

**Selected Decisions
of the
International Monetary
Fund
and Selected Documents**



SIXTH ISSUE

INTERNATIONAL MONETARY FUND

Washington, D.C., September 30, 1972

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PREFACE

This volume, entitled "Selected Decisions of the International Monetary Fund and Selected Documents," follows the Fifth Issue of "Selected Decisions of the Executive Directors and Selected Documents." The change in title has been made because of the inclusion of more Resolutions of the Board of Governors of the Fund than in the preceding volume. The present volume contains selected decisions and interpretations of the Executive Directors and resolutions of the Board of Governors of the International Monetary Fund adopted prior to September 30, 1972, as well as certain selected documents of the Fund and of the United Nations to which frequent reference is made. With few exceptions, the decisions are of a general nature and relate to certain obligations, policies, and procedures under the Articles of Agreement.

This issue contains most of the decisions that were published in earlier issues (September 1962, September 1963, January 1965, April 1970, and July 1971), and general decisions taken since then. Decisions of the Executive Directors that are published in the *By-Laws, Rules and Regulations* are not included.

This collection will be kept up to date by the issue of later editions.

JOSEPH GOLD
General Counsel
and
Director, Legal Department

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**Selected Decisions of the
Executive Directors**

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ARTICLE III, SECTION 2

Adjustment of Quotas

The first interval of five years, at the end of which the Fund shall review the quotas of the members in accordance with Article III, Section 2, began on the date when the Fund Agreement, in accordance with Article XX, Section 1, entered into force: i.e. on December 27, 1945.

Decision No. 408-2

March 11, 1949

ARTICLE III, SECTION 3

Subscriptions

GOLD AND CURRENCY SUBSCRIBED TO THE FUND AND ACCOUNTING BY MEMBERS FOR TRANSACTIONS WITH THE FUND

The following principles should be observed by members in reflecting their participation in the Fund in their accounts:

(1) Gold and currency subscribed to the Fund are clearly within its unrestricted ownership. They do not belong in any way to the subscriber.

(2) Although the accounting practices of a member are primarily its own concern, each member should prepare its accounts in such a way that misconceptions as to the ownership of the gold and currency subscribed to the Fund would be avoided.
.....

Decision No. 170-3

May 20, 1947

NET OFFICIAL HOLDINGS: PRINCIPLES OF INTERPRETATION

In order to ensure the uniform application of the relevant Articles of Agreement as they apply to determinations of members' net official holdings of gold and U.S. dollars for the purposes of Article III, Section 3(b)(ii), the Fund adopts or reaffirms the following principles of interpretation for the indicated provisions of the Fund Agreement:

- (a) *Article III, Section 3(b)*: "Each member shall pay in gold, as a minimum, the smaller of

- (i) twenty-five per cent of its quota; or
- (ii) ten per cent of its net official holdings of gold and United States dollars as at the date when the Fund notifies members under Article XX, Section 4(a), that it will shortly be in a position to begin exchange transactions.

Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars."

- (1) The concept of "holdings" of gold or United States dollars involves the ownership of gold or United States dollars.
- (2) A claim to gold or dollars, unsupported by title to them, is not a "holding."
- (3) "United States dollars" means "without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months." This definition appears in Article XIX(d) and has been adopted by analogy in the calculation of net official holdings. The government obligations referred to must have been issued with an original maturity not exceeding twelve months, and it does not suffice that a government obligation will simply mature within twelve months from September 12, 1946.
- (4) Dollars drawn by a member under a loan and in its ownership, for example, because deposited in a bank account which it owns, are part of its "holdings." Dollars which a member has not drawn under a loan agreement or commitment and which it does not yet own, although it may later get ownership of them, are not a "holding."
- (5) The usability of gold or dollars for the payment of the gold subscription is not necessary in order to

constitute "holdings." A member does not pay 10 per cent of each item of gold or dollars, but the equivalent of 10 per cent of its total "holdings" of gold and dollars. Thus, segregated dollar balances are "holdings." So, too, are gold or dollars blocked under wartime freezing arrangements if a member has title to them. This means, in the case of gold, that the member has title to specific gold (e.g., earmarked gold) or to a fixed share of specific gold (e.g., one-quarter of earmarked gold). There is no "holding" if a member has merely a claim to unidentified gold (e.g., such looted gold as may be discovered and restored to it) or to an uncertain share of specific or unidentified gold (e.g., a share of such looted gold as may be or has been recovered, to be determined in proportion to all claims).

- (6) Under a pledge of gold or dollars, title remains in the pledgor, for which reason pledged gold or dollars are the "holdings" of the pledgor.
 - (7) Since local law cannot override international obligations, gold or dollars are "holdings" even though inalienable under local law or allocated to some special purpose.
 - (8) Gold must be valued in accordance with Article IV, Section 1.
 - (9) If a member had no "holdings" of gold or dollars on September 12, 1946, its total subscription will be payable in its own currency.
- (b) *Article III, Section 3(d)*: "If the net official holdings of gold and United States dollars of any member as at the date referred to in (b)(ii) above are not ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such

holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4(c) or (d), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (b) above, and the balance of the member's subscription shall be paid in the member's currency, subject to appropriate adjustment between the member and the Fund when the net official holdings have been ascertained."

(1) Where a member was occupied by the enemy and its net official holdings of gold and United States dollars as of September 12, 1946, are not ascertainable, the Fund may postpone the date as of which the calculation shall be made. This means that some later date may be substituted for September 12, 1946, as the effective date for the purposes of Article III, Section 3(b) (ii).

(2) The postponement must relate to the determination of the whole of a member's net official holdings of gold and U.S. dollars. That is to say, there cannot be a postponement of only those items whose status on September 12, 1946, cannot be ascertained.

- (c)*

 (d)*

 (e)*

Decision No. 298-3

April 14, 1948

* Reproduced on pages 122-25.

ARTICLE III, SECTION 4

Payments When Quotas Are Changed

INTERPRETATION

It is determined as a matter of interpretation that Art. III, Sec. 4, and not Art. III, Sec. 3, applies to all changes in quotas.

Decision No. 595-3

July 20, 1950

ARTICLE IV, SECTION 2

Production Subsidies and Premium Prices for Gold

STATEMENT OF POLICY CONCERNING SUBSIDIES FOR GOLD PRODUCTION

The following statement of policy concerning subsidies for the production of gold is adopted, and the Managing Director is asked to send copies to members and release the statement for publication on December 12.

The International Monetary Fund has a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced.

Under Article IV, Section 2, of the Articles of Agreement of the Fund members are prohibited from buying gold at a price above parity plus the prescribed margin. In the view of the Fund, a subsidy in the form of a uniform payment per ounce for all or part of the gold produced would constitute an increase in price which would not be permissible if the total price paid by the member for gold were thereby to become in excess of parity plus the prescribed margin. Subsidies involving payments in another form may also, depending upon their nature, constitute an increase in price.

Under Article IV, Section 4(a), each member of the Fund "undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." Subsidies on gold production regardless of their form are inconsistent with Article IV, Section 4(a) if they undermine or

threaten to undermine exchange stability. This would be the case, for example, if subsidies were to cast widespread doubt on the uniformity of the monetary value of gold in all member countries.

Subsidies which do not directly affect exchange stability may, nevertheless, contribute directly or indirectly to monetary instability in other countries and hence be of concern to the Fund.

A determination by the Fund that a proposed subsidy is not inconsistent with the foregoing principles will depend upon the circumstances in each case. Moreover, the Fund may find that subsidies which are justified at any one time may, because of changing conditions and changing effects, later prove to be inconsistent with the foregoing principles. In order to carry out its objectives, the Fund will continue to study, and to review with its members, their gold policies and any proposed changes, to determine if they are consonant with the provisions of the Fund Agreement and conducive to a sound international policy regarding gold.

Decision No. 233-2

December 11, 1947

PREMIUM GOLD TRANSACTIONS: STATEMENT TO MEMBERS

The following statement should be communicated to members and made public without delay:

In June 1947, the Fund issued a statement recommending to its members that they take effective action to prevent external transactions in gold at premium prices, because such transactions tend to undermine exchange stability and to impair monetary reserves. From time to time the Fund has reviewed its recommendations and the effectiveness of the action taken by its members.

Despite the improvement in the payments position of many members, sound gold and exchange policy of members continues to require that to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. It is only as gold is held in official reserves that it can be used by the monetary authorities to maintain exchange rates and meet balance of payments needs.

However, the Fund's continuous study of the situation in gold-producing and -consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement. Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation, subject to the provisions of Art. IV, Sec. 2 and other relevant articles of the Articles of Agreement of the I.M.F.

The Fund will continue to collect full information about gold transactions, will watch carefully developments in this field and will be prepared in consultation with members to consider problems relating to exchange stability and any other problems which may arise.

Decision No. 75-(705)

September 28, 1951

Statement of June 18, 1947 on Transactions in Gold
at Premium Prices

The International Monetary Fund has given consideration to the international gold transactions at prices substantially above monetary parity which have been taking place in various areas of the world. Because of the importance of this matter the Fund has prepared this statement of its views.

A primary purpose of the Fund is world exchange stability and it is the considered opinion of the Fund that exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. From information at its disposal, the Fund believes that unless discouraged this practice is likely to become extensive, which would fundamentally disturb the exchange relationships among the members of the Fund. Moreover, these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings. For these reasons, the Fund strongly deprecates international transactions in gold at premium prices and recommends that all of its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries.

It is realized that some of these transactions are being conducted by or through non-member countries or their nationals. The Fund recommends that members make any representations which, in their judgment, are warranted by the circumstances to the governments of non-member countries to join with them in eliminating this source of exchange instability.

The Fund has not overlooked the problems arising in connection with domestic transactions in gold at prices above parity. The conclusion was reached that the Fund would not object at this time to such transactions unless they have the effect of establishing new rates of exchange or undermining existing rates of other members, or unless they result in a significant weakening of the international financial position of a member which might affect its utilization of the Fund's resources.

The Fund has requested its members to take action as promptly as possible to put into effect the recommendations contained in this statement.

ARTICLE IV, SECTIONS 3, 4, 5, AND 8

Par Values and Margins

FOREIGN EXCHANGE DEALINGS BASED ON PARITY: ARTICLE IV, SECTION 3

Dealings in paper money and coins are deemed to be "other exchange transactions" within the meaning of Article IV, Section 3, whether or not the importation and exportation of such money and coins to and from the country of origin are subject to restrictions. The dealings are in consequence subject to the provisions of that Section. Members shall not permit transactions in such paper money and coins within their territories in a manner or to an extent which will negate the par values agreed with the Fund. Where transactions in fact have such an effect the Fund will be obliged to intervene.

Decision No. 269-2

February 11, 1948

EXCHANGE DEALINGS AND MARGINS UNDER CONDITIONS OF IN- CREASING CONVERTIBILITY

The Fund does not object to exchange rates which are within 2 per cent of parity for spot exchange transactions between a member's currency and the currencies of other members taking place within the member's territories, whenever such rates result from the maintenance of margins of no more than 1 per cent from parity for a convertible, including externally convertible, currency.

Decision No. 904-(59/32)

July 24, 1959

CENTRAL RATES AND WIDER MARGINS: A TEMPORARY REGIME

Preamble

This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(a) and Board of Governors Resolution No. 26-9, which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins. The decision is intended to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.

Paragraph 1. Par Values and Wider Margins

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(a) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within $2\frac{1}{4}$ per cent from the effective parity relationship among currencies as determined by the Fund, provided that these margins may be within $4\frac{1}{2}$ per cent from the said relationship if they result from the maintenance by the member of rates within margins of $2\frac{1}{4}$ per cent from the said relationship for spot exchange transactions between its currency and its intervention currency.

(b) A member that avails itself of wider margins under (a) above shall notify the Fund. Paragraphs 5 and 6 of this decision shall then apply to the member.

(c) A member's intervention currency means a currency which

the member represents to the Fund that it stands ready to buy and sell in order to perform its obligations regarding exchange stability.

Paragraph 2. Central Rates

(a) A member which temporarily does not maintain rates based on a par value for its currency in accordance with Article IV, Section 3 and Decision No. 904-(59/32) but, by means of appropriate measures consistent with the Articles, maintains a stable rate as the basis for exchange transactions in its territories may communicate to the Fund a rate for its currency for the purposes of this decision. This rate or a rate subsequently communicated in accordance with this paragraph shall take effect as the central rate for the purposes of this decision unless the Fund finds it unsatisfactory.

(b) A central rate for a member's currency may be communicated in gold, units of special drawing rights, or another member's currency.

Paragraph 3. Central Rates with Wider Margins

A member that communicates a central rate under paragraph 2(a) and avails itself of the wider margins of paragraph 1(a) on the basis of its central rate shall notify the Fund, and if the Fund has not found the central rate unsatisfactory the member will be deemed to be acting in accordance with Article IV, Section 4(a) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within $2\frac{1}{4}$ per cent from the central rate, provided that these margins may be within $4\frac{1}{2}$ per cent from the central rate if they result from the main-

tenance by the member of rates within margins of $2\frac{1}{4}$ per cent from the central rate for spot exchange transactions between its currency and its intervention currency. In addition, paragraphs 5 and 6 shall apply.

Paragraph 4. Central Rates Without Wider Margins

If a member that communicates a central rate under paragraph 2(a) does not notify the Fund under paragraph 3 that it avails itself of the wider margins of that paragraph, the member shall take appropriate measures to ensure that the margins on either side of the central rate for exchange transactions between its currency and the currencies of other members taking place within its territories shall be no wider than the equivalent of the margins of Article IV, Section 3 and Decision No. 904-(59/32).

Paragraph 5. Multiple Currency Practices and Discriminatory Currency Arrangements

Notwithstanding paragraphs 1 and 3 above, no member shall permit, except as approved or authorized under Article VIII, Section 3 or Article XIV, Section 2,

- (i) a spread between the buying and selling rates for spot exchange transactions between its currency and the currencies of other members in excess of 2 per cent,
or
- (ii) (1) a difference between buying or between selling rates for spot exchange transactions between its currency and the currency of another member, or
(2) a relationship among the buying rates, or among the selling rates, for the currencies of other members, that the Fund regards as inconsistent with promotion of exchange stability, the maintenance of orderly exchange

arrangements with other members, and the avoidance of competitive exchange alterations.

Paragraph 6. Intervention

Appropriate measures for the purposes of paragraphs 1(a), 2(a), and 3 above shall include intervention by a member's authorities in the exchange markets within the member's territories in order to maintain rates for spot exchange transactions in accordance with this decision. In their intervention in exchange markets members shall refrain from actions incompatible with the purposes of the Fund.

Paragraph 7. Members Maintaining Narrow Margins Against an Intervention Currency

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(a) and Board of Governors Resolution No. 26-9, if (a) the rate for its currency is maintained consistently with the Articles or the member's Membership Resolution, (b) the member permits transactions between its currency and its intervention currency only within margins of 1 per cent of the said rate in terms of the intervention currency, and (c) the intervention currency is the currency of a member which maintains rates within margins consistent with this decision.

(b) Subparagraph (a) shall apply to a member in respect of the separate currency of a territory under Article XX, Section 2(g) for which margins of 1 per cent are maintained for transactions between the separate currency and the metropolitan currency.

Decision No. 3463-(71/126)

December 18, 1971

INTERPRETATION OF ARTICLES OF AGREEMENT

[A member] has stated its intention to maintain full employment and has requested an interpretation of the Articles of Agreement as to whether steps necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, shall be measures necessary to correct a fundamental disequilibrium.

The Executive Directors interpret the Articles of Agreement to mean that steps which are necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, are among the measures necessary to correct a fundamental disequilibrium; and that in each instance in which a member proposes a change in the par value of its currency to correct a fundamental disequilibrium the Fund will be required to determine, in the light of all relevant circumstances, whether in its opinion the proposed change is necessary to correct the fundamental disequilibrium.

Pursuant to Decision No. 71-2

September 26, 1946

PURCHASE AND SALE OF GOLD WITHIN THE MEANING OF
ARTICLE IV, SECTION 4(b)

1.

2. . . . [A member] informed the Fund that exchange restrictions in [specified nonmetropolitan territory] would be abolished and the [territory's separate] currency would be made freely convertible into U.S. dollars, the local authorities freely buying and selling U.S. dollars in exchange for the [separate currency of the territory] at the par value for the settlement of international transactions. Such arrangements are deemed to constitute, in fact,

the free purchase and sale of gold for the settlement of international transactions within the meaning of Article IV, Section 4(b), for the territory of [the specified nonmetropolitan area] insofar as the United States freely buys and sells gold for such purposes within the meaning of that Section.

Decision No. 411-1

March 18, 1949

CHANGES IN PAR VALUES: FUNDAMENTAL DISEQUILIBRIUM

The Fund has authority under Article IV, Section 5(c) (ii) or (iii), to object to a change in par value proposed by a member when the extent of the proposed change, in the judgment of the Fund, is insufficient to correct a fundamental disequilibrium. The Executive Board recognizes, however, that the extent of the change in par value, necessary to correct a fundamental disequilibrium, cannot be determined with precision and that in reaching a decision on a member's proposal to change its par value, whether during the transitional period or thereafter, the member should be given the benefit of any reasonable doubt. In addition, due consideration should be given the views of the member regarding the political and social consequences of a change in par value greater than the one proposed.

Decision No. 278-3

March 1, 1948

RATES FOR COMPUTATIONS AND ADJUSTMENT OF THE FUND'S HOLDINGS OF CURRENCIES

The following decision is adopted in order to facilitate the conduct of the operations of the Fund involving currencies for which rates are not maintained within the margins under Article IV,

Section 3 of the Articles or Executive Board Decision No. 904-(59/32).

1. Computations by the Fund under the Articles of Agreement relating to a member's currency for which rates within the margins of Article IV, Section 3 or Executive Board Decision No. 904-(59/32) are not maintained will be made on the basis of the representative rate for that currency under Rule 0-3 whenever these calculations are made (i) for the purpose of a transaction with the Fund involving the purchase or sale of that member's currency by another member, and (ii) for such other purposes as the Fund may decide. Computations under this paragraph will be made on the basis of the representative rate for the currency on the day specified in paragraph 2 below.

2. For computations for the purpose of Article V, Section 7(b) and 8(f) the rate shall be that at which the Fund values its holdings of the currency on the day for which the computation is made. For computations relating to other transactions, including computations involving currency substituted pursuant to Schedule B, paragraph 1(d) and paragraph 1 of Executive Board Decision No. 3049-(70/44), the rate shall be that of two business days before the value date of the transaction and, if this is not possible, the rate of the day closest thereto that is practicable.

3. Whenever a computation relating to a member's currency is made on the basis of a representative rate in accordance with paragraph 1 above, the Fund will adjust all of its holdings of the currency on the basis of that rate, and such adjustment will take effect as of the day specified for the computation in paragraph 2 above.

4. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 3 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article IV, Section 8. For the purpose of

applying the provisions of the Articles as of any date, the Fund's holdings of the currency will be deemed to be its actual holdings plus the balance in any such account receivable or minus the balance in any such account payable as of that date. Settlements of accounts receivable or payable shall be made promptly after each April 30 and at other times when requested by the Fund or the member.

5. The suspension of Rule 0-3(i) pursuant to Paragraph II of Executive Board Decision No. 3537-(72/3) G/S is terminated. Executive Board Decision No. 3537-(72/3) G/S and Executive Board Decision No. 321-(54/32), as amended, are terminated.

6. This decision shall be reviewed as necessary.

Decision No. 3637-(72/41) G/S

May 8, 1972

ARTICLE V, SECTIONS 3, 4, AND 5

Use of Fund's Resources and Stand-By Arrangements

INTERPRETATION OF ARTICLES OF AGREEMENT

The Executive Directors of the International Monetary Fund interpret the Articles of Agreement to mean that authority to use the resources of the Fund is limited to use in accordance with its purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilization operations.

Pursuant to Decision No. 71-2

September 26, 1946

USE OF FUND'S RESOURCES FOR CAPITAL TRANSFERS

After full consideration of all relevant aspects concerning the use of the Fund's resources, the Executive Directors decide by way of clarification that Decision No. 71-2 does not preclude the use of the Fund's resources for capital transfers in accordance with the provisions of the Articles, including Article VI.

Decision No. 1238-(61/43)

July 28, 1961

USE OF FUND'S RESOURCES: MEANING OF ARTICLE V, SECTION 3(a)(i)

The word "represents" in Article V, Section 3(a)(i), means "declares." The member is presumed to have fulfilled the condi-

tion mentioned in Article V, Section 3(a)(i), if it declares that the currency is presently needed for making payments in that currency which are consistent with the provisions of the Agreement. But the Fund may, for good reasons, challenge the correctness of this declaration, on the grounds that the currency is not "presently needed" or because the currency is not needed for payment "in that currency," or because the payments will not be "consistent with the provisions of this Agreement." If the Fund concludes that a particular declaration is not correct, the Fund may postpone or reject the request, or accept it subject to conditions. The phrase "presently needed" cannot be defined in terms of a formula uniformly applicable to all cases, but where there is good reason to doubt that the currency is "presently needed," the Fund will have to apply the phrase in each case in the light of all the circumstances.

Decision No. 284-4

March 10, 1948

USE OF FUND'S RESOURCES: MEANING OF "CONSISTENT WITH THE PROVISIONS OF THIS AGREEMENT" IN ARTICLE V, SECTION 3

The phrase "consistent with the provisions of this Agreement" in Article V, Section 3, means consistent both with the provisions of the Fund Agreement other than Article I and with the purposes of the Fund contained in Article I.

Decision No. 287-3

March 17, 1948

EXTENT OF DRAWING RIGHTS: MEANING OF ARTICLE V, SECTION 3(a)(iii)

The Executive Board, acting pursuant to Article XVIII(a) of the Fund Agreement, interprets the quantitative limit of twenty-

five per cent of quota in relation to drawing rights under Article V, Section 3 (a) (iii) as follows:

Where the Fund's holdings of a member's currency are not less than seventy-five per cent of its quota, and to the extent that such holdings would not be increased above two hundred per cent of its quota, the purchases which the member may make during a period of twelve months ending on the date of a proposed purchase shall be determined as follows:

(a) The total purchases shall not exceed twenty-five per cent of its quota;

(b) Provided that, if the member has made purchases during the period, it may then purchase an amount equal to the difference between twenty-five per cent of its quota and the total of such purchases adjusted on the basis that a repurchase by the member or sale of its currency during the period is deducted from a previous, but not subsequent, purchase or purchases during the period.

Decision No. 451-(55/52)

August 24, 1955

USE OF FUND'S RESOURCES AND REPURCHASES

1. The Managing Director has made the following statement which should be the framework for his discussions with members on use of the Fund's resources:

"The present proposals are designed to provide a practical basis for use of the Fund's resources in accordance with the purposes of the Fund. When the proposals are agreed they will, of course, have to be carried into effect through actual cases. Decisions will have to be made in accordance with the particular circumstances, and in this manner a body of practical criteria will gradually be built up. However, even at the outset I think

it must be clear that access to the Fund should not be denied because a member is in difficulty. On the contrary, the task of the Fund is to help members that need temporary help, and requests should be expected from members that are in trouble in greater or lesser degree. The Fund's attitude toward the position of each member should turn on whether the problem to be met is of a temporary nature and whether the policies the member will pursue will be adequate to overcome the problem within such a period. The policies, above all, should determine the Fund's attitude.

"In addition, the Fund should pay attention to a member's general credit-worthiness, particularly its record with the Fund. In this respect, the member's record of prudence in drawing, its willingness to offer voluntary repayment when its situation permitted, and its promptness in fulfilling the obligation to transmit monetary reserves data and in discharging repurchase obligations would be important. I would expect that in the years to come, with extended activities of the Fund, we shall be able more and more to rely on the Fund's own experience, thus providing a further and most useful link between Fund drawings and repurchases.

"After a period of relative inactivity of the Fund, it would be too much to expect that we should be able to solve with one stroke the entire problem of access to the Fund's resources so that each member would always know how any request would be received by the Fund. We shall have to feel our way. Sometimes a member may want to submit to the Fund a specific request for drawings, with adequate information as to the particular situation which prompts the request. At other times discussions between the member and the Fund may cover its general position, not with a view to any immediate drawing, but in order to ensure that it would be able to draw if, within a period of say 6 or 12 months, the need presented itself. The Fund itself might take the initiative in discussing with one or more members transactions which it believes suitable for the

Fund and helpful to the members concerned. In cases where it would appear appropriate and useful, the Fund might arrange drawings to deal with special short-run situations accompanied by arrangements for repurchase in a period not exceeding 18 months."

2. a. In view of the Executive Board's interpretation of September 26, 1946, concerning the use of the Fund's resources, and considering especially the necessity for ensuring the revolving character of the Fund's resources, exchange purchased from the Fund should not remain outstanding beyond the period reasonably related to the payments problem for which it was purchased from the Fund. The period should fall within an outside range of three to five years. Members will be expected not to request the purchase of exchange from the Fund in circumstances where the reduction of the Fund's holdings of their currencies by an equivalent amount within that time cannot reasonably be envisaged.

b. The Fund has recently determined that when the charges on the Fund's holdings of a member's currency in any bracket have reached a rate of $3\frac{1}{2}$ per cent per annum, the Fund and the member, in accordance with Article V, Section 8(d) "shall consider means by which the Fund's holdings of the currency can be reduced" (EB Meeting 717, 11/19/51). In the course of consultations arising from purchases of exchange taking place after December 1, 1951, the Fund and the member will agree upon appropriate arrangements to ensure the reduction of the Fund's holdings of the member's currency as soon as possible, with the maximum period to be permitted in any such agreed arrangement requiring that within five years of each purchase made by the member there will be an equivalent repurchase of the Fund's holdings unless they have otherwise been reduced.

c. With respect to each future purchase which raises the Fund's holdings of the member's currency from not less than 75 per cent to not more than 100 per cent of its quota, a member whose currency held by the Fund has not been otherwise reduced within three years will be requested by the Fund to agree upon an

arrangement providing that within five years of each purchase made by the member there will be an equivalent repurchase of the Fund's holdings unless they have otherwise been reduced.

d. When unforeseen circumstances beyond the member's control would make unreasonable the application of the principles set forth in paragraph 2 above, the Fund will consider extensions of time.

e. When requesting use of the resources of the Fund in accordance with the arrangements described above, a member will be expected to include in its authenticated request a statement that it will comply with the above principles.

f. These principles will be an essential element in any determination by the Fund as to whether a member is using the resources of the Fund in accordance with the purposes of the Fund.

3. Each member can count on receiving the overwhelming benefit of any doubt respecting drawings which would raise the Fund's holdings of its currency to not more than its quota.*

4. The Managing Director should communicate with members concerning means to speed the collection and reporting of monetary reserves data and means to reduce the delays in reaching agreement under Rule I-6 in cases where a repurchase obligation has been computed. The Fund should also make it clear that an important element in its judgment respecting the use of its resources will be the co-operation of the member in helping to make Article V, Section 7 effective, including the timely provision of information and the facilitating of settlement.

5. This decision will be effective until December 31, 1953, and will be reviewed by the Executive Board before that date.

*Decision No. 102-(52/11)***

February 13, 1952

* See, however, Article V, Section 3(d) and paragraph 32, *Report by the Executive Directors to the Board of Governors Proposing Amendment of the Articles of Agreement*, April 1968.

** Under Paragraph 1 of Decision No. 270-(53/95) adopted December 23, 1953, Decision No. 102-(52/11) was continued in effect.

General Policies on Use of the Fund's Resources: Tranche Policies

Members are given the overwhelming benefit of the doubt in relation to requests for transactions within the "gold tranche," that is, for drawings which do not increase the Fund's holdings of the currency beyond an amount equal to the member's quota. The Fund's attitude to requests for transactions within the "first credit tranche"—that is, transactions which bring the Fund's holdings of a member's currency above 100 per cent but not above 125 per cent of its quota—is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification. They are likely to be favorably received when the drawings or stand-by arrangements are intended to support a sound program aimed at establishing or maintaining the enduring stability of the member's currency at a realistic rate of exchange.

Annual Report of the Executive Directors,
1962, p. 31. See also *Annual Reports*,
1953, 1955, 1959, and 1961.

STAND-BY CREDIT ARRANGEMENTS

The Fund is prepared to consider requests by members for stand-by arrangements designed to give assurance that, during a fixed period of time, transactions up to a specified amount will be made whenever a member requests and without further consideration of its position, unless the ineligibility provisions of the Fund Agreement have been invoked. The following paragraphs set forth the general framework for stand-by arrangements:

1. Stand-by arrangements would be limited to periods of not more than six months. They could be renewed by a new decision of the Executive Board.
2. In considering the request for a stand-by arrangement or a renewal of a stand-by arrangement, the Fund would apply the same policies that are applied to requests for immediate drawings, including a review of the member's position, policies and

prospects in the context of the Fund's objectives and purposes. The Fund would agree to a stand-by arrangement only for a member that would be in a position to make purchases of the same amount of exchange from the Fund.

3. Such arrangements would cover the portion of the quota which a member would be allowed, under Article V, Section 3, to draw within the period provided in the arrangement. However, this does not preclude the Fund from making stand-by arrangements for larger amounts on terms in accordance with Article V, Section 4.

4. A charge of $\frac{1}{4}$ of 1 per cent per annum would be payable to the Fund at the time a stand-by arrangement is agreed. This charge would be payable in gold (or United States dollars in lieu of gold) or the member's currency as specified for other charges by Article V, Section 8(f). In the event that a stand-by arrangement is renewed, a new charge at the rate of $\frac{1}{4}$ of 1 per cent per annum would be payable to the Fund.

5. A member having a stand-by arrangement would have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right of the member could be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally (under Article XVI, Section 1(a)(ii)) or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the member.

6. In view of the policy of the Fund with respect to drawings within the so-called "gold tranche," it is not considered likely that members will request stand-by arrangements confined to transactions within the "gold tranche." Accordingly, the policy set forth in this decision is designed primarily to deal with stand-by arrangements for drawings beyond the "gold tranche." If at any time a member proposes a stand-by arrangement which would, in part or entirely, involve drawings within the "gold

tranche," the Fund will reconsider the charge set forth in paragraph 4 above as applied to "gold tranche" transactions.

7. This decision will be effective until December 31, 1953, and will be reviewed by the Executive Board before that date.

Decision No. 155-(52/57)

October 1, 1952

I. USE OF FUND'S RESOURCES AND REPURCHASES

II. STAND-BY CREDIT ARRANGEMENTS

I. Use of Fund Resources and Repurchases

The decision taken at Meeting 52/11 on February 13, 1952, relating to use of the Fund's resources and repurchases, shall continue in effect subject to review by the Executive Board from time to time as circumstances warrant.

II. Stand-by Arrangements

The Fund is prepared to consider requests by members for stand-by arrangements designed to give assurance that, during a fixed period of time, transactions up to a specified amount will be made whenever a member requests and without further consideration of its position, unless the ineligibility provisions of the Fund Agreement have been invoked. The following paragraphs set forth the general framework for stand-by arrangements:

1. Stand-by arrangements will be limited to periods of not more than six months. They can be renewed by a new decision of the Executive Board. If a member believes that the payments problems it anticipates (for example, in connection with positive programs for maintaining or achieving convertibility) can be adequately provided for only by a stand-by arrangement of more than six months, the Fund will give sympathetic consideration to a request for a longer stand-by arrangement in the light

of the problems facing the member and the measures being taken to deal with them. With respect to stand-by arrangements for periods of more than six months, the Fund and the member might find it appropriate to reach understandings additional to those set forth in this decision.

2. In considering the request for a stand-by arrangement or renewal of a stand-by arrangement, the Fund will apply the same policies that are applied to requests for immediate drawings, including a review of the member's position, policies and prospects in the context of the Fund's objectives and purposes. The Fund will agree to a stand-by arrangement only for a member that is in a position to make purchases of the same amount of exchange from the Fund.

3. There will be specified in each stand-by arrangement the transactions which may be made under that arrangement.

4. A member having a stand-by arrangement will have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right of the member can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally (under Article XVI, Section 1(a)(ii)) or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the member. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and the member and agreement has been reached on the terms for the resumption of such purchases.

5. (a) When a stand-by arrangement is entered into or renewed, a charge of $\frac{1}{4}$ of 1 per cent per annum will be payable to the Fund in advance for the period of the stand-by arrange-

ment or renewal. For any additional drawing rights that arise in the course of a stand-by arrangement, a further charge will be payable to the Fund in advance at the rate of $\frac{1}{4}$ of 1 per cent per annum calculated on the basis of the amount of the additional drawing rights and the unexpired period of the stand-by arrangement.

(b) Charges for stand-by arrangements will be payable in gold, or U.S. dollars in lieu of gold, or in the member's currency as specified for other charges by Article V, Section 8(f).

(c) There will be credited against the service charge for a transaction under a stand-by arrangement the charges actually paid in respect of that amount under the stand-by arrangement and any stand-by arrangement which preceded it without interval at the rate of $\frac{1}{4}$ of 1 per cent per annum and up to a maximum of $\frac{1}{4}$ of 1 per cent on that amount, due allowance being made for any refunds under paragraph II.6 of this decision. For the purpose of calculating such credits and for the purpose of calculating refunds under (e) below, it shall be assumed that drawings are made in respect of drawing rights in the order in which such drawing rights arose.

(d) In order to effect a credit against a service charge, the Fund will repay the portion of the charge paid for a stand-by arrangement that is to be credited under (c) above and collect the service charge in full.

(e) If a member notifies the Fund that it wishes to cancel a stand-by arrangement, the Fund will repay to the member a portion of the charge. The portion repaid will represent the charge for the period remaining unexpired at the date of cancellation for the amount that could still be drawn under the stand-by arrangement at the date of cancellation for which the member has paid a charge.

(f) Repayment under (d) or (e) above of a charge paid

for a stand-by arrangement will be made in gold, U.S. dollars, and the member's currency in the same proportions as the charge was paid.

6. The Fund will not levy the charge set forth in paragraph 5 above with respect to that part of the stand-by arrangement covering "gold tranche" transactions.

To the extent that a charge has been levied on a part of the stand-by arrangement which falls into the gold tranche in the course of the stand-by arrangement, the Fund will refund the charge on that part for the unexpired period of the stand-by arrangement.

7. This decision shall continue in effect subject to review by the Executive Board from time to time as circumstances warrant.

*Decision No. 270-(53/95),
December 23, 1953, as amended by
Decisions Nos. 876-(59/15), April 27, 1959,
and 1151-(61/6), February 20, 1961*

STAND-BY ARRANGEMENTS

I.

II. A stand-by arrangement shall provide for a fixed amount that can be purchased under it augmented by amounts equivalent to repurchases in respect of drawings made under the stand-by arrangement or made at the time when the stand-by arrangement is entered into, unless when any such repurchase is made the member informs the Fund that it does not wish the stand-by arrangement to be augmented by the amount of that repurchase. In exceptional circumstances, however, a stand-by arrangement may

provide for purchases that increase the Fund's holdings of the currency of the member having the stand-by arrangement up to a specified level, provided that the amounts the member may purchase shall in no case be increased by other members' purchases of its currency.

. . .

Decision No. 876-(59/15)

April 27, 1959

USE OF FUND'S RESOURCES AND STAND-BY ARRANGEMENTS

The Executive Board has reviewed the Fund's policy with respect to the use of its resources under stand-by arrangements (SM/68/128 and Supplements 1-4, SM/68/141) and agrees that the Fund shall be guided by the approach in the conclusions set forth in SM/68/128, Supplement 4 as revised.

*Decision No. 2603-(68/132)**

September 20, 1968

Conclusions

In the light of experience over the past years and taking into consideration the necessity of adequate safeguards for the Fund and the need for flexibility while ensuring uniform and equitable treatment of all members, it is proposed that Fund policies and practices on the use of its resources, including tranche policies, shall continue to apply subject to the following:

1. Appropriate consultation clauses will be incorporated in all stand-by arrangements.

* See also paragraph 4 of Decision No. 3153-(70/95), page 103.

2. Provision will be made for consultation, from time to time, with a member during the whole period in which the member is making use of the Fund's resources beyond the first credit tranche whether or not the use results from a stand-by arrangement.

3. Phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche.

4. Appropriate phasing and performance clauses will be used in all stand-by arrangements other than those referred to in paragraph 3, but these clauses will be applicable only to purchases beyond the first credit tranche.

5. Notwithstanding paragraph 4, in exceptional cases phasing need not be used in stand-by arrangements that go beyond the first credit tranche when the Fund considers it essential that the full amount of the stand-by arrangement be promptly available. In these stand-by arrangements, the performance clauses will be so drafted as to require the member to consult the Fund in order to reach understandings, if needed, on new or amended performance criteria even if there is no amount that could still be purchased under the stand-by arrangements. This consultation will include a discussion by the Executive Directors which could culminate in a communication of their views to the member under Article XII, Section 8.

6. Performance clauses will cover those performance criteria necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives, but no others. No general rule as to the number and content of performance criteria can be adopted in view of the diversity of problems and institutional arrangements of members.

7. In view of the character of stand-by arrangements, language having a contractual flavor will be avoided in the stand-by documents.

STAND-BY ARRANGEMENTS: REFUND OF CHARGES

(a) Refunds pursuant to Paragraph II.6 of Executive Board Decision No. 270-(53/95), as amended, of charges paid for stand-by arrangements entered into before the date of this decision will be calculated as of the date of each repurchase, drawing of the member's currency by other members, or increase of the member's quota, and will be based on the Fund's total holdings of the member's currency as of the date of each such calculation. If no such repurchase, drawing or increase of quota has taken place before the expiration of the stand-by arrangement the calculation will be based on the Fund's holdings at the end of the quarters of the Fund's financial year and at the date of expiration.

(b) In determining the Fund's holdings of a member's currency for the purposes of all calculations involving charges payable for stand-by arrangements entered into after the date of this decision, no account will be taken of amounts, not in excess of $\frac{1}{10}$ of 1 per cent of the member's quota, in a special account to meet administrative expenses or amounts in sundry cash accounts.

*Decision No. 1345-(62/23),
May 23, 1962, as amended by
Decision No. 2620-(68/141),
November 1, 1968*

PROCEDURE FOR PURCHASES UNDER STAND-BY ARRANGEMENTS

Upon receipt of a valid request for a purchase under a stand-by arrangement, the Executive Directors will be notified promptly, and, not later than the close of the first business day after the receipt of the request, the Fund will instruct the appropriate depository to make the transfer.

*Decision No. 3006-(70/24)
March 20, 1970*

USE OF FUND'S RESOURCES: LIMITATION AND INELIGIBILITY
UNDER ARTICLE V, SECTION 5

The Fund has, in the case of a member which has had a previous exchange transaction with the Fund, power to declare the member ineligible or limit its use of the resources of the Fund if the member is, in the opinion of the Fund, using the resources of the Fund in a manner contrary to the purposes of the Fund.

Decision No. 284-3

March 10, 1948

USE OF FUND'S RESOURCES: POSTPONEMENT AND LIMITATION
UNDER ARTICLE V, SECTION 5

If the Fund receives a request from a member to purchase exchange and either, (1) the Fund is considering sending the member a report pursuant to Article V, Section 5, or (2) the Fund finds when the request is before it that action pursuant to that Section should be considered; then the Fund has the authority, pursuant to Article V, Section 5, of the Fund Agreement, to postpone the transfer as permitted under the provisions of Rules and Regulations G-3 for such time as may reasonably be necessary to decide the question of applying Article V, Section 5, and, if it decides to apply it, to prepare and send to the member a report and subject its use of the Fund's resources to limitations. Under such circumstances the limitations imposed will apply to the pending request for the purchase of exchange as well as to future requests.

Decision No. 286-1

March 15, 1948

USE OF FUND'S RESOURCES: MEANING OF "IS USING" IN ARTICLE V, SECTION 5

A member "is using" the resources of the Fund within the meaning of Article V, Section 5, where it is either actually disposing of the exchange purchased from the Fund, or, having purchased exchange from the Fund, the Fund's holdings of its currency are in excess of 75 per cent of its quota.

Decision No. 292-3

March 30, 1948

CURRENCIES TO BE DRAWN AND TO BE USED IN REPURCHASES

The Board approves the statement entitled "Currencies to be Drawn and to be Used in Repurchases" (SM/62/62, Revision 2), and this statement shall be incorporated in the Annual Report for 1962.

Decision No. 1371-(62/36)

July 20, 1962

Currencies to be Drawn and to be Used in Repurchases

From the beginning of the Fund's operations through 1957, drawings were overwhelmingly made in U.S. dollars. Starting in 1958, however, the Fund has increasingly encouraged drawings in other currencies, and this has been facilitated by the introduction of *de facto* convertibility for the currencies of the main industrial countries. Since the same currencies have become formally convertible under Article VIII in February 1961, repurchases have also begun to be made in these currencies.

Certain practices have been developed which take into account the new situation of the increasing number of currencies usable for the transactions of the Fund. These practices are still in a state of evolution as increased experience is being gained. The following paragraphs set out what may be regarded as appropriate practices to be followed for the time being.

I. *Procedure*

When a substantial number of currencies other than the U.S. dollar became usable for drawings, the drawing countries began to discuss with the Managing Director what currencies might be drawn. It gradually became the practice that consultation should take place between the drawing country and the Managing Director about the currencies to be drawn, and this practice has now become established in connection with all stand-by arrangements and drawings. Before giving advice to the drawing country, the Managing Director has got into contact with countries whose currencies might be drawn, even in circumstances where speed in arranging the drawing was essential. These consultations and the contacts with the countries concerned have thus become an integral part of the procedure which has been evolved.

In addition, an attempt is being made to indicate from time to time the amounts likely to be drawn and what might be a proper distribution of drawings among different currencies. Since under stand-by arrangements even fairly large drawings may be made suddenly, such indications as will be given can only be tentative and informal but they can, even so, serve a useful purpose in contributing to the maintenance of close contact between the Managing Director and the countries whose currencies may be drawn.

It has been concluded that the Fund has the legal authority to specify the convertible currencies to be used in making repurchases in discharge of obligations to repurchase that do not arise under Article V, Section 7(*b*), and that, accordingly members are required to obtain the prior agreement of the Fund on the convertible currencies to be used in making such repurchases. Such

repurchases must not increase the Fund's holdings of a member's currency beyond 75 per cent of that member's quota or decrease the Fund's holdings of the repurchasing member's currency below 75 per cent of that member's quota.

Until further notice, and in order to maintain conditions which foster repurchases and the revolving character of the Fund's resources, the Fund will accept any convertible currency fulfilling the conditions set forth in the last sentence above, provided that the repurchasing member has consulted the Managing Director on the currencies, and the amounts of each, to be used by the member in making its repurchase. Before giving his advice, the Managing Director will consult with countries whose currencies could be used in repurchase, and he will also attempt to give advance indications comparable to those relating to the currencies to be drawn. In all of these consultations, the Managing Director's recommendations will be guided by the principles regarding the currency composition of repurchases set out in Section II below.

The preceding paragraph shall apply to those repurchase obligations outside Article V, Section 7(b) that are entered into after July 20, 1962. Members that entered into such obligations before that date shall be invited to consult the Managing Director on the currencies to be used in discharging these obligations, and the Managing Director will follow the procedure and be guided by the considerations referred to in the preceding paragraph.

The Managing Director will notify the Executive Directors at least two business days before any repurchase under the preceding paragraphs is carried out.

Where consultations with a country are referred to in this document they will normally be conducted with the Executive Director appointed or elected by such country.

II. Criteria for the Selection of Currencies for Drawings and Repurchases

The experience of the Fund in recent years has made it possible

to indicate the main considerations which govern the selection of currencies for drawings and repurchases.

Drawings

With regard to the question of the selection of currencies for a particular drawing or for drawings in general, account has been taken of the balance of payments and reserve positions of the countries whose currencies are considered for drawing, as well as of the Fund's holdings of these currencies.

It has been found in practice that weight has to be given to all these three considerations, with some differentiation according to specific circumstances, and perhaps most particularly according to the size of the transaction or transactions involved.

During periods when aggregate drawings were moderate in amount, little difficulty was experienced in distributing these drawings among countries with reasonably satisfactory balance of payments positions on the basis of the level of these countries' reserves. When the volume of drawings has been large, it has been necessary to give more importance to the relative balance of payments positions of the countries to be drawn upon, so as to prevent excessive declines in their primary reserves as a result of Fund sales of their currencies. In connection with large drawings, in particular when they are associated with short-term capital movements, it is usually fairly easy to single out the countries whose reserves have benefited from an inflow of capital and to direct drawings more particularly towards the currencies of these countries.

By the attention thus given to the balance of payments position, the Fund has been able to arrange drawings in large measure to offset movements of funds in the exchange markets, and thus contribute to the strengthening of the international payments position. In considering a country's balance of payments position, seasonal fluctuations have not been allowed great weight, and the Fund has avoided drawing prematurely the currency of a country

which is in the process of building up reserves from a relatively low position.

In applying the third consideration, account has to be taken of prevailing circumstances. For example, when the Fund's holdings of a particular currency have become very low, this has precluded substantial sales of that currency irrespective of the balance of payments and reserve position of the country concerned. In practice, the Fund has taken account of the level of its holdings of any currency well before the point of actual exhaustion, by gradually—rather than abruptly—reducing its sales of that currency on account of this factor.

Small drawings have normally been executed in one currency only, preferably the currency in which the drawing country holds the bulk of its reserves, even in circumstances where the payments position of the reserve center drawn upon has not been strong. Somewhat larger drawings have usually been distributed over more than one currency, but only exceptionally more than three to five currencies have been involved in a single drawing unless it has been a very large one. As far as possible, factors relevant to the particular drawing country, such as closeness of trade and payments relations, have been taken into account in the selection of the currencies to be drawn.

Repurchases

With regard to repurchases, the range of currencies is, as mentioned in Section I above, limited to currencies that are formally convertible and of which the Fund's holdings are below 75 per cent of the quota. As a result, repurchases in currencies have, until early 1961, been made almost exclusively in U.S. dollars. The U.S. dollar was also, in recent years, a currency that was available in the exchange market at favorable rates which reflected the prevailing balance of payments position.

Increasingly, however, weight has been given, in suggesting the allocation of repurchases among the countries whose currencies

can be received in repurchase, to the Fund's holdings of these currencies compared to quotas. It would seem from the point of view of equity, and also with due regard to the liquidity position of the Fund, that great weight should be given to this criterion. But consideration should also be given, when appropriate, to the prevailing balance of payments position. In the case of relatively small repurchases it has been found practical that they be made in the currency in which a country holds its reserves, provided of course that such currency can be received by the Fund.

III. *Conversion*

It has been the experience in the Fund that a country drawing one or more currencies, after consultation with the Managing Director, has often wanted to convert either the whole or part of the amount drawn in a particular currency into one or more other currencies depending upon the payments that country has to meet or the currencies it normally holds in its reserves. The conversions thus effected have made it possible for the drawing country to meet its payments obligations and to strengthen its reserves in the most effective manner.

In the case of drawings in dollars, sterling and moderate amounts of certain other currencies, there has been no difficulty in effecting conversion at the going rate by transactions in the exchange market. Since the currencies drawn have generally been strong currencies for which there is a demand in the market, such conversion has generally been carried out without any disturbance to the market. For several currencies, arrangements have often been made between central banks, i.e., between the central banks in the drawing country and in the country whose currency is drawn, which provide for direct conversion into the latter's main reserve currency at the prevailing market rate without any commission being charged. In certain cases, however, especially when the amounts involved have been large, consideration has been given to the fact that conversion on the market would have affected exchange rates, and in some cases an allowance for this has been

made. A preference has been indicated by two central banks for conversion at par, especially for large drawings.

In accordance with normal central banking procedure, whenever a country desires conversion of a currency it is drawing, it would get in touch with the central bank of the country drawn upon in order to reach an understanding on the most convenient way to arrange such conversion. When conversion has presented a country with difficulties, the assistance of the Managing Director has been sought in order to arrive at an appropriate solution.

The practices outlined above for drawings can, *mutatis mutandis*, be applied when a country needs to obtain a currency in order to make a repurchase from the Fund with that currency.

The Fund will keep the practices with respect to conversion as described above under study, and will re-examine them in the light of further experience.

COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS

I. The report entitled "Compensatory Financing of Export Fluctuations" is approved for transmittal to the United Nations.

II. The following shall be recorded as the decision of the Executive Board on the compensatory financing of fluctuations in exports of primary exporting countries:

(1) The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial problems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue

their programs of economic development with greater effectiveness.

(2) The Fund noted in its 1962 Annual Report that trends in prices of basic commodities in the past few years have adversely affected the export earnings of many Fund members, which has increased the strain on their reserves. In view of this and in order to ensure the maximum effectiveness for its support to members—in particular, primary exporting members—that are faced with fluctuations in export proceeds, the Fund is taking the action set forth below.

A. *Quotas*

(3) The quotas of many primary exporting countries, taken in conjunction with a reasonable use of their own reserves, are at present adequate for dealing with export fluctuations such as have occurred during the past decade. In those instances, however, where adjustment of the quotas of certain primary exporting countries, and in particular of countries with relatively small quotas, would be appropriate to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria, the Fund is willing to give sympathetic consideration to requests for such adjustment.

B. *Drawing policies*

(4) Under the present policies and practices on the use of Fund resources, any member is given the overwhelming benefit of the doubt in relation to requests for transactions within the gold tranche, and the Fund's attitude to requests for transactions within the first credit tranche is a liberal one provided the member itself is making reasonable efforts to solve its problems. In the higher credit tranches too, where a member's policies are consistent with Fund policies and practices on the use of Fund resources in these tranches, the Fund gives assistance, on a substantial scale, toward meeting temporary payments deficits, including deficits arising out of export shortfalls. The policies

and practices of the Fund on drawings and stand-by arrangements have been developed in order to help members to meet more effectively their temporary balance of payments difficulties and to enable them, where necessary, to pursue policies aimed at restoring external and internal equilibrium. Fund assistance in accordance with these policies and practices has made an effective contribution to the solution of the difficulties of these members and the achievement of equilibrium. It has often led, moreover, to the provision of further resources from public and private sources for meeting immediate and longer-term needs. In the application of its policies and practices governing the use of its resources, the Fund's attitude has been a flexible one, and account has been taken of special difficulties facing members.

(5) The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can expect that their request for drawings will be met where the Fund is satisfied that

- (a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and
- (b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

Drawings outstanding under this paragraph (5) may amount to 50 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding under this paragraph (5) beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an

effort to find, where required, appropriate solutions for its balance of payments difficulties.

The existence and amount of an export shortfall for the purpose of any drawing under this paragraph (5) shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, and any excess of a shortfall over the drawing made under this paragraph (5) in respect to that shortfall cannot be carried forward and covered by a later drawing under this paragraph (5).

(6) In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

(7) A member requesting a drawing under paragraph (5) will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of E.B. Decision No. 102-(52/11) of February 13, 1952, as renewed by E.B. Decision No. 270-(53/95) of December 23, 1953. With a view to an application of these principles appropriate to drawings under paragraph (5), the Fund recommends that, as soon as possible after the end of each of the four years following a drawing under paragraph (5), the member repurchase an amount of the Fund's holdings of the member's currency approximately equal to one half of the amount by which the member's exports exceed the medium-term trend of its exports. Calculations of export excesses for this purpose will be made with respect to successive 12-month periods following the period of the shortfall with respect to which the drawing was made and on the basis of statistical information only.

(8) Whenever the Fund's holdings of a member's currency resulting from an outstanding compensatory drawing under

paragraph (5) are reduced, by the member's repurchase or otherwise, this will restore *pro tanto* the member's facility to make a further compensatory drawing under that paragraph, should the need arise.

(9) When drawings are made under paragraph (5), the Fund will so indicate in an appropriate manner. Within six months from the date of any drawing which is not under paragraph (5) and to the extent that it is still outstanding, a member may request that all or part of the drawing be reclassified and treated, for all purposes of this decision, as a drawing made under paragraph (5). The Fund will agree to such a request if at the time of the request the member meets the requirements for a drawing of an equal amount under paragraph (5).

(10) In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on Fund holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under paragraphs (4) and (5) above, or (ii) to the extent that drawings in accordance with paragraph (5) are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under paragraph (5).

(11) The provision of credit to deal with the balance of payments effects of export fluctuations provides immediate relief for a country's short-term difficulties. In many cases, however, it will also be necessary to introduce measures of a policy character in order to attain a satisfactory and lasting solution to a country's balance of payments problems. Members generally have actively cooperated with the Fund to find and adopt the measures necessary to this end. Beyond immediate balance of

payments difficulties, the primary exporting countries are, in many instances, facing unfavorable long-term export trends, and all are trying to meet the challenge of achieving more rapid and sustained development through a strengthening and broadening of their economies. The last-mentioned problem will require action in many fields and over many years by both the primary exporting countries and the industrial countries, separately and in concert, including readier access to the markets of the developed countries for the products of the developing countries and an appropriate and sustained flow of technical and financial assistance to the developing countries. The Fund considers that its activities can provide valuable assistance in helping to establish a climate within which longer-term measures can be more effectively pursued.

(12) The Fund will review this decision in the light of experience and developing circumstances.

*Decision No. 1477-(63/8),
February 27, 1963, as amended by
Decision No. 2192-(66/81),
September 20, 1966*

THE PROBLEM OF STABILIZATION OF PRICES OF PRIMARY PRODUCTS

1. The Executive Board, having considered the staff study on "The Problem of Stabilization of Prices of Primary Products," decides that the Fund will be prepared to extend assistance to members in connection with the financing of international buffer stocks of primary products in accordance with the principles and subject to the quantitative limits set forth in Chapter III, Section 2, and Annex A of Part II of the study.

2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph (5) of Executive Board Deci-

sion No. 1477-(63/8) of February 27, 1963, on Compensatory Financing of Export Fluctuations, as amended by Executive Board Decision No. 2192-(66/81) of September 20, 1966, and pursuant to paragraph 1 of this decision shall not exceed 75 per cent of quota; provided that under neither of these two paragraphs shall outstanding purchases exceed 50 per cent of quota.

3. In order to carry out the purposes of this decision, the Fund will be prepared to waive the limit on purchases that raise the Fund's holdings above 200 per cent of quota, where appropriate.

4. When purchases are made pursuant to paragraph 1 of this decision, the Fund will so indicate in an appropriate manner.

5. A member requesting a purchase pursuant to paragraph 1 of this decision will be expected to represent that it will make a repurchase corresponding to the purchase (i) in accordance with the principles of Executive Board Decision No. 102-(52/11) of February 13, 1952, as renewed by Executive Board Decision No. 270-(53/95) of December 23, 1953, or (ii) if the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member at an earlier date, when these distributions are made and to the extent thereof.

6. In view of the Fund's purposes, which include the facilitation of "the expansion and balanced growth of international trade," the Fund, in its consultations with members, will pay increased attention to their policies in the commodity field.

Decision No. 2772-(69/47)

June 25, 1969

FOURTH INTERNATIONAL TIN AGREEMENT: BUFFER STOCK FINANCING FACILITY

(i) The Fund, having considered the text of the Fourth International Tin Agreement, as adopted by the UN Tin Con-

ference on May 15, 1970, finds that the terms of this Agreement relating to the international tin buffer stock to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47) of June 25, 1969. The Fund expects that an amount equal to not less than one third of the compulsory contributions due on entry into force of the Agreement under Article 21(a) (ii) of the Agreement will be met from financing other than the use of the Fund's resources under Executive Board Decision No. 2772-(69/47).

(ii) In view of (i) above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), a member's requests for purchases in connection with the financing by the member of that part of its compulsory contribution to the buffer stock established under the Fourth International Tin Agreement which the member has been called upon to make under Article 21 of the Agreement and which is in excess of one third of the member's compulsory contribution due under Article 21(a) (ii) of the Agreement.

(iii) The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the Fourth International Tin Agreement by reports that will be made at least once a year, and the Fund may make such review of this Decision as is appropriate in the light of these reports.

Decision No. 3179-(70/102)

November 25, 1970

In applying the provisions of E.B. Decision No. 3179-(70/102), dated November 25, 1970, the Fund decides that, for the purpose

of determining the appropriate use of Fund resources under the Decision, any initial contribution made in the form of tin metal under Article 21(a)(ii) of the Fourth International Tin Agreement shall be regarded as equivalent to contributions in cash, valued at the floor price ruling on entry into force of the Agreement.

Decision No. 3351-(71/51)

June 21, 1971

GOLD TRANCHE PURCHASES UNDER ARTICLE V, SECTION 3(d)

I. The procedure for gold tranche purchases under the Articles of Agreement as amended will be as follows:

(a) Upon receipt of a request, the Executive Directors will be notified as soon as possible but not later than on the first business day after the receipt of the request. The notification will include a statement that a decision along the following lines will be recorded in the minutes of the next Executive Board meeting:

[Member] is making a gold tranche purchase in an amount equivalent to _____ in [currencies], pursuant to its request dated _____. The Fund notes [member's] request, including its representation in accordance with Article V, Section 3(a)(i), and its statement that it will comply with the principles set forth in Executive Board Decision No. 102-(52/11), adopted February 13, 1952.

(b) Not later than the close of the first business day after the receipt of the request, the Fund will instruct the appropriate depository to make the transfer.

(c) If a request is made for a purchase in both the gold

tranche and credit tranches, the procedure for purchases in the credit tranches will be followed unless the member requests that the gold tranche procedure be followed for the gold tranche portion of the request.

II. Pursuant to Article XIX(j) the Fund decides that purchases and holdings under policies on the use of the Fund's resources for compensatory financing of export fluctuations shall be excluded for the purposes of the definition of gold tranche purchases in that provision.

III. In stand-by arrangements the amount made available shall be expressed as follows:

For a period of one year from _____, [member] will have the right, after making full use of any gold tranche that it may have, to make purchases from the Fund in the currencies of other members in exchange for its own currency in an amount equivalent to _____ million, etc.

IV. No service charge shall be payable in respect of any purchases made after July 27, 1969, to the extent that it is a gold tranche purchase.

Decision No. 2836-(69/87)

September 15, 1969

GOLD TRANCHE PURCHASES AND BUFFER STOCK FINANCING FACILITY

The Executive Directors will not challenge a member's representation under Article V, Section 3(a)(i) made in connection with a request for a purchase under paragraph 1 of Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, if the purchase is a gold tranche purchase.

Decision No. 3386-(71/83)

August 6, 1971

GOLD COLLATERAL TRANSACTIONS

Where the Fund decides in exceptional circumstances to enter into a gold collateral transaction with a member because this would promote the purposes of the Fund and give the member the opportunity, in consultation with the Fund, to adopt policies, during the period referred to in (a) below, that would be consistent with the policies and practices of the Fund on the use of its resources:

- (a) the period for repurchase of the Fund's holdings of the member's currency resulting from the transaction, to the extent that they are not otherwise reduced, shall normally not exceed six months after the transfer of exchange by the Fund;
- (b) the repurchase shall be made with gold or convertible currencies acceptable to the Fund in accordance with its Decision of July 20, 1962;
- (c) the provisions of the pledge agreement shall be on the lines of those set forth in the draft letter annexed to SM/63/30.

Decision No. 1543-(63/39)

July 1, 1963

Draft Letter to Member Entering into a Gold
Collateral Transaction

Dear Sir:

On _____, the Fund decided to enter into an exchange transaction with _____ in an amount equivalent to US\$ _____ secured by the pledge of gold as collateral, [and granted the necessary waiver under Article V, Section 4,] subject to the conditions set forth in this letter. The amount of _____, equivalent to US\$ _____ and _____, equivalent to US\$ _____, will be transferred to your account(s) after the steps set forth in Section B below have been taken.

Section A

1. The collateral for the transaction shall consist of gold bars containing fine gold having a value not less than \$_____ calculated on the basis of US\$35 per troy ounce of fine gold. The fine gold content will be determined to the satisfaction of the Fund and at your expense.

2. The gold bars will be transferred by you by way of pledge at a gold depository selected by you from among the Fund's gold depositories (Federal Reserve Bank of New York, New York; the Bank of England, London; Banque de France, Paris; the Reserve Bank of India, Nagpur, India). You will irrevocably instruct the depository in accordance with the attached exhibit that the gold is to be transferred to, earmarked, and held in a special account in the name of and for the sole account of the International Monetary Fund, that the special account shall be at the sole order of the Fund, and that the depository shall accept and act upon any and all instructions of the Fund with respect to part or all of the gold in the special account. The Fund will arrange with the depository for the establishment of the special account. The depository will not be informed that the gold is held under pledge to the Fund.

3. You will represent to the Fund that the gold is free from any claims, liens or encumbrances in favor of any other party and subject to paragraph 9 below will remain free therefrom during the pledge. You will further represent to the Fund that under your law the gold may be freely pledged and disposed of as provided in this letter.

4. The gold will continue to be owned by you. Accordingly, the Fund will enter the gold on its books in your name, and will not show the gold in its books or accounts as owned by the Fund.

5. Not later than the repurchase date, namely the close of business six months after the value date for transfer of the exchange by the Fund to your account(s), you will repurchase the

Fund's holdings of your currency resulting from the transaction, to the extent that such holdings are not otherwise reduced, with gold in the special account if you so request or with other gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962.

6. On any reduction at any time of the Fund's holdings of your currency resulting from the transaction otherwise than by repurchase with gold in the special account, the Fund will, on your request, release to you or to your order at the depository gold from the special account in an amount not exceeding the equivalent of the reduction, provided that the amount of gold remaining in the special account shall not be less than the equivalent of the outstanding balance of the transaction.

7. To the extent that the Fund's holdings of your currency resulting from the transaction have not been reduced by the close of business on the repurchase date, the Fund will give you notice of the balance due and payable by way of repurchase in respect of the transaction, and you will complete such repurchase with gold in the special account if you so request or other gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962 not later than the close of business thirty days after the repurchase date. In the absence of such repurchase by the close of business thirty days after the repurchase date, repurchase will be effected with gold in the special account on the instructions of the Fund and without the need for further notice or request to you.

8. Where repurchase is effected with gold in the special account pursuant to paragraph 5 or 7, the gold in the special account will be transferred, on the instructions of the Fund, to the ordinary gold account of the Fund at the depository, which gold shall then be deemed to have been transferred by you to the Fund and shall thereupon be owned by the Fund free from any claim, including any right of redemption. Any surplus balance of gold beyond the full amount of the repurchase will be returned to you but any

balance less than one bar will be held under earmark for you pursuant to Rule I-1 of the Fund's Rules and Regulations.

9. At any time before the repurchase date or the close of business thirty days after the repurchase date, you may, after consulting the Fund, arrange for the sale of the gold in the special account, and the Fund will be prepared to give appropriate instructions to facilitate the sale, provided that on or before the close of business thirty days after the repurchase date the Fund's holdings of your currency resulting from the transaction will be repurchased with gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962, and provided further that the gold will not be released from pledge before such repurchase is effected.

10. All charges and costs connected with or resulting from the transfer to the special account (including without limitation transportation, earmarking, and holding), release, and redelivery, as well as converting the gold into good delivery bars if deemed necessary by the Fund under paragraph 1 above or if the gold is transferred to the Fund's ordinary gold account by way of repurchase will be borne by you.

Section B

The transfer of currencies pursuant to the transaction agreed by the Fund will be made by the Fund after the Fund has received from you:

- (i) acceptance of all of the conditions of this letter; and
- (ii) a copy of the instructions referred to in Section A 2 above; and
- (iii) the representations referred to in Section A 3 above; and, in addition, has received from the depository:
- (iv) confirmation that the depository has established the special

account, earmarked the gold, and will act in accordance with Section A 2 above; and

- (v) information satisfactory to the Fund as to the fine gold content of the bars.

Very truly yours,

International Monetary Fund

By:

EXCHANGE TRANSACTIONS PRIOR TO THE ESTABLISHMENT OF INITIAL PAR VALUE

(a) Where the Fund prescribes the conditions and amount of an exchange transaction by a member before the establishment of an initial par value, the member will be required to complete the payment of its subscription on the basis of a provisional rate of exchange for its currency proposed by the member and agreed by the Fund.

(b) In deciding whether to permit exchange transactions before the establishment of an initial par value, the Fund, in accordance with the last sentence of Article I, will be guided by the purposes of the Articles; the Fund will encourage members to follow policies leading to the establishment of realistic exchange rates and to the adoption at the earliest feasible date of effective par values, and will take into account the efforts that are being made to achieve this objective. However, the Fund will give the overwhelming benefit of any doubt to requests for exchange transactions within the gold tranche and members can expect that requests for drawings will be met where they are made in accordance with paragraph 5 of E.B. Decision No. 1477-(63/8), adopted February 27, 1963.

Decision No. 1687-(64/22)

April 22, 1964

ARTICLE V, SECTION 6

Sales of Gold to the Fund

POLICY ON SALES OF GOLD TO THE FUND: SOUTH AFRICA

1. The Fund notes the letter from the Minister of Finance of the Republic of South Africa set forth in EBS/69/342, Sup. 2.*

2. In this letter, South Africa has stated its intention to offer to sell gold to the Fund only in the following circumstances:

- (a) (i) when the price for gold in the market is \$35 per ounce ** or below, up to an amount to meet South Africa's current foreign exchange needs for that period and
- (ii) regardless of the market price, up to the extent that South Africa has a need for foreign exchange over a semiannual period beyond the need that can be satisfied by the sale of all of its current production of newly-mined gold on the market or by sales to the Fund under (i) above;
- (b) when South Africa has been designated under Article XXV, Section 5, up to the amount for which South Africa has been designated; and
- (c) from the stock held by South Africa on March 17, 1968 up to \$35 ** million in each quarter, beginning January 1, 1970.

3. As a matter of policy, with the understanding that members generally do not intend to initiate official gold purchases directly from South Africa and without prejudice to the determination of the legal position under the Articles of Agreement, the Fund

* See pages 58-62.

** Following the change in the par value of the U.S. dollar on May 8, 1972, references in this Decision to \$35 per ounce are understood by the Fund as being references to \$38 per ounce.

decides that it will purchase gold from South Africa when South Africa states that it is offering gold in accordance with the terms of its letter. When South Africa offers to sell gold to the Fund under this policy, the Fund will follow a procedure similar to the procedure for gold tranche purchases.

4. In addition, the Fund will accept gold from South Africa in accordance with the Fund's normal policies and practices under Paragraph 3 of Decision No. 7-(648) or under provisions of the Articles other than Article V, Section 6.

5. A charge of one-quarter of one per cent shall be levied on sales of gold to the Fund under Sections 2(a) and (c) of this decision pursuant to Rule G-7 and Rule I-8.

6. This decision shall be subject to review whenever this is requested because of a major change in circumstances and in any event after five years.

Decision No. 2914-(69/127)

December 30, 1969

** Letters to the Managing Director of the Fund from the Minister of Finance of the Republic of South Africa and the Acting Secretary of the United States Treasury.*

23rd December, 1969

Dear Mr. Schweitzer,

As you know, for some time the Republic of South Africa has been discussing with the United States, with other members, and with you procedures for the orderly sale of newly-mined gold in the market and the sale of gold to the International Monetary Fund. I wish to inform you that as a result of these discussions, the South African authorities have adopted a policy with respect to gold sales and I would like to request that the Fund confirm that it will be prepared in the light of this statement of policy to buy gold from South Africa in the circumstances and under the conditions set forth below.

The following are the intentions of the South African authorities as to the handling of newly-mined gold and reserves.

- (1) Without prejudice to the determination of the legal position under the Articles of Agreement of the Fund, the South African authorities may offer to sell gold to the Fund for the currencies of other members at the price of 35 Dollars per ounce, less a handling charge, as follows:

- (a) During periods when the market price of gold falls to 35 dollars per ounce or below, at which times offers to sell gold to the Fund under this paragraph (a) would be limited to amounts required to meet current foreign exchange needs, and
 - (b) regardless of the price in the private market, up to the extent that South Africa experiences needs for foreign exchange over semi-annual periods beyond those which can be satisfied by the sale of all current new gold production on the private market or by sales to the Fund under paragraph (1)(a) above.
- (2) (a) The South African authorities intend to sell current production of newly-mined gold in an orderly manner on the private market to the full extent of current payments needs. It is anticipated that new production in excess of those needs during a semi-annual period may be added to reserves.
- (b) When selling gold other than in the private market, the South African authorities intend in practice normally to offer such gold to the Fund.
 - (c) The South African authorities may use gold in normal Fund transactions, e.g. in repurchase of appropriate drawings from the Fund, and to cover the gold portion of any South African quota increase, and to obtain currency convertible in fact to exchange against special drawing rights for which South Africa is designated by the Fund. Rand drawn from the Fund by other members would generally be converted into gold when Rand are included in drawings under normal Fund procedures. These Fund-related transactions, which may take place without regard to the market price of gold, will be reflected by changes in the composition of South Africa's reserves but will not affect the volume of sales of newly-mined gold in the market.
- (3) Notwithstanding paragraphs (1)(b) and (2)(a) above, the amount of gold held by South Africa on March 17, 1968, reduced by sales by South Africa to monetary authorities (including Fund-related transactions) after that date and further reduced by such future sales to monetary authorities as may be made to finance deficits or as a result of Fund-related transactions, will be available for such additional monetary sales as the South African authorities may determine, up to 35 million Dollars quarterly beginning January 1, 1970. It is also contemplated that as an implementation of this understanding, the Fund would agree to purchase the amount of gold offered to it by South Africa in May 1968.

In order to determine whether South Africa has balance of payments surpluses or deficits as well as to indicate other operational and procedural points with respect to this policy, I enclose a memorandum which clarifies these particular matters.

It would be appreciated if, in the light of these policy intentions, the Fund were able to decide that it would purchase gold from South Africa in the circumstances outlined above. I would expect that the Fund would review the situation at any time if there were a major change in circumstances and in any event after five years.

The South African authorities will work out with the Managing Director consultation procedures on the currencies to be purchased from the Fund with gold.

I hope that this announced policy, the implementation of which I believe will be a contribution to the stability of the International Monetary System, and my suggestion meet with the concurrence of the Fund. A copy of this letter has been sent to the Secretary of the Treasury of the United States.

Yours sincerely,

/s/

N. DIEDERICHS
Minister of Finance
Republic of South Africa

The Managing Director,
International Monetary Fund,
19th and H Street, N.W.,
Washington, D.C. 20431,
United States of America.

Operational and Procedural Points

- A. For the present purposes, balance of payments deficits and surpluses will be equal to the change during the accounting period in the total of South African official gold and foreign exchange reserves, the net IMF position and changes in SDR holdings, and any foreign assets held by other South African banking institutions and public agencies under swap arrangements with the Reserve Bank. It is understood that changes in gold holdings outside the monetary reserves and in monetary banks' positions not covered by Reserve Bank swaps are normally not significant. If they should at any time become significant, further consideration will be given to their inclusion in the calculation. SDR allocations will not be considered as reducing a deficit or increasing a surplus as above defined. South Africa does not envisage unusual or non-traditional foreign borrowings or other special transactions that would affect the elements listed in this paragraph.
- B. Addition of newly mined gold to South African reserves under paragraph 2(a) will take place when there is a surplus for an accounting period. It is envisaged that all new gold production, less domestic consumption, during the accounting period will be treated as a balance of payments credit item and that it will, in fact, be sold currently under paragraph 1(a) and paragraph 2(a) to the full extent necessary to meet payments needs, except for the sales available under paragraph 3, apart from the Fund transaction initiated in May 1968.
- C. Sales of gold by South Africa to monetary authorities under paragraph 1(a) may be made for any day when both London fixing prices are \$35.00 p.f.o. or below, in an amount reasonably commensurate with one-fifth of weekly sales from new production required to be marketed to meet balance of payments needs.
- D. Subject to paragraph 2(a):
 - 1. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF by South Africa, exceed the deficit defined

under paragraph A of this memorandum, such excess will be deducted from the amount allowable for the first succeeding accounting period wherein a deficit is again encountered.

2. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa aims to finance its entire deficit by these means, such shortfall will be added to the amount allowable for the next succeeding accounting period.

3. It is expected that any discrepancies under 1 and 2 above will be minimal.

4. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa does not aim to finance its entire deficit by these means but chooses to sell more on the free market than it undertakes to do in paragraph 2(a), no correction will be made for any succeeding accounting period.

E. When the price criterion is operative, sales of gold to the IMF shall be attributed to the total deficit, if any, during the accounting period. The balance of such sales, if any, will be attributed to newly mined gold to the extent of gold production during the accounting period.

F. Sales or payments under paragraph 2(c) in connection with IMF-related transactions are expected to take place only within the criteria normally envisaged for IMF drawings by members, for use of members' currencies in drawings by other members and for SDR transactions.

G. Fundamentally, it is expected that the composition of South African reserves will not be greatly changed. In particular, it is understood that the ratio of gold to total reserves will remain relatively stable. If South Africa should desire to make additional sales of gold or otherwise exchange assets for the purpose of achieving a basic change in the composition of its reserve holdings, further discussion would be held with a view to clarifying intentions.

December 24, 1969

Dear Mr. Schweitzer:

I have received a copy of the letter dated December 23, 1969, sent to you by Mr. Diederichs in which he sets forth the intentions which South Africa proposes to follow with respect to the handling of its newly-mined gold and reserves. This matter bears importantly on the continued effective functioning of the two-tier gold market which was initiated at a meeting on March 16-17, 1968, which you attended.

In view of the intentions of South Africa, and in view of discussions we have had with other Fund members, I should like to inform you that I have instructed the U. S. Executive Director to take the following position. The United States is prepared to support decisions of the International Monetary Fund to purchase gold offered for sale by South Africa in the circumstances and under the conditions described in that letter, assuming that there is an understanding among Fund mem-

bers generally that they do not intend to initiate official gold purchases directly from South Africa. With this understanding, I believe that the policies to be followed will be consistent with the stability and proper functioning of the international monetary system.

Sincerely yours,

/s/

PAUL A. VOLCKER
Acting Secretary

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

SALE OF GOLD TO THE FUND BY PARTICIPANT DESIGNATED UNDER ARTICLE XXV, SECTION 5

If a participant wishes to obtain currency by the sale of gold to the Fund in order to discharge the participant's obligation under Article XXV, Sections 4 and 5 of the Articles of Agreement, the Fund will not levy a handling charge under Rule I-8 of the Rules and Regulations or collect the costs referred to in Rule G-7.

Decision No. 2916-(69/127)

December 30, 1969

ARTICLE V, SECTION 7

Repurchase Obligations

EFFECT OF PAYMENT OF GOLD SUBSCRIPTIONS ON REPURCHASE
OBLIGATIONS

.....
.....

RESOLVED:

. . . that, for the purpose of the repurchase obligations prescribed by Article V, Section 7, increases and decreases in the monetary reserves of a member shall not be considered if they occur on or before the latest date on which the member's subscription must be paid in accordance with this Resolution; and the payment of subscriptions, whether actually made before or after such latest date for payment, shall not be regarded as resulting in a decrease in monetary reserves.

Decision No. 124-2

January 22, 1947

REPURCHASE OBLIGATIONS: ARTICLE V, SECTION 7(*b*)

Whenever a member uses its monetary reserves to repurchase its currency from the Fund in accordance with the provisions of Article V, Section 7(*b*) (i) or (ii), the resulting reduction in its monetary reserves and in the Fund's holdings of its currency must be regarded as having occurred, for the purpose of calculating subsequent repurchase obligations under the same provisions of the Fund Agreement, at the end of the financial year of the Fund in

respect of which the obligation to make the repurchase arose. Members shall be informed of the foregoing.

Decision No. 447-5

June 17, 1949

REPURCHASE OBLIGATIONS: ARTICLE V, SECTION 7(c)

In the application of the repurchase obligations of the Fund Agreement the limits specified in Article V, Section 7(c), apply solely as of the end of the financial year for which the repurchase obligations are calculated.

Decision No. 419-1

April 11, 1949

REPURCHASE OBLIGATIONS: ARTICLE V, SECTION 7(c) (iii) AND (iv) AND SCHEDULE B, PARAGRAPH 1(d) AND (e)

1. If the repurchase which a member is required to make under Article V, Section 7(b), would exceed the limit specified in Article V, Section 7(c) (iii), the member may use any convertible currency in making the repurchase pursuant to Schedule B, Paragraph 1(d), provided that at the time of discharge the repurchase will not increase the Fund's holdings of any member's currency beyond 75 per cent of that member's quota, and provided further that the member making the repurchase has consulted the Managing Director on the currencies, and the amount of each, to be used in the repurchase. The consultations by the Managing Director and the currency composition of repurchases shall be based on the statement entitled "Currencies to be Drawn and to be Used in Repurchases" (approved by Executive Board Decision No. 1371-(62/36), adopted July 20, 1962).

2. If a repurchase required under Article V, Section 7(b), would exceed the limit specified in Article V, Section 7(c) (iv), the portion of the repurchase obligation which is to be paid forth-

with and the portion which is to be repurchased at the end of the subsequent financial year or years in accordance with Paragraph 1(e) of Schedule B, shall be determined as follows:

- (a) If the member's monetary reserves have not increased
 - (i) the excess amount shall be distributed proportionately among the types of monetary reserve (gold, special drawing rights, and convertible currencies taken as a whole) in which the repurchase obligation has been calculated, and
 - (ii) the currencies and amount of each to be paid forthwith shall be determined by the Fund in the light of the principles of Section II of the statement entitled "Currencies to be Drawn and to be Used in Repurchases" (approved by Executive Board Decision No. 1371-(62/36), adopted July 20, 1962), taking into account also the operational convenience of the member and of the Fund;
- (b) If the member's monetary reserves have increased the member may, at its option, elect to pay the amount payable forthwith either in accordance with the principles set forth in (a) above or in accordance with (c) below;
- (c) If the member's monetary reserves have increased during the year
 - (i) the amount to be paid forthwith shall be distributed proportionately among the media which have increased, up to one half of the increase in monetary reserves,
 - (ii) any remainder of the amount to be paid forthwith shall be distributed among the member's remaining holdings of monetary reserves, and
 - (iii) the balance of the repurchase obligation shall be discharged at the end of the subsequent financial year or years in the types of monetary reserve determined in accordance with the provisions of Schedule B.

3. In the calculations of monetary reserves and repurchase obligations under Article V, Section 7(b), and Schedule B, Article V, Section 7(c) (iv), and Schedule B, Paragraph 1(e), shall

be applied before Article V, Section 7(c) (iii), and Schedule B, Paragraph 1(d).

. . .

Decision No. 3049-(70/44)

May 20, 1970

VOLUNTARY REPURCHASES

- (1) Subject to paragraph 3 below, a member may offer in voluntary repurchase, and the Fund has the power to accept, if it so decides, gold or convertible currencies to the extent that (a) the Fund's holdings of the convertible currency of a member which is offered would not be increased above 75% of the quota of that member, and (b) the Fund's holdings of the repurchasing member's currency would not be decreased below 75% of its quota.
- (2) As a matter of legal interpretation it is determined that the consent of the member whose currency is offered in voluntary repurchase is not necessary as a condition precedent to the acceptance by the Fund of such currency.
- (3) Where a member has an accrued and undischarged repurchase obligation under Art. V, Sec. 7(b), and Schedule B in respect of any financial year of the Fund, the member must discharge the obligation in accordance with those provisions; provided, however, that the payment of currency under those provisions may be combined with the sale of gold to the Fund for the currency under Art. V, Sec. 6(a).

Decision No. 7-(648)

March 8, 1951

REPURCHASE AND RULE G-7

Until further notice, where a member has an accrued repurchase obligation in currency under Art. V, Sec. 7(*b*), and Schedule B and discharges part or all of that obligation by a sale of gold to the Fund for that currency under Art. V, Sec. 6(*a*), as provided in paragraph 3 of the decision of the Executive Board at EBM 648 (3/8/51), such gold shall be purchased by the Fund without collecting the estimated costs of later possible conversion of the gold into that currency as permitted under Rule G-7 of the Rules and Regulations, it being understood that the existing requirements as to the form and delivery of such gold would remain in effect.

Decision No. 119-(52/30)

June 2, 1952

ARTICLE VI, SECTION 1

Use of Fund's Resources for Capital Transfers

[See Interpretation Pursuant to Decision No. 71-2, adopted September 26, 1946 and Decision No. 1238-(61/43), adopted July 28, 1961, page 20.]

ARTICLE VI, SECTION 3

Controls on Capital Transfers

The report of the Committee on Interpretation on controls on capital transfers (EBD/56/71, 7/11/56) is approved and the following conclusions are adopted:

Subject to the provisions of Article VI, Section 3 concerning payments for current transactions and undue delay in transfers of funds in settlement of commitments:

(a) Members are free to adopt a policy of regulating capital movements for any reason, due regard being paid to the general purposes of the Fund and without prejudice to the provisions of Article VI, Section 1.

(b) They may, for that purpose, exercise such controls as are necessary, including making such arrangements as may be reasonably needed with other countries, without approval of the Fund.

Decision No. 541-(56/39)

July 25, 1956

ARTICLE VII, SECTION 2

Borrowing

GENERAL ARRANGEMENTS TO BORROW *

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system in the new conditions of widespread convertibility, including greater freedom for short-term capital movements, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to lend their currencies to the Fund up to specified amounts under Article VII, Section 2 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system in the aforesaid conditions. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 2 of the Articles of Agreement.

Paragraph 1. *Definitions*

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution

* See letter from Minister of Finance of France to Secretary of the Treasury of the United States, pages 81-83.

of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in units of its currency that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. *Credit Arrangements*

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in units of its currency set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

Paragraph 3. *Adherence*

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant

object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of its currency, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the equivalent at the date of adherence of one hundred million United States dollars of the weight and fineness in effect on July 1, 1944.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. *Entry into Force*

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. *Changes in Amounts of Credit Arrangements*

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. *Initial Procedure*

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by arrangement is necessary in order to forestall or cope with an im-

pairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. *Calls*

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Directors. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve positions of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Evidence of Indebtedness*

(a) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. *Interest and Charges*

(a) The Fund shall pay a charge of one-half of one per cent on transfers made in accordance with Paragraph 7(e).

(b) The Fund shall pay interest on its indebtedness at the rate of one and one-half per cent per annum. In the event that this becomes different from a basic rate determined as follows:

the charge levied by the Fund pursuant to Article V, Section 8(a) plus the charge levied by the Fund pursuant to Article V, Section 8(c) (i), as changed from time to time under Article V, Section 8(e), during the first year after a purchase of exchange from the Fund, minus one-half of one per cent,

the interest payable by the Fund shall be changed by the same amount as from the date when the difference in the basic rate takes effect. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

(c) Interest and charges shall be paid in gold to the extent that this can be effected in bars. Any balance not so paid shall be paid in United States dollars.

(d) Gold payable to a participant in accordance with Paragraph 9(b) or Paragraph 11 shall be delivered at any gold depository of the Fund chosen by the participant at which the Fund has sufficient gold for making the payment. Such delivery shall be free of any charges or costs for the participant.

Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices on the use of its resources and stand-by arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund.

Paragraph 11. *Repayment by the Fund*

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in gold, or, after consultation with the participant, in other currencies that are convertible in fact. Repayments to a participant under the subsequent provisions of this Paragraph 11 shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant, in part or in full, with any increases in the Fund's

holdings of the participant's currency that exceed the Fund's working requirements, and participants shall accept such repayment.

(c) Whenever a drawer repurchases, the Fund shall promptly repay an equivalent amount, except in any of the following cases:

(i) The repurchase is under Article V, Section 7(b) and can be identified as being in respect of a purchase of currency other than borrowed currency.

(ii) The repurchase is in discharge of a commitment entered into on a purchase of currency other than borrowed currency.

(iii) The repurchase entitles the drawer to augmented rights under a stand-by arrangement pursuant to Section II of Decision No. 876-(59/15) of the Executive Directors, provided that, to the extent that the drawer does not exercise such augmented rights, the Fund shall promptly repay an equivalent amount on the expiration of the stand-by arrangement.

(d) Whenever the Fund decides in agreement with a drawer that the problem for which the drawer made its purchases has been overcome, the drawer shall complete repurchase, and the Fund shall complete repayment and be entitled to use its holdings of the drawer's currency below 75 per cent of the drawer's quota in order to complete such repayment.

(e) Repayment under Paragraph 11(c) and (d) shall be made in the order established under Paragraph 11(a) and in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(f) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are convertible in fact,

or made in gold, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11, transfers under this Paragraph 11(f) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(f).

(g) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve positions of the members whose currencies are to be used in repayment.

(h) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(i) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored *pro tanto* but not beyond the amount of the credit arrangement.

Paragraph 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the transfer in terms of a stated number of fine ounces of gold or of the United States dollar of the weight and fineness in effect on July 1, 1944, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the equivalent in currency of any number of fine ounces of gold or of the United

States dollar of the weight and fineness in effect on July 1, 1944, or *vice versa*, shall be calculated at the rate of exchange at which the Fund holds such currency at the date as of which the calculation is made; provided however that the provisions of Decision No. 321-(54/32) of the Executive Directors on Transactions and Computations Involving Fluctuating Currencies, as amended by Decision No. 1245-(61/45) and Decision No. 1283-(61/56), shall determine the rate of exchange for any currency to which that decision, as amended, has been applied.

Paragraph 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. *Notices*

Notice to or by a participating member under this Decision shall be in writing or by cable and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by cable and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. *Withdrawal of Adherence*

A participant may withdraw its adherence to this Decision in

accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XV, Section 3, and Schedule D of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XVI of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule E of the Articles. For the purpose of Paragraph 1(a) of Schedule E, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participant.

Paragraph 19. *Period and Renewal*

(a) This Decision shall continue in existence for four years from its effective date.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end

of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

ANNEX

Participants and Amounts of Credit Arrangements

		<i>Units of Participant's Currency</i>
1. United States of America	US\$	2,000,000,000
2. Deutsche Bundesbank	DM	4,000,000,000
3. United Kingdom	£	357,142,857
4. France	NF	2,715,381,428
5. Italy	Lit	343,750,000,000
6. Japan	Yen	90,000,000,000
7. Canada	Can\$	216,216,000
8. Netherlands	f.	724,000,000
9. Belgium	BF	7,500,000,000
10. Sveriges Riksbank	SKr	517,320,000

*Decision No. 1289-(62/1)***January 5, 1962*

* As amended, with respect to the Annex, effective August 1, 1962 (Decision No. 1362-(62/32), July 9, 1962) and, effective October 12, 1962 (Decision No. 1415-(62/47), September 19, 1962).

The General Arrangements to Borrow entered into force on October 24, 1962.

Letter from Mr. Baumgartner, Minister of Finance, France, to Mr. Dillon, Secretary of the Treasury, United States

December 15, 1961

Dear Mr. Secretary:

The purpose of this letter is to set forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions (hereinafter referred to as "the participants") in connection with borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

This procedure, which would apply after the entry into force of that decision with respect to the participants which adhere to it in accordance with their laws, and which would remain in effect during the period of the decision, is as follows:

A. A participating country which has need to draw currencies from the International Monetary Fund or to seek a stand-by agreement with the Fund in circumstances indicating that the Supplementary Resources might be used, shall consult with the Managing Director of the Fund first and then with the other participants.

B. If the Managing Director makes a proposal for Supplementary Resources to be lent to the Fund, the participants shall consult on this proposal and inform the Managing Director of the amounts of their currencies which they consider appropriate to lend to the Fund, taking into account the recommendations of the Managing Director and their present and prospective balance of payments and reserve positions. The participants shall aim at reaching unanimous agreement.

C. If it is not possible to reach unanimous agreement, the question whether the participants are prepared to facilitate, by lending their currencies, an exchange transaction or stand-by arrangement of the kind covered by the special borrowing arrangements and requiring the Fund's resources to be supplemented in the general order of magnitude proposed by the Managing Director, will be decided by a poll of the participants.

The prospective drawer will not be entitled to vote. A favorable decision shall require the following majorities of the participants which take part in the vote, it being understood that abstentions may be justified only for balance of payments reasons as stated in paragraph D:

- (1) a two-thirds majority of the number of participants voting; and
- (2) a three-fifths majority of the weighted votes of the participants voting, weighted on the basis of the commitments to the Supplementary Resources.

D. If the decision in paragraph C is favorable, there shall be further consultations among the participants, and with the Managing Director, concerning the amounts of the currencies of the respective participants which will be loaned to the Fund in order to attain a total in the general order of magnitude agreed under paragraph C. If during the consultations a participant gives notice that in its opinion, based on its present and prospective balance of payments and reserve position, calls should not be made on it, or that calls should be for a smaller amount than that proposed, the participants shall consult among themselves and with the Managing Director as to the additional amounts of their currencies which they could provide so as to reach the general order of magnitude agreed under paragraph C.

E. When agreement is reached under paragraph D, each participant shall inform the Managing Director of the calls which it is prepared to meet under its credit arrangement with the Fund.

F. If a participant which has loaned its currency to the Fund under its credit arrangement with the Fund subsequently requests a reversal of its loan which leads to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants.

For the purpose of the consultative procedures described above, participants will designate representatives who shall be empowered to act with respect to proposals for use of the Supplementary Resources.

It is understood that in the event of any proposals for calls under the credit arrangements or if other matters should arise under the Fund decision requiring consultations among the participants, a consultative meeting will be held among all the participants. The representative of France shall be responsible for calling the first meeting, and at that time the participants will determine who shall be the

Chairman. The Managing Director of the Fund or his representative shall be invited to participate in these consultative meetings.

It is understood that in order to further the consultations envisaged, participants should, to the fullest extent practicable, use the facilities of the international organizations to which they belong in keeping each other informed of the developments in their balances of payments that could give rise to the use of the Supplementary Resources.

These consultative arrangements, undertaken in a spirit of international cooperation, are designed to insure the stability of the international payments system.

I shall appreciate a reply confirming that the foregoing represents the understandings which have been reached with respect to the procedure to be followed in connection with borrowings by the International Monetary Fund under the credit arrangements to which I have referred.

I am sending identical letters to the other participants—that is, Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom. Attached is a verbatim text of this letter in English. The French and English texts and the replies of the participants in both languages shall be equally authentic. I shall notify all of the participants of the confirmations received in response to this letter.

GENERAL ARRANGEMENTS TO BORROW: FIRST RENEWAL

1. Executive Board Decision No. 1289-(62/1), as amended by Executive Board Decision No. 1362-(62/32) and Executive Board Decision No. 1415-(62/47) (General Arrangements to Borrow) is hereby renewed for a period of four years, and references therein to "the period prescribed in Paragraph 19(a)" shall be understood to include the period of this renewal.

2. Within two years from the effective date of this renewal, the Fund and the participants will initiate a review of the General Arrangements to Borrow to be completed before the end of the second year; this review shall consider, in the light of existing circumstances and past experience, the operation of the General Arrangements to Borrow and the need, if any, for amendment or modification.

Decision No. 1951-(65/54)

October 15, 1965

GENERAL ARRANGEMENTS TO BORROW: SECOND RENEWAL

Executive Board Decision No. 1289-(62/1), as amended, on the General Arrangements to Borrow, is hereby renewed for a period of five years from October 24, 1970, and references therein to "the period prescribed in Paragraph 19(a)" shall be understood to include the period of this renewal.

Decision No. 2858-(69/96)

October 17, 1969

GENERAL ARRANGEMENTS TO BORROW: ASSOCIATION OF
SWITZERLAND *

The understandings set forth in the letter which the Swiss Ambassador to the United States proposes to send to the Managing Director (EBD/64/73, Attachment I) are acceptable to the Fund and the Managing Director is authorized to send the letter attached to EBD/64/73 (Attachment II).

Decision No. 1712-(64/29)

June 8, 1964

** Exchange of letters between the Ambassador of Switzerland to the United States and the Managing Director of the Fund*

June 11, 1964

The Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

Sir:

I have the honor to refer to Mr. Jacobsson's letter of December 14, 1961 to the President of the Swiss Confederation and to conversations between representatives of the Swiss Confederation and the International Monetary Fund (hereinafter

referred to as "the Fund") concerning the way in which the Swiss Confederation could be associated with the Fund's General Arrangements to Borrow, and thus contribute to the objectives of those Arrangements. The General Arrangements to Borrow (hereinafter referred to as "the General Arrangements") are those set forth in Decision No. 1289-(62/1) of January 5, 1962, of the Fund's Executive Directors, as amended by Decision No. 1362-(62/32) of July 9, 1962 and Decision No. 1415-(62/47) adopted on September 19, 1962.

In the light of the views that have been exchanged, the Swiss Federal Council, on behalf of the Swiss Confederation, is prepared to be associated with the General Arrangements as follows:

(1) The Swiss Confederation is prepared to make resources available to participants in the General Arrangements in accordance with this letter and in amounts not exceeding an outstanding total equivalent to 865,000,000 Swiss francs.

(2) The Swiss Confederation will be prepared to consider the conclusion of agreements (hereinafter referred to as "implementing agreements") with any of the participants in the General Arrangements if requested by such participants. The implementing agreements will prescribe the terms and conditions in accordance with which the Swiss Confederation will make resources available to the participant or the Swiss Confederation and the participant will make resources available to each other, which shall be on the basis of reciprocal terms if required. Immediately on the conclusion of an implementing agreement, or of any amendment of an implementing agreement, the Swiss Confederation will provide the Managing Director with a copy thereof.

(3) Whenever the Managing Director of the Fund initiates the procedure and makes a proposal for calls pursuant to Paragraphs 6 and 7 of the General Arrangements for the benefit of a participant that has entered into or enters into an implementing agreement, he may propose to the Swiss Confederation, after consultation with the Swiss Confederation, that it shall make a specified amount of resources available to the participant, which amount shall be in accordance with the implementing agreement with that participant. If the proposal for calls becomes effective under Paragraph 7 of the General Arrangements, the Swiss Confederation will make the specified amount of resources available to the said participant in accordance with this letter and with the terms and conditions of the implementing agreement. If, however, the Swiss Confederation gives notice to the Managing Director that in its opinion, based on its present and prospective balance of payments and reserve position, it should not make resources available in accordance with this proposal, or should make available a smaller amount than that proposed, the Swiss Confederation will not be obliged to make any such resources available or more resources than it represents to the Managing Director that it should make available.

(4) If the Swiss Confederation makes resources available to a participant otherwise than in accordance with the procedure of paragraph (3), the Swiss Confederation, after consultation with the Managing Director, may deem such resources to be or to have been made available pursuant to this letter, provided that at the date of such deeming Switzerland has entered into an implementing agreement with that participant, that at the date of such deeming a proposal for calls for the benefit of that participant is in effect under Paragraph 7 of the General Arrangements and provided that the terms and conditions for repayment to Switzerland accord or are made to accord with paragraph (5).

(5) The effect of the terms and conditions for the timing of repayment of resources made available by Switzerland pursuant to this letter will correspond, to the maximum extent practicable, with the repayment provisions of Paragraph 11 of the General Arrangements.

(6) The Fund may, at the request of a party to an implementing agreement, make any determination, or use its good offices, to facilitate the operation of an implementing agreement, subject, however, to paragraph (9).

(7) Whenever the Swiss Confederation makes resources available pursuant to paragraph (3) or deems resources to be or to have been made available pursuant to paragraph (4), the Swiss Confederation will inform the Managing Director of the amount in terms of Swiss francs thus made available. The Swiss Confederation will inform the Managing Director of the amount in terms of Swiss francs of the repayment of any resources made available pursuant to paragraph (3) or (4).

(8) The Swiss Confederation and the Fund will provide each other with the general information necessary to facilitate the operation of this letter and implementing agreements.

(9) The Fund does not accept any responsibility or liability, whether as guarantor or otherwise, in connection with this letter or with respect to the performance of the terms and conditions of an implementing agreement.

(10) This letter will remain effective for four years from October 24, 1962, provided that the Swiss Confederation may rescind this letter, with immediate effect, within one month after an amendment of the General Arrangements becomes effective pursuant to Paragraph 15 of the General Arrangements. This letter may be amended or rescinded at any time if the Swiss Confederation and the Fund shall so agree.

(11) Any question of interpretation or application of these understandings will be settled to the mutual satisfaction of the Swiss Confederation and the Fund.

(12) For the purposes of this letter, references to participants shall be deemed to include the official institution of a participant with which an implementing agreement is made, even though such institution is not a "participating institution" under the General Arrangements.

(13) All communications by or to the Swiss Confederation pursuant to this letter shall be made by or to the Swiss National Bank.

I propose that, if this letter is approved by the International Monetary Fund, this letter and your reply constitute an agreement between the Swiss Federal Council and the International Monetary Fund, which shall enter into force on the date of your reply. I hereby declare that the Swiss Confederation has taken all steps necessary to implement the exchange of letters.

Accept, Sir, the assurances of my highest consideration.

/s/
A. ZEHNDER
Ambassador of Switzerland

June 11, 1964

Sir:

I am pleased to acknowledge receipt of your letter of June 11, 1964.

I have been authorized to inform you that the understandings set forth in your letter are accepted by the International Monetary Fund. Accordingly, your letter and this reply constitute an agreement between the International Monetary Fund and the Swiss Federal Council, which will enter into force on the date of this reply.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,

/s/

PIERRE-PAUL SCHWEITZER

Managing Director

His Excellency
Alfred Zehnder
Ambassador of Switzerland
2900 Cathedral Avenue, N.W.
Washington, D.C. 20008

GENERAL ARRANGEMENTS TO BORROW: FIRST EXTENSION OF
ASSOCIATION OF SWITZERLAND *

The Fund agrees to the extension until October 23, 1970 of the Agreement of June 11, 1964 between the Swiss Confederation and the International Monetary Fund and authorizes the Managing Director to exchange with the Ambassador of Switzerland to the United States letters in the form attached to EBD/67/160 (Attachments I and II).

Decision No. 2377-(67/85)

November 17, 1967

** Exchange of letters between the Managing Director of the Fund and the
Ambassador of Switzerland to the United States*

November 22, 1967

Sir:

I have the honor to refer to the letters exchanged between the Ambassador of Switzerland to the United States and the Managing Director of the International

Monetary Fund on June 11, 1964 constituting the agreement for the association of the Swiss Confederation with the Fund's General Arrangements to Borrow.

It is my understanding that, in view of the renewal for four years of the General Arrangements to Borrow until October 23, 1970, the Swiss authorities are prepared to extend the period of the agreement between Switzerland and the Fund until the same date. Accordingly, I have been authorized to propose, on behalf of the Fund, that the agreement be extended until October 23, 1970.

If such an extension is acceptable to the Swiss Federal Council, I propose that this letter and your reply indicating the concurrence of the Swiss Federal Council should constitute an agreement between the Swiss Federal Council and the International Monetary Fund.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,
/s/

P.-P. SCHWEITZER
Managing Director

His Excellency
Felix Schnyder
Ambassador of Switzerland
2900 Cathedral Avenue, N.W.
Washington, D.C. 20008

November 26, 1967

Sir,

I am pleased to acknowledge receipt of your letter of Wednesday, November 22, 1967.

I have been authorized by the Swiss Federal Council to inform you that the Swiss Federal Council, on behalf of the Swiss Confederation, agrees to the extension until October 23, 1970 of the agreement for the association of the Swiss Confederation with the International Monetary Fund's General Arrangements to Borrow under the exchange of letters of June 11, 1964, as proposed in your letter. Accordingly, your letter and this reply constitute an agreement between the International Monetary Fund and the Swiss Federal Council.

Accept, Sir, the assurances of my highest consideration.

The Ambassador of Switzerland:
/s/
FELIX SCHNYDER

The Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

GENERAL ARRANGEMENTS TO BORROW: SECOND EXTENSION OF
ASSOCIATION OF SWITZERLAND *

The Fund agrees to the extension until April 30, 1974 of the Agreement of June 11, 1964 between the Swiss Federal Council and the International Monetary Fund and authorizes the Acting Managing Director to exchange with the Ambassador of Switzerland to the United States letters in the form attached to EBD/71/163 (Attachments I and II).

Decision No. 3363-(71/60)

July 7, 1971

** Exchange of letters between the Acting Managing Director of the Fund
and the Ambassador of Switzerland to the United States*

July 7, 1971

Sir:

I have the honor to refer to the agreement for the association of the Swiss Confederation with the Fund's General Arrangements to Borrow under the exchange of letters of June 11, 1964, which was subsequently extended until October 23, 1970.

It is my understanding that, in view of the second renewal of the General Arrangements to Borrow, the Swiss authorities are prepared to extend the period of the agreement between the Swiss Federal Council and the Fund until April 30, 1974, which is the date of expiration of the Federal Decree of October 4, 1963 authorizing the association of the Swiss Confederation with the General Arrangements to Borrow. Accordingly, I have been authorized to propose, on behalf of the Fund, that the agreement be extended until April 30, 1974.

If such an extension is acceptable to the Swiss Federal Council, I propose that this letter and your reply indicating the concurrence of the Swiss Federal Council should constitute an agreement between the Swiss Federal Council and the International Monetary Fund.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,
/s/

FRANK SOUTHARD, JR.
Acting Managing Director

His Excellency
Felix Schnyder
Ambassador of Switzerland
2900 Cathedral Avenue, N.W.
Washington, D.C. 20008

July 7, 1971

The Acting Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

Sir:

I am pleased to acknowledge receipt of your letter of July 7, 1971.

I have been authorized by the Swiss Federal Council to inform you that the Swiss Federal Council, on behalf of the Swiss Confederation, agrees to the extension until April 30, 1974 of the agreement for the association of the Swiss Confederation with the International Monetary Fund's General Arrangements to Borrow under the exchange of letters of June 11, 1964, as proposed in your letter. Accordingly, your letter and this reply constitute an agreement between the International Monetary Fund and the Swiss Federal Council.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,
The Ambassador of Switzerland:
/s/
FELIX SCHNYDER

ARTICLE VIII, SECTION 2(*b*)

Unenforceability of Exchange Contracts

UNENFORCEABILITY OF EXCHANGE CONTRACTS: FUND'S INTERPRETATION OF ARTICLE VIII, SECTION 2(*b*)

The following letter shall be sent to all members:

The Board of Executive Directors of the International Monetary Fund has interpreted, under Article XVIII of the Articles of Agreement, the first sentence of Article VIII, Section 2(*b*), which provision reads as follows:

Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member.

The meaning and effect of this provision are as follows:

1. Parties entering into exchange contracts involving the currency of any member of the Fund and contrary to exchange control regulations of that member which are maintained or imposed consistently with the Fund Agreement will not receive the assistance of the judicial or administrative authorities of other members in obtaining the performance of such contracts. That is to say, the obligations of such contracts will not be implemented by the judicial or administrative authorities of member countries, for example by decreeing performance of the contracts or by awarding damages for their non-performance.

2. By accepting the Fund Agreement members have undertaken to make the principle mentioned above effectively part of their national law. This applied to all mem-

bers, whether or not they have availed themselves of the transitional arrangements of Article XIV, Section 2.

An obvious result of the foregoing undertaking is that if a party to an exchange contract of the kind referred to in Article VIII, Section 2(*b*) seeks to enforce such a contract, the tribunal of the member country before which the proceedings are brought will not, on the ground that they are contrary to the public policy (*ordre public*) of the forum, refuse recognition of the exchange control regulations of the other member which are maintained or imposed consistently with the Fund Agreement. It also follows that such contracts will be treated as unenforceable notwithstanding that under the private international law of the forum, the law under which the foreign exchange control regulations are maintained or imposed is not the law which governs the exchange contract or its performance.

The Fund will be pleased to lend its assistance in connection with any problem which may arise in relation to the foregoing interpretation or any other aspect of Article VIII, Section 2(*b*). In addition, the Fund is prepared to advise whether particular exchange control regulations are maintained or imposed consistently with the Fund Agreement.

Decision No. 446-4

June 10, 1949

ARTICLE VIII AND ARTICLE XIV

Payments Restrictions

PAYMENTS RESTRICTIONS FOR SECURITY REASONS: FUND JURISDICTION

Art. VIII, Sec. 2(*a*), in conformity with its language, applies to all restrictions on current payments and transfers, irrespective of their motivation and the circumstances in which they are imposed. Sometimes members impose such restrictions solely for the preservation of national or international security. The Fund does not, however, provide a suitable forum for discussion of the political and military considerations leading to actions of this kind. In view of the fact that it is not possible to draw a precise line between cases involving only considerations of this nature and cases involving, in whole or in part, economic motivations and effects for which the Fund does provide the appropriate forum for discussion, and the further fact that the Fund must exercise the jurisdiction conferred by the Fund Agreement in order to perform its duties and protect the legitimate interests of its members, the following policy decision is taken:

1. A member intending to impose restrictions on payments and transfers for current international transactions that are not authorized by Art. VII, Sec. 3(*b*) or Art. XIV, Sec. 2 of the Fund Agreement and that, in the judgment of the member, are solely related to the preservation of national or international security, should, whenever possible, notify the Fund before imposing such restrictions. Any member may obtain a decision of the Fund prior to the imposition of such restrictions by so indicating in its notice, and the Fund will act promptly on its request. If any member intending to impose such restrictions finds that circumstances preclude advance notice to the Fund, it should notify the Fund as promptly as circumstances permit,

but ordinarily not later than 30 days after imposing such restrictions. Each notice received in accordance with this decision will be circulated immediately to the Executive Directors. Unless the Fund informs the member within 30 days after receiving notice from the member that it is not satisfied that such restrictions are proposed solely to preserve such security, the member may assume that the Fund has no objection to the imposition of the restrictions.

2. The Fund will review the operation of this decision periodically and reserves the right to modify or revoke, at any time, the decision or the effect of the decision on any restrictions that may have been imposed pursuant to it.

Decision No. 144-(52/51)

August 14, 1952

BILATERALISM AND CONVERTIBILITY

1. This decision records the Fund's views on the use of bilateral arrangements.

2. Fund policies and attitude on bilateral arrangements which involve the use of exchange restrictions and represent limitations on a multilateral system of payments are an integral part of its policy on restrictions. This policy aims at the elimination of foreign exchange restrictions and the earliest possible establishment of a multilateral system of payments in respect of current transactions between members. The Fund's policies and procedures on such restrictions rest on Articles I, VIII and XIV of the Fund Agreement.

3. Certain members have already taken steps to reduce their dependence on bilateral arrangements, but many members still use them. The Fund welcomes the reduced reliance on these ar-

rangements and believes that the improvement in the international payments situation makes it less necessary for members to rely on such arrangements. The Fund urges the full collaboration of all its members to reduce and to eliminate as rapidly as practicable reliance on bilateralism. In this respect the Fund recommends close cooperation of those who plan to make their currencies convertible in the near future. Unless this policy is energetically pursued by all countries, both convertible and inconvertible, there is serious risk that widespread restrictions, particularly of a discriminatory character, will persist. Moreover, the persistence of bilateralism may impede the attainment and maintenance of convertibility. This whole problem is one not only for countries which maintain bilateral arrangements but also for other countries whose domestic and foreign economic policies may adversely affect the balance of payments of other members.

4. The Fund will have discussions with its members on their need to retain existing bilateral arrangements or their ability to facilitate the reduction of bilateral arrangements by other countries. During the coming year, the Fund will explore with all countries which are parties to bilateral arrangements which involve the use of exchange restrictions the need for the continuation of these arrangements, the possibilities of their early removal, and ways and means, including the use of the Fund's resources, by which the Fund can assist in this process. In its examination of the justification for reliance on such bilateral arrangements the Fund will, without excluding other considerations, have particular regard to the payments position and prospects of the members concerned.

Decision No. 433-(55/42)

June 22, 1955

RETENTION QUOTAS: DECISION AND LETTER OF TRANSMITTAL

In concluding consultations on restrictions on current payments and transfers as required under Article XIV of the Fund Agreement, the Fund postponed consideration of retention quotas and similar practices through which some members have sought to improve their earnings of specific currencies. The Fund has now examined these practices more fully than was possible at the consultations referred to above. The Fund has extended this examination to cover the terms of reference of the resolution adopted on September 9, 1952, by the Board of Governors and has come to the following conclusions:

1. Members should work toward and achieve as soon as feasible the removal of these retention quotas and similar practices, particularly where they lead to abnormal shifts in trade which cause unnecessary damage to other countries. Members should endeavor to replace these practices by more appropriate measures leading to currency convertibility.
2. The Fund will enter into consultation with each of the members concerned with a view to agreeing on a program for the implementation of 1 above, including appropriate attention to timing of any action which may be decided upon.
3. The Fund does not object to those practices which, by their nature, can be regarded as devices designed solely to simplify the administration of official exchange allocations.

The Managing Director is asked to send the following letter to all members in transmitting the foregoing decision on retention quotas and similar practices:

The Fund has made a detailed study concerning retention quotas and other similar practices pursuant to the resolution passed at the Seventh Session of the Board of Governors in Mexico in September 1952. I am pleased to transmit herewith

a decision of the Executive Board of the Fund based on this study.

The Fund has concluded that these practices stem from widespread difficulties presently existing in the international payments position of many countries. The Fund's consideration of this subject has shown that what is referred to as "retention quotas and similar practices" covers a wide range of exchange measures. Certain practices under this heading may be unobjectionable from the point of view of Fund policies. Other practices in this category, however, appear to result in adverse effects on exchange stability and to cause unnecessary damage to member countries. They also may lead to the adoption of retaliatory measures. The interest of the Fund in these matters clearly follows from the terms of Article VIII containing the general obligations of members with respect to the avoidance of exchange restrictions, discriminatory currency arrangements and multiple currency practices, and Article XIV dealing with these exchange measures during the transitional period.

In dealing with retention quotas and similar practices, the Board has not intended to change existing Fund standards and procedures with respect to exchange restrictions, discriminatory currency arrangements and multiple currency practices. Specifically, there was no intention to affect the existing requirements of prior consultation and approval with respect to measures of this character. Those requirements, so far as they concern multiple currency practices, were communicated to members in the Fund's letter of December 19, 1947 (Appendix II of the Fund's Annual Report of 1948). Accordingly, it is expected that members intending to maintain, introduce or enlarge those retention quotas and similar practices which constitute exchange restrictions, multiple currency practices or discriminatory currency arrangements will act in accordance with existing Fund requirements.

The decision recognizes that it is not practicable to deal with all of these practices on a general basis. The Fund, therefore,

wishes to deal with these arrangements on a case-to-case basis. We shall communicate as quickly as practicable with members using these practices. We are confident that members will cooperate in these individual discussions in order to enable the Fund to reach appropriate conclusions.

Decision No. 201-(53/29)

May 4, 1953

DISCRIMINATION FOR BALANCE OF PAYMENTS REASONS

The following decision deals exclusively with discriminatory restrictions imposed for balance of payments reasons.

In some countries, considerable progress has already been made towards the elimination of discriminatory restrictions; in others, much remains to be done. Recent international financial developments have established an environment favorable to the elimination of discrimination for balance of payments reasons. There has been a substantial improvement in the reserve positions of the industrial countries in particular and widespread moves to external convertibility have taken place.

Under these circumstances, the Fund considers that there is no longer any balance of payments justification for discrimination by members whose current receipts are largely in externally convertible currencies. However, the Fund recognizes that where such discriminatory restrictions have been long maintained, a reasonable amount of time may be needed fully to eliminate them. But this time should be short and members will be expected to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism.

Notwithstanding the extensive moves toward convertibility, a substantial portion of the current receipts of some countries is still subject to limitations on convertibility, particularly in payments

relations with state-trading countries. In the case of these countries the Fund will be prepared to consider whether balance of payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connection the Fund wishes to reaffirm its basic policy on bilateralism as stated in its decision of June 22, 1955.

Decision No. 955-(59/45)

October 23, 1959

ARTICLE VIII AND ARTICLE XIV

There has been in recent years a substantial improvement in the balance of payments and the reserve positions of a number of Fund members which has led to important and widespread moves to the external convertibility of many currencies. Most international transactions are now carried on with convertible currencies, and many countries have progressed far with the removal of restrictions on payments. In consequence of these developments, it seems likely that a number of members of the Fund either have reached or are nearing a position in which they can consider the feasibility of formally accepting the obligations of Article VIII, Sections 2, 3, and 4. Previous decisions taken by the Fund, such as those on multiple currency practices, bilateral arrangements, discriminatory restrictions maintained for balance of payments purposes, and payments restrictions for security reasons, indicate the Fund's attitude on these matters. The present decision has been adopted as an additional guide to members in pursuance of the purposes of the Fund as set forth in Article I of the Articles of Agreement.

1. Article VIII provides in Sections 2 and 3 that members shall not impose or engage in certain measures, namely restrictions on the making of payments and transfers for current international

transactions, discriminatory currency arrangements, or multiple currency practices, without the approval of the Fund. The guiding principle in ascertaining whether a measure is a restriction on payments and transfers for current transactions under Article VIII, Section 2, is whether it involves a direct governmental limitation on the availability or use of exchange as such. Members in doubt as to whether any of their measures do or do not fall under Article VIII may wish to consult the Fund thereon.

2. In accordance with Article XIV, Section 3, members may at any time notify the Fund that they accept the obligations of Article VIII, Sections 2, 3, and 4, and no longer avail themselves of the transitional provisions of Article XIV. Before members give notice that they are accepting the obligations of Article VIII, Sections 2, 3, and 4, it would be desirable that, as far as possible, they eliminate measures which would require the approval of the Fund, and that they satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future. If members, for balance of payments reasons, propose to maintain or introduce measures which require approval under Article VIII, the Fund will grant approval only where it is satisfied that the measures are necessary and that their use will be temporary while the member is seeking to eliminate the need for them. As regards measures requiring approval under Article VIII and maintained or introduced for nonbalance of payments reasons, the Fund believes that the use of exchange systems for nonbalance of payments reasons should be avoided to the greatest possible extent, and is prepared to consider with members the ways and means of achieving the elimination of such measures as soon as possible. Members having measures needing approval under Article VIII should find it useful to consult with the Fund before accepting the obligations of Article VIII, Sections 2, 3, and 4.

3. If members at any time maintain measures which are subject to Sections 2 and 3 of Article VIII, they shall consult with the Fund with respect to the further maintenance of such measures. Consultations with the Fund under Article VIII are not otherwise

required or mandatory. However, the Fund is able to provide technical facilities and advice, and to this end, or as a means of exchanging views on monetary and financial developments, there is great merit in periodic discussions between the Fund and its members even though no questions arise involving action under Article VIII. Such discussions would be planned between the Fund and the member, including agreement on place and timing, and would ordinarily take place at intervals of about one year.

4. Fund members which are contracting parties to the GATT and which impose import restrictions for balance of payments reasons will facilitate the work of the Fund by continuing to send information concerning such restrictions to the Fund. This will enable the Fund and the member to join in an examination of the balance of payments situation in order to assist the Fund in its collaboration with the GATT. The Fund, by agreement with members which are not contracting parties to the GATT and which impose import restrictions for balance of payments reasons, will seek to obtain information relating to such restrictions.

Decision No. 1034-(60/27)

June 1, 1960

Payments Arrears

The Executive Board has reviewed the Fund's policy with respect to payments arrears. The Fund shall be guided by the approach in the conclusions set forth in SM/70/139.

Decision No. 3153-(70/95)

October 26, 1970

Conclusions

1. Undue delays in the availability or use of exchange for current international transactions that result from a governmental limitation give rise to payments arrears and are payments restrictions under Article VIII, Section 2(a), and Article XIV, Section 2. The limitation may be formalized, as for instance compulsory waiting periods for exchange, or informal or ad hoc.

2. The need for the Fund to define its policy on payments arrears is emphasized by the fact that restrictions resulting in payments arrears arising from informal or ad hoc measures do particular harm to a country's international financial relationships because of the uncertainty they generate. This uncertainty is particularly harmful to the smooth functioning of the international payments system and has pronounced adverse effects on the creditworthiness of the debtor country which may extend beyond the period of the existence of the restrictions.

3. In the light of these considerations it is believed that the Fund should aim in consultation reports at a more systematic treatment of restrictions on payments and transfers for current international transactions that produce payments arrears. In all cases where payments arrears arise from a governmental limitation on, or interference with, the availability of foreign exchange at the time a payment for a current international transaction falls due, or with the timely transfer of the proceeds of such transactions, the payments arrears should be treated in the consultation papers as evidence of a payments restriction requiring approval in Article VIII or Article XIV consultation decisions. The staff, in the

consultation discussions, will have to establish whether payments arrears exist by ascertaining whether there has been a substantial delay beyond that usually required for ascertaining the bona fides of exchange applications or the time that can be regarded as normally required for the administrative processing of applications for exchange. If payments arrears exist and approval of the restriction giving rise to them is requested by the member, the member should be expected to submit a satisfactory program for their elimination. Approval if given should be only for a temporary period and generally with a fixed terminal date. Because of the difficulty in surveillance, approval should be wherever feasible in terms of the level of arrears outstanding. The program for the elimination of the payments arrears should provide for a maximum permissible delay to which a payment or transfer could be subjected, together with a phased reduction in the outstanding level.

4. Fund financial assistance to members having payments arrears should be granted on the basis of performance criteria or policies with respect to the treatment of arrears similar to the criteria or policies described in the preceding paragraph for the approval of the payments restrictions. In general, the understandings should provide for the elimination of the payments arrears within the period of the stand-by arrangement. Such understandings should be based on the concept of a given level of payments arrears and should be reflected in the performance criteria included in stand-by arrangements in the higher credit tranches. To support the policies designed to deal with arrears the letter of intent should include a statement that there would be no imposition of new restrictions or increase in the level of delayed payments. Where Fund financial assistance is being provided, but only through the first credit tranche, the adoption of a viable program directed toward the elimination of the payments arrears should be an important factor in considering whether the country was making reasonable efforts to redress its international financial situation.

Multiple Currency Practices

STATEMENT TO MEMBERS TRANSMITTING FUND'S DECISIONS ON MULTIPLE CURRENCY PRACTICES

The letter to members concerning multiple currency practices and the accompanying statement of the Fund's decisions with respect to such practices are agreed as revised (Executive Board Document No. 235, Revision 2) and shall be sent without delay to all members. The texts of earlier decisions on the same subject are modified as necessary to correspond with the agreed statement.

Decision No. 237-2

December 18, 1947

Letter to Members

December 19, 1947

To All Members:

During the past several months the Fund has been giving special consideration to multiple currency practices. I am writing to all of the members today in order to acquaint them with the results of our considerations. Enclosed is a memorandum containing the pertinent decisions taken by the Executive Board. These set forth the general lines of the Fund's policies toward multiple currency practices which the Fund has adopted to date, together with the obligations of the members and the jurisdiction of the Fund upon which the development of Fund policy will necessarily be based.

We intend, as rapidly as may be possible under the circumstances, to discuss with each member now engaging in a multiple currency practice how this general policy will be applied to its individual problems. In the meantime, all of the members are requested to be guided by the enclosed memorandum and to initiate

with the Fund discussions of any pressing problems which may arise.

Sincerely yours,

/s/

Gutt

Managing Director

Multiple Currency Practices

This memorandum contains the decisions the Fund has so far taken concerning its policies toward multiple currency practices, and clarification of its jurisdiction with respect to such practices.

The exchange systems of the members who engage in multiple currency practices are frequently complex. For this reason various difficulties will be involved in the modification and removal of the practices, and the policy of the Fund in this regard must develop progressively as its consultations with the members concerned reveal problems which might otherwise be overlooked. The policies set forth below have been agreed as a basis for the initiation of discussions with the members affected:

I. *Policies*

A. *General*

1. *Consultation.* There should be continuing consultation on multiple currency practices between the Fund and the members concerned. Members should, as a minimum, consult the Fund before introducing a multiple currency practice, before making a change in any of the multiple rates of exchange, before re-classifying transactions subject to different rates, and before making any other type of significant change in their exchange systems.

2. *Stability and Restrictions.* In most cases multiple currency practices are both systems of exchange rates and restrictions on payments and transfers for current international trans-

actions. Whenever it is inconvenient to deal with both aspects of such multiple currency practice simultaneously, priority should be given to those features which affect exchange stability and orderly exchange arrangements among members.

3. *Removal.* Early steps should be taken toward the removal of multiple currency practices which are clearly not necessary for balance of payments reasons. In such cases, ample time should be provided for members to take the necessary steps and to install appropriate substitutes where necessary.

The Fund will encourage members engaging in multiple currency practices for balance of payments reasons to establish as soon as possible conditions which would permit their removal, with the general objective of seeking removal not later than the end of the transitional period.

Where complete removal by the end of the transitional period proves impossible, the Fund will assist the members concerned to eliminate the most dangerous aspects of their multiple currency practices and to exercise reasonable control over those retained.

B. *Specific Practices*

1. *Fixed Exchange Rates.* When a multiple currency system includes fixed exchange rates, members should consult with the Fund on any changes in their practices, whether such changes concern the rates of exchange or the classification of transactions subject to particular practices. Should the step contemplated by a member be a part of a program made in agreement with the Fund, the member could, of course, act without prior consultation.

When a multiple rate system is used for restrictions on current and capital transactions, the elimination of the restriction on current transactions would be highly commendable even though restrictions on capital transactions might have to be retained.

2. *Taxes on Exchange Drafts.* The use by members of taxes on exchange drafts resulting in an unusually large difference between buying and selling rates for a currency is not in accord with the objectives of the Fund Agreement and the Fund shall, in consultation with members concerned, seek the elimination of such practices as rapidly as practicable.

3. *Fluctuating Rates of Exchange.*

(a) *Free Markets.* When a multiple currency practice includes a free market with a fluctuating rate, the member should agree with the Fund on the scope of the transactions permitted to take place in that market. Any changes in the scope of these transactions should, of course, be subject to agreement with the Fund. The objective should be to eliminate the fluctuations in the free market as soon as such action is reasonably practicable. When it is not reasonably practicable to eliminate such fluctuations, the Fund will encourage members to exclude current transactions from the free market to the extent that this would be reasonable in the circumstances of each case.

(b) *The Auction System*

(i) The purpose for which an auction system is to be used should be agreed with the Fund and any change in its scope should be agreed with the Fund. The fewer the transactions subject to the auction rate, and the less essential the goods involved, the better.

(ii) Depending upon the circumstances, the monetary authorities should undertake to keep the auction rate stable, or to maintain it within certain limits, or to make every effort to prevent brisk fluctuations.

(iii) Wherever auction rates exist or are proposed, the circumstances should be examined in order to determine

whether a fixed rate should be substituted for the auction rate.

(iv) If, as is usually the case where an auction system exists, a reduction of the money supply is desirable, the proceeds of the auction market should be directed toward this end.

II. *Jurisdiction of the Fund*

Multiple currency practices, besides being in most cases restrictive practices, also constitute systems of exchange rates. Since exchange stability depends on effective rates, the general purposes of the Fund and the members' undertakings of Article IV, Section 4(a) "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations" are fundamental considerations in an interpretation of the rights and obligations of members under Article XIV, Section 2 or Article VIII, Section 3, to maintain, introduce, or adapt multiple currency practices. Subject to these general principles, the following conclusions are agreed with respect to the Fund's jurisdiction and the obligations of members.*

A. Practices Subject to Article VIII, Section 3.

1. *Maintenance.* A member maintaining multiple currency practices at the time the Agreement entered into force, if it does not take advantage of Article XIV, is required by Article VIII, Section 3, to consult with the Fund for their progressive removal or obtain the Fund's approval for their maintenance.

2. *Introduction.* Members that have not been occupied by the enemy, and former enemy-occupied members which have not taken advantage of the transitional arrangements, whether or not they have existing multiple rate practices, may introduce

* These conclusions concerning the Fund's jurisdiction and the obligation of members apply to all members including those for whose currencies par values have not been established.

a new practice only under Article VIII, Section 3, which provides expressly for the necessity of approval by the Fund.

3. *Adaptation.* If a multiple currency practice is in force by virtue of Article VIII, Section 3, the member may change or adapt such practice only after consulting with the Fund and obtaining its approval.

4. *Reclassification.* Members maintaining multiple currency practices under Article VIII, Section 3, may reclassify commodities subject to the practices only after consultation with the Fund and Fund approval.

B. Practices Subject to Article XIV, Section 2.

1. *Restrictive Nature.* Multiple currency practices, when applied to current international transactions, constitute a type of restriction on payments and transfers for current international transactions for the purposes of Article XIV, Section 2.

2. *Representations by the Fund.* The following language in Article XIV, Section 4 of the Fund Agreement:

“The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement.”

(a) applies at any time after the entry into force of the Fund Agreement and

(b) gives to the Fund the power to determine what is meant by “in exceptional circumstances.”

3. *Maintenance.* Members may maintain multiple currency practices during the transitional period under the provisions of Article XIV, Section 2, but only if the maintenance of such practices is necessary for settling members' balance of payments

in a manner which does not unduly encumber their access to the resources of the Fund. Members are under a duty to withdraw such practices as soon as they are able without them to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund. Moreover, under Section 4 of Article XIV, the Fund has certain powers to make representations in exceptional circumstances, of which it is the judge, that conditions are favorable for the withdrawal of any particular restriction. The Fund may exercise this power even if a particular restriction is justified for balance of payments reasons, if the conditions are favorable for the substitution of some practice which is not inconsistent with the purposes of the Agreement.

4. *Introduction.* Only former enemy-occupied members, which are availing themselves of the transitional provisions, and then whether or not they have existing multiple currency practices, may introduce a new multiple currency practice under Article XIV, Section 2, provided the Fund agrees with the member that the practice is necessary and does not find that it is inconsistent with the purposes of the Fund Agreement or with Article IV, Section 4(a).

5. *Adaptation.* A member maintaining multiple currency practices under Article XIV may adapt the existing restrictions, provided such action is consistent with the obligations of Article IV, Section 4(a) and the Fund is satisfied that the adaptation is dictated by "changing circumstances." A duty to consult with and obtain the approval of the Fund before changing the practice is implicit in both Article IV, Section 4(a) and in Article XIV, Section 2. The Fund has the power under Article XIV, Section 4, to represent in exceptional circumstances that circumstances are favorable to withdrawal of a proposal to change an existing multiple currency practice.

6. *Reclassification.* A member maintaining multiple currency practices under Article XIV may reclassify commodities subject

to such practices, under the power to adapt restrictions in Section 2 of Article XIV, and under the same conditions, provided, however, that under the existing restrictions the effective rates are other than parity.

C. *Exchange Taxes.* When a tax affects an obligation undertaken by the members of the Fund, the relationship between the tax and the obligation is of direct concern to the Fund and subject to its jurisdiction. Whenever exchange taxes are used to modify par values, create multiple currency practices, or introduce restrictive exchange controls, they are subject to the Fund's jurisdiction. The Fund has authority to deal with these exchange matters irrespective of the official device or procedure involved.

D. *Rates Differing from Parity by More than One Per Cent.* An effective buying or selling rate which, as the result of official action, e.g. the imposition of an exchange tax, differs from parity by more than one per cent, constitutes a multiple currency practice.

MULTIPLE CURRENCY PRACTICES

I. The Executive Board has considered the staff paper on the "Review of Fund Policies on Multiple Currency Practices" (SM/57/2, Rev. 1, 5/3/57) and is in agreement with the general approach of the paper.

II. Unification of the exchange rates in multiple rate systems is a basic objective of the Fund, and it is satisfying to record that several of the members which had followed such practices have been successful in achieving this objective, and that others have made considerable progress in this direction.

III. In reviewing the experience of the past ten years as summarized in the staff report, the Fund draws special attention to the fact that complex multiple rate systems damage the economies of countries maintaining them and harm other countries. These com-

plex systems are difficult to administer, and involve frequent changes, discrimination, export subsidization, a considerable spread between rates, and undue differentiation between classes of imports.

IV. The Executive Board concludes that it is necessary and feasible to make more rapid progress in simplifying complex multiple rate systems, to remove those aspects of existing systems which adversely affect the interests of other members, and to avoid existing systems becoming more complex. Accordingly the following decision is taken:

1. Early and substantial steps should be taken to simplify complex multiple rate systems. The Fund will not approve such systems unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are taking measures or adopting programs which seem likely to result in such progress.

2. As opportunity arises the Fund will continue to press for simplification in all cases where there is clear evidence that the multiple currency system in question is damaging to other members. It will in addition be reluctant to approve changes in multiple rate systems which make them more complex.

3. To assist members to simplify and eliminate complex rate systems the Fund wishes to intensify its collaboration with them. The Fund stands ready to meet members' requests for technical assistance in the preparation of economic programs and measures directed toward exchange simplification. These may in some cases include arrangements in other directions, especially in the fiscal and trade fields. If the Fund considers the proposed exchange simplification and related economic programs or measures to be adequate and appropriate, it will give sympathetic consideration, if requested, to the use of its resources.

Decision No. 649-(57/33)

June 26, 1957

MULTIPLE CURRENCY PRACTICES AND EXCHANGE RATES: FUND
APPROVAL

1. If a rate for a member's currency is maintained consistently with the member's Membership Resolution as a fixed number of units per U.S. dollar, any change in the gold equivalent of that rate resulting solely from maintenance of the same number of units per U.S. dollar shall be deemed to be agreed in accordance with the Membership Resolution.

2. If a rate for a member's currency has been maintained, approved, or authorized under the Articles as a fixed number of units per U.S. dollar, any change in the gold equivalent of that rate resulting solely from maintenance of the same number of units per U.S. dollar shall be deemed to be approved for the remaining period of any approval of the original practice already granted.

Decision No. 3504-(71/134)

December 23, 1971

ARTICLE IX, SECTION 7

Privilege for Communications

INTERPRETATION OF ARTICLE IX, SECTION 7

WHEREAS the Executive Director for the [member concerned] has raised certain questions of interpretation of the provisions of Section 7 of Article IX of the Articles of Agreement of the Fund as to the treatment to be accorded by a member of the International Monetary Fund to official communications of the Fund, which questions of interpretation are set forth below;

WHEREAS the said Executive Director has requested that the Executive Directors, in accordance with Article XVIII of said Articles, decide such questions of interpretation;

NOW THEREFORE, the Executive Directors hereby decide such questions of interpretation as follows:

Question No. 1:

Does Section 7 of Article IX of the Articles of Agreement of the Fund apply to rates charged for official communications of the Fund?

Decision on Question No. 1:

Yes. Section 7 of Article IX applies to rates charged for official communications of the Fund.

Question No. 2:

If a member exercises regulatory powers over the rates charged for communications, is it relieved of the obligation of Section 7, Article IX, by reason of the fact that the facilities for transmitting communications are privately owned or operated or both?

Decision on Question No. 2:

No. A member which exercises regulatory powers over the rates charged for communications is not relieved of its obligation under Section 7 of Article IX by reason of the fact that the facilities for transmitting such communications are privately owned or operated or both.

Question No. 3:

Is the member's obligation under Section 7 of Article IX satisfied if official communications of the Fund may be sent only at rates which exceed the rates accorded the official communications of other members in comparable situations? For example, would the obligation of member "a", under Section 7 of Article IX, be satisfied if the rate charged the Fund for its official communications from the territory of member "a" to the territory of member "b" exceeds the rate charged member "b" for its official communications from the territory of "a" to that of "b"?

Decision on Question No. 3:

No. The obligation of a member under Section 7 of Article IX is not satisfied if official communications of the Fund may be sent only at rates which exceed the rates accorded the official communications of other members in comparable situations. For example, the obligation of member "a", under Section 7 of Article IX, would not be satisfied if the rate charged the Fund for its official communications from the territory of member "a" to the territory of member "b" exceeds the rate charged member "b" for its official communications from the territory of "a" to that of "b".

Decision No. 534-3

February 20, 1950

ARTICLE XII, SECTION 3

Executive Directors

INTERPRETATION OF ARTICLE XII, SECTIONS 3(b) (i) AND 3(f)

The request for interpretation of the Articles of Agreement referred to the Executive Directors by Resolution No. 7 of the Board of Governors was considered. . . . It was unanimously agreed that Sections 3(b) (i) and 3(f) of Article XII should be interpreted to mean that any member having one of the five largest quotas at the date of the regular election or at any date between regular elections shall be entitled to appoint an Executive Director who will hold office until the next regular election without prejudice to the right of a subsequently admitted member to appoint a Director if it has one of the five largest quotas.

. . .

Decision No. 2-1

May 8, 1946

EXECUTIVE DIRECTORS: ARTICLE XII, SECTION 3(c)

Art. XII, Sec. 3(c), should be understood as providing that the two members entitled to appoint additional directors are determined by the largest absolute amounts by which 75% of members' quotas exceed the average holdings by the Fund of their currencies during the two years preceding an election of directors, provided, of course, that they are not already entitled to appoint directors under Art. XII, Sec. 3 (b) (i).

In the calculation of average holdings under the provision, the Fund's special accounts for administrative purposes should not be included unless they exceed $\frac{1}{10}$ of one per cent of the member's

quota nor will sundry cash accounts be included. A member should not be entitled to the benefit of Art. XII, Sec. 3(c) where the average holdings of its currency by the Fund have been reduced below 75% of its quota solely because of expenditures by the Fund for administrative purposes or because of the exclusion of the special accounts for administrative purposes from the calculation of average holdings.

*Decision No. 574-2,
May 18, 1950, as amended by
Decision No. 2620-(68/141),
November 1, 1968*

ADDITIONAL APPOINTED DIRECTORS

The phrase "the preceding two years" as used in Art. XII, Sec. 3(c), shall be deemed to be the two-year period ending on the July 31 preceding the dates of regular biennial elections of Executive Directors. However, this decision shall be reconsidered if such regular elections are held in other months than September.

*Decision No. 597-4
July 28, 1950*

ADJUSTMENT OF QUOTA AND VOTING POWER

A change in the quota of a member between regular biennial elections will change by the same amount the voting power of the elected Executive Director who casts the votes of the member.

*Decision No. 180-5
June 25, 1947*

ARTICLE XII, SECTION 6

Establishment of a General Reserve from Net Income

On April 30, 1958 and at the end of each month thereafter until further action by the Executive Directors or Board of Governors, the net income of the Fund shall be transferred provisionally to a General Reserve. At the next Annual Meeting it shall be recommended to the Board of Governors that it note with approval the establishment of the General Reserve and the allocation to such reserve of the net income for the fiscal year ended April 30, 1958.

Decision No. 753-(58/17)

April 14, 1958

ARTICLE XIV, SECTION 4

Restrictions on Payments and Transfers: Withdrawal

MEANING OF "EXCEPTIONAL CIRCUMSTANCES" IN ARTICLE XIV,
SECTION 4

The following language in Article XIV, Section 4 of the Fund Agreement:

"The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement."

(a) applies at any time after the entry into force of the Fund Agreement and

(b) gives to the Fund the power to determine what is meant by "in exceptional circumstances."

Decision No. 117-1

January 6, 1947

ARTICLE XV, SECTION 2

Interpretation

In response to the request of the Government of [a member], and after having considered the arguments put forward by that Government, the Executive Directors, acting pursuant to Article XVIII(a) of the Fund Agreement, interpret Article XV, Section 2 as follows:

Action may be taken by the Fund to require a member to withdraw when the following conditions have been met:

1. The member has been declared ineligible to use the resources of the Fund pursuant to Article XV, Section 2(a);
2. A reasonable time has passed since the member was declared ineligible to use the resources of the Fund pursuant to Article XV, Section 2(a), whether or not a fixed period of time had been prescribed in connection with such action, and the member persists in failing to fulfill its obligations;
3. The member has been informed in reasonable time of the complaint against it and given an adequate opportunity to state, both orally and in writing, any fact or legal argument relevant to the issue before the Fund.

Decision No. 343-(54/47)

August 11, 1954

The Board of Governors confirmed the foregoing decision on September 28, 1954.

ARTICLE XVII

Amendment of the Articles of Agreement

BOARD OF GOVERNORS RESOLUTION NO. 22-8: REPORT OF EXECUTIVE DIRECTORS AND PROPOSED AMENDMENT TO THE ARTICLES OF AGREEMENT *

I. Pursuant to Resolution No. 22-8 of the Twenty-Second Annual Meeting, the Executive Directors:

- (a) Adopt the Report entitled *Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund*;
- (b) Propose the introduction in the Articles of Agreement of the modifications set forth in the Proposed Amendment attached to the Resolution in Annex A to the Report; and
- (c) Recommend the adoption by the Board of Governors of the Resolution in Annex A to the Report.

.....
.....
Decision No. 2493-(68/74)

April 16, 1968

* For the Report of the Executive Directors, see *Annual Report of the Executive Directors*, 1968, pages 129-74.

ARTICLE XIX

Monetary Reserves and Official Holdings

NET OFFICIAL HOLDINGS: PRINCIPLES OF INTERPRETATION

In order to ensure the uniform application of the relevant Articles of Agreement as they apply to determinations of members' net official holdings of gold and U.S. dollars for the purposes of Article III, Section 3(*b*) (ii), the Fund adopts or reaffirms the following principles of interpretation for the indicated provisions of the Fund Agreement:

- (a)*
- (b)*
- (c) *Article XIX(b)*: "The official holdings of a member means central holdings (that is, the holdings of its Treasury, central bank, stabilization fund, or similar fiscal agency)."
 - (1) "Central holdings" are confined to holdings owned by the institutions set forth in Article XIX(*b*).
 - (2) The term "similar fiscal agency" means an institution which performs an important function or functions similar to those normally performed by a Treasury, or central bank, or stabilization fund.
 - (3) No distinction is made among the departments of a central bank or other central institution as specified in Article XIX(*b*). No distinction is made on the basis of the use to which gold or dollars may be put by any of the institutions covered by Article XIX(*b*). That is to say, all gold or dollars owned by such institutions are central holdings.

* Reproduced on pages 2-5.

- (d) *Article XIX(c)*: "The holdings of other official institutions or other banks within its territories may, in any particular case, be deemed by the Fund, after consultation with the member, to be official holdings to the extent that they are substantially in excess of working balances; provided that for the purpose of determining whether, in a particular case, holdings are in excess of working balances, there shall be deducted from such holdings amounts of currency due to official institutions and banks in the territories of members or nonmembers specified under (d) below."
- (1) "Other official institutions" and "other banks" are official institutions and banks not embraced by Article XIX(*b*). "Other official institutions" are those representing a member anywhere. "Other banks" are banks within its territories.
 - (2) "Working balances" must be determined in the light of all the facts of the individual case, and no rigid rule can be formulated for their measurement. The general idea is that a working balance is one which is necessary to meet the requirements of its owner, taking into account normal receipts and payments, for a period not unreasonably protracted.
 - (3) No deduction may be made from central holdings on the ground that they are said to represent, in whole or in part, "working balances," for example, because there are no commercial banks or because the holdings of commercial banks are alleged by the member to be inadequate for working purposes.
 - (4) Gold or dollars owned by "other official institutions" and "other banks" may be included in a member's official holdings, after consultation with the member, to the extent that they are substantially in excess of "working balances."
 - (5) The proviso in Article XIX(*c*) declares that in deter-

mining whether the holdings of other official institutions and other banks are substantially in excess of working balances, certain deductions shall be made. These deductions are in respect of liabilities arising from the holdings of the currency of the member whose official holdings are being calculated. Such liabilities must be owed by that member's official institutions and banks to the official institutions of and banks in the territories of countries which were members of the Fund on September 12, 1946.

- (e) *Article XIX(b)*: "For the purpose of calculating gold subscriptions under Article III, Section 3, a member's net official holdings of gold and United States dollars shall consist of its official holdings of gold and United States currency after deducting central holdings of its currency by other countries and holdings of its currency by other official institutions and other banks if these holdings carry specified rights of conversion into gold or United States currency."
- (1) Article XIX(b) establishes the only deduction from gross official holdings. That is to say, *gross* official holdings are the total of gold and dollars which a member owns; *net* official holdings are those holdings minus the one deduction which Article XIX(b) establishes.
- (2) A deduction cannot be made under Article XIX(b) in the calculation of a member's net official holdings unless the following conditions are satisfied:
- (a) There is a holding of the member's currency.
 - (b) There is a right of conversion of the currency into gold or U.S. dollars exercisable by virtue only of the holdings of the currency and not, for example, by reason of forward exchange contracts.
 - (c) The right of conversion is exercisable at the option

of the holder of the currency and not at the option of the member whose currency is held.

- (d) The option is exercisable by the central or other official institutions or other banks in the territories of other countries, and not by the member's own official institutions or by banks in the territories in respect of which it has accepted the Agreement in accordance with Article XX, Section 2(*g*). "Other countries" embraces all countries, and not simply member countries or nonmember countries which have been specified under Article XIX(*d*).
- (e) The right of conversion was in existence on September 12, 1946 (or any later date substituted under Article III, Section 3(*d*)). However, the right of conversion need not have been exercisable on that date, but may be exercisable at any time thereafter.
- (3) Liabilities payable in gold or dollars where the conditions of Article XIX(*b*) as set forth in 2 above are not otherwise met, e.g., where the creditor's right to gold or dollars is not attached to a holding of the currency of the member whose net official holdings are being calculated, are not deductible under Article XIX(*b*).

Decision No. 298-3

April 14, 1948

NOTE: For currency liabilities (Article XIX(*e*) of the original Articles of Agreement), see previous issues of *Selected Decisions of the Executive Directors*.

ARTICLE XX, SECTION 4(i)

**Use of Fund's Resources: Postponement Under
Article XX, Section 4(i)**

The Fund has, in the case of a member which has had no previous exchange transaction with the Fund, the power to postpone exchange transactions with it if its circumstances are such that, in the opinion of the Fund, they would lead to the use of the resources of the Fund in a manner contrary to the purposes of the Agreement or prejudicial to the Fund or its members. This power did not lapse as of the date the Fund began exchange transactions.

Decision No. 284-2

March 10, 1948

ARTICLE XXV, SECTION 6(a)

Principles and Procedures for Reconstitution

1. For the purposes of Rule P-2 and without prejudice to any future decisions on allocations or cancellations of special drawing rights, it shall be assumed that an allocation of special drawing rights will be made on January 1, 1972, in accordance with Board of Governors Resolution No. 24-12, and that no allocations or cancellations will be made thereafter. This assumption shall be subject to review at any time and shall be reviewed not later than December 31, 1972.

2. Pursuant to Article XXV, Section 2(b)(ii), the Fund prescribes that a participant may obtain special drawing rights from another participant in a transaction with that other participant that would promote reconstitution under Article XXV, Section 6(a), and Schedule G, paragraph 1(a). The maximum amount that may be obtained in this way in any calendar quarter shall be the single sum based on calculations by the Fund under Rule P-2 at the end of the previous month which will meet the participant's entire need to reconstitute for any reconstitution period covered by those calculations.

3. Pursuant to Article XXV, Section 7(f), a participant that makes a purchase from the Fund under Article V, Section 3, may obtain special drawing rights from the Fund through the General Account in that purchase to the extent of any need it has to acquire special drawing rights in order to promote reconstitution under Article XXV, Section 6(a) and Schedule G, paragraph 1(a).

Decision No. 3457-(71/121) G/S

December 3, 1971

ARTICLE XXV, SECTION 7

**Use of Special Drawing Rights in Repurchases and
Payment of Charges**

EXCLUSION OF SPECIAL DRAWING RIGHTS: FINANCIAL YEAR
ENDING APRIL 30, 1970

1. For the first allocation of special drawing rights, increases in monetary reserves resulting from allocations of special drawing rights during the financial year ending April 30, 1970, shall not be taken into account in calculating monetary reserves and increases in them during that year.

. . .

Decision No. 2901-(69/122) G/S

December 18, 1969

EXCLUSION OF SPECIAL DRAWING RIGHTS: FINANCIAL YEARS
ENDING APRIL 30, 1971 AND 1972

Increases in monetary reserves resulting from allocations of special drawing rights during the financial years ending April 30, 1971 and 1972 shall not be taken into account in calculating monetary reserves and increases in them during those years.

Decision No. 3034-(70/38)

April 29, 1970

EXCLUSION OF SPECIAL DRAWING RIGHTS: FINANCIAL YEAR
ENDING APRIL 30, 1970

Paragraph 1 of Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969 shall be applied in accordance with the following Rule:

In calculating monetary reserves and increases in them for the purposes of Article V, Section 7(*b*) and Schedule B for the Fund's financial year ending April 30, 1970, the lowest amount of special drawing rights held by a participant in the period January 1 to April 30, 1970 shall be excluded from the calculation.

Decision No. 3032-(70/38) G/S

April 29, 1970

EXCLUSION OF SPECIAL DRAWING RIGHTS: FINANCIAL YEARS
ENDING APRIL 30, 1971 AND 1972

Executive Board Decision No. 3034-(70/38) adopted April 29, 1970 shall be applied in accordance with the following rule:

In calculating monetary reserves and increases in them for the purposes of Article V, Section 7(*b*), and Schedule B for each of the Fund's financial years ending April 30, 1971 and 1972, (1) a use of special drawing rights by a participant in the period January 1 to April 30 shall be considered first to constitute a use *pro tanto* of the special drawing rights held by the participant immediately before the latest allocation, and (2) if the participant's use exceeds the amount of special drawing rights held at the time of the allocation, the lowest amount of special

drawing rights held by the participant in the period January 1 to April 30 shall be excluded from the calculation.

Decision No. 3320-(71/34) G/S

April 21, 1971

USE OF SPECIAL DRAWING RIGHTS IN REPURCHASES OUTSIDE
ARTICLE V, SECTION 7(b)

. . .

2. Members are authorized to discharge with special drawing rights any repurchases outside Article V, Section 7(b).

3. Members are authorized to use, at their option, special drawing rights to settle all charges payable to the General Account.

4. Paragraphs 2 and 3 of this decision, including the amounts and proportions permitted thereunder, shall be subject to review in 1970 as soon as experience warrants.

Decision No. 2901-(69/122) G/S

December 18, 1969

Paragraphs 2 and 3 of Executive Board Decision No. 2901-(69/122) G/S adopted December 18, 1969, including the amounts and proportions permitted thereunder, shall be subject to review before December 31, 1971, if experience should so warrant, or, in any event, before the end of the first basic period.

Decision No. 3188-(70/106) G/S

December 2, 1970

Transfer of Special Drawing Rights Held in the General Account to Participants Making Purchases from the Fund

When a member which is a participant in the Special Drawing Account consults in accordance with Executive Board Decision No. 1371-(62/36), adopted July 20, 1962, on *Currencies To Be Drawn and To Be Used in Repurchases*, the Managing Director may propose that the participant request the purchase of special drawing rights not in excess of the amount which he shall indicate, for immediate use by the participant in a transaction under Article XXV, Section 2(a).

Decision No. 3414-(71/98) G/S

September 10, 1971

ARTICLE XXVI, SECTION 5

**Special Drawing Account: Payment of Interest,
Charges, and Assessments**

Participants in the Special Drawing Account that are obligated and entitled, in accordance with Article XXVI, Section 5, to obtain special drawing rights in a transaction with the Fund conducted through the General Account in order to pay any charge or assessment, and do not wish to use gold, may use any convertible currency acceptable to the Fund in repurchases, provided that the participant has consulted the Managing Director on the currencies and the amounts of each to be used to acquire the special drawing rights.

Decision No. 3010-(70/25) G/S

March 25, 1970

ARTICLE XXXII(b)(1)

**Special Drawing Account: Currencies
Convertible in Fact**

CURRENCY CONVERTIBLE IN FACT: U.S. DOLLAR

The Fund takes note of the letter dated December 30, 1969, from the Secretary of the United States Treasury and decides that the U.S. dollar is a currency convertible in fact in accordance with Article XXXII(b)(1).

Decision No. 2918-(69/128) S

December 31, 1969

REPRESENTATIVE EXCHANGE RATE: STERLING

The Fund finds, after consultation with the United Kingdom authorities, that the representative exchange rate for sterling under Rule 0-3(ii) is the middle rate between the spot buying and selling rates for transactions quoted by dealers and brokers at noon in the London market. The Bank of England will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2956-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: STERLING

The Fund notes the letter dated January 15, 1970 from the Governor of the Bank of England, and Executive Board Decision

No. 2956-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for sterling under Article XXV, Section 8, and decides that sterling is a currency convertible in fact in accordance with Article XXXII(b) (1).

Decision No. 2955-(70/8) S

February 2, 1970

(See also Decision No. 3121-(70/83) S

August 27, 1970)

REPRESENTATIVE EXCHANGE RATE: FRENCH FRANC

The Fund finds, after consultation with the French authorities, that the representative rate for the French franc under Rule 0-3 (ii) is the average of the highest and lowest spot rates quoted during the official session of the Paris market. The Banque de France will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2958-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: FRENCH FRANC

The Fund notes the letter dated January 2, 1970 from the Director of Treasury, Ministry of Economy and Finance of France, and Executive Board Decision No. 2958-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for the French franc under Article XXV, Section 8, and decides that the French franc is a currency convertible in fact in accordance with Article XXXII(b) (1).

Decision No. 2957-(70/8) S

February 2, 1970

ARTICLE XXXII(b) (2)

Special Drawing Account: Currency Convertible in Fact

REPRESENTATIVE EXCHANGE RATE: BELGIAN FRANC

The Fund finds, after consultation with the Belgian authorities, that the representative exchange rate for Belgian francs under Rule 0-3(ii) is the official quotation established in the Brussels exchange market. The Banque Nationale de Belgique will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2960-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: BELGIAN FRANC

The Fund notes the letter dated January 30, 1970 from the Banque Nationale de Belgique and Executive Board Decision No. 2960-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for the Belgian franc under Article XXV, Section 8, and decides that the Belgian franc is a currency convertible in fact in accordance with Article XXXII(b) (2).

Decision No. 2959-(70/8) S

February 2, 1970

REPRESENTATIVE EXCHANGE RATE: DEUTSCHE MARK

The Fund finds, after consultation with the German authorities, that the representative rate for the deutsche mark under

Rule 0-3(ii) is the middle rate determined officially during the official session of the Frankfurt market. The Deutsche Bundesbank will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2962-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: DEUTSCHE MARK

The Fund notes the letter dated January 12, 1970 from the German Minister of Economics and Executive Board Decision No. 2962-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for the deutsche mark under Article XXV, Section 8, and decides that the deutsche mark is a currency convertible in fact in accordance with Article XXXII (b) (2).

Decision No. 2961-(70/8) S

February 2, 1970

REPRESENTATIVE EXCHANGE RATE: ITALIAN LIRA

The Fund finds, after consultation with the Italian authorities, that the representative exchange rate for Italian lire under Rule 0-3(ii) is the quotation at the closing of the Milan and Rome markets if the quotation in each market is identical, or the middle rate of the two quotations when they differ. The Ufficio Italiano dei Cambi will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4,

the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2964-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: ITALIAN LIRA

The Fund notes the letter dated January 21, 1970 from the Minister of the Treasury and Governor for Italy in the Fund and Executive Board Decision No. 2964-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for the Italian lira under Article XXV, Section 8, and decides that the Italian lira is a currency convertible in fact in accordance with Article XXXII(b) (2).

Decision No. 2963-(70/8) S

February 2, 1970

REPRESENTATIVE EXCHANGE RATE: MEXICAN PESO

The Fund finds, after consultation with the Mexican authorities, that the representative rate for the Mexican peso under Rule 0-3(ii) is the middle rate between the average buying and selling rates reported by the main commercial banks to the Banco de Mexico, S.A., in Mexico City at the close of each business day. The Banco de Mexico, S.A., will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate shall be the rate ascertained for the preceding business day.

Decision No. 2966-(70/8) S

February 2, 1970

CURRENCY CONVERTIBLE IN FACT: MEXICAN PESO

The Fund notes the letter dated January 16, 1970 from the Director General, Banco de Mexico, S.A., and Executive Board Decision No. 2966-(70/8) S, adopted February 2, 1970 with respect to the exchange rate for the Mexican peso under Article XXV, Section 8, and decides that the Mexican peso is a currency convertible in fact in accordance with Article XXXII(b) (2).

Decision No. 2965-(70/8) S

February 2, 1970

REPRESENTATIVE EXCHANGE RATE: NETHERLANDS GUILDER

The Fund finds, after consultation with the Netherlands authorities, that the representative exchange rate for Netherlands guilders under Rule 0-3(ii) is the middle rate between the spot buying and selling rates for U.S. dollars in the Amsterdam market at 1:30 p.m. De Nederlandsche Bank N.V. will ascertain this rate each business day. If the exchange rate cannot be ascertained for a date required by Rule 0-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 3338-(71/44) S

May 19, 1971

CURRENCY CONVERTIBLE IN FACT: NETHERLANDS GUILDER

The Fund notes the letter dated February 10, 1970 from the President, De Nederlandsche Bank N.V., and Executive Board Decision No. 2989-(70/19) S, adopted March 5, 1970 with respect

to the exchange rate for the Netherlands guilder under Article XXV, Section 8, and decides that the Netherlands guilder is a currency convertible in fact in accordance with Article XXXII(b) (2).

Decision No. 2988-(70/19) S

March 5, 1970

SCHEDULE B

Calculation of Repurchase Obligations

CALCULATION OF MONETARY RESERVES

1.

2. [A member has contended] that, in calculating its monetary reserves as of April 30, 1948, a sum greater than [the amount calculated by the staff] should have been deducted as the proceeds of a long-term or medium-term loan contracted during the financial year ending on that date It is determined that the deduction . . . calculated by the staff was correctly made, based on the following principles which are adopted:

(a) Before any exclusion of the proceeds of long-term or medium-term loans can be made under Schedule B, paragraph 3, of the Fund Agreement, it is necessary to identify that part of a member's holdings which can be regarded as representing the proceeds of such loans.

(b) Where the loan can be spent only for a specific project or purpose, the proceeds can be regarded as unspent only to the extent that the special project or purpose has not been completed and paid for. The formality of payment of the proceeds into a special or general account would not as a rule be considered a significant factor.

(c) Where the loan is not contracted for a special project or purpose, the proceeds of that loan which may be deducted should, as a rule of thumb, and in the absence of other evidence of identification, be determined as follows: (1) the member's lowest holdings of the currency in question between the date of receipt of the proceeds of the loan and the end of the financial year shall be determined, (2) the part of such lowest hold-

ings which shall be excluded will be the proportion which the proceeds of the loan bear to the sum of the member's holdings of the currency as of the date of receipt of the proceeds of the loan plus other receipts in the same currency between that date and the day of the lowest holdings.

. . .

Decision No. 486-2

October 7, 1949

CALCULATION OF MEMBERS' REPURCHASE OBLIGATIONS:
SCHEDULE B, PARAGRAPH 3

In applying the provisions of Schedule B, paragraph 3 to the calculation of members' repurchase obligations, the following principles shall govern (Staff Memorandum No. 413, 12/8/49 and Supplement 1, 12/13/49):

1. Where exclusions have been made at the end of one year for holdings which are the proceeds of long-term or medium-term loans contracted during the year or for holdings which have been transferred or set aside for the repayment of a loan during the subsequent year, the exclusion continues to be made in the monetary reserve figures for the beginning of the succeeding year.
2. Where an exclusion has been made in respect of currency which became convertible during the year, this currency is included in the monetary reserve figures for the beginning of the subsequent year.
3. If the member indicates that certain holdings are the proceeds of loans or currency set aside, the reasonable implication is that the member wishes paragraph 3 to apply to such hold-

ings. If the member does not provide such data, the implication is that it is not taking advantage of the provision.

Decision No. 510-2

December 16, 1949

GENERAL

Fund Assistance in Gold Transactions

MEMBERS' GOLD TRANSACTIONS

The Executive Board approves the Managing Director's continuing to assist members by bringing governmental buyers and sellers of gold into contact. If there is a demand, the function may be performed as a regular service on the basis outlined in SM/52/6 (2/7/52). It is understood that initially the service charge will be $\frac{1}{32}$ per cent for each partner in a completed transaction, and that the charge will be reviewed later on the basis of experience.

Decision No. 103-(52/12)

February 21, 1952

FUND ASSISTANCE IN GOLD TRANSACTIONS

The Executive Board approves the extension of the Fund's service in bringing buyers and sellers of gold into contact, on the basis outlined in SM/52/6 (2/7/52), to cases in which one of the parties to the gold transaction is a member and the other is one of the following nonmembers or international organizations:

... *

Switzerland

Bank for International Settlements

International Bank for Reconstruction
and Development

* The decision lists certain countries which formerly were nonmembers but are presently members.

In accordance with the foregoing, therefore, gold transactions under the service would always involve a member as buyer or seller, and all parties would be either governmental or international organizations.

Decision No. 316-(54/27)

May 27, 1954

FUND ASSISTANCE IN GOLD TRANSACTIONS

1. The Executive Board approves the following extensions of the Fund's service in bringing buyers and sellers of gold into contact, on the basis outlined in SM/52/6(2/7/52):

(a) the International Finance Corporation is added to the list of parties in the decision adopted at EBM/54/27(5/27/54);

(b) the service shall apply to gold transactions between an international organization covered by the service and any other party covered by the service.

. . .

Decision No. 572-(56/55)

November 21, 1956

FUND ASSISTANCE IN GOLD TRANSACTIONS

The Inter-American Development Bank is added to the list of parties in the decisions adopted at Executive Board Meetings 54/27(5/27/54) and 56/55(11/21/56).

Decision No. 1033-(60/26)

May 20, 1960

FUND ASSISTANCE IN GOLD TRANSACTIONS

The International Development Association is added to the list of parties in the decisions adopted at Executive Board Meetings 54/27(5/27/54), 56/55(11/21/56), and 60/26(5/25/60).

Decision No. 1116-(60/51)

December 8, 1960

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Selected Resolutions of the Board of Governors

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A. International Monetary System

WHEREAS the present international monetary situation contains the dangers of instability and disorder in currency and trade relationships but also offers the opportunity for constructive changes in the international monetary system; and

WHEREAS it is of the utmost importance to avoid the aforesaid dangers and assure continuance of the progress made in national and international wellbeing in the past quarter of a century; and

WHEREAS prompt action is necessary to resume the movement toward a free and multilateral system in which trade and capital flows can contribute to the integration of the world economy and the rational allocation of resources throughout the world; and

WHEREAS consideration should be given to the improvement of the international monetary system and the adjustment process; and

WHEREAS the orderly conduct of the operations of the International Monetary Fund should be resumed as promptly as possible in the interest of all members; and

WHEREAS all members of the Fund should participate in seeking solutions of the aforesaid problems;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

- I. Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to
 - (a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices, and

- (b) facilitate resumption of the orderly conduct of the operations of the Fund.
- II. Members are called upon to collaborate with the Fund and with each other in efforts to bring about
- (a) a reversal of the tendency in present circumstances to maintain and extend restrictive trade and exchange practices, and
 - (b) satisfactory arrangements for the settlement of international transactions which will contribute to the solution of the problems involved in the present international monetary situation.
- III. The Executive Directors are requested:
- (a) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary system; and
 - (b) for the purpose of (a), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and
 - (c) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

Resolution No. 26-9

October 1, 1971

B. Establishment of a Committee on Reform of the International Monetary System and Related Issues

WHEREAS there is an urgent need for a thorough review and reform of the international monetary system in the light of major international developments over the last several years; and

WHEREAS reform of the international monetary system should be considered in relation to existing or prospective arrangements among countries, including those involving international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles; and

WHEREAS the reform should meet the present and future needs of the world economy; and

WHEREAS in order to bring about the necessary reform it is desirable to establish a committee, composed of governors of the Fund, ministers, or others of comparable rank, to advise and make recommendations to the Board of Governors; and

WHEREAS it is generally recognized that decisions relating to the reform should be taken with the full participation of both developed and developing member countries;

NOW, THEREFORE, the Board of Governors hereby resolves that:

1. Composition of the Committee

(a) There shall be established an *ad hoc* Committee of the Board of Governors on Reform of the International Monetary System and Related Issues. The members of the Committee shall be appointed by the members of the Fund. Each member of the Fund that appoints an executive director and each group of members of the Fund that elected an executive director on or after the date on which the last regular election took place shall

appoint one member of the Committee, who shall serve until a new appointment is made. Each member of the Committee shall appoint not more than two associates, who shall be entitled to participate in meetings of the Committee. If a member of the Committee does not attend a meeting of the Committee, he shall be entitled to designate another person to take his place at that meeting.

(b) The members of the Committee shall select a Chairman, who shall serve for such period as the Committee determines. The Chairman of the Board of Governors shall convene the first meeting of the Committee and shall preside over it until a Chairman has been selected.

(c) The Committee shall determine the number of advisors that each member of the Committee may bring to its meetings.

(d) The Managing Director shall participate in the meetings of the Committee and may designate a representative to take his place at any meeting he does not attend.

2. Terms of Reference of the Committee

(a) The Committee shall advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system, including proposals for amendments of the Articles of Agreement of the Fund, taking into consideration any reports and recommendations by the Executive Directors to the Board of Governors pursuant to Resolution No. 26-9 of the Board of Governors.

(b) In considering and reporting on the matters covered by (a) above, the Committee shall give full attention to the interrelation between these matters and existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles.

3. *Deputies*

(a) There shall be established the Deputies, who shall be composed of the deputies appointed by the members of the Committee, and who shall meet as often as necessary to prepare the work of the Committee. Each member of the Committee shall be entitled to have not more than two deputies.

(b) The Committee shall select the Chairman of the Deputies.

(c) Executive directors shall be entitled to participate in the meetings of the Deputies.

(d) The Managing Director shall designate not more than two members of the staff of the Fund to represent him at meetings of the Deputies.

(e) The Deputies shall determine the number of advisors who may attend the meetings of the Deputies.

4. *Arrangements for Work*

(a) The Managing Director and the Chairman of the Deputies shall establish appropriate arrangements to bring about an effective coordination of the work of the Executive Directors in connection with reform of the international monetary system pursuant to Resolution No. 26-9 and the work of the Deputies.

(b) The Chairman of the Committee or of the Deputies, after consulting the members of the Committee or the deputies as the case may be, shall make any arrangements that are considered necessary for studies by qualified persons or for furthering the work of the Committee or of the Deputies in any other way.

5. *Procedures*

(a) The Committee shall meet as often as is necessary for proceeding with its work. Meetings shall be convened by the Chairman after consulting the members of the Committee. The Chairman shall consult the members of the Committee if so requested by any member of the Committee.

(b) Meetings of the Committee and of the Deputies shall be held within the metropolitan area in which the Fund has its principal office or at such other places as the respective Chairmen determine after consulting the members of the Committee or the deputies as the case may be.

(c) In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee or of the Deputies shall be made available to the Executive Directors. The Committee may publish any of its reports.

(d) The Committee and the Deputies may invite other persons to attend meetings and may determine any other aspect of their own procedures that is not established by this Resolution.

Resolution No. 27-10

July 26, 1972

Selected Documents

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A. Agreement Between the United Nations and the International Monetary Fund *

Article I

GENERAL

1. This agreement, which is entered into by the United Nations pursuant to the provisions of Article 63 of its Charter, and by the International Monetary Fund (hereinafter called the Fund), pursuant to the provisions of article X of its Articles of Agreement, is intended to define the terms on which the United Nations and the Fund shall be brought into relationship.

2. The Fund is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations. By reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Fund is, and is required to function as, an independent international organization.

3. The United Nations and the Fund are subject to certain necessary limitations for the safeguarding of confidential material furnished to them by their members or others, and nothing in this agreement shall be construed to require either of them to furnish any information the furnishing of which would, in its judgment, constitute a violation of the confidence of any of its members or anyone from whom it shall have received such information, or which would otherwise interfere with the orderly conduct of its operations.

*The Agreement came into force November 15, 1947.

Article II

RECIPROCAL REPRESENTATION

1. Representatives of the United Nations shall be entitled to attend, and to participate without vote in, meetings of the Board of Governors of the Fund. Representatives of the United Nations shall be invited to participate without vote in meetings especially called by the Fund for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations.

2. Representatives of the Fund shall be entitled to attend meetings of the General Assembly of the United Nations for purposes of consultation.

3. Representatives of the Fund shall be entitled to attend, and to participate without vote in, meetings of the committees of the General Assembly, meetings of the Economic and Social Council, of the Trusteeship Council and of their respective subsidiary bodies, dealing with matters in which the Fund has an interest.

4. Sufficient advance notice of these meetings and their agenda shall be given so that, in consultation, arrangements can be made for adequate representation.

Article III

PROPOSAL OF AGENDA ITEMS

In preparing the agenda for meetings of the Board of Governors, the Fund will give due consideration to the inclusion in the agenda of items proposed by the United Nations. Similarly, the Council and its commissions and the Trusteeship Council will give due consideration to the inclusion in their agenda of items proposed by the Fund.

Article IV

CONSULTATION AND RECOMMENDATIONS

1. The United Nations and the Fund shall consult together and exchange views on matters of mutual interest.

2. Neither organization, nor any of their subsidiary bodies, will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either organization after such consultation will be considered as soon as possible by the appropriate organ of the other.

Article V

EXCHANGE OF INFORMATION

The United Nations and the Fund will, to the fullest extent practicable and subject to paragraph 3 of article I, arrange for the current exchange of information and publications of mutual interest, and the furnishing of special reports and studies upon request.

Article VI

SECURITY COUNCIL

1. The Fund takes note of the obligation assumed, under paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also Members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for decisions of the Security Council under Articles 41 and 42 of the United Nations Charter.

2. The Fund agrees to assist the Security Council by furnishing to it information in accordance with the provisions of article V of this agreement.

Article VII

ASSISTANCE TO THE TRUSTEESHIP COUNCIL

The Fund agrees to co-operate with the Trusteeship Council in the carrying out of its functions by furnishing information and technical assistance upon request, and in such other similar ways as may be consistent with the Articles of Agreement of the Fund.

Article VIII

INTERNATIONAL COURT OF JUSTICE

The General Assembly of the United Nations hereby authorizes the Fund to request advisory opinions of the International Court of Justice on any legal questions arising within the scope of the Fund's activities other than questions relating to the relationship between the Fund and the United Nations or any specialized agency. Whenever the Fund shall request the Court for an advisory opinion, the Fund will inform the Economic and Social Council of the request.

Article IX

STATISTICAL SERVICES

1. In the interests of efficiency and for the purpose of reducing the burden on national Governments and other organizations, the United Nations and the Fund agree to co-operate in eliminating unnecessary duplication in the collection, analysis, publication and dissemination of statistical information.

2. The Fund recognizes the United Nations as the central agency for the collection, analysis, publication, standardization and improvement of statistics serving the general purposes of international organizations, without prejudice to the right of the Fund

to concern itself with any statistics so far as they may be essential for its own purposes.

3. The United Nations recognizes the Fund as the appropriate agency for the collection, analysis, publication, standardization and improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with any statistics so far as they may be essential for its own purposes.

4. (a) In its statistical activities the Fund agrees to give full consideration to the requirements of the United Nations and of the specialized agencies.

(b) In its statistical activities the United Nations agrees to give full consideration to the requirements of the Fund.

5. The United Nations and the Fund agree to furnish each other promptly with all their non-confidential statistical information.

Article X

ADMINISTRATIVE RELATIONSHIPS

1. The United Nations and the Fund will consult from time to time concerning personnel and other administrative matters of mutual interest, with a view to securing as much uniformity in these matters as they shall find practicable and to assuring the most efficient use of the services and facilities of the two organizations. These consultations shall include determination of the most equitable manner in which special services furnished by one organization to the other should be financed.

2. To the extent consistent with the provisions of this agreement, the Fund will participate in the work of the Co-ordination Committee and its subsidiary bodies.

3. The Fund will furnish to the United Nations copies of the annual report and the quarterly financial statements prepared by the Fund pursuant to section 7(a) of article V of its Articles of Agreement. The United Nations agrees that, in the interpretation

of paragraph 3 of Article 17 of the United Nations Charter it will take into consideration that the Fund does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of the Fund enjoy full autonomy in deciding the form and content of such budget.

4. The officials of the Fund shall have the right to use the *laissez-passer* of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Fund.

Article XI

AGREEMENTS WITH OTHER ORGANIZATIONS

The Fund will inform the Economic and Social Council of any formal agreement which the Fund shall enter into with any specialized agency, and in particular agrees to inform the Council of the nature and scope of any such agreement before it is concluded.

Article XII

LIAISON

1. The United Nations and the Fund agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective co-operation between the two organizations. Each agrees that it will establish within its own organization such administrative machinery as may be necessary to make the liaison, as provided for in this agreement, fully effective.

2. The arrangements provided for in the foregoing articles of this agreement shall apply, as far as is appropriate, to relations between such branch or regional offices as may be established by the two organizations, as well as between their central machinery.

Article XIII

MISCELLANEOUS

1. The Secretary-General of the United Nations and the Managing Director of the Fund are authorized to make such supplementary arrangements as they shall deem necessary or proper to carry fully into effect the purposes of this agreement.

2. This agreement shall be subject to revision by agreement between the United Nations and the Fund from the date of its entry into force.

3. This agreement may be terminated by either party thereto on six months' written notice to the other party, and thereupon all rights and obligations of both parties hereunder shall cease.

4. This agreement shall come into force when it shall have been approved by the General Assembly of the United Nations and the Board of Governors of the Fund.

B. United Nations Convention on the Privileges and Immunities of the Specialized Agencies and Annex V *

Whereas the General Assembly of the United Nations adopted on 13 February 1946 a resolution contemplating the unification as far as possible of the privileges and immunities enjoyed by the United Nations and by the various specialized agencies; and

Whereas consultations concerning the implementation of the aforesaid resolution have taken place between the United Nations and the specialized agencies;

Consequently, by resolution 179 (II) adopted on 21 November 1947, the General Assembly has approved the following Convention, which is submitted to the specialized agencies for acceptance and to every Member of the United Nations and to every other State member of one or more of the specialized agencies for accession.

* The Convention was adopted by the United Nations General Assembly on November 21, 1947. The Executive Directors of the Fund accepted the standard clauses of the Convention and approved Annex V with respect to the Fund on April 11, 1949. The Annex became effective on May 9, 1949, when it was received by the United Nations.

Article I

DEFINITIONS AND SCOPE

Section 1

In this Convention:

(i) The words "standard clauses" refer to the provisions of articles II to IX.

(ii) The words "specialized agencies" mean:

(a) The International Labour Organisation;

(b) The Food and Agriculture Organization of the United Nations;

(c) The United Nations Educational, Scientific and Cultural Organization;

(d) The International Civil Aviation Organization;

(e) The International Monetary Fund;

(f) The International Bank for Reconstruction and Development;

(g) The World Health Organization;

(h) The Universal Postal Union;

(i) The International Telecommunication Union; and

(j) Any other agency in relationship with the United Nations in accordance with Articles 57 and 63 of the Charter.

(iii) The word "Convention" means, in relation to any particular specialized agency, the standard clauses as modified by the final (or revised) text of the annex transmitted by that agency in accordance with sections 36 and 38.

(iv) For the purposes of article III, the words "property and assets" shall also include property and funds administered by a specialized agency in furtherance of its constitutional functions.

(v) For the purposes of articles V and VII, the expression

"representatives of members" shall be deemed to include all representatives, alternates, advisers, technical experts and secretaries of delegations.

(vi) In sections 13, 14, 15 and 25, the expression "meetings convened by a specialized agency" means meetings: (1) of its assembly and of its executive body (however designated), and (2) of any commission provided for in its constitution; (3) of any international conference convened by it; and (4) of any committee of any of these bodies.

(vii) The term "executive head" means the principal executive official of the specialized agency in question, whether designated "Director-General" or otherwise.

Section 2

Each State party to this Convention in respect of any specialized agency to which this Convention has become applicable in accordance with section 37 shall accord to, or in connexion with, that agency the privileges and immunities set forth in the standard clauses on the conditions specified therein, subject to any modification of those clauses contained in the provisions of the final (or revised) annex relating to that agency and transmitted in accordance with sections 36 or 38.

Article II

JURIDICAL PERSONALITY

Section 3

The specialized agencies shall possess juridical personality. They shall have the capacity (a) to contract, (b) to acquire and dispose of immovable and movable property, (c) to institute legal proceedings.

Article III

PROPERTY, FUNDS AND ASSETS

Section 4

The specialized agencies, their property and assets, wherever located and by whomsoever held, shall enjoy immunity from every form of legal process except in so far as in any particular case they have expressly waived their immunity. It is, however, understood that no waiver of immunity shall extend to any measure of execution.

Section 5

The premises of the specialized agencies shall be inviolable. The property and assets of the specialized agencies, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation and any other form of interference, whether by executive, administrative, judicial or legislative action.

Section 6

The archives of the specialized agencies, and in general all documents belonging to them or held by them, shall be inviolable, wherever located.

Section 7

Without being restricted by financial controls, regulations or moratoria of any kind:

(a) The specialized agencies may hold funds, gold or currency of any kind and operate accounts in any currency;

(b) The specialized agencies may freely transfer their funds, gold or currency from one country to another or within any country and convert any currency held by them into any other currency.

Section 8

Each specialized agency shall, in exercising its rights under section 7 above, pay due regard to any representations made by the Government of any State party to this Convention in so far as it is considered that effect can be given to such representations without detriment to the interests of the agency.

Section 9

The specialized agencies, their assets, income and other property shall be:

(a) Exempt from all direct taxes; it is understood, however, that the specialized agencies will not claim exemption from taxes which are, in fact, no more than charges for public utility services;

(b) Exempt from customs duties and prohibitions and restrictions on imports and exports in respect of articles imported or exported by the specialized agencies for their official use; it is understood, however, that articles imported under such exemption will not be sold in the country into which they were imported except under conditions agreed to with the Government of that country;

(c) Exempt from duties and prohibitions and restrictions on imports and exports in respect of their publications.

Section 10

While the specialized agencies will not, as a general rule, claim exemption from excise duties and from taxes on the sale of movable and immovable property which form part of the price to be paid, nevertheless when the specialized agencies are making important purchases for official use of property on which such duties and taxes have been charged or are chargeable, States parties to this Convention will, whenever possible, make appropriate administrative arrangements for the remission or return of the amount of duty or tax.

Article IV

FACILITIES IN RESPECT OF COMMUNICATIONS

Section 11

Each specialized agency shall enjoy, in the territory of each State party to this Convention in respect of that agency, for its official communications, treatment not less favourable than that accorded by the Government of such State to any other Government, including the latter's diplomatic mission, in the matter of priorities, rates and taxes on mails, cables, telegrams, radiograms, telephotos, telephone and other communications, and press rates for information to the press and radio.

Section 12

No censorship shall be applied to the official correspondence and other official communications of the specialized agencies.

The specialized agencies shall have the right to use codes and to dispatch and receive correspondence by courier or in sealed bags, which shall have the same immunities and privileges as diplomatic couriers and bags.

Nothing in this section shall be construed to preclude the adoption of appropriate security precautions to be determined by agreement between a State party to this Convention and a specialized agency.

Article V

REPRESENTATIVES OF MEMBERS

Section 13

Representatives of members at meetings convened by a specialized agency shall, while exercising their functions and during their journeys to and from the place of meeting, enjoy the following privileges and immunities:

(a) Immunity from personal arrest or detention and from seizure of their personal baggage, and in respect of words spoken or written and all acts done by them in their official capacity, immunity from legal process of every kind;

(b) Inviolability for all papers and documents;

(c) The right to use codes and to receive papers or correspondence by courier or in sealed bags;

(d) Exemption in respect of themselves and their spouses from immigration restrictions, aliens' registration or national service obligations in the State which they are visiting or through which they are passing in the exercise of their functions;

(e) The same facilities in respect of currency or exchange restrictions as are accorded to representatives of foreign Governments on temporary official missions;

(f) The same immunities and facilities in respect of their personal baggage as are accorded to members of comparable rank of diplomatic missions.

Section 14

In order to secure for the representatives of members of the specialized agencies at meetings convened by them complete freedom of speech and complete independence in the discharge of their duties, the immunity from legal process in respect of words spoken or written and all acts done by them in discharging their duties shall continue to be accorded, notwithstanding that the persons concerned are no longer engaged in the discharge of such duties.

Section 15

Where the incidence of any form of taxation depends upon residence, periods during which the representatives of members of the specialized agencies at meetings convened by them are present in a member State for the discharge of their duties shall not be considered as periods of residence.

Section 16

Privileges and immunities are accorded to the representatives of members, not for the personal benefit of the individuals themselves, but in order to safeguard the independent exercise of their functions in connexion with the specialized agencies. Consequently, a member not only has the right but is under a duty to waive the immunity of its representatives in any case where, in the opinion of the member, the immunity would impede the course of justice, and where it can be waived without prejudice to the purpose for which the immunity is accorded.

Section 17

The provisions of sections 13, 14 and 15 are not applicable in relation to the authorities of a State of which the person is a national or of which he is or has been a representative.

Article VI

OFFICIALS

Section 18

Each specialized agency will specify the categories of officials to which the provisions of this article and of article VIII shall apply. It shall communicate them to the Governments of all States parties to this Convention in respect of that agency and to the Secretary-General of the United Nations. The names of the officials included in these categories shall from time to time be made known to the above-mentioned Governments.

Section 19

Officials of the specialized agencies shall:

(a) Be immune from legal process in respect of words spoken or written and all acts performed by them in their official capacity;

(b) Enjoy the same exemptions from taxation in respect of the salaries and emoluments paid to them by the specialized agencies and on the same conditions as are enjoyed by officials of the United Nations;

(c) Be immune, together with their spouses and relatives dependent on them, from immigration restrictions and alien registration;

(d) Be accorded the same privileges in respect of exchange facilities as are accorded to officials of comparable rank of diplomatic missions;

(e) Be given, together with their spouses and relatives dependent on them, the same repatriation facilities in time of international crises as officials of comparable rank of diplomatic missions;

(f) Have the right to import free of duty their furniture and effects at the time of first taking up their post in the country in question.

Section 20

The officials of the specialized agencies shall be exempt from national service obligations, provided that, in relation to the States of which they are nationals, such exemption shall be confined to officials of the specialized agencies whose names have, by reason of their duties, been placed upon a list compiled by the executive head of the specialized agency and approved by the State concerned.

Should other officials of specialized agencies be called up for national service, the State concerned shall, at the request of the specialized agency concerned, grant such temporary deferments in the call-up of such officials as may be necessary to avoid interruption in the continuation of essential work.

Section 21

In addition to the immunities and privileges specified in sections 19 and 20, the executive head of each specialized agency, including

any official acting on his behalf during his absence from duty, shall be accorded in respect of himself, his spouse and minor children, the privileges and immunities, exemptions and facilities accorded to diplomatic envoys, in accordance with international law.

Section 22

Privileges and immunities are granted to officials in the interests of the specialized agencies only and not for personal benefit of the individuals themselves. Each specialized agency shall have the right and the duty to waive the immunity of any official in any case where, in its opinion, the immunity would impede the course of justice and can be waived without prejudice to the interests of the specialized agency.

Section 23

Each specialized agency shall co-operate at all times with the appropriate authorities of member States to facilitate the proper administration of justice, secure the observance of police regulations and prevent the occurrence of any abuses in connexion with the privileges, immunities and facilities mentioned in this article.

Article VII

ABUSES OF PRIVILEGE

Section 24

If any State party to this Convention considers that there has been an abuse of a privilege or immunity conferred by this Convention, consultations shall be held between that State and the specialized agency concerned to determine whether any such abuse has occurred and, if so, to attempt to ensure that no repetition occurs. If such consultations fail to achieve a result satisfactory to the State and the specialized agency concerned, the question whether an abuse of a privilege or immunity has occurred shall be submitted to the International Court of Justice in accordance with section 32. If the International Court of Justice finds that such an abuse has

occurred, the State party to this Convention affected by such abuse shall have the right, after notification to the specialized agency in question, to withhold from the specialized agency concerned the benefits of the privilege or immunity so abused.

Section 25

1. Representatives of members at meetings convened by specialized agencies, while exercising their functions and during their journeys to and from the place of meeting, and officials within the meaning of section 18, shall not be required by the territorial authorities to leave the country in which they are performing their functions on account of any activities by them in their official capacity. In the case, however, of abuse of privileges of residence committed by any such person in activities in that country outside his official functions, he may be required to leave by the Government of that country provided that:

2. (I) Representatives of members, or persons who are entitled to diplomatic immunity under section 21, shall not be required to leave the country otherwise than in accordance with the diplomatic procedure applicable to diplomatic envoys accredited to that country.

(II) In the case of an official to whom section 21 is not applicable, no order to leave the country shall be issued other than with the approval of the Foreign Minister of the country in question, and such approval shall be given only after consultation with the executive head of the specialized agency concerned; and, if expulsion proceedings are taken against an official, the executive head of the specialized agency shall have the right to appear in such proceedings on behalf of the person against whom they are instituted.

Article VIII

LAISSEZ-PASSER

Section 26

Officials of the specialized agencies shall be entitled to use the United Nations *laissez-passer* in conformity with administrative

arrangements to be concluded between the Secretary-General of the United Nations and the competent authorities of the specialized agencies, to which agencies special powers to issue *laissez-passer* may be delegated. The Secretary-General of the United Nations shall notify each State party to this Convention of each administrative arrangement so concluded.

Section 27

States parties to this Convention shall recognize and accept the United Nations *laissez-passer* issued to officials of the specialized agencies as valid travel documents.

Section 28

Applications for visas, where required, from officials of specialized agencies holding United Nations *laissez-passer*, when accompanied by a certificate that they are travelling on the business of a specialized agency, shall be dealt with as speedily as possible. In addition, such persons shall be granted facilities for speedy travel.

Section 29

Similar facilities to those specified in section 28 shall be accorded to experts and other persons who, though not the holders of United Nations *laissez-passer*, have a certificate that they are travelling on the business of a specialized agency.

Section 30

The executive heads, assistant executive heads, heads of departments and other officials of a rank not lower than head of department of the specialized agencies, travelling on United Nations *laissez-passer* on the business of the specialized agencies, shall be granted the same facilities for travel as are accorded to officials of comparable rank in diplomatic missions.

Article IX

SETTLEMENT OF DISPUTES

Section 31

Each specialized agency shall make provision for appropriate modes of settlement of:

(a) Disputes arising out of contracts or other disputes of private character to which the specialized agency is a party;

(b) Disputes involving any official of a specialized agency who by reason of his official position enjoys immunity, if immunity has not been waived in accordance with the provisions of section 22.

Section 32

All differences arising out of the interpretation or application of the present Convention shall be referred to the International Court of Justice unless in any case it is agreed by the parties to have recourse to another mode of settlement. If a difference arises between one of the specialized agencies on the one hand, and a member on the other hand, a request shall be made for an advisory opinion on any legal question involved in accordance with Article 96 of the Charter and Article 65 of the Statute of the Court and the relevant provisions of the agreements concluded between the United Nations and the specialized agency concerned. The opinion given by the Court shall be accepted as decisive by the parties.

*Article X*ANNEXES AND APPLICATION TO INDIVIDUAL
SPECIALIZED AGENCIES*Section 33*

In their application to each specialized agency, the standard clauses shall operate subject to any modifications set forth in the

final (or revised) text of the annex relating to that agency, as provided in sections 36 and 38.

Section 34

The provisions of the Convention in relation to any specialized agency must be interpreted in the light of the functions with which that agency is entrusted by its constitutional instrument.

Section 35

Draft annexes I to IX are recommended to the specialized agencies named therein. In the case of any specialized agency not mentioned by name in section 1, the Secretary-General of the United Nations shall transmit to the agency a draft annex recommended by the Economic and Social Council.

Section 36

The final text of each annex shall be that approved by the specialized agency in question in accordance with its constitutional procedure. A copy of the annex as approved by each specialized agency shall be transmitted by the agency in question to the Secretary-General of the United Nations and shall thereupon replace the draft referred to in section 35.

Section 37

The present Convention becomes applicable to each specialized agency when it has transmitted to the Secretary-General of the United Nations the final text of the relevant annex and has informed him that it accepts the standard clauses, as modified by this annex, and undertakes to give effect to sections 8, 18, 22, 23, 24, 31, 32, 42 and 45 (subject to any modification of section 32 which may be found necessary in order to make the final text of the annex consonant with the constitutional instrument of the agency) and any provisions of the annex placing obligations on the agency. The Secretary-General shall communicate to all Members of the United Nations and to other States members of the specialized agencies certified copies of all annexes transmitted to him under this section and of revised annexes transmitted under section 38.

Section 38

If, after the transmission of a final annex under section 36, any specialized agency approves any amendments thereto in accordance with its constitutional procedure, a revised annex shall be transmitted by it to the Secretary-General of the United Nations.

Section 39

The provisions of this Convention shall in no way limit or prejudice the privileges and immunities which have been, or may hereafter be, accorded by any State to any specialized agency by reason of the location in the territory of that State of its headquarters or regional offices. This Convention shall not be deemed to prevent the conclusion between any State party thereto and any specialized agency of supplemental agreements adjusting the provisions of this Convention or extending or curtailing the privileges and immunities thereby granted.

Section 40

It is understood that the standard clauses, as modified by the final text of an annex sent by a specialized agency to the Secretary-General of the United Nations under section 36 (or any revised annex sent under section 38), will be consistent with the provisions of the constitutional instrument then in force of the agency in question, and that if any amendment to that instrument is necessary for the purpose of making the constitutional instrument so consistent, such amendment will have been brought into force in accordance with the constitutional procedure of that agency before the final (or revised) annex is transmitted.

The Convention shall not itself operate so as to abrogate, or derogate from, any provisions of the constitutional instrument of any specialized agency or any rights or obligations which the agency may otherwise have, acquire, or assume.

Article XI

FINAL PROVISIONS

Section 41

Accession to this Convention by a Member of the United Nations and (subject to section 42) by any State member of a specialized agency shall be effected by deposit with the Secretary-General of the United Nations of an instrument of accession which shall take effect on the date of its deposit.

Section 42

Each specialized agency concerned shall communicate the text of this Convention together with the relevant annexes to those of its members which are not Members of the United Nations and shall invite them to accede thereto in respect of that agency by depositing an instrument of accession to this Convention in respect thereof either with the Secretary-General of the United Nations or with the executive head of the specialized agency.

Section 43

Each State party to this Convention shall indicate in its instrument of accession the specialized agency or agencies in respect of which it undertakes to apply the provisions of this Convention. Each State party to this Convention may by a subsequent written notification to the Secretary-General of the United Nations undertake to apply the provisions of this Convention to one or more further specialized agencies. This notification shall take effect on the date of its receipt by the Secretary-General.

Section 44

This Convention shall enter into force for each State party to this Convention in respect of a specialized agency when it has become applicable to that agency in accordance with section 37 and the State party has undertaken to apply the provisions of the Convention to that agency in accordance with section 43.

Section 45

The Secretary-General of the United Nations shall inform all Members of the United Nations, as well as all members of the specialized agencies, and executive heads of the specialized agencies, of the deposit of each instrument of accession received under section 41 and of subsequent notifications received under section 43. The executive head of a specialized agency shall inform the Secretary-General of the United Nations and the members of the agency concerned of the deposit of any instrument of accession deposited with him under section 42.

Section 46

It is understood that, when an instrument of accession or a subsequent notification is deposited on behalf of any State, this State will be in a position under its own law to give effect to the terms of this Convention, as modified by the final texts of any annexes relating to the agencies covered by such accessions or notifications.

Section 47

1. Subject to the provisions of paragraphs 2 and 3 of this section, each State party to this Convention undertakes to apply this Convention in respect of each specialized agency covered by its accession or subsequent notification, until such time as a revised convention or annex shall have become applicable to that agency and the said State shall have accepted the revised convention or annex. In the case of a revised annex, the acceptance of States shall be by a notification addressed to the Secretary-General of the United Nations, which shall take effect on the date of its receipt by the Secretary-General.

2. Each State party to this Convention, however, which is not, or has ceased to be, a member of a specialized agency, may address a written notification to the Secretary-General of the United Nations and the executive head of the agency concerned to the effect that it intends to withhold from that agency the benefits of this Convention as from a specified date, which shall not be earlier than three months from the date of receipt of the notification.

3. Each State party to this Convention may withhold the benefit of this Convention from any specialized agency which ceases to be in relationship with the United Nations.

4. The Secretary-General of the United Nations shall inform all member States parties to this Convention of any notification transmitted to him under the provisions of this section.

Section 48

At the request of one-third of the States parties to this Convention, the Secretary-General of the United Nations will convene a conference with a view to its revision.

Section 49

The Secretary-General of the United Nations shall transmit copies of this Convention to each specialized agency and to the Government of each Member of the United Nations.

ANNEX V

International Monetary Fund

In its application to the International Monetary Fund (hereinafter called "the Fund"), the Convention (including this annex) shall operate subject to the following provisions:

1. Section 32 of the standard clauses shall only apply to differences arising out of the interpretation or application of privileges and immunities which are derived by the Fund solely from this Convention and are not included in those which it can claim under its Articles of Agreement or otherwise.

2. The provisions of the Convention (including this annex) do not modify or amend or require the modification or amendment of the Articles of Agreement of the Fund or impair or limit any of the rights, immunities, privileges or exemptions conferred upon the Fund or any of its members, Governors, Executive Directors, alternates, officers or employees by the Articles of Agreement of the Fund, or by any statute, law or regulation of any member of the Fund or any political subdivision of any such member, or otherwise.

List of Members Which Have Accepted the UN Convention
on Privileges and Immunities of the Specialized Agencies
with Respect to the Fund as of September 30, 1972

<i>Country</i>	<i>Effective Date</i>
Algeria	March 25, 1964
Argentina	October 10, 1963
Austria	July 21, 1950
Barbados	November 19, 1971
Belgium	March 14, 1962
Brazil	March 22, 1963
Chile	September 21, 1951
Denmark	January 25, 1950
Ecuador	July 7, 1953
Egypt	October 18, 1954
Finland	July 31, 1958
Gambia, The	August 1, 1966
Germany, Federal Republic of	October 10, 1957
Ghana	September 9, 1958
Guatemala	June 30, 1951
Guinea	March 29, 1968
Haiti	April 16, 1952
India	October 19, 1949
Indonesia	March 8, 1972
Iraq	July 9, 1954
Ireland	May 10, 1967
Ivory Coast	June 4, 1962
Japan	April 18, 1963
Kenya	July 1, 1965
Kuwait	February 7, 1963
Laos	August 9, 1960
Lesotho	November 26, 1969
Libyan Arab Republic (Libya)	April 30, 1958
Luxembourg	September 20, 1950
Malagasy Republic	January 3, 1966

<i>Country</i>	<i>Effective Date</i>
Malawi	August 2, 1965
Mali	June 24, 1968
Malta	February 13, 1969
Nepal	September 28, 1965
Netherlands	July 21, 1949
Nicaragua	April 6, 1959
Niger	May 15, 1968
Norway	January 25, 1950
Pakistan	November 7, 1951
Philippines	March 20, 1950
Rwanda	June 23, 1964
Senegal	March 2, 1966
Sweden	September 12, 1951
Tanzania	April 10, 1963
Thailand	June 19, 1961
Trinidad and Tobago	October 19, 1965
Tunisia	December 3, 1957
Upper Volta	April 6, 1962
Yugoslavia	November 23, 1951
Zaire (Democratic Republic of Congo)	December 8, 1964

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