

21st November 1990

To the members of the Committee of Governors

Please find attached the draft Statute and the Commentary which have been revised in the light of your written comments. Apart from some minor editorial changes, all proposed amendments have been marked in the texts, with the old wording being crossed out and new wording being shown by underlining (in the draft Statute; see Articles 10.2, 12.1, 14.1, 14.4 and 35.1) and italics (in the Commentary; see Articles 3, 4, 7, 10, 14, 21, 30, 31 and Chapter VII).

The Chairman of the Alternates, M. Rey, will call a telephone conference (to be held at the level of Alternates) on Friday, 23rd November 1990, at 11.45 a.m. in order to come to an agreement on the final text.

The Secretariat has so far not yet received comments on the drafts of the "Introductory Reports" and the "letter of transmittal", sent to you on 19th November. However, the Deutsche Bundesbank has proposed the following change which should be discussed at the telephone conference:

The last sentence of paragraph (a) on page 9 of the Introductory Report should (together with the Annex I) be deleted and replaced by the following formulation: "The Treaty itself should include an Article which refers to the establishment of the System comprising the ECB and the national central banks, its primary objective of price stability, its tasks as well as its independence."

With kind regards,



Gunter D. Baer

Committee of Governors of the  
Central Banks of the Member States  
of the European Economic Community

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DRAFT STATUTE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS

AND OF

THE EUROPEAN CENTRAL BANK

21ST NOVEMBER 1990

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## CHAPTER I - CONSTITUTION OF THE SYSTEM

### Article 1 - The System

Pursuant to Article ... of the EEC Treaty, a system, consisting of a central institution to be known as "The European Central Bank" (hereinafter "the ECB") and of the participating central banks of the Member States of the Community (hereinafter "national central banks"), is hereby established and shall be known as the "European System of Central Banks" (hereinafter the "System").

## CHAPTER II - OBJECTIVES AND TASKS OF THE SYSTEM

### Article 2 - Objectives

2.1 The primary objective of the System shall be to maintain price stability.

2.2 Without prejudice to the objective of price stability, the System shall support the general economic policy of the Community.

2.3 The System shall act consistently with free and competitive markets.

### Article 3 - Tasks

The basic tasks to be carried out through the System shall be:

- to formulate and implement the monetary policy of the Community;
- to conduct foreign exchange operations in accordance with the prevailing exchange rate regime of the Community as referred to in Article 4.3;
- to hold and manage [the] official foreign reserves of the participating countries;
- to ensure the smooth operation of payment systems;
- to participate as necessary in the formulation, co-ordination and execution of policies relating to prudential supervision and the stability of the financial system.

Article 4 - Advisory functions

4.1 The ECB shall be consulted regarding any draft Community legislation and any envisaged international agreements in the monetary, prudential, banking or financial field. In accordance with Community legislation, the ECB shall be consulted by national authorities regarding any draft legislation within its field of competence.

4.2 The ECB may give opinions to any Community or national authority on matters within its field of competence.

4.3 The ECB shall be consulted with a view to reaching consensus, consistent with the objective of price stability, prior to any decision relating to the exchange rate regime of the Community, including, in particular, the adoption, abandonment or change in central rates [or exchange rate policies] vis-à-vis third currencies.

4.4 The ECB may publish its opinions.

Article 5 - Collection of statistical information

5.1 In order to undertake the tasks of the System, the ECB, assisted by the national central banks, shall collect the necessary statistical information either from the competent national authorities or directly from economic agents. For these purposes, it shall co-operate with the competent authorities of the Community, the Member States or third countries and with international organisations.

5.2 The national central banks shall carry out, to the extent possible, the tasks described in Article 5.1.

5.3 The ECB shall promote the harmonisation, where necessary, of the conditions governing the collection, compilation and distribution of statistics in the areas within its field of competence. Community legislation shall define the natural and legal persons subject to reporting requirements, the confidentiality regime and the appropriate provisions for enforcement.

Article 6 - International co-operation

6.1 In the field of international co-operation involving the tasks entrusted to the System, the ECB shall decide whether the System shall be represented by the ECB and/or the national central banks.

6.2 The ECB and, subject to its approval, the national central banks may participate in international monetary institutions.

CHAPTER III - ORGANISATION OF THE SYSTEM

Article 7 - Independence

In exercising the powers and performing the tasks and duties conferred upon them by the Treaty and this Statute, neither the ECB nor a national central bank nor any member of their decision-making bodies may seek or take any instructions from Community institutions, governments of Member States or any other body. The Community and each Member State undertake to respect this principle and not to seek to influence the ECB, the national central banks and the members of their decision-making bodies in the performance of their tasks.

Article 8 - General principle

The System shall be governed by the decision-making bodies of the ECB.

Article 9 - The European Central Bank

9.1 The ECB is hereby established and shall have legal personality.

9.2 In each of the Member States the ECB shall enjoy the most extensive legal capacity accorded to legal persons under their laws; it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings.

9.3 The property of the ECB shall be exempt from all forms of requisition or expropriation.

Disputes between the ECB, on the one hand, and its creditors, debtors or any other person, on the other, shall be decided by the competent national courts, save where jurisdiction has been conferred on the Court of Justice.

9.4 The function of the ECB shall be to ensure that the tasks conferred upon the System under Article 3 shall be implemented either by its own activities pursuant to this Statute or through the national central banks pursuant to Article 14.

9.5 The decision-making bodies of the ECB shall be the Council and the Executive Board.

Article 10 - The Council

10.1 The Council shall comprise the President, the Vice President, the other members of the Executive Board and the Governors of the national central banks.

10.2 Subject to Article 10.3, only members of the Council present in person shall have the right to vote. Each member shall have one vote. The Rules of Procedure referred to in Article 12.3 ~~may~~ shall provide that a member of the Council who is prevented from voting for a prolonged period may appoint an alternate as a member of the Council.

Save as otherwise provided for in the Statute, the Council shall act by a simple majority. In the event of a tie, the President shall have the casting vote.

In order for the Council to vote, there shall be a quorum of two-thirds of the members. If the quorum is not met, the President may convoke an extraordinary meeting at which decisions may be taken without regard to the quorum referred to above.

10.3 Weighted voting shall apply in accordance with the provisions of Article 28. If a Governor is unable to be present, he may nominate an alternate to cast his weighted vote.

10.4 The proceedings of the meetings shall be confidential. The Council may decide to make the outcome of its deliberations public.

10.5 The Council shall meet at least ten times a year.

Article 11 - The Executive Board

11.1 The Executive Board shall comprise the President, the Vice-President and four other members.

The members of the Executive Board shall be selected among persons of recognised standing and professional experience in monetary or banking matters.

The members shall perform their duties on a full-time basis. No member shall, without approval of the Council, receive a salary or other form of compensation from any source other than the ECB or occupy any other office or employment, whether remunerated or not, except as a nominee of the ECB.



11.2 The President and the Vice-President shall be appointed for a period of eight years by the European Council, after the Council has given its opinion, and after consultation with the European Parliament.

11.3 The other members of the Executive Board shall be appointed, for a period of eight years, by the European Council after the Council has given its opinion.

11.4 The terms and conditions of employment of the members of the Executive Board, in particular their salaries, pensions and other social security benefits shall be laid down in contracts with the ECB and shall be fixed by the Council on the proposal of a Committee comprising three members appointed by the Council and three members appointed by the Council of the European Communities. The members of the Executive Board shall not have the right to vote on matters referred to in this paragraph.

11.5 If a member of the Executive Board no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct, the Court of Justice may, on application by the Council or the Executive Board, compulsorily retire him.

11.6 Each member of the Executive Board present in person shall have the right to vote and shall have, for that purpose, one vote. Save as otherwise provided, the Executive Board shall act by a simple majority of the votes cast. In the event of a tie, the President shall have the casting vote. The voting arrangements will be specified in the Rules of Procedure referred to in Article 12.3.

11.7 The Executive Board shall administer the ECB.

#### Article 12 - Responsibilities of the decision-making bodies

12.1 The Council shall take the decisions necessary to ensure the performance of tasks entrusted to the System under the present Statute. The Council shall formulate the monetary policy of the Community including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the System, and shall establish the necessary guidelines for their implementation.

[The Council shall delegate to the Executive Board such necessary operational powers as it thinks fit for implementing the monetary policy decisions and guidelines. The Council may delegate other powers as it may

specify to the Executive Board.] [The Executive Board shall implement monetary policy in accordance with the decisions and guidelines laid down by the Council. ~~The Council may delegate powers as it may specify to the Executive Board.]~~

12.2 When implementing monetary policy in accordance with the decisions and guidelines established by the Council, the Executive Board shall give the necessary instructions to national central banks.

The Executive Board shall have responsibility for the preparation of Council meetings.

12.3 The Council shall adopt Rules of Procedure which determine the internal organisation of the ECB and its decision-making bodies.

12.4 The Council shall exercise the advisory functions referred to in Article 4.

12.5 The Council shall take the decisions referred to in Article 6.

#### Article 13 - The President

13.1 The President, or, in his absence, the Vice President shall chair the Council and the Executive Board of the ECB.

13.2 The President or his nominee shall represent the ECB externally.

#### Article 14 - National central banks

14.1 The Member States shall ensure that their national legislation including the statutes of the national central banks is compatible with this Statute and the EEC Treaty.

14.2 The statutes of the national central banks shall in particular provide that the Governor of a national central bank is appointed by the national authorities of the Member State after consultation with the Council. The term of office shall be no less than 5 years. The Governor may be relieved from office only for serious cause resting in his person. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Council.

14.3 Subject to Article 14.5, the national central banks are an integral part of the System and shall act in accordance with the guidelines and instructions of the ECB.

The Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and shall require that any necessary information be given to it.

14.4 [The Executive Board shall, to the extent possible and appropriate, make use of the national central banks in the execution of the operations arising out of the System's tasks.] [To the full extent possible in the judgement of the Council, the national central banks shall execute the operations arising out of the System's task.]

The Banque de France proposes reversing the order of the bracketed sentences.

14.5 National central banks may perform on their responsibility and liability functions other than those specified in this Statute unless the Council finds, by a qualified majority of two-thirds of the votes cast, that these interfere with the objectives and tasks of the System. Such functions shall not be regarded as being part of the System.

14.6 For the purpose of this Statute, the Institut Monétaire Luxembourgeois shall be regarded as a national central bank.

Article 15 - Inter-institutional co-operation and reporting commitments

15.1 The President of the Council of the European Communities and a Member of the Commission may attend meetings of the Council. They may take part in the Council's deliberations but not in the voting.

15.2 The President of the ECB shall be invited to participate in meetings of the European Council and Council of the European Communities when matters relating to the System's objectives and tasks are discussed.

15.3 The ECB shall draw up an annual report on the activities of the System and on the monetary policy of both the previous and current year at a date to be established in the Rules of Procedure. The President shall present the annual report to the European Council, the Council of the European Communities and the European Parliament. The President and members of the Executive Board may attend meetings of the European Parliament's specialised committees, if circumstances justify.

15.4 The ECB shall draw up reports on the activities of the System at regular intervals. These reports and statements are to be published and to be made available to interested parties free of charge.

15.5 A consolidated financial statement of the System shall be published each week.

CHAPTER IV - MONETARY FUNCTIONS AND OPERATIONS OF THE SYSTEM

Article 16 - Notes and coins

16.1 The Council shall have the exclusive right to authorise the issue of notes within the Community. The notes issued by the ECB and the national central banks shall be the only notes to have legal tender status.

16.2 Provisions concerning the legal tender status of Community currencies shall be established according to the Community legislation. The Council shall make the necessary arrangements for the exchange of notes denominated in Community currencies by the national central banks at par value.

16.3 The volume and denomination of coins issued within the Community shall be subject to approval of the Council. The coins shall be put into circulation by the ECB and/or the national central banks.

Article 17 - Accounts with the ECB and the national central banks

In order to conduct their operations, the ECB and the national central banks may open accounts for credit institutions, public entities and other market participants and accept assets including book-entry securities as collateral.

Article 18 - Open market and credit operations

18.1 In order to achieve the objectives of the System and to carry out its tasks, the ECB and the national central banks shall be entitled:

- to operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement claims and marketable instruments, whether in Community or in foreign currencies, as well as precious metals;
- to conduct credit operations with credit institutions and other market participants [with lending being based on adequate collateral].

18.2 The ECB shall establish general principles for open market and credit operations carried out by itself or the national central banks including the announcement of conditions under which they stand ready to enter into such transactions.

Article 19 - Minimum reserves

The ECB shall be entitled to require credit institutions to hold minimum reserves on accounts with the ECB and national central banks. Regulations concerning the calculation and determination of the required minimum reserves shall be established by the Council. In cases of non-compliance the ECB shall be entitled to levy penalty interest and to take steps to pursue the matter in the supervisory sphere.

Article 20 - Other instruments

The Council may decide, by qualified majority of two-thirds of the votes cast, upon the use of such other operational methods of monetary control as it sees fit.

Article 21 - Operations with public entities

21.1 The ECB and national central banks shall not grant overdrafts or any other type of credit facility to Community institutions, governments or other public entities of Member States or purchase debt instruments directly from them.

21.2 The ECB and national central banks may act as fiscal agents for Community institutions, governments or other public entities of Member States.

21.3 The function of fiscal agent shall comprise all banking transactions except those referred to in paragraph 1 of this Article.

21.4 Community institutions, governments and other public entities of Member States for which the ECB and national central banks act as fiscal agents shall issue debt instruments either through the System or in consultation with it.

21.5 The provisions under this Article shall not apply to publicly-owned credit institutions.

Article 22 - Clearing and payment systems

The ECB and national central banks may provide facilities, and the ECB may issue regulations to ensure efficient and sound clearing and payment systems inside the Community and with third countries.

Article 23 - External operations

The ECB and the national central banks shall be entitled:

- to establish relations with central banks and financial institutions in third countries and, where appropriate, with international and supranational organisations;
- to acquire and sell spot and forward all types of foreign exchange assets and precious metals. The term "foreign exchange asset" shall include securities and all other assets in currency of any country or units of account and in whatever form held;
- to hold and manage the assets defined above;
- to conduct all types of banking transactions in relation to third countries and international and supranational organisations, including borrowing and lending operations.

Article 24 - Other operations

In addition to operations arising from their tasks, the ECB and the national central banks may enter into operations that serve their administrative purposes or for their staff.

CHAPTER V - PRUDENTIAL SUPERVISION

Article 25 - Supervisory tasks

25.1 The ECB shall be entitled to offer advice and to be consulted on the interpretation and implementation of Community legislation relating to the prudential supervision of credit and other financial institutions and financial markets.

25.2 The ECB may formulate, interpret and implement policies relating to the prudential supervision of credit and other financial institutions for which it is designated as competent supervisory authority.

CHAPTER VI - FINANCIAL PROVISIONS OF THE SYSTEM

Article 26 - Financial accounts

26.1 The financial year of the ECB and the national central banks shall begin on the first day of January and end on the last day of December.

26.2 The annual accounts of the ECB shall be drawn up by the Executive Board in accordance with the principles established by the Council. The accounts shall be approved by the Council and shall thereafter be published.

26.3 For analytical and operational purposes, the Executive Board shall draw up a consolidated balance sheet of the System, comprising the assets and liabilities of the ECB and those assets and liabilities of the national central banks that fall within the System.

26.4 For the application of this Article, the Council shall establish the necessary rules for standardising the accounting and reporting of operations undertaken by the national central banks.

#### Article 27 - Auditing

27.1 The accounts of the ECB and the national central banks shall be audited by independent external auditors recommended by the Council and approved by the Council of the European Communities. The auditors shall have full power to examine all books and accounts of the ECB and national central banks, and to be fully informed about their transactions.

27.2 The provisions of Articles 203 and 206a of the Treaty shall not apply to the ECB or to the national central banks.

#### Article 28 - Voting on financial matters

28.1 For any decisions to be taken under Articles 29 to 32, the votes in the Council shall be weighted according to the key attached to the Statute. A decision by a qualified majority shall be deemed to be approved if it carries [...] votes out of the total of [...].

28.2 The key referred to in paragraph 1 shall be reviewed every [5] [10] years and may be modified in accordance with the simplified amendment procedure laid down in Chapter IX. The review shall take into consideration changes in the criteria on which the key was established.

#### Article 29 - Capital of the ECB

29.1 The capital of the ECB shall, upon its establishment, be ecu [x] million. The capital may be increased from time to time by such amounts as may be decided by the Council acting by qualified majority.

29.2 The national central banks shall be the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key attached to this Statute.

29.3 The Council, acting by qualified majority, shall determine the extent to which and the form in which capital shall be paid-up.

29.4 The shares of the national central banks in the subscribed capital of the ECB may not be transferred, pledged or attached other than in accordance with a decision taken by the Council.

29.5 If the key attached to this Statute is modified in accordance with Article 28.2, the national central banks shall transfer among themselves capital shares to the extent necessary to ensure that the distribution of capital shares corresponds to the revised key. The Council shall determine the terms and conditions of such transfers.

Article 30 - Transfer of foreign reserve assets to the ECB

30.1 Without prejudice to the provisions of Article 29, the ECB shall be endowed by the national central banks with foreign reserve assets, other than Community currencies and ecus, up to an amount equivalent to ecu (x). The Council shall decide about the proportion to be called up by the ECB at the entry into force of this Statute and the amounts called up at later dates.

30.2 The contributions of each national central bank shall be fixed in accordance with the key attached to this Statute.

30.3 Each national central bank shall be credited by the ECB with a claim equivalent to its contribution. The Council shall determine the denomination and remuneration of such claims.

30.4 Further calls of foreign reserve assets beyond the limit set in Article 30.1 may be effected by the ECB in accordance with Community legislation.

30.5 The ECB shall be authorised to accept the pooling of IMF reserve positions and SDRs.

30.6 The Council shall determine all other conditions required for the application of this Article.



Article 31 - Foreign reserve assets held by national central banks

31.1 The national central banks shall be allowed to perform transactions in fulfilment of the obligations towards international organisations in accordance with Article 23.

31.2 All other operations in foreign reserve assets remaining with the national central banks after the transfers referred to in Article 30 shall be subject to approval by the ECB in order to ensure consistency with the exchange rate and monetary policies of the Community.

31.3 The Council shall issue guidelines with a view to facilitating such operations.

Article 32 - Distribution of income of the System and allocation of net profits and losses of the ECB

To be drafted.

CHAPTER VII - GENERAL PROVISIONS

Article 33 - Regulatory powers

33.1 The Council and the Executive Board shall, in accordance with their respective responsibilities, make regulations and take decisions, necessary for the performance of tasks entrusted to the System under the present Statute.

33.2 To be drafted. (Conditions of motivation, publication, entering into force, notification and enforceability of the regulations and decisions referred to in Article 33.1.)

Article 34 - Enforcement

The ECB and national central banks shall be entitled to impose sanctions on market participants and other economic agents which fail to comply with their obligations under regulations and decisions issued under this Statute.

Article 35 - Judicial control and related matters

35.1 The acts of the ECB shall be open to review and interpretation by the Court of Justice under the conditions laid down for the legal control of the acts of Community institutions and in case of failure the ECB may institute proceedings in the same conditions as Community institutions. Articles 173 to ~~176~~ 178, 183 and 184 of the EEC Treaty shall be applicable accordingly.

35.2 The ECB shall be subject to the liability regime as provided for in Article 215 of the EEC Treaty.

35.3 The Court of Justice shall have jurisdiction to give judgement pursuant to any arbitration clause contained in a contract concluded by or on behalf of the ECB, whether that contract be governed by public or private law.

35.4 The decision of the ECB to bring action before the Court of Justice shall be taken by the Council.

35.5 The national central banks shall be liable according to their respective national laws.

Article 36 - Staff

36.1 The Council of the ECB, on a proposal from the Executive Board, shall lay down the Staff Regulations of officials and the Conditions of Employment of other servants of the ECB.

The Court of Justice shall have jurisdiction in any dispute between the ECB and its servants within the limits and under the conditions laid down in the Staff Regulations and the Conditions of Employment.

36.2 The Staff Regulations shall include the conditions of recruitment and promotion, the salaries, pensions and other social security benefits, the limitation of external activities, the Unions' rights and their relations with the Executive Board, the exchange of staff members from the national central banks.

Article 37 - Seat

The seat of the ECB shall be established at (....).

Article 38 - Professional secrecy

38.1 Members of the governing bodies, officials and other servants of the ECB and the national central banks shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.

38.2 Persons having access to data covered by specific secrecy Community legislation shall be subject to such legislation.

Article 39 - Privileges and immunities

The Protocol on the privileges and immunities of the European Community shall apply to the ECB, the members of its decision-making bodies, its officials and other servants to the extent necessary for the performance of the ECB's tasks.

CHAPTER VIII - TRANSITIONAL PROVISIONS FOR THE SYSTEM

To be drafted.

CHAPTER IX - AMENDMENT AND COMPLEMENTARY PROVISIONS FOR THE SYSTEM

Article 40 - Simplified amendment procedure

To be drafted.

Article 41 - Complementary legislation

To be drafted.



Committee of Governors of the  
Central Banks of the Member States  
of the European Economic Community

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DRAFT STATUTE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS

AND OF

THE EUROPEAN CENTRAL BANK

(COMMENTARY)

21st NOVEMBER 1990

## CHAPTER I - CONSTITUTION OF THE SYSTEM

### Article 1 - The System

This Article states that the European System of Central Banks (to be known as the "System") is composed of the European Central Bank - the ECB - and the participating central banks of the Member States of the Community. In accordance with Article 14.6, the Institut Monétaire Luxembourgeois shall be regarded as a national central bank.

The System does not enjoy legal personality but its constituent parts have separate legal personality. This implies that only the ECB and the national central banks, but not the System as such, can own, buy and sell assets, contract and sue or be sued. The term "System" should thus be understood to describe the existence of the ECB and the national central banks as integral parts of the System, governed by a common set of rules and committed to the objectives and tasks assigned to it.

For the ECB, the capacity to perform legal acts is established explicitly in Article 9 of the Statute. The national central banks will retain their legal personality in accordance with national law. However, national legislation including the statutes of the national central banks will have to be made compatible with the Statute and the EEC Treaty (see Article 14.1).

Neither the System nor the ECB are to be classified as a Community institution under Article 4, paragraph 1 of the EEC Treaty. Instead, it is suggested to refer to the establishment of the System in a new paragraph of this Article. In order to avoid any legal uncertainty arising from the possible application to the System of general provisions relating to Community institutions, Chapter VII includes the necessary provisions governing the general aspects of the System.

Article 1 refers specifically to "participating" central banks. However, there is no agreement on the definition of participation. All but one of the Community central banks consider that a participating central bank is one whose Member State has become a member of the Economic and Monetary Union or has fully accepted the objectives of economic and monetary union and has pledged to become a member as soon as possible. For a Member State which will join the Economic and Monetary Union after the start of Stage Three, Chapter VIII will contain transitional provisions describing the restricted rights and obligations of its central bank pending its full participation in

the System. The Bank of England, while accepting this definition for Stage Three, i.e. after Economic and Monetary Union has been achieved, considers that a participating central bank should also be one which has accepted the obligations of membership of the System as it may have evolved before entry into Stage Three.

## CHAPTER II - OBJECTIVES AND TASKS OF THE SYSTEM

### Article 2 - Objectives

Article 2.1 expresses the unequivocal commitment to maintain price stability as the primary objective of the System. However, since monetary policy is not considered to be conducted in isolation of other economic policy objectives, Article 2.2 explicitly states that without prejudice to the objective of price stability, the System shall support the general economic policy of the Community. Article 2.3 confirms the adherence of the System to the fundamental principle of a market-based economy.

### Article 3 - Tasks

Article 3 lists the basic tasks which are normally associated with the activities of a central bank. In order to attain the objectives stated in Article 2, the System will have the exclusive responsibility for the formulation and implementation of the monetary policy of the Community. In addition, foreign exchange market operations will be conducted in accordance with the Community's exchange rate regime as referred to in Article 4.3 and the System will hold and manage [the] official foreign reserves of the participating countries. All except one of the Community central banks agreed on the need to bring all official foreign reserve assets (*including gold*) of the participating countries into the System (i.e. into the national central banks) not later than at the beginning of Stage Three. This would require a Treaty provision according to which all foreign reserve assets held by official non-central bank bodies should be transferred to the national central banks of the countries concerned before the start of Stage Three (see also comments on Article 31). The reason for bringing all such assets into the System is to ensure that exchange rate and monetary policy operations are not affected by transactions in official foreign reserve assets undertaken by official bodies outside the System. The Bank of England,

which does not hold the official foreign reserves of the United Kingdom, sees no need for bringing such reserves into the System.

Other tasks listed in Article 3 entrust the System to perform functions in the context of clearing and payment systems (see Article 22) and to participate as necessary in the formulation, co-ordination and execution of policies relating to prudential supervision and the stability of the financial system (see Chapter V).

Albeit not specifically referred to in Article 3, other tasks may be conferred upon the System by the simplified amendment procedure referred to in Article 40 in Chapter IX. However, the establishment of new tasks should not be at variance with the System's objectives stated in Article 2.

#### Article 4 - Advisory functions

Article 4, which confers upon the ECB advisory functions, ensures that the System is involved in all matters relating - directly or indirectly - to its field of activity. As stated in Article 12.4, the advisory functions will be exercised by the Council.

Article 4.1 establishes the obligation for the Community and national authorities to consult the ECB regarding all draft legislation, which falls within its field of competence. The obligation for the Member States to consult the ECB before adopting national legislation calls for Community legislation. Whenever reference is made in the Statute to Community legislation the procedure for complementary legislation referred to in Chapter IX (Article 41) is to be applied.

Article 4.3 is closely related to the task of conducting foreign exchange market operations mentioned in Article 3. Such operations will be carried out in the framework of the prevailing exchange rate regime of the Community. While the political authorities have ultimate responsibility for decisions relating to the exchange rate regime, it is recognised that there is a close interconnection between exchange market operations and monetary policy and, thus, the System's ability to attain its primary objective of price stability. For this reason, Article 4.3 establishes the obligation to consult the ECB with a view to reaching consensus consistent with the objective of price stability prior to any decision on the exchange rate regime of the Community. However, views differ with regard to the ECB's role in the formulation of exchange rate policy. All but one of the Community central banks are of the view that decisions on the Community's exchange rate



policy should be dealt with in the same manner as decisions on the adoption, abandonment or change in central rates vis-à-vis third currencies. The Deutsche Bundesbank is of the opinion that decisions on the Community's exchange rate policy should be subject to the consent of the ECB. *The Nederlandsche Bank and the Deutsche Bundesbank propose replacing the last two sentences by the following text: "While one view envisages the possibility of exchange rate policies, i.e. political decisions on exchange rates other than those relating to the establishment or modification of central rates, another view is that any such decisions should be subject to agreement with the ECB."*

#### Article 5 - Collection of statistical information

Appropriate statistical information is an indispensable prerequisite for the conduct of monetary policy and the performance of the other tasks of the System. This implies the harmonisation, where necessary, of the conditions governing the collection, compilation and distribution of statistics in the areas of the ECB's field of competence. Accordingly, Article 5 establishes the authority for the ECB to assume functions in this field and lays down some basic conditions for the execution of this task.

In accordance with the principle of subsidiarity, Article 5.2 requires that national central banks carry out, to the extent possible, the collection of statistical information. Since statistical reporting requirements will impose obligations on third parties, the application of Article 5 will necessitate Community legislation defining the natural and legal persons subject to reporting requirements, the confidentiality regime and the provisions for enforcement (Article 5.3).

#### Article 6 - International co-operation

Article 6 recognises the need for the System to play an active role in international monetary co-operation and to participate in international organisations. This Article provides a considerable degree of flexibility: it enables the ECB and/or national central banks to conclude agreements with central banks of third countries and to participate in international monetary institutions, thus allowing, for instance, national central banks to remain members of the Bank for International Settlements.

Decisions relating to the System's international representation are to be taken by the Council (Article 12.5). This ensures that the System "speaks with one voice".

If the ECB is to represent the Community in international monetary institutions and if it is to be enabled to conclude agreements on behalf of the Community, a provision to this effect would need to be introduced into the Treaty.

### CHAPTER III - ORGANISATION OF THE SYSTEM

#### Article 7 - Independence

In order to enable the System to achieve the primary objective of price stability, it is important that the decision-making bodies should not be influenced by considerations which would be in conflict with the pursuit of price stability. Article 7 states that the ECB, the national central banks, and the members of their decision-making bodies shall be independent of instructions from political authorities or any other bodies. The principle of independence is extended further in a number of other provisions which are designed to give practical effect to this principle: these are Articles 11 and 14, which provide security of tenure to the members of the decision-making bodies; Article 21.1, which ensures functional independence; Articles 16, 19 and 20, which ensure the operational independence of the System; and those provisions in Chapter VI, which establish the System's financial autonomy.

Although independent, the System must be *democratically legitimate and accountable to the political* institutions of the Community. *Democratic legitimacy* is, to a significant extent, ensured by the fact that the Treaty (and the Statute annexed to it) will have to be approved unanimously by all Member States and be ratified by their parliaments, and that the powers and responsibilities of the decision-making bodies as well as the scope of the System's functions are clearly circumscribed by the Statute. In addition, the Statute contains several provisions which represent elements of democratic accountability: Articles 11 and 14, which lay down the procedure for appointing the members of the decision-making bodies, assign an important role to the political authorities; Article 15 calls for co-operation with Community institutions and establishes procedures which ensure the transparency of the System's activities; and Article 27 makes the appointment of external auditors subject to the approval of the Council of the European Communities.

Article 8 - General principle

Article 8 underlines that the authority of the Council and the Executive Board, which are the decision-making bodies of the ECB, extends to the whole System.

Article 9 - The European Central Bank

The purpose of this Article is to set out in broad terms the basic provisions governing the ECB.

In addition, by giving legal personality to the ECB, Articles 9.1 and 9.2 establish the capacity of the ECB to carry out operations. Article 9.4 confers upon the ECB the function to ensure the implementation of the System's tasks, either through its own activities or through the national central banks in accordance with Article 14.

Article 10 - The Council

The composition and voting procedures of the Council laid down in this Article reflect the federative structure of the System: all national central bank Governors are ex-officio members of the Council which, in addition, will include the President, the Vice President and the other members of the Executive Board. Each member of the Council has the right to vote. The principle of "one person, one vote" will apply to all decisions except those relating to capital, assets and profits (see Article 28). This principle reduces the risks of ~~giving excessive~~ *weight being given* to regional considerations and strengthens the decision-making process which must be oriented exclusively towards the requirements for the Community as a whole.

Article 10.2 requires "presence in person" for voting; this would be met by a teleconference. A delegation of voting powers will only be possible if a member of the Council is prevented from voting for a prolonged period in which case he or she may appoint an alternate as a member of the Council. *This would also allow to appoint as an alternate another member of the Council.* The emphasis on personal presence underlines that the responsibility for all policy-related decisions rests with the members of the Council.

Both the possibility of a teleconference and the appointment of an alternate member of the Council will have to be specified in the Rules of Procedure which the Council shall adopt in accordance with Article 12.3.

Article 11 - The Executive Board

This Article defines the composition of the Executive Board and appointment and voting procedures. In particular, the provisions assure the members of the Executive Board of the necessary security of tenure, both by specifying the length of term of office and the conditions under which the members can be relieved from office. The Article also recognises the need for democratic accountability by involving Community institutions in the procedures for the appointment of the members of the Executive Board and the establishment of their terms and conditions of employment.

Article 12 - Responsibilities of the decision-making bodies

Monetary policy is indivisible and the decision-making process needs to be centralised. The Council, pursuant to Article 12, will be the supreme decision-making body on all matters relating to the tasks of the System. Article 12.1 reserves to the Council in particular all strategic monetary policy decisions including those relating to intermediate monetary objectives, key interest rates and the supply of reserves in the System and the establishment of guidelines for their implementation. At the same time, as the daily execution of monetary policies takes place in response to market developments, there is a continuous need for operational decisions. The responsibility for such decision-making falls to the Executive Board. However, views differed about the procedure for giving the necessary authority to the Executive Board. All but one of the Community central banks are of the opinion that the necessary operational powers for implementing the monetary policy decisions and guidelines should be delegated by the Council to the Executive Board. This legal construction would mean that the Council has the right to revoke such powers but would also be obliged to re-delegate them immediately on different terms. The Deutsche Bundesbank is of the view that the Executive Board should be given its own competences and that the Statute should clearly and irrevocably assign to the Executive Board the task of implementing monetary policy in accordance with the Council's decisions and guidelines.

The Rules of Procedure referred to in this Article should govern only the internal management of the ECB and its decision-making bodies. However, where the rules govern important aspects of internal management, they should be included in the Statute. Provisions aimed at binding a person or an institution outside the System would fall under the exercise of regulatory powers and should be included in the Statute.

Article 13 - The President

Article 13 defines the position of the President. It gives him the responsibility for chairing the Council and the Executive Board and for representing the ECB in and out of Court.

Article 14 - National central banks

Article 14 defines the role of the national central banks in the framework of the System and stipulates that national legislation including the statutes of the national central banks are made compatible with this Statute and the EEC Treaty. The necessary changes in national laws would be undertaken in accordance with normal national legislative procedures.

The national central banks will maintain their legal personality, but subject to Article 14.5 they will form an integral part of the System and will have to act in accordance with the instructions and guidelines of the ECB. Furthermore, the national central bank Governors are members of the Council and in this function share the responsibility for the System as a whole. The appointment procedures for national central bank Governors and the minimum term of office laid down in Article 14.2 have been designed with this consideration in mind.

All Community central banks endorse the adherence to the principle of subsidiarity in the implementation of operations undertaken on behalf of the System, i.e. to make use of the national central banks to the extent possible. However, views differ as to how this principle should be embodied in the Statute. Some Community central banks are of the view that the Statute (first option of Article 14.4) should oblige the Executive Board to make use of the national central banks, to the extent possible and appropriate, in the execution of the operations arising out of the System's tasks. Other Community central banks, which consider that this formulation does not adequately recognise the need for applying the principle of subsidiarity, wish to state that the national central banks shall execute

such operations to the full extent possible in the judgement of the Council. *The Banque de France proposes replacing the last two sentences with the following text: "Most Community central banks agreed on the formulation that to the full extent possible in the judgment of the Council the national central banks shall execute operations arising out of the System's tasks. One Community central bank (or some Community central banks) preferred the formulation that the Executive Board should make use of the national central banks, to the extent possible and appropriate, in the execution of such operations."*

Article 14.5 enables the national central banks to assume functions other than those to be performed by the System, provided the Council finds that such functions do not interfere with the objectives and tasks of the System.

#### Article 15 - Inter-institutional co-operation and reporting commitments

Article 15 recognises that, with due regard to democratic accountability, appropriate procedures for co-operation and consultation with Community institutions, including reporting commitments, should be set up in order to ensure transparency and to promote a better understanding of the considerations underlying monetary policy. In Article 15.1, it is understood that the right of participation in Council meetings will normally be exercised by the President of the ECOFIN Council.

#### CHAPTER IV - MONETARY FUNCTIONS AND OPERATIONS OF THE SYSTEM

This Chapter describes the monetary functions and operations that may be undertaken by the ECB and national central banks. The relevant Articles recognise that both are the operational arms of the System and do not prejudice as to how the execution of monetary operations will be distributed among them in line with the principle of subsidiarity (see comment on Article 14). Although national central banks are already authorised under their present statutes to perform many of the operational functions mentioned in this Chapter, reference is made to them in this Chapter in order to reaffirm that they have the necessary operational powers for executing the System's tasks, and to indicate the areas in which operational procedures may need to be harmonised.

Article 16 - Notes and coins

Article 16.1 establishes the exclusive right of the Council to authorise the issue of notes, both in a situation when national currencies continue to circulate alongside each other and when there is a single currency. This provision also ensures that notes issued by the ECB and the national central banks are the sole notes which have legal tender status; it does not exclude the possibility of giving legal tender status to (a limited amount of) coins. The Bank of England wishes to retain the right of some commercial banks in the United Kingdom to continue to issue bank notes. These notes have no legal tender status and are largely backed by holdings of legal tender.

Article 16.2 refers to the situation when national currencies continue to exist. The arrangements for the exchange of notes by national central banks at par value and without any cost are designed to ensure full substitutability between the national currencies. Commercial banks would be free to charge commissions to cover transaction costs but it is expected that competition would reduce these to a level not significantly higher than that for transactions in a single currency.

Article 16.3 is a corollary to Article 16.1. It is understood that coin-holdings by the ECB and the national central banks should be kept to a minimum in order to avoid any significant lending to the issuers of such coins.

Article 17 - Accounts with the ECB and the national central banks

Article 17 establishes the technical prerequisites for the operation of monetary policy.

Article 18 - Open market and credit operations

In accordance with adherence to the principle of free and competitive markets (Article 2.3), this Article enables the ECB and the national central banks to regulate indirectly - and without recourse to administrative controls or restrictions - money and credit market conditions. This form of monetary management relies on financial incentives, leaving it to private market participants to respond voluntarily, and is widely used in countries with deregulated markets.

The nature of a credit institution with which operations will be conducted will need to be circumscribed with reference to agreed Community definitions. A suitable definition for a credit institution might be found in Article 1 of the First Council Directive on the co-ordination of laws and regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions (77/780/EEC, OJ L322/30).

Some Community central banks consider that lending by the ECB and national central banks should be backed by adequate collateral.

Article 19 - Minimum reserves

Article 19 entitles the ECB to require credit institutions to hold minimum reserves on accounts with the ECB and national central banks and defines the means which are at the disposal of the ECB in order to enforce this obligation. This instrument does not rely on the voluntary response of willing counterparties, but imposes an obligation on market participants. The conditions and terms under which minimum reserves can be applied will have to be established by the Council.

Article 20 - Other instruments

This Article enables the Council to decide on the use of operational methods of monetary control other than those currently in use and specified in Articles 18 and 19.

Article 21 - Operations with public entities

Article 21.1 rules out the possibility of any kind of direct monetary financing of the public sector by the ECB and the national central banks, since recourse to central bank credit could undermine the ability of the System to achieve its primary objective. The provision implies that existing credit facilities to smooth seasonal payment flows will have to be abolished and that operations by national central banks on the primary market of government securities will no longer be possible. However, the ECB and national central banks will not be prevented from purchasing government securities in the secondary market, *but only* in the context of monetary policy operations.

The function of fiscal agent referred to in Articles 21.2 to 21.4 describes a service traditionally provided by central banks to governments



and other public entities. Article 21.4 does not imply lending by the ECB or the national central banks to public entities.

Article 21.5 states that Articles 21.1 to 21.4 do not apply to publicly-owned credit institutions. Without this provision, such credit institutions could not be given credit by the ECB or the national central banks *under their regular refinancing facilities*.

#### Article 22 - Clearing and payment systems

Article 22 extends the role currently performed by national central banks in the field of clearing and payment systems to the System as a whole. This may imply that the ECB provides facilities with a view to promoting an expansion of the existing systems within the Community and with third countries and issues regulations in the field of clearing and payment systems.

#### Article 23 - External operations

The scope of external operations described in Article 23 will enable the ECB and national central banks to perform all operations necessary for the conduct of the exchange rate policy of the Community and the management of foreign exchange reserves.

#### Article 24 - Other operations

This provision enables the ECB to set up its operational and administrative infrastructure and to provide banking services for its employees. The Article also confirms that the national central banks may continue to perform such operations.

### CHAPTER V - PRUDENTIAL SUPERVISION

Article 25 specifies the activities which might be undertaken by the ECB when carrying out the tasks mentioned in Article 3, indent 5, in respect of prudential supervision. The ECB will have an advisory and consultative role in the interpretation and implementation of Community legislation relating to supervisory policies. In accordance with the principle of subsidiarity, Article 25 - in conjunction with Article 14 - does not affect the ability of national central banks and other competent national

authorities to exercise supervisory functions or to adopt measures for which they are responsible, having due regard to the objectives of the System. Article 25.2 offers the possibility of designating the ECB as a competent supervisory authority in which case it might formulate, interpret and implement supervisory policies. Any future transferal of competence to the ECB should be specified by Community legislation for which the Treaty would have to provide an enabling clause.

#### CHAPTER VI - FINANCIAL PROVISIONS OF THE SYSTEM

These provisions establish the financial foundations of the System and ensure its financial autonomy, which is an important element of the principle of independence (see comments on Article 7). Provisions relating to the allocation of income among the national central banks and the ECB (Article 32), which are still under consideration, will be presented to the Intergovernmental Conference in due course. However, such provisions might have implications notably for Articles 28 to 30 which therefore should be regarded as provisional.

#### Article 26 - Financial accounts

As the System has no legal personality, all assets and liabilities relating to the System's operations will be recorded in the balance sheets of the ECB and the national central banks. However, the conduct of a single monetary policy and the need for proper information on sources of money creation throughout the Community will require the consolidation of such assets and liabilities within a single balance sheet structure (Article 26.3). The financial year will be the same for the ECB and the national central banks and in order to ensure the comparability of financial data, the Council will establish rules with a view to harmonising the accounting and reporting of operations undertaken by national central banks (Article 26.4). Article 26 does not preclude national central banks from presenting their own balance sheets in a manner consistent with existing national accounting practices.

Although not specifically mentioned in Article 26.3, it is assumed that the consolidated balance sheet will be published together with the annual report referred to in Article 15.3. Furthermore, Article 15.5 provides for the regular publication of consolidated financial statements.

Article 27 - Auditing

Auditing by independent external auditors and the fact that budgetary provisions contained in the Treaty do not apply to the System are essential for the financial autonomy of the ECB and the national central banks. The procedure for appointing auditors involves the Council of the European Communities in accordance with the principle of democratic accountability.

Article 27.1 does not require that the same auditors audit the accounts of the ECB and the national central banks. However, the principles applied by all auditors should be uniform and the number, status and term of the auditors would have to be specified.

Article 28 - Voting on financial matters

By introducing weighted voting for all decisions relating to capital, assets, income and profits, Article 28 is a derogation from the principle of "one person, one vote" laid down in Article 10.2. This derogation is justified by the fact that such decisions are of a "patrimonial" nature. The Executive Board members in the Council will have no weighted votes and will therefore not take part in decisions made under Articles 29 to 32.

In order to ensure an equitable system, the key for weighting votes will be the same as that for the subscription by the national central banks to the capital of the ECB (Article 29), and for their contributions in the transfer of foreign reserves to the ECB (Article 30).

The key should be based on objective criteria such as gross national product and possibly population and financial criteria. These aggregates bear some broad relationship with each country's contribution to total seigniorage, which will be the main source of income within the System. Since the criteria determining the key may change over time, Article 28.2 provides for the possibility of reviewing and adjusting the key from time to time. The establishment of the key, the frequency of, and the procedures for, reviews need further study.

Article 29 - Capital of the ECB

The endowment of the ECB with its own capital reflects the institution's status as legal person with its own balance sheet and

operations. The national central banks will be the sole subscribers to, and holders of, the ECB's capital. Capital should be paid up out of the assets of the national central banks, i.e. without entailing an increase in national central banks' liabilities. Part of the capital of the ECB might be paid up in gold.

The right of the Council to increase the ECB's capital from time to time and to determine the extent to which and the form in which this capital is to be paid up represents an important element of financial autonomy.

The distribution of capital shares (for both the initial capital and increases in capital) according to the same key as that used for weighting votes aims at ensuring an equitable system of balanced rights and obligations. Following a change in the key there would be a re-allocation of share capital in accordance with the revised key and the methods established by the Council (see Article 29.5).

Article 30 - Transfer of foreign reserve assets to the ECB

In a Monetary Union the exchange rate policy vis-à-vis third currencies is indivisible and consequently the management of official foreign reserves are a matter of common concern. Article 30.1 establishes the procedure under which the ECB will be endowed by the national central banks with a certain amount of foreign reserve assets ~~which would allow to the extent necessary the centralisation of operations in the exchange market.~~ The Bank of England does not see any necessity to transfer the ownership of foreign reserve assets to the ECB and considers it sufficient that each central bank agrees to make available a predetermined amount of reserves for the disposal of the ECB.

The amount of foreign reserve assets which needs to be transferred to the ECB is difficult to quantify at the present stage; it will, inter alia, depend on the exchange rate regime of the Community and the future international monetary and financial conditions. However, the amount of foreign reserve assets placed at the disposal of the ECB will have to be sufficiently high to ensure the credibility of the System's exchange rate policy. These considerations are reflected in Article 30.1 which entitles the Council to decide within a fixed limit the proportion of foreign reserve assets to be transferred initially to the ECB and the amounts to be called up at later dates.

The ECB may call further contributions of foreign reserve assets beyond the limit set in Article 30.1, but since such calls are indeterminate in size, Article 30.4 stipulates that a legal basis for such transfers will have to be established by Community legislation.

It is likely that at the entry into force of the Statute the level and the composition of the national central banks' foreign reserve assets will differ. It might thus be necessary to make arrangements under which those national central banks, which would experience difficulties meeting their obligations under Article 30, could acquire foreign reserve assets from other national central banks. Such arrangements could be made by the Council in accordance with the enabling clause in Article 30.6. *The Deutsche Bundesbank proposes to replace the last two sentences with the following text: "The draft text of the Statute enables the Council to devise methods to cope with the effects of those differences."*

The foreign reserve assets to be pooled through mandatory transfers under Article 30.1 will consist of foreign convertible currencies and *possibly* gold, but not claims on the IMF (reserve positions, SDRs). The latter assets might be pooled in accordance with Article 30.5, the main purpose of such action being to centralise the financial relations of the Community countries with the IMF. In this case, all claims would be pooled independently of the key used for the mandatory transfers. The application of this provision will require accompanying decisions by Member States appointing the ECB as their Agent at the IMF; this could be reflected in the Treaty or, if the pooling is envisaged for a later stage, be dealt with by Community legislation.

Finally, it is understood that Article 30 does not prejudice the possible role of national central banks in the management of foreign reserve assets transferred to the ECB and in the execution of foreign exchange interventions.

#### Article 31 - Foreign reserve assets held by national central banks

Depending on the limit set in Article 30.1 and the calls made under this provision, a significant part of the foreign reserve assets might remain with the national central banks ~~for some time~~. As changes in foreign reserve assets not only affect exchange rates but also domestic liquidity conditions, Article 31.2 specifies that all external transactions undertaken

by national central banks (except those in fulfilment of their obligations towards international organisations) will be subject to approval by the ECB.

All Community central banks, except the Bank of England, consider it necessary for the application of Article 31 (as well as Article 30) that in those participating countries in which foreign reserve assets are held by official bodies other than the national central bank, steps are taken to transfer these assets to the central bank before the start of Stage Three. This would allow each national central bank to participate in the transfer scheme and would ensure that all foreign reserve assets in the Community would be subject to the guidelines of the Council. If that approach is followed a Treaty provision should stipulate the transfer of all foreign reserve assets to national central banks.

Article 32 - Distribution of income of the System and allocation of net profits and losses of the ECB

As mentioned in the introductory comment on Chapter VI, this Article is under consideration. A text will be forwarded to the Intergovernmental Conference in due course.

CHAPTER VII - GENERAL PROVISIONS FOR THE SYSTEM

As has been pointed out in the comment on Article 1, the Statute is based on the assumption that the System is not classified as a Community institution in accordance with paragraph 1 of Article 4 of the EEC Treaty. Instead, the establishment of the System would be mentioned separately in a new paragraph of this Article 4. In order to avoid any legal uncertainty arising from the possible application to the System of general provisions relating to Community institutions, Chapter VII includes the necessary provisions governing the general aspects of the System. In many instances these provisions are broadly similar to those contained in the existing EEC Treaty.

*The general provisions have not yet been fully discussed by the Governors. There are also a number of technical and legal questions which need to be clarified.*

Article 33 - Regulatory powers

Article 33 confers upon the Council and the Executive Board the power to issue regulations and take decisions which will obligate third parties. However, the power can only be exercised to the extent necessary for the performance of tasks entrusted to the System under the Statute.

The provisions governing the conditions of motivation, publication, entering into force, notification and enforceability of these regulations and decisions still need to be drafted.

Article 34 - Enforcement

Article 34 confers upon the ECB and the national central banks the power to enforce measures taken by virtue of regulations issued under Article 33.

Article 35 - Judicial control and related matters

The intention of this Article is to ensure the same level of judicial control as the one which is applicable to the institutions of the Community. It would require a modification of the Protocol on the Statute of the Court of Justice in order to permit the submission of observations by the System under Article 20 (preliminary rulings) and interventions under Article 37 of the Statute of the Court.

Article 36 - Staff

Article 36 is in line with Articles 179 and 212 of the EEC Treaty.

Article 37 - Seat

This provision enshrines the seat of the ECB in the Statute.

Article 38 - Professional Secrecy

This Article is in line with Article 214 of the EEC Treaty.

Article 39 - Privileges and immunities

Article 39 is inspired by Article 28 §1 of the Statute of the EIB and Article 28 of the Merger Treaty. It would mainly imply that the ECB would

be exempt from any form of national taxation. However, depending on the provisions governing the allocation of income between national central banks, it might also be necessary to review the implications of national taxation for the income position of the national central banks.

#### CHAPTER VIII - TRANSITIONAL PROVISIONS FOR THE SYSTEM

The decisions to be taken concerning the contents of Stage Two and the transition from Stage Two to Stage Three will determine the transitional provisions relating to the establishment of the System and its functions. These transitional provisions may have to accommodate a number of hypotheses:

- Progressive establishment of Economic and Monetary Union

If the transfer of functions entrusted to the System is progressive, the Statute must accommodate this and stipulate that measures will be taken to ensure that the tasks are carried out.

- Participation in the Economic and Monetary Union

If Member States join the Economic and Monetary Union on different dates, the implications of these successive accessions will have to be accommodated by spelling out the restricted rights and obligations of those who join at a later date (see comments on Article 1).

- Start-up procedures

The start-up procedures will define, for example, the role of the Committee of Governors of the Member States of the Community in the appointment of the first President of the System and the first members of the Executive Board.

Furthermore, depending on the kind of provisions governing the allocation of the System's income among national central banks (see comment on Article 32), there might be a need for transitional arrangements to avoid major redistributive income effects of the inception of the System.



CHAPTER IX - AMENDMENT AND COMPLEMENTARY PROVISIONS FOR THE SYSTEM

If the Statute is annexed to the EEC Treaty in the form of a Protocol, it will have the status of Community primary law and any revision of the provisions of the Statute would normally be subjected to the Treaty revision procedure laid down in Article 236 of the EEC Treaty.

Some flexibility, however, needs to be preserved for amending provisions of a more technical nature in response to changing circumstances and for complementing the Statute in those Articles which call for Community legislation. Chapter IX will introduce a simplified procedure to amend those provisions which do not embody the fundamental principles of the System (Article 40). It will also provide for a complementary procedure specifying what steps should be followed where acts of Community legislation are required or are made possible by the Statute (Article 41).

Democratic legitimacy requires that amendments or complements to the Statute are in accordance with the legislative process of the Community. As the legislative process of the Community to be followed in the future is expected to be revised in the context of the Intergovernmental Conference on Political Union, no concrete draft proposals for the Articles under Chapter IX have yet been made.