

Article III

Quotas and Subscriptions

GUIDELINES ON PAYMENT OF RESERVE ASSETS IN CONNECTION WITH SUBSCRIPTIONS

The Executive Board approves the draft “Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions” set forth [below].

*Decision No. 6266-(79/156),
September 10, 1979*

Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions

The following are proposed for adoption by the Executive Board as guidelines for Committees of the Executive Board when considering the amount of a subscription that should be paid in reserve assets:

1. These guidelines shall be taken into account by a Committee of the Executive Board established to consider an application for membership in the Fund or to consider a request for an increase in quota that is made outside the framework of a general review of quotas. In applying the guidelines, a Committee shall pay due regard to present and prospective economic and financial circumstances of the country concerned.

2. In view of the requirement of Article II, Section 2, that the terms for membership, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members, new members will be expected to pay a part of their initial subscription in reserve assets. The payment of reserve assets in connection with the initial subscription of a new member is largely a matter of exchanging one form of reserves for another.

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3. The amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership.

4. A reasonable approximation of the amount of the subscription that has been paid in reserve assets in the past is the average of all reserve assets actually paid in terms of the quotas of all members, rather than the proportions paid in the past by individual members. In making the calculation of the reserve assets to be paid, account will be taken of the repurchases made in the past by members, including those made in accordance with Schedule B of the amended Articles, and of sales of the currencies of members made to reduce to that level the amounts of the member's currency paid in excess of 75 percent of quota by a member that had joined the Fund before the date of the Second Amendment.

Taking into account the asset payments made by all members in connection with the Sixth General Review of Quotas and adding them to the sum of asset payments taken as the equivalent of 25 percent of total quotas as of the date of the Second Amendment, the reserve asset payments made by all members average 20 percent of present quotas. In the event that all eligible members consent to the full increases in their quotas approved under the Seventh General Review of Quotas and taking into account that 25 percent of any increase in quotas is to be paid in SDRs (or acceptable currency for nonparticipants), the reserve asset payment made by eligible members will average 21.7 percent of total quotas.

Consequently, for the period prior to the coming into effect of the quotas approved under the Seventh General Review of Quotas, the reserve asset payment for a country applying for membership can normally be expected to be of the order of 20 percent of its initial quota; after the Seventh General Review is completed, the reserve asset payment for a country applying for membership would rise to the order of 21.7 percent of its initial quota.

5. Normally, countries joining the Fund would be expected to make a payment of reserve assets in the amount, in terms of quota,

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calculated along the lines outlined in paragraph 3 above. However, consideration may be given, at the request of a prospective new member, for a payment of reserve assets smaller than the average size of such payments in terms of all quotas. In exceptional circumstances, and in light of the actual and prospective balance of payments and gross reserve position of the prospective member (including its ability to acquire or mobilize external financial assets and also any allocations of SDRs that might be in prospect) at the time its application is being considered, the size of the reserve asset payment may be reduced, provided that it is not less than the equivalent of 10 percent of the member's gross reserves or 10 percent of initial quota, whichever was the higher.

6. In determining the amount of the reserve asset payment, account should also be taken of the effect the size of such payment would have on the remuneration that might be payable to the new member. This factor would ameliorate a higher reserve asset payment in terms of quota because the acquisition of a remunerated reserve tranche position would tend to ease the loss of interest income involved in the payment of a reserve asset. However, there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment. In such circumstances, the norm for remuneration could be applied for the new member rather than the average of reserve asset payments made in the past noted in paragraph 3 above. As the norm for remuneration is likely to rise over time, the applicability of this approach would need to be kept under review and would be subject to the minimum payment in paragraph 5 above.

7. As regards the amount of reserve asset payments to be made in connection with ad hoc increases in quotas which occur outside a general review of quotas, and to the extent that such increases are effectively a "catching up" of the quota increases already granted to other members in past general reviews, the amount of the reserve assets to be paid shall be based on the amount of reserve assets required as a result of such past general reviews. For other ad hoc increases, if any, the amount of the reserve asset payment shall be equivalent to 25 percent of the increase in quota.

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8. As regards the media of payment, payments of reserve assets shall be made in SDRs to the maximum extent practicable or in a currency that is acceptable to the Fund and which is included in the operational budget as a currency that could be sold on a net basis for the foreseeable future.