

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.

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.

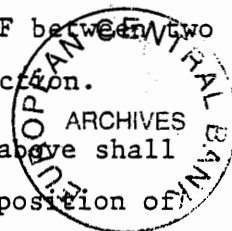
Article 3 - Utilisation of ECUs

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.

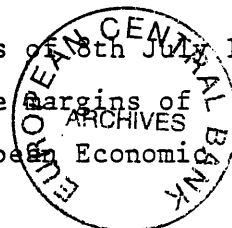
6.2. For this purpose central banks that are net users of ECUs shall bring these back up to a level equal to that of their forward sales and central banks that are net accumulators shall transfer to the net users the excess of their ECU assets over their forward sales either directly or through the intermediary 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 on 13th March 1979.

By the Board of Governors

The Chairman

A handwritten signature in cursive script, which appears to read "C. de Strycker".

C. de Strycker