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Draft

Committee of Alternates

Secretariat



SUPPLEMENTARY REPORT

ON THE ADAPTATIONS TO BE MADE TO THE COMMUNITY EXCHANGE SYSTEM

In pursuance of the mandate which had been assigned to it, the Committee of Governors submitted to the Council of the European Communities a report, dated 8th June 1975, drawn up by the Governors' Alternates, on the suggestions for modifying the Community exchange system put forward by the French Government in a memorandum dated 20th May 1975.

On the basis of this document, the Ministers of Finance and the Governors of the central banks of the EEC countries whose currencies are participating in the "snake", came to an agreement at a meeting in Luxembourg on 16th June 1975; this agreement was brought to the attention of the Council of the European Communities at its meeting on the same day, and the Committee of Governors was entrusted with the task of finalising the details.

The present report has been prepared in response to this new mandate; it thus deals with the changes which it has been agreed to make to the terms applying to very short-term financing of interventions in Community currencies and the settlement of balances resulting from such interventions.

I. ALTERATION OF THE TERMS APPLYING TO VERY SHORT-TERM FINANCING OF INTERVENTIONS
IN COMMUNITY CURRENCIES

Under the existing rules, very short-term financing operations are without limitation as to amount but limited as to duration (45 days on average); they have in fact to be settled on the last working day of the

month following that in which their value date fell and can only be renewed for three months with the consent of the creditor central banks.

Henceforth this three-month renewal will be granted automatically to any debtor central bank on request; however, two limits are set to the use of this additional automatic facility:

- the amount involved may not exceed the beneficiary central bank's debtor quota in the short-term monetary support arrangement,
- not more than six months' continuous recourse may be had to the facility.

The limitation as to amount is sufficiently clear and does not call for comment. On the other hand, as regards the limit on the length of use, the Governors specifically point out that:

- no recourse at all may be had to the facility after six months of continuous use, regardless of the amount used during each of the six consecutive months,
- the automatic renewal is normally for three months, but must be reduced to two months or one month where necessary to keep in line with the limit on continuous use,
- the length of compulsory abstention from recourse to the facility is limited to one month.

The great majority of Governors feel that this obligation only applies to the automatic renewal facility, i.e. that, after one month's abstention, that facility would become available again.

In the opinion of some Governors, however, the facility:

- would, after six months' continuous use, only become available again if the debtor central bank had not, for a period of one month, recorded any debtor position in respect of any type of intra-Community credit within the EMCF,
- could not be used at the same time as short-term monetary support is being received.

II. ALTERATION OF THE CONDITIONS GOVERNING THE SETTLEMENT OF BALANCES RESULTING FROM INTERVENTIONS IN COMMUNITY CURRENCIES

In accordance with the French proposal, which was adopted in the agreement of 16th June 1975, gold will for the time being be excluded from the calculations of gross reserves which serve as a basis for intra-Community settlements and from the means of settlement for which there is an acceptance obligation on the part of creditors. It would still be possible, however, to use gold on a voluntary basis and on conditions fixed by mutual agreement between the parties concerned to replace any other settlement instrument.

The exclusion of gold from the calculations of gross reserve assets held by central banks means that the first category of assets, which comprised gold, reserve positions in the International Monetary Fund and special drawing rights, will henceforth only include the latter two types of assets, with the second category consisting, as before, of assets in currencies (dollars and other currencies). As a result there will be a decline in the portion to be settled in assets of the first category and an increase in that to be settled in currency assets.

The debtor central bank will continue to be able to choose which components within each of these two categories of reserves it wishes to transfer in settlement.

III. INTRODUCTION OF THE ALTERATIONS

At their meeting on 8th July 1975, the Governors of the EEC central banks adopted the necessary provisions for implementation of the agreement of 16th June 1975 on the adaptations to be made to the Community exchange system.

These provisions, of which the underlying principles are set out in sections I and II above, took the form, in particular, of a Decision of the Board of Governors of the European Monetary Co-operation Fund amending the articles of the First Directive to the Agent of the Fund concerning very short-term financing operations for interventions in Community currencies and the settlement of balances resulting from these interventions, in order that these operations may be carried out by the central banks and entered in the books by the Agent in accordance with the new rules.

As regards the date of their application, it has been agreed that interventions in Community currencies carried out during the month of July 1975 - for which the initial settlement date for the normal very short-term financing will be at the end of the month of August - will come under the new arrangements.