25 per cent. will be established. EEC countries with presently floating currencies may opt for wider margins up to ± 6 per cent. at the outset of the EMS; these margins should be gradually reduced as soon as economic conditions permit.

A Member State which does not participate in the exchange rate mechanism at the outset may participate at a later date.

3.2 Adjustments of central rates will be subject to mutual agreement by a common procedure which will comprise all countries participating

in the exchange rate mechanism and the Commission. There will be reciprocal consultation in the Community framework about important decisions concerning exchange rate policy between countries participating and any country not participating in the system.

3.3 In principle, interventions will be made in participating currencies.

3.4 Intervention in participating currencies is compulsory when the intervention points defined by the fluctuation margins are reached.

3.5 An ECU basket formula will be used as an indicator to detect divergences between Community currencies. A "threshold of divergence" will be fixed at 75 per cent. of the maximum spread of divergence for each currency. It will be calculated in such a way as to eliminate the influence of weight on the probability of reaching the threshold.

3.6 When a currency crosses its "threshold of divergence", this results in a presumption that the authorities concerned will correct this situation by adequate measures, namely:

- (a) Diversified intervention;
- (b) Measures of domestic monetary policy;
- (c) Changes in central rates;
- (d) Other measures of economic policy.

In case such measures, on account of special circumstances, are not taken, the reasons for this shall be given to the other authorities, especially in the "concertation between central banks".

Consultations will, if necessary, then take place in the appropriate Community bodies, including the Council of Ministers.

After six months these provisions shall be reviewed in the light of experience. At that date the questions regarding imbalances accumulated by divergent creditor or debtor countries will be studied as well.

3.7 A Very Short-Term Facility of an unlimited amount will be established. Settlements will be made 45 days after the end of the month of intervention with the possibility of prolongation for another three

months for amounts limited to the size of debtor quotas in the Short-Term Monetary Support.

3.8 To serve as a means of settlement, an initial supply of ECUs will be provided by the EMCF against the deposit of 20 per cent. of gold and 20 per cent. of dollar reserves currently held by central banks.

This operation will take the form of specified, revolving swap arrangements. By periodical review and by an appropriate procedure it will be ensured that each central bank will maintain a deposit of at least 20 per cent. of these reserves with the EMCF. A Member State not participating in the exchange rate mechanism may participate in this initial operation on the basis described above.

4. The Credit Mechanisms

4.1 The existing credit mechanisms with their present rules of application will be maintained for the initial phase of the EMS. They will be consolidated into a single fund in the final phase of the EMS.

4.2 The credit mechanisms will be extended to an amount of ECU 25 billion of effectively available credit. The distribution of this amount will be as follows:

Short-Term Monetary Support = ECU 14 billion

Medium-Term Financial Assistance = ECU 11 billion.

4.3 The duration of the Short-Term Monetary Support will be extended for another three months on the same conditions as the first extension.

4.4 The increase of the Medium-Term Financial Assistance will be completed by 30th June 1979. 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.

5. Third Countries and International Organisations

5.1 The durability of the EMS and its international implications require co-ordination of exchange rate policies vis-à-vis third countries and,

as far as possible, a concertation with the monetary authorities of those countries.

5.2 European countries with particularly close economic and financial ties with the European Communities may participate in the exchange rate and intervention mechanisms.

Participation will be based upon agreements between central banks; these agreements will be communicated to the Council and the Commission of the European Communities.

5.3 The EMS is and will remain fully compatible with the relevant articles of the IMF Agreement.

6. Further procedure

6.1 To implement the decisions taken under A., the European Council requests the Council to consider and to take a decision on 18th December 1978 on the following proposals of the Commission:

- (a) Council Regulation modifying the unit of account used by the EMCF, which introduces the ECU in the operations of the EMCF and defines its composition;
- (b) Council Regulation permitting the EMCF to receive monetary reserves and to issue ECUs to the monetary authorities of the Member States which may use them as a means of settlement;
- (c) Council Regulation on the impact of the European Monetary System on the common agricultural policy. The European Council considers that the introduction of the EMS should not of itself result in any change in the situation obtaining prior to 1st January 1979 regarding the expression in national currencies of agricultural prices, monetary compensatory amounts and all other amounts fixed for the purposes of the common agricultural policy.

The European Council stresses the importance of henceforth avoiding the creation of permanent MCAs and progressively reducing present MCAs in order to re-establish the unity of prices of the common agricultural policy, giving also due consideration to price policy.

6.2 It requests the Commission to submit in good time a proposal to amend the Council Decision of 22nd March 1971 on setting up machinery for medium-term financial assistance to enable the Council (Economics and Finance Ministers) to take a decision on such a proposal at their session of 18th December 1978.

6.3 It requests the central banks of Member States to modify their Agreement of 10th April 1972 on the narrowing of margins of fluctuation between the currencies of Member States in accordance with the rules set forth above (see Section 3).

6.4 It requests the central banks of Member States to modify as follows the rules on short-term monetary support by 1st January 1979 at the latest:

- (a) The total of debtor quotas available for drawings by the Central Banks of Member States shall be increased to an aggregate amount of ECU 7.9 billion.
- (b) The total of creditor quotas made available by the central banks of Member States for financing the debtor quotas shall be increased to an aggregate amount of ECU 15.8 billion.
- (c) The total of the additional creditor amounts as well as the total of the additional debtor amounts may not exceed ECU 8.8 billion.
- (d) The duration of credit under the extended Short-Term Monetary Support may be prolonged *twice* for a period of three months.

B. MEASURES DESIGNED TO STRENGTHEN THE ECONOMIES OF THE LESS PROSPEROUS MEMBER STATES OF THE EUROPEAN MONETARY SYSTEM

1. We stress that, within the context of a broadly based strategy aimed at improving the prospects of economic development and based on symmetrical rights and obligations of all participants, the most important concern should be to enhance the convergence of economic policies

towards greater stability. We request the Council (Economics and Finance Ministers) to strengthen its procedures for co-ordination in order to improve that convergence.

2. We are aware that the convergence of economic policies and of economic performance will not be easy to achieve. Therefore, steps must be taken to strengthen the economic potential of the less prosperous countries of the Community. This is primarily the responsibility of the Member States concerned. Community measures can and should serve a supporting rôle.

3. The European Council agrees that in the context of the European Monetary System, the following measures in favour of the less prosperous Member States effectively and fully participating in the exchange rate and intervention mechanisms will be taken.

3.1 The European Council requests the Community Institutions by the utilisation of the new financial instrument and the European Investment Bank to make available for a period of five years loans of up to EUA 1,000 million per year to these countries on special conditions.

3.2 The European Council requests the Commission to submit a proposal to provide interest rate subsidies of 3 per cent for these loans, with the following element: the total cost of this measure, divided into annual tranches of EUA 200 million each over a period of five years, shall not exceed EUA 1,000 million.

3.3 Any less prosperous Member country which subsequently effectively and fully participates in the mechanisms would have the right of access to this facility within the financial limits mentioned above. Member States not participating effectively and fully in the mechanisms will not contribute to the financing of the scheme.

3.4 The funds thus provided are to be concentrated on the financing of selected infrastructure projects and programmes, on the understanding that any direct or indirect distortion of the competitive position of specific industries within Member States will have to be avoided.

3.5 The European Council requests the Council (Economics and Finance Ministers) to take a decision on the above-mentioned proposals in time so that the relevant measures can become effective on 1st April 1979 at the latest. There should be a review at the end of the initial phase of the EMS.

4. The European Council requests the Commission to study the relationship between greater convergence in economic performance of the Member States and the utilisation of Community instruments, in particular the funds which aim at reducing structural imbalances. The results of these studies will be discussed at the next European Council.

Council Regulation (EEC) No. 3180/78
of 18th December 1978 changing the value of the unit
of account used by the European Monetary Co-operation Fund¹

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Regulation (EEC) No. 907/73 of 3rd April 1973 establishing a European Monetary Co-operation Fund², and in particular the last paragraph of Article 5 of the Statutes of the Fund;

Having regard to the proposal from the Commission;

Having regard to the opinion of the Monetary Committee;

Having regard to the opinion of the Board of Governors of the European Monetary Co-operation Fund;

Whereas Regulation (EEC) No. 907/73, in Article 5 of the Statutes of the Fund, requires the latter's operations in the currencies of the Member States to be expressed in a European monetary unit of account of a value of 0.88867088 gramme of fine gold;

Whereas this definition no longer conforms with the rules in force in the international monetary system;

Whereas, apart from cases in which the value of the European monetary unit of account is changed automatically, the last paragraph of the said Article 5 provides that any other changes shall be decided on by the Council, acting unanimously on a proposal from the Commission, after consulting the Monetary Committee and the Board of Governors of the Fund;

Whereas the establishment of a new European monetary system, which was the subject of the resolution of the European Council meeting

¹ OJ No. L 379, 30. 12. 1978, p. 1.

² OJ No. L 89, 5. 4. 1973, p. 2.

in Brussels on 4th and 5th December 1978, provides for the use of an “ECU” defined as a basket of Member States’ currencies,

HAS ADOPTED THIS REGULATION:

Article 1

With effect from 1st January 1979, the Fund’s operations shall be expressed in a unit of account known as the ECU which is defined as the sum of the following amounts of the currencies of the Member States;

0.828	German mark,
0.0885	pound sterling,
1.15	French francs,
109	Italian lire,
0.286	Dutch guilder,
3.66	Belgian francs,
0.14	Luxembourg franc,
0.217	Danish krone,
0.00759	Irish pound.

Article 2

The Council, acting unanimously on a proposal from the Commission after consulting the Monetary Committee and the Board of Governors of the Fund, shall determine the conditions under which the composition of the ECU may be changed.

Article 3

This Regulation shall enter into force on 1 January 1979.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 18 December 1978.

For the Council
The President
H. Matthöfer

Council Regulation (EEC) No. 3181/78
of 18th December 1978 relating to the European
Monetary System¹

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof;

Having regard to the proposal from the Commission;

Having regard to the opinion of the European Parliament²;

Having regard to the opinion of the Economic and Social Committee³;

Whereas the European Council meeting in Brussels adopted, on 5th December 1978, a resolution setting out the arrangements related to the establishment of the European monetary system which will come into effect from 1st January 1979;

Whereas, in this context, and not later than two years after the start of the system, the existing arrangements and institutions would be merged into a European Monetary Fund; whereas, in the meantime, responsibility for administering the new monetary system should be entrusted initially to the European Monetary Co-operation Fund, set up by Regulation (EEC) No. 907/73⁴;

Whereas, by Regulation (EEC) No. 3180/78, the Council adopted the ECU as the unit of account used by the European Monetary Co-operation Fund;

Whereas, for the system to begin functioning, it is necessary to provide immediately for the creation of a supply of ECUs against part of the

¹ OJ No. L 379, 30. 12. 1978, p. 2

² OJ No. C 296, 11. 12. 1978, p. 62.

³ Opinion delivered on 29th and 30th November 1978 (not yet published in the Official Journal).

⁴ OJ No. L 89, 5. 4. 1973, p. 2.

central banks' reserves placed with the system, and for those ECUs to be used as a means of settlement within the system;

Whereas, in this context, the introduction of the ECU into the operations of the European Monetary Co-operation Fund and its utilisation as a means of settlement are necessary if the objectives pursued by the Community are to be achieved, notably the gradual convergence of Member States' economic policies, the smooth functioning of the common market and the attainment of economic and monetary union; whereas the powers needed to set up the system are not provided for in the Treaty,

HAS ADOPTED THIS REGULATION:

Article 1

The European Monetary Co-operation Fund is hereby empowered to receive monetary reserves from the monetary authorities of the Member States and to issue ECUs against such assets.

Article 2

The Fund and the monetary authorities of the Member States are hereby empowered to use ECUs as a means of settlement and for transactions between those authorities and the Fund.

Article 3

The Board of Governors of the Fund shall take the administrative measures necessary for the implementation of Articles 1 and 2.

Article 4

This Regulation shall enter into force on 1st January 1979.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 18th December 1978.

For the Council
The President
H. Matthöfer