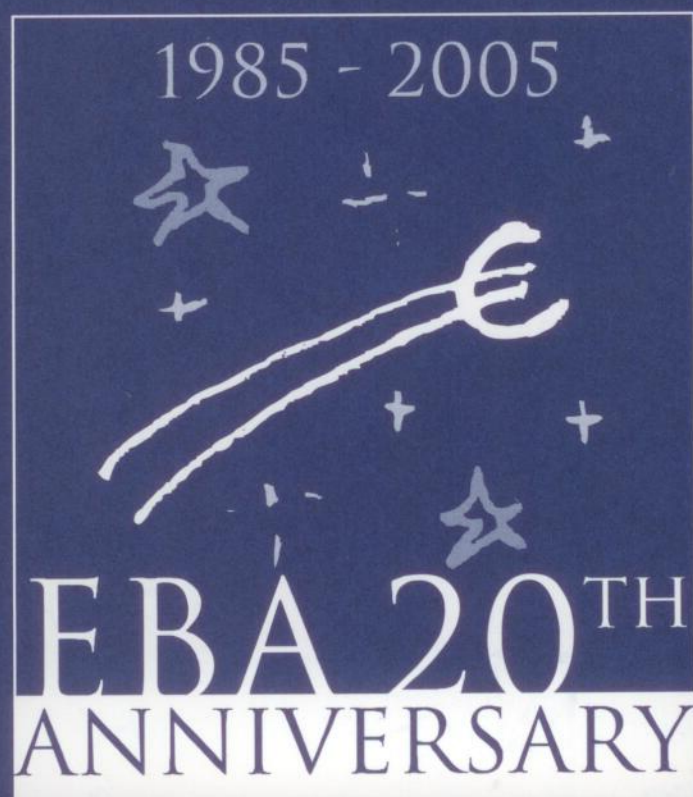


RETRACING 20 YEARS OF HISTORY



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EBA:

*20 years of pro- and pan-European construction,
co-operation and conciliation*



by Hansjörg Nymphius

Chairman, Euro Banking Association (EBA)

Today, the Euro Banking Association is celebrating its 20th anniversary.

While we continue to tackle a number of the challenges facing the payments industry these days, we would like to take advantage of this joyful occasion and stop for a moment at the crossroads of the past and the future in order to look back on two decades of successful service to our members. Twenty years of EBA means twenty years of pro- and pan-European construction, co-operation and conciliation in an ever-changing payments landscape.

Since 1985, the EBA has pursued its role as an active initiator and developer of payments schemes and services. At the same time, it has served as a forum and knowledge centre to payment practitioners operating in the European Union.

In the early days, after 18 commercial banks and the European Investment Bank had formed the EBA with the support of the European Commission and the Bank for International Settlements, the EBA's mission was to promote the ECU and to facilitate its use by developing and managing the ECU Clearing System.

Over the years, the EBA made a substantial contribution to improving the infrastructure of ECU financial markets and continually enhanced the ECU Clearing System in close co-operation with the European Monetary Institute, central banks, and the Bank for International Settlements. In particular, the EBA provided a useful forum for payment-industry practitioners to exchange their experience on EMU preparations. The

views of the EBA were sought after by European authorities as valuable input into the planning for a smooth transition to the euro.

With the advent of the euro, the EBA developed a new payment system (EURO1), relying on the technical platform for the ECU Clearing System, which was enhanced to deal with the expected volumes of cross-border payments in euro. At the end of 1998, the EBA handed over EURO1 to EBA CLEARING, a company created by 52 EBA clearing banks to own and operate euro payments systems.

To complement the EURO1 system, the EBA developed a solution for handling low-value single payments entitled STEP1 as part of the S.T.E.P.S. (Straight Through Euro Payment System) programme designed to offer a full range of euro payments in a pan-European environment. STEP1 is today owned and managed by EBA CLEARING.

The S.T.E.P.S. programme continued with the development of STEP2 as a pan-European ACH for cross-border and domestic mass payments in euro. The system has been designed to become an important pillar for the creation of a Single Euro Payments Area (SEPA). At the beginning of 2003, EBA CLEARING took over STEP2 from the EBA. STEP2 is currently the only PE-ACH in the market.

Today, the Euro Banking Association continues to play its dual role of serving the European payments community both as a discussion forum and as an initiator of payment infrastructures. The initiation and promotion of cost-effective and efficient euro clearing systems as well as the development of payment

schemes are still the core activities of the association.

To that extent, the EBA's excellent track record and credibility will be crucial in overcoming the challenges that the industry is currently facing. Thanks to all the people who have been involved in the association over the last 20 years, the EBA is now better placed than ever to demonstrate market leadership by example and action.

"20 ANS"

*20 years serving the banks,
20 years participating in the building of Europe*



by Gilbert Lichter

Secretary General, Euro Banking Association (EBA)

Yes, we feel like celebrating!
Yes, this industry is living interesting times!

And - yes - these times are rich in new opportunities, as much as they may appear to some as a curse coming true.

Who could forget the early nineties, the years of the "Great Sceptics", pondering complacently whether there could be a Single Currency in Europe and, - if so, - by when, with whom and, - above all, - would the envisaged replacement of currencies by a new one be accepted by the people.

Who could ignore the current sentiment of "Great Uncertainty" on how this Single Currency Area will be fitted out, with or without the old furniture, within the same walls, in new walls or with no walls at all.

And how many aren't resorting nowadays to the posture of the "Great Doubter", - doubting whether things are not going too fast, whether they are led into the right direction or not, maybe even doubting whether there is a wise pilot at all.

The eighties - no doubt - started in a staunch implementation mood of what some might still call the "Great Utopia", the vision that the people in Europe, - together with their states, their politicians, - should combine their forces, unite their institutions and in this way strengthen their ability to jointly secure a future in peace, freedom and prosperity for the next generations.

Yes, 20 years ago, the EBA was one of these initiatives where people pulled together to help pave the way for such progress to come.

I remember well the first meetings within an ad hoc working group involving people from 18 commercial banks of the former EEC Countries, representatives from the European Investment Bank, the Commission and the Bank for International Settlements, trying to work out a blueprint for a pan-European payments infrastructure to support what participants considered the forerunner of the European currency, the ECU.

When asked today (rather frequently) about the secret recipe of the EBA's remarkable success story, I promptly point to the unique duality that the founding fathers wrote into the Association's charter: on the one hand, to implement effective infrastructure services for its member banks and, on the other hand, more politically, to promote the advent of a European currency, thereby linking the organisation's endeavours to the wider worksite of building Europe.

I remember as well the "Great Enthusiasm" in the second half of the eighties, when the Association and its payment system very rapidly grew to occupy a prominent place in the international payments world, at a time when history was en route, so to say, to the Maastricht Treaty. And who doesn't remember the dark years that followed the unimpressive ratification process of the Treaty, the quasi disintegration of the EMS, when the loss of confidence into the achievement of EMU drove the ECU's value at a near-crisis discount of 3 percent under par?

During these sometimes difficult years, the EBA had the great privilege to co-operate closely with the Commission (DG2), the European Monetary Institute and the Association for the Monetary Union of Europe in preparing the banking and corporate sectors for the euro.

At the same time, the banks in the EBA were able to agree on a major work programme aimed at preparing its payment system to become a competitive private-sector alternative for processing euro payments in a highly robust and secure fashion. This programme led to the creation of EBA CLEARING and the successful launch of EURO1.

The creation of EMU in 1999 and the progressive switching of payments traffic by the banks from legacy systems and correspondent banking to EURO1 confirmed the EBA's positioning: a country-neutral forum for practitioners, committed towards the development of truly pan-European payment infrastructures.

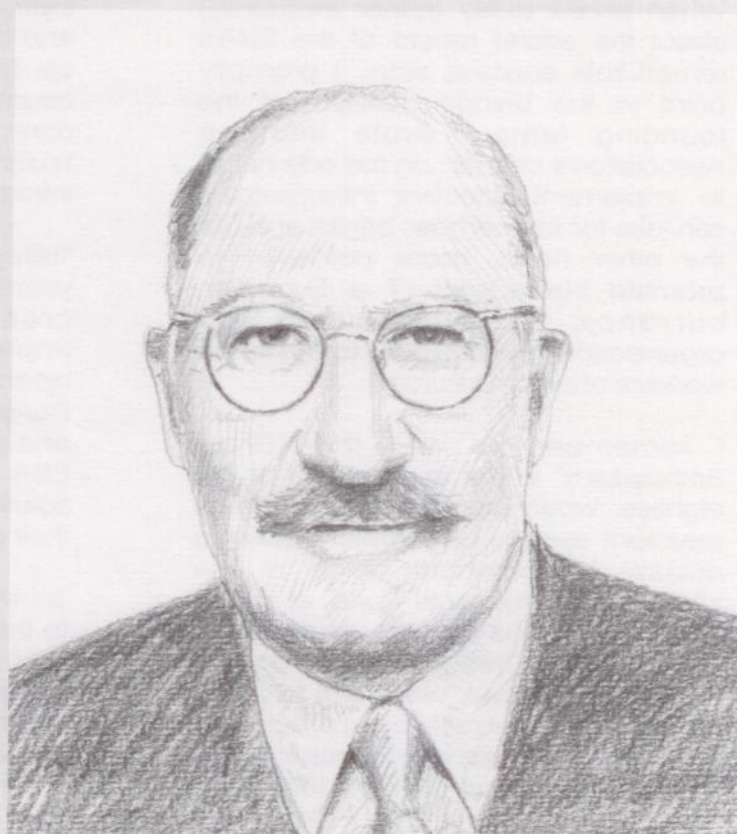
Today, the EBA may look back on 20 years of outstanding experience in creating consensus, managing implementations and successfully operating infrastructure services. During these years, the banks again and again renewed their adhesion to the EBA as their provider of infrastructure solutions that they require to better serve their customers in EMU and in SEPA.

Today, the EBA may as well look forward to the developments to come. Its track record and its credibility will be indispensable to the progress that the industry needs to achieve over the coming years.

Yes, there will be further "interesting times" in the coming years of this decade!

Thanks to the people involved in the EBA, - the banks' representatives in the working groups and in the governing bodies, the staff, - the EBA is well placed to help transform these times into good times, - good for the industry, for the customers and for Europe.

THE EARLY DAYS OF THE EBA



By Dominique Rambure

After a banking career in the international area (Citibank, First Dallas, Credit Lyonnais, Sanpaolo), Dominique Rambure is now a Professor at Paris I University. He also works as a consultant for various corporate firms and international institutions

In 1985, Dominique Rambure was elected as first Chairman of the newly-formed EBA. Author of numerous articles and contributions on payment systems, Dominique Rambure has recently published a book on payment systems (*Economica*).

THE EARLY DAYS OF THE EBA



To understand the process that led to the creation of the EBA, we should keep in mind the particular context of the early 1980s. The “official” European currency scheme was scheduled to move from a first phase (EMS) to a second one (fixed parities) and finally to a third one (“institutional”) including the construction of a European Central Bank and the implementation of a common currency. But for political reasons, the process was suspended and the Commission turned to the “private sector” to keep the European currency alive until the political environment would be ready to resume the path towards a common currency.

The alternative process proved to be more difficult than initially expected. The main reason was that we had to deal with several types of issues simultaneously: political, legal, commercial, technical etc., which were tightly intermingled. The most sensitive issues were progressively settled by extending the number of participants, so that no single bank was in a position anymore to freeze the entire process.

From the original group of four banks (Kreditbank, Lloyds, Morgan, Credit Lyonnais) formed by the European Commission under the initiative of Tomaso Padoa-Schioppa in 1982, the study group was enlarged to 17 when the EBA was formed in 1985 and the number of members kept increasing in the following months and years.

A major issue was the lack of a common settlement bank since no participant would accept that another commercial bank act as the common settlement bank on behalf of the

other (though the MESA banks who acted as informal clearing banks before the creation of the EBA used a rotating system). We first applied to the European Investment Bank, which at the time appeared to be the most "natural" candidate, but the EIB was not properly equipped to deal with that sort of transactions.

So we turned to the Bank of International Settlement, though it was not a European institution. After tough discussions within the Council of Governors, the proposal was agreed upon provided that the BIS would never be at risk and would never act as a money supplier. I remember that, as I was visiting the president of a leading (and reluctant) central bank to make a presentation on the proposed scheme, he told me straight away that in his country there were courts and jails for people like me (meaning counterfeiters).

Another issue was the role of the BIS: The BIS did not want to act as a bank (receiving deposits and making payments) by fear of being involved unwillingly in a potential failure, but rather as a mere pen holder, a sort of accountant to keep record of the transactions (something similar to the former BIS mandates such as the post-war EPU).

When the BIS finally agreed to act as a bank operating bank accounts and making interbank payments between the participants, things moved quickly forward. After reaching an agreement, the BIS offered us a very valuable service. Thanks to the competent involvement of all the people in charge, the BIS went beyond its initial mandate by acting

A major issue was the lack of a common settlement bank since no participant would accept that another commercial bank act as the common settlement bank on behalf of the other...

THE EARLY DAYS OF THE EBA



as an informal interface to match the long/short bank positions and thus helping us to finalise the interbank payment orders at a time when the ECU money market lacked liquidity.

Along the same line, in spite of Mrs Thatcher's euroscepticism, the very market-oriented Bank of England, soon followed by the Banque de France and the Banca d'Italia, provided a substantial backing to the nascent market by issuing ECU-denominated short-term Treasury Bonds.

Originally, it was taken for granted that the EBA was an interim solution pending the creation of a European Central Bank. My vision at the time was that the European system should rather move towards a dual structure quite similar to the US, one combining a "public" (Fedwire) and a "private" (CHIPS) system competing/cooperating with each other.

Thanks to the highly creative spirit of our successors, the EBA positioned itself as an experienced and efficient system fulfilling a role of its own. In this regard, the creation of EURO1 and STEP2 are remarkable achievements from both a technical and a marketing point of view. Both systems have captured significant market shares in the fields of large-value as well as retail payments. The two schemes provide a high level of efficiency and security.

For a number of reasons, including risk exposure and the ongoing IT revolution, payment issues are becoming increasingly

important. This may lead to the creation of specialised banks fully dedicated to the "payment" function. In this new context, the EBA is likely to play a critical role not only in providing an ever-widening range of value-added services to its members and customers but also in serving as a connecting point of the other payment systems.

Originally, it was taken for granted that the EBA was an interim solution pending the creation of a European Central Bank.

EBA IS A SWAN

BUT CAN THE CHILD BECOME AN UGLY DUCKLING ?



By *Per Overbeck*

Per Overbeck was a Senior Vice President and Secretary to the Board of Directors of Danske Bank from 1986 to 1994. A Member of the Legal Committee of the European Banking Federation from 1988 to 1992, Per Overbeck served on the Executive Committee of the EBA from 1989 to 1994.

Since 1995, Per Overbeck has been an Associate Professor in Law of Contracts, Property Law and Financial Law at the University of Copenhagen. Founded in 1995, his law firm was admitted to the Supreme Court in 2004.

EBA IS A SWAN

BUT CAN THE CHILD BECOME AN UGLY DUCKLING ?



1985

The EBA is no less than a fundamental element of the history of banking and monetary integration in Europe from the mid-eighties to 2005, - nearly a quarter of a century. It is a fascinating cocktail of political vision, economy, law and practical banking business.

For us who have had the privilege of participating in the creation of ideas and in the building up of the systems, the EBA is also charming because it has offered personal relations, even friendships among colleagues from the participating banks, from the BIS and from the EU institutions.

In the mid-eighties, we were able to register a fast growth in the number of ECU transactions among a little group of European banks. The ECU was a basket of currencies and had no expression in physical coins or banknotes yet, however, the setting up of a clearing system for the "private" ECU exchange among commercial banks in Europe was a logical development. The "Mutual ECU Settlement Account" came first, but in 1985 the EBA was formed and based in Paris.

There was a lot of vision and courage in this, since the ECU was still a phenomenon only for a rather limited number of industrial groups and commercial banks. The ECU was a tool for major commercial transactions and for financial transactions among a limited number of market players only. Some central banks and some governments issued treasury bills denominated in ECU, but the ECU was not an important denominator of bonds. US Dollars and DM were the big swans in the pond of currencies and the ECU was an ugly duckling, both as a market player and politically.

The EBA and its member banks made an outstanding effort to market the ECU as a

commercial currency to corporates, to governments and to the consumers. At the time, the direct target was not the creation of a genuine national currency, but the efforts made by EBA during the mid- and late eighties had very important effects on policy making. The EBA was a front-runner soon to be followed in 1987 by the "Association for the Monetary Union of Europe" based in Paris and later by the "ECU Institute" in Lyon.

The "common market" of Europe for the banking industry as a whole took a major step forward in 1989 when the basic EEC directives on banking were passed by the Council. Before these directives, we had only had the First Banking Directive of 1977 on the definition of credit institution and requirements of authorisation. More importantly, in 1988 the freedom of capital movements in the EEC was established by the Capital Movements Directive.

Through the 1989 Directives, freedom of establishment and freedom to provide services all over EEC became the rule not only for farmers and industrialists but also for bankers. The Second Banking Directive of 1989 established the principles of the internal market on the basis of three lines of thinking: 1) mutual recognition, 2) home-country control, and 3) the single banking license. Under community law, rules were established to harmonise banking supervision. The entry into force was coordinated with other rules on establishing the internal market in 1992.

However, this remarkable step of basic banking legislation in 1989 did not give rules on the ECU. The ECU was in 1989 only another item on the political agenda, being an element of a possible monetary union planned to begin with the first phase in 1990 and the second phase in 1994.

1989

The EBA and its member banks made an outstanding effort to market the ECU as a commercial currency to corporates, to governments and to the consumers

EBA IS A SWAN

BUT CAN THE CHILD BECOME AN UGLY DUCKLING ?



1992

The ECU was still an ugly duckling in the monetary pond with more beautiful swans.

With all due respect for the Second Banking Directive of 1989, - the reason why the year of 1989 stands up in history books is what happened in the Soviet Union, the fall of the Berlin Wall and the end to the Cold War.

1997

The general political goal of creating the internal market by 1992 was of basic importance for the building of the EMU and for banking business, however, for the ECU as a common currency the important year was 1997.

The real breakthrough for the ECU - after 1995 with the name euro - came when it was recognised not only by directive but by Council Regulation 1103/97 with many more directly binding legal rules to follow. Politically and legally, the euro had now come to real existence.

Monetary policy and financial policy in member states sharing the same common currency is, of course, of vital importance for the real value and stability of the currency. Budget deficits in a given state or several states may well create inflation and lack of credibility in the currency.

Against this background, the Maastricht Treaty, in the articles 103 and 104 C, dealt with the issues of monetary union and budgetary policies. The Stability and Growth Pact (SGP), agreed by the European Council in 1997, gave solid backing in terms of monetary and financial policy making to the common currency, which could be seen as the last building block of the whole system.

This pact was not only a follow-up to earlier decisions related to the Maastricht set of rules in 1991 with the start of the EMU. It was a new

breakthrough in thinking on European integration and solidarity. The European Council Resolution on SGP gave a set of specific rules for national policies by committing "all parties, the Member States, the Commission and the Council, to implement the Treaty and the SGP in a strict and timely manner."

With the third phase of the EMU, the value of the euro towards the other European currencies was locked, and the European Central Bank took on responsibility for the euro as a genuine currency. Now the former ECU under the name of euro had really developed into a swan!

The 20th anniversary of the EBA may be celebrated with the taking note of a remarkable success if we compare our goals in 1985 with de facto life in Europe of 2005.

However, the success is not so complete and total that the EBA has become superfluous. The enlargement of the European Union and the continued internal integration also in older Member States define a lot of work to be done for the EBA in the future.

The most important cloud on the otherwise blue sky so far in 2005 is the decision of The Council of Ministers (Ecofin) - backed by the European Council - to soften, not to say "devalue" the discipline of the Stability and Growth Pact. If we want respect for and credibility of rules, then the most harmful attack is the abolition of the rules exactly at the point in time when they should have come into effect. This birthday present to the EBA, the weakening of the SGP, may well create a risk to see our swan become less beautiful, hopefully not an ugly duckling!

1999

2005

The enlargement of the European Union and the continued internal integration also in older Member States define a lot of work to be done for the EBA in the future.

THE 20TH ANNIVERSARY OF EBA



By André Bergen

Starting his banking career in 1977, André Bergen has held different positions with Kredietbank Brussels, Kredietbank New York, Chemical Bank and Generale Bank Brussels. He joined the Executive Board of Generale Bank (subsequently Fortis Bank Brussels) in 1993 and moved on to become Vice Chairman and Chief Financial & Administration Officer with Agfa Gevaert NV in 2000.

Since 2003, André Bergen has been Deputy Group CEO of KBC Group and CEO of KBC Bank.

THE 20TH ANNIVERSARY OF EBA



EBA is celebrating its 20th anniversary and since I was closely involved in the association some 15 years ago - at that time still the ECU Banking Association! - I am glad to have the opportunity to evoke some of the discussions of those early days.

History has been written since! While in 1992 there were still uncertainties with respect to the ratification of the Maastricht treaty, we are now in a phase of widening the EU/EMU. The EU of the 12 evolved into the EU of the 25.

The uncertainty surrounding the signing of the Treaty led to big concerns with respect to the future of the ECU. The market of the ECU was organised and the value of the ECU maintained without the support of the central banking institutions. This situation required a specific responsibility on the part of the EBA and the clearing banks, which were de facto issuers of private ECUs. In this period there was - due to turbulence in the financial markets - a considerable gap between the market value of the ECU and its theoretical value, which was felt to be a serious threat to the credibility of the ECU amongst the investor community.

Such a gap in fact reflected the market perception that there was neither a legal nor a practical link between the ECU and the basket, so a scenario of a massive sell-out in case of another crisis in the currency markets was considered to be a serious threat to the survival of the ECU.

Arbitrage was not able to close the gaps, because it was difficult to find counterparties at reasonable prices in some of the smaller component currencies, which handicapped the possibility to arbitrage. On the other hand, for the calculation of the theoretical value of the

ECU, the component currency prices had to be realistic. Arbitrage could have been properly organised by the central banks with commercial banks providing liquidity.

We then considered the re-introduction of settlement in the component currencies, but we remembered the operational difficulties and would have needed to abolish the same-day-value clearing.

A study group was formed with the mission to examine and assess the costs related to the implementation of the single European currency under various possible transition scenarios while trying to remedy the situation in the short term by looking for political support for the ECU.

The outcome is known to us all. In 1999, the euro was introduced and the discussions with respect to the viability of the ECU were consigned to history.

Other discussions that were taking place in the same period are more relevant to the debates going on today. Already then we were elaborating on the evolution of payment systems in Europe in order to decide upon a development strategy for the EBA clearing system in a competitive environment.

Because we still had to move from a netting system, based on copies of the payment orders, to a genuine Lamfalussy-compliant payment system, which in the end led to the development of the quite unique Single Obligation Structure, we had to make up our minds on the future system we would like to have.

We saw the future role and place of the ECU clearing system as comparable to CHIPS,

The market of the ECU was organised and the value of the ECU maintained without the support of the central banking institutions

THE 20TH ANNIVERSARY OF EBA



along with national clearing systems and a possible central bank clearing system similar to Fedwire. We understood that the EBA system would not remain the sole private ECU clearing system and would need to coexist with other private and public clearing houses and payment systems, including national clearing systems, which might be linked together.

Today, the ECB is already working on TARGET2, a centralised gross settlement system to be used by the whole of the banking community (the successor of TARGET, which interlinked 15 local RTGS systems). EBA CLEARING has a confirmed status as a fully-fledged euro payments clearing and settlement provider with respect both to financial and commercial payments (EURO1, STEP1) and to mass payments (STEP2), alongside a wide variety of national clearing systems. The interlinking of the domestic ACHs was not felt to be the right way forward, and in 2002, the European banking community decided in favour of the creation of a single (or multiple) pan-European ACH (PE-ACH).

In the context of the creation of the Single Euro Payments Area (SEPA), the clearing infrastructure in Europe is once again the subject of fundamental discussion. The clearing infrastructure is actually still very fragmented. In addition to TARGET2 and EBA CLEARING (EURO1, STEP1 and STEP2), each country has its own domestic solution, whether in the form of a genuine ACH (automated clearing house) or on the basis of bilateral solutions. The single currency creates the opportunity to consolidate the infrastructure and get rid of the built-in overcapacity. And although the market is convinced that SEPA will eventually become a

reality, a lot of water still has to flow under the bridge before this happens. The picture is still not clear enough; and this makes market players hesitant to move.

Another 20 years from now and we will look back and muse on the widespread infrastructure as another phantom of the past.

EBA Group is in the possession of some valuable cards to ensure itself a key position in the future clearing landscape. It was the first to establish the reachability concept throughout the EU zone and is de facto connecting the 8,000 banks in Europe. It has a proven record in delivering solutions and is promising to deliver a PEDD scheme for pan-European direct debit transactions well before 1st January 2007. EBA CLEARING is opening up its systems for domestic volumes (seven big Italian banks will move with their domestic volumes to the STEP2 system in the course of 2006), totally in line with the concentric model promoted by the European Payments Council (EPC).

EBA will have to survive in a competitive environment where new players will emerge and others will disappear. Every bank/banking group will need to make its own choice on where its needs will be best served, following the payment flows of its customers. It is up to EBA to ensure that it will remain one of the better choices in SEPA.

EBA group is in the possession of some valuable cards to ensure itself a key position in the future clearing landscape.

EBA IMPACT COMMITTEE ON MONETARY UNION



By *Walter Damm*

A former Secretary of the European Banking Federation, Walter Damm joined Sal. Oppenheim jr. and Cie. in 1969 and served as an Executive Manager responsible for international affairs, public relations and the Secretariat of the Managing Partners until his retirement in 1997.

From 1993 to 1996, Walter Damm was a Member of the Executive Committee of the EBA. During this period, he chaired the "Committee on the Impact of Monetary Union on the Banks' Organisation and Activities" created by the EBA in 1993.

Mr. Damm's interests include inter alia dressage riding as well as ecclesiastical art of the Romanesque, Gothic and Baroque periods.

EBA IMPACT COMMITTEE ON MONETARY UNION



In an extremely restrictive regulatory environment, our bank, Sal. Oppenheim jr. and Cie., Cologne, pioneered the use of the ECU in Germany. It was therefore only natural that the Bank became a member of the ECU Banking Association as of December 1985, a few months after the latter's creation. I was nominated as the bank's permanent representative.

Because of its size as a private bank and the specialised areas of activity, Sal. Oppenheim could not become a clearing member; nonetheless it followed the activities of the Association with particular interest. In 1993, I was elected to the Executive Committee for a three-year term and did not stand for re-election because of my impending retirement.

While ECU clearing matters constituted an essential subject for the Association, general matters relating to the use of the ECU and the creation of a European Monetary Union were considered to be of no less importance. At the initiative of the Executive Committee, it was therefore decided to create a "Committee on the Impact of Monetary Union on the Banks' Organisation and Activities". A formal decision was taken by the Annual General Assembly in Vienna in June 1993 and the first meeting of the Committee took place in Frankfurt in October 1993, where I was elected Chairman.

The purpose of the Committee was to give member banks a forum to exchange their views on the impact of monetary union on the

banks' organisation, to compare the necessary changes in their internal structure, to identify business opportunities resulting from the extended use of the ECU during the transition to monetary union, and to formulate the views of the Association to third parties.

The Committee had a broadly-based membership and comprised not only representatives from member banks but also from the European Commission, the European Bank for Reconstruction and Development, from law firms and from organisations working in related fields. Its deliberations took place at first against a backdrop of monetary crisis and later of increasing convergence towards monetary union.

Thanks to the hospitality of member banks, three to four meetings took place each year in different countries. The deliberations were introduced by eminent personalities in the monetary field, such as a Vice-President of the European Commission, a former Central Bank Governor or Finance Minister, a prominent commercial banker or the Director General of the European Monetary Institute. Frequently, a member had prepared an introductory working paper on a specific subject.

As a result of the deliberations of the Committee, two major reports were prepared and published: one entitled "The Impact of EMU on Banks' Activities" and one on "The Impact of EMU on Correspondent Banking Activities".

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EBA IMPACT COMMITTEE ON MONETARY UNION



At a later stage, much attention was devoted to the consequences of EMU on the banks' securities business, which involved close contacts with related professional associations

working in this field. Other subjects were the continuity of contracts, the legal status of the Euro in regard to national currencies and the procedures concerning the fixing of the conversion rates of national currencies into Euro.

One major assignment of the Committee was to contribute to the enhancement of the Association's professional profile among the general public, the European institutions, and the central banks. The results of the Committee's deliberations were therefore presented in press conferences in London, Paris and Frankfurt and were widely reported in the press.

The European Commission and the European Monetary Institute as well as a special study group set up by the Commission (the Cees Maas Group) were regularly kept informed, and the latter also invited the Association and the Committee to present its views during a hearing.

I personally found my task as Chairman of the Committee extremely rewarding. Thanks to the openness of the discussions, the

professional competence of its members, and the hospitality of the inviting banks, there was a general sentiment among the participants that they and their bank benefited from the experience and knowledge of their colleagues and the constructive spirit that prevailed during the discussions.

As regards the EBA, it stated in its Annual Report of 1995/96 that the Committee had successfully fulfilled its mission.

While ECW clearing matters constituted an essential subject for the Association, general matters relating to the use of the ECW and the creation of a European Monetary Union were considered to be no less importance.

FROM ECU TO EURO - A TRAVELLER'S TALE



By *Ashley Dowson*

Ashley Dowson has worked in a variety of operational and risk management roles with Barclays over a 30-year period and recently stepped down as Chief Operating Officer of its Group Treasury. He is also a Fellow and the Treasurer of the Institute of Financial Services.

Ashley chaired the EBA's Future Developement Group and helped to lead the design and development of EURO1. He is married with three teenage boys and is currently working hard to reduce his golf handicap!

FROM ECU TO EURO - A TRAVELLER'S TALE



Back in December 1995, when my particular journey began, it all seemed relatively simple to prepare for 1st January 1999. Change the codes in SWIFT's network from XEU to EUR, expand the capacity of the system for interbank message transfer and enhance the end-of-day process for netting. The group of senior executives gathered in Paris under the auspices of the EBA were seasoned bankers from the major institutions across Europe and they had two collective aims:

- To provide an assessment of the EBA's potential in the cross-border payment arena;
- To assist EBA members in their preparations for EMU.

Of course, most institutions were looking to acquire a competitive edge from their activity in the euro payments industry and strong national interests remained uppermost in the minds of many representatives as they arrived to vote on resolutions through the EBA's Clearing Company. However, the Future Development Group I was asked to chair tried to look at the wider picture promised by full Economic and Monetary Union with the prospect of significant changes to the "domestic" landscape replacing a rather hilly "cross-border" terrain.

Preparing the ground

Every journey involving 15 or more countries requires a detailed roadmap and this was the first priority of the EBA's Future Development Group. What should the system aim to achieve? Who would be the main participants and other stakeholders? Where would the system be based and which laws would apply? How much could a group of 40+ banks be expected to invest? Was there a business case at all for a commercial competitor to TARGET?

The first steps towards enlightenment were relatively easy to take: ask everyone for their opinion and distillate the results to form a consensus offering.

And so began a six-month exploration to all corners of the EU, meeting with central banks, co-operative organisations, corporate treasurers, payment system and network operators, regulators etc. The list seemed to grow with every country and region visited and considerable financial aid was directed towards the likes of Eurostar and the national air carriers!

Redrawing the map

With the benefit of this collective wisdom, a new design for clearing and settlement arrangements was developed to meet the needs of as many interested parties as possible:

- A new technology platform was negotiated with SWIFT, including enhanced volumes and a limit-based release of payment instructions;
- Binding intra-day limits were introduced to cap debit and credit positions between banks within an overall ceiling of ECU 1 billion;
- Centralised risk monitoring provided the EBA with real-time tools to help manage liquidity during the day, including a robust form of circles processing;
- A detailed analysis of the legal basis for net settlement was undertaken across multiple jurisdictions and the Single Obligation Structure designed for scrutiny by the EMI and central banks;
- Comprehensive studies began into potential collateral schemes for relevant countries.

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FROM ECU TO EURO - A TRAVELLER'S TALE



All of these proposed changes needed to be explained to, and within, the EBA's institutions and numerous trips were also made to the EMI in Frankfurt and SWIFT in Brussels as the EURO1 system took shape. Cost was, of course, a major factor in many of these discussions and pressure mounted to generate a business case for EBA clearing banks to aid decision-making.

Costing the journey

Multiple options for moving euro around Europe gave rise to heated debate about the best choice and the EBA's Future Development Group seemed to be at the centre of these discussions. We met the challenge at the time of SIBOS'96 by conducting a survey amongst financial institutions whose financial payments generated over 85 percent of cross-border EU messages.

The results of this survey were not universally popular, especially with the EMI, but enabled banks and the individual payment systems to prepare for this aspect of EMU. Euro attractiveness features and technical competence became talking points at relevant conferences and the EBA gained new members as it started to be seen as a vehicle for volume corporate/wholesale payments.

Market share data was even more contentious to estimate with 300,000 payments a day at stake in a EU environment of seven countries and over 450,000 if the full EU15 adopted the Single Currency. We came out with an overall market share of 32 percent predicated on several factors:

- The system would be designed and built specifically for EMU, using core SWIFT messages and interlinking back-offices in a direct, simple manner; Members from all 15 EU Member States would be connected;
- Central bank scrutiny of the legal structure, risk management and liquidity support arrangements would ensure a robust outcome;
- Commercial banking considerations were always high on our agenda and, in a world where pressure was building on the use of collateral/liquidity and credit lines, the economic benefits of multilateral net settlement were becoming very real.

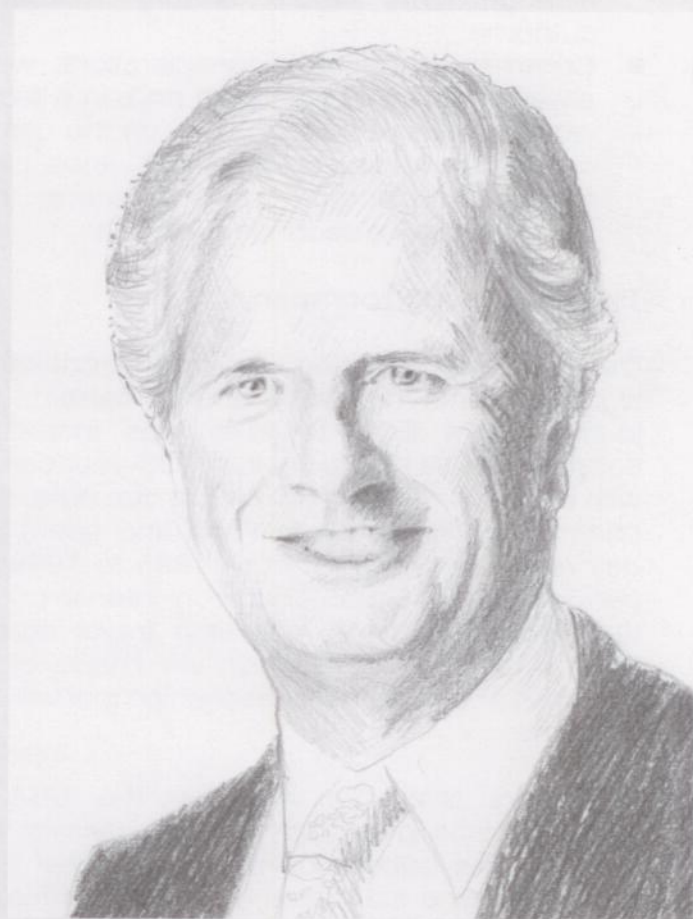
Travelling in good company

Despite encountering multiple conflicting signposts and frequently uneven terrain, the journey from ECU to euro was incredibly satisfying and a high point in my 30-year career with Barclays. We arrived, on the due date, to a champagne reception in Paris and spent the day recalling highlights from 1995 to 1999 – a period of incredible co-operation, intense public (and private) debate, non-stop travel across Europe and the time when we made close business and personal relationships that will last a lifetime.

It is very fitting for me that the EBA is commemorating its 20th Anniversary with the issue of this publication and I wish the EBA executives and staff (past, present and future) my sincerest best wishes on their own journeys!

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A SINGLE CURRENCY FOR EUROPE



By Bertrand de Maigret

Bertrand de Maigret had subsequently been a Vice-President at Chase Manhattan Bank, a Financial Director of the construction department of Sacilor and an Executive Vice-President of Société Française de Factoring when he created the Association for the Monetary Union of Europe (AMUE) in 1987.

Over a period of 15 years, Bertrand de Maigret served as a Secretary General to AMUE, which counted leading companies, banks and professional organisations among its 400 members in the EU15, representing more than 10 million employees. AMUE launched various study groups, information sessions as well as conferences and issued numerous publications in order to promote the single currency and ensure its success. With the introduction of euro coins and banknotes, AMUE considered its mission accomplished and voted its own dissolution.

During his professional career, Bertrand de Maigret also held various positions in political bodies at a local, regional and national level. Today, he is an active member of several associations geared at protecting the environment and serves as an administrator to several companies.

A SINGLE CURRENCY FOR EUROPE



The Association for the Monetary Union of Europe (AMUE) was conceived with a view to providing a platform where corporates could discuss, reconcile and promote their ideas on how to reinforce and complete the European monetary system. When Valéry Giscard d'Estaing and Helmut Schmidt invited me to found AMUE in 1987, we wanted to swiftly proceed with its implementation in order to take advantage of the momentum created by their political actions as well as by the support voiced by around 15 other European politicians.

Faced with the imminent logistic issues every freshly hatched organisation has to confront, we were met with extreme generosity and friendliness by the Euro Banking Association. The association spontaneously offered to accommodate us at their premises at 4 rue de la Paix. They set us up with an office, a telephone and a set of cupboards and never even asked us to pay any rent. In these early days of our association, their generous support helped us to jumpstart our activities.

For a few years, while our common focus was the ECU, we nurtured an excellent relationship working side by side, holding joint meetings and exchanging ideas. AMUE somewhat formed a counterpart to EBA as our more than 400 members comprised the major industrial and commercial companies throughout Europe (representing more than 10 million employees) and thus the biggest customers of the EBA member banks. Through our cooperation with EBA, we were able to establish a productive liaison between the financial and corporate sectors in Europe. Besides the quality of its members, it was its excellent relationship with the central banks and the stability of its leadership that turned EBA into a valuable partner for AMUE and its corporate members.

The goals of the large European companies joining our association to enhance the European monetary system were simple and coherent: They were looking for ways to assure stable foreign exchange markets and interest rates within Europe in order to improve the efficiency of their treasury as well as the planning of their activities and investments. Furthermore, big manufacturers, such as the automobile industry, were counting on economies of scale to be reaped in a truly single market through the concentration of production sites.

Besides these purely economic considerations, the commitment of many corporate leaders also had a civic-minded facet: They were interested in contributing to a political and geopolitical initiative that lay beyond the quarrels of left- and right-wing politicians or narrow mercantile strategies and was rather aimed at the creation of a public good, the construction of a more stable and peaceful Europe. Many of these managers had lived through World War II and they shared the vision of the founding fathers of Europe directed at laying the foundation for a better and economically stable future. Hence, they came together to reconcile their views on the path to take towards a more integrated European market.

In the beginning, we thought that the ECU could be the appropriate vehicle to achieve stable exchange and interest rates. Through its ECU clearing system, EBA had largely contributed to the credibility of the ECU; it had shown that the ECU was working. AMUE tried to build on this success and published a guidebook in 1989, entitled *L'ECU pour l'Europe de 1992*, that was geared at inciting companies to use the ECU.

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A SINGLE CURRENCY FOR EUROPE



A year later, however, an analysis we had commissioned to Ernst & Young and the National Institute of Economic and Social Research in London came to the conclusion that long-term stability could only be achieved by a single currency. Detailed in the publication *L'écu, monnaie du succès européen: une stratégie pour l'Europe*, the arguments of this study raised much debate at the level of companies, banks and even the European Commission and the central banks. It established AMUE as a credible interlocutor in this circle of institutions and opened a door for serious and very concrete discussions between the main actors in the monetary sector. We organised a number of seminars, often in cooperation with EBA, where these key actors were able to exchange their views.

All in all, it took a few years for the vision of a single currency to truly lift off the ground and settle in the minds of the decision-makers involved. We tried to add our share to this effort in the following years by organising and contributing to more than 1,100 debates and conferences in 25 countries and publishing more than four million copies of books in a dozen languages.

While we were more and more engaging into the promotion of a single currency and dealing with political and macroeconomic matters, EBA took a different path. In the early 1990s, the association redefined itself as an organisation with a rather technical orientation and tuned down its more political activities. We would certainly have preferred to continue our journey towards the euro side by side with EBA, but as they chose a different path leading to the same goal, we decided to take our independence and left rue de la Paix to set up our own offices.

EBA having shed its political dimension, AMUE stepped up its penetration of the banking sector in order to provide banks with a direct voice within its organisation and in the political landscape. Our relationship with EBA grew more distant over the years due to our different fields of activities, but we continued to consult the association for any input on technical questions.

The Association for the Monetary Union of Europe voted its dissolution in 2001 when it considered its mission, the advent of a single currency, to be accomplished. The thought of having contributed to the successful implementation of the euro remains pleasant today, even though it is somewhat disappointing that the economic development of the eurozone has not yet exceeded the growth rates of European countries that have kept their currencies. Furthermore, there is rising concern caused by the fact that the budget deficit criteria established by the Maastricht Treaty are not respected by all of the eurozone states.

As I have turned my attention to other activities since the introduction of the euro, I hardly follow the harmonisation processes taking place in the euro area these days. Looking back on the major part EBA played in establishing the credibility of the ECU, I am convinced though that it has all the know-how and commitment needed to support the European banking community in processing the single currency in a truly single market.

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