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**IMMEDIATE
ATTENTION**

EBS/00/222

CONFIDENTIAL

November 8, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **European Central Bank—Application to Become a Holder of SDRs**

Attached for consideration by the Executive Directors is a paper on the European Central Bank's application to become a holder of SDRs.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Wednesday, November 15, 2000. In the absence of such a request, the draft decision that appears on page 3 will be deemed approved by the Executive Board, and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mrs. Ecevit (ext. 37582) and Mrs. Dunn (ext. 38248).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

**The European Central Bank:
Application to Become a Holder of SDRs**

Prepared by the Treasurer's Department
(In consultation with the Legal Department)

Approved by Eduard Brau

November 8, 2000

1. The European Central Bank (ECB) has applied to the IMF for prescription as a holder of SDRs in accordance with Article XVII, Section 3, of the Articles of Agreement and following consultation between representatives of the ECB and the IMF staff. A prescription can be made by a decision of the Executive Board taken with an 85 percent majority of the total voting power of participants in the SDR Department.¹ The formal letter of application from the ECB is attached.

2. The ECB and the European System of Central Banks (ESCB) were established in June 1998. The ESCB is composed of the ECB and the national central banks (NCBs) of all 15 EU Member States.² The NCBs of the EU Member States which have adopted the euro as their currency, together with the ECB, are referred to as the "Eurosystème". In accordance with the Treaty establishing the European Community (the EC Treaty) and the Statute of the European System of Central Banks and of the European Central Bank (the Statute), the primary objective of the Eurosystème is to maintain price stability. Both the Treaty and the Statute further provide that, without prejudice to this objective, it shall support the general economic policies in the Community and act in accordance with the principles of an open market economy.

¹ The Articles provide for separation between the General and the SDR Departments. Although all current members of the Fund are participants in the SDR Department, joining the latter is not mandatory. Accordingly, decisions on matters that pertain only to the SDR Department are identified as such, and a member that was not a participant would not vote on such a decision.

² The NCBs of the Member States, which do not participate in the euro area, are part of the ESCB with a special status—while they are allowed to conduct their respective national monetary policies, they do not take part in the decision-making with regard to the single monetary policy for the euro area and the implementation of such decisions.

The basic tasks to be carried out by the Eurosystem are:

- to define and implement the monetary policy of the euro area;
- to conduct foreign exchange operations;³
- to hold and manage the official reserves of the Member States; and
- to promote the smooth operation of payment systems.

3. Article 30.5 of the Statute provides that the “ECB may hold and manage IMF reserve positions and SDRs and provide for the pooling of such assets.” The holding and management of SDRs requires the ability to acquire and use SDRs. The ECB as a prescribed holder of SDRs could hold, accept and use SDRs with the same freedom to deal in SDRs as is available to participants in transactions and operations by agreement with other participants. The only limitation that applies to a prescribed holder is that it may not use SDRs in transactions with designation nor be eligible to receive SDR allocations.

4. The Fund’s Articles of Agreement provide for the possibility that an institution that performs the functions of a central bank for more than one member be prescribed as an “other holder” of SDRs.⁴ At present, four institutions that perform functions of a central bank for more than one country have been prescribed as other holders of SDRs.⁵ The ECB is an official entity and prescription of this institution as a holder of SDRs would be consistent with the Articles of Agreement. In the view of the staff, the proposed prescription of the ECB as a holder of SDRs would contribute to the further development of the role of the SDR and the effective functioning of the SDR Department.

5. The letter of application (Attachment I) indicates that the ECB wishes to be authorized to receive and use SDRs in accordance with the terms and conditions governing the acceptance, holding, and use of SDRs by holders generally. These terms and conditions are currently set out in Executive Board Decision No. 6467-(80/71) S, adopted April 14, 1980 (Attachment II).

³ Consistent with the provisions of Article 111 of the EC Treaty (see Article 3.1. of the Statute).

⁴ Article XVII, Section 3 (i).

⁵ The four institutions are: the Bank for International Settlements (BIS); the Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO); the Banque des Etats de l’Afrique Centrale (BEAC); and the Eastern Caribbean Central Bank (ECCB).

Recommended decision

Accordingly, the following draft decision on a matter pertaining exclusively to the SDR Department is proposed for adoption by the Executive Board:

**Decision Prescribing the European Central Bank
as a Holder of SDRs**

Prescription as a holder

The European Central Bank is prescribed, in accordance with Article XVII, Section 3(i) of the Articles of Agreement, as a holder of SDRs.

Terms and conditions for acceptance, holding, and use of SDRs

The European Central Bank is authorized to accept, hold, and use SDRs in transactions and operations in accordance with and on the terms and conditions specified in Executive Board Decision No. 6467-(80/71) S, adopted April 14, 1980 ("Terms and Conditions for the Acceptance, Holding, and Use of Special Drawing Rights by Other Holders Prescribed under Article XVII, Section 3").

Attachments

Dr. W. F. DUISENBERG
President

17 October 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler,

I hereby submit an application for the European Central Bank (ECB) to be prescribed by the International Monetary Fund (IMF) as a holder of SDRs.

The ECB would wish to become a holder of SDRs and to have the authority to hold SDRs and to accept and use them in transactions and operations to the same extent and subject to the same conditions as participants among themselves.

All communications between the ECB and the IMF regarding the ECB's acceptance, holding, and use of SDRs, including the ECB's agreement to the terms and conditions prescribed by the IMF, shall be legally binding on the ECB and IMF if authenticated in a manner agreed between the ECB and the Fund.

The ECB as holder of SDRs would be prepared to consult with the IMF and would undertake to collaborate with the IMF, participants in the SDR Department, and other prescribed holders of SDRs, as necessary, in order to facilitate the effective functioning of the SDR Department and the proper use of SDRs.

Yours sincerely,

/s/

Received in Fund on October 24, 2000

Decision No. 6467-(80/71) S
Adopted April 14, 1980

The terms and conditions on which other holders prescribed by the Fund may accept, hold or use SDRs are as follows:

1. Acceptance, Holding, and Use by Prescribed Holders

(a) Acceptance and use

A prescribed holder may accept or use special drawing rights (i) in exchange for an equivalent amount of a monetary asset other than gold in a transaction entered into by agreement with a participant, or another prescribed holder, or (ii) in an operation entered into by agreement with a participant or another prescribed holder in accordance with and on the same terms and conditions established at that time for participants by decisions of the Fund under Article XIX, Section 2(c).

(b) Holding

A prescribed holder may hold special drawing rights, subject to the provisions of this decision, accepted in accordance with (a) above or received as interest paid on its holdings of special drawing rights in accordance with Article XX, Section 1.

2. Acceptance and Use by Participants in Transactions and Operations with Prescribed Holders

Participants may enter into transactions and operations by agreement with a prescribed holder in accordance with the prescriptions in paragraph 1(a) of this decision.

3. Application of General Provisions

The holding of special drawing rights and the acceptance and use of them in transactions and operations by a prescribed holder shall be governed by the provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply from time to time to all holders of special drawing rights.

4. Exchange Rates

The Rules and Regulations and decisions of the Fund that determine the exchange rates applicable at the time of each use or acceptance of special drawing rights by a participant shall apply to each use or acceptance of them by a prescribed holder. A prescribed holder shall not levy any charge or commission in respect of a transaction involving special drawing rights.

5. Information and Recording

The Fund shall inform prescribed holders of matters relevant to the acceptance, holding, and use of special drawing rights by them. A prescribed holder shall inform the Fund promptly of the facts necessary to record any transactions or operations in which a prescribed holder accepts or uses special drawing rights.

6. Consultation and Review

(a) Consultation between the Fund and a prescribed holder shall be held at the request of the Fund or the prescribed holder with respect to the application of this decision or the decision prescribing the holder or with respect to transactions or operations entered into involving special drawing rights.

(b) The Executive Board shall review periodically this decision and decisions prescribing holders.

7. General Undertaking

Each prescribed holder shall collaborate with the Fund, participants, and other prescribed holders with respect to its acceptance, holding, and use of special drawing rights in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with the Articles and the terms and conditions prescribed by the Fund now or in the future for the acceptance, holding, and use of special drawing rights by prescribed holders.

8. Suspension

During any period in which a suspension is in effect under Article XXIII, Section 1 with respect to participants, the suspension shall apply to the same extent to prescribed holders.

9. Termination

(a) The prescription of a holder of special drawing rights may be terminated by the Fund by a decision of the Executive Board or by a notice from the prescribed holder in writing to the Fund at its principal office. Termination shall become effective on the date specified in the decision of the Executive Board but not earlier than the date of the decision, or when notice from the prescribed holder is received by the Fund at its principal office.

(b) A prescribed holder whose status as such has been terminated may continue to hold the special drawing rights it held on termination and to receive special drawing rights as interest on its holdings and may continue to use special drawing rights to dispose of them in transactions or operations in accordance with paragraph 1(a) above. A prescribed holder whose status has been terminated shall make arrangements, with the concurrence of the Fund, to dispose of its holdings of special drawing rights as expeditiously as possible, and

shall exchange special drawing rights for a freely usable currency selected by the prescribed holder when requested by the Fund.

