- it chooses Valuation Day;

- it sets the funding level of the Exchange Rates Fluctuations Facility;

- it sets the level of a Contingency Contribution and/or the ceiling-level of possible transfers from investment or other income to the Exchange Rates Fluctuations Facility;

- it monitors the financial transfers back in forth between the Facility and the General Account for the purpose of compensating for adverse or favorable exchange rates fluctuations;

- if the Exchange Rates Fluctuations Facility proves insufficient and it appears that funds will lapse in the Inflation Facility, it has the authority to transfer monies from the Inflation Facility (see Paper XII) to the Exchange Rates Fluctuations Facility.

MODE OF OPERATION:

PRIOR TO THE START OF THE BIENNIUM.

Like the Inflation Facility, the Exchange Rates Fluctuations Facility has to include sufficient funds not only to cover for fluctuations that will occur during the biennium, but also for any overall negative variance between the rates of exchange prevailing on the market on January 1st of the first day of the biennium and those of Valuation Day.

As outlined in the model, the Facility provides for great flexibility. A succession of estimates, which Member States would have received as Budget Work-Programme preparations went along, would have served to give them ample warning of any forthcoming adverse situation. It would be possible to set the initial funding level virtually at the last moment, and thereby to provide the Work-Programme with matching compensation for all adverse fluctuations that actually took place between Valuation Day and the beginning of the biennium as well as to make the best