The International Monetary Fund
1966–1971
The System Under Stress
Volume II: Documents

Edited by
Margaret Garritsen de Vries
International Monetary Fund
Washington, D.C.
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THE INTERNATIONAL MONETARY FUND

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Edited by
Margaret Garritsen de Vries
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CONTENTS: v.1, Narrative, by Margaret Garritsen de Vries.—v.2, Documents, edited by Margaret Garritsen de Vries.

1. International Monetary Fund. 2. International finance. 3. International liquidity. 4. Special drawing rights. 5. Foreign exchange. I. Title.
Prefatory Note

This volume comprises documents relating to the history of the International Monetary Fund for the years 1966 through 1971. All the documents cited in Volume I are reproduced here except for publications issued at regular intervals and several documents that relate to the years before 1966 and were therefore reproduced in Volume III of *The International Monetary Fund, 1945–1965*.

M. G. de V.
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PART ONE

The Fund’s Plans for Reserve Creation
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The Managing Director’s Proposals of 1966

Early in March 1966 the Managing Director circulated to the Executive Board the outlines of two schemes for the creation of reserves through the Fund. These are published as (A) below.

Later in the month, after the Executive Board had discussed the schemes in informal sessions, the Managing Director circulated some further explanations. These Supplementary Notes, as they were called, appear as (B) below.

(A) Creation of Additional Reserves
Through the International Monetary Fund
(March 3, 1966)

INTRODUCTION

This paper sketches in outline two schemes which recommend themselves as worthy of consideration for the deliberate creation of international reserves.

The first of the two schemes, which is presented in Part I, is intended to illustrate how reserves, in the form of quasi-automatic drawing rights, could be created through the Fund with no amendments of its present Articles.

The second scheme, presented in Part II, envisages the creation by an affiliate of the Fund of reserve units transferable between countries.

While the basic elements of the two schemes are in most respects the same, certain differences arise from the fact that the arrangements in Part II, unlike those in Part I, are not designed to fit into the framework of the existing Articles of the Fund. Thus, the transfer of reserves created under Part II takes place directly between countries rather than indirectly through the Fund, is governed by rules giving greater freedom to the transferor than the Fund’s present rules on currencies to be drawn, and is operated on the basis of separate obligations to accept transfers rather than through the provision of additions to the Fund’s general resources. Moreover, the restoration of reserves in these forms once they have been used is not promoted under Part II, as it is under Part I, by repurchase but depends entirely on the subsequent operation of the rules and regulations affecting transfers.

Both schemes conform to the principle that reserve creation is the concern of all member countries, that all should participate, with due safeguards and in due degree, both in the distribution of newly created reserves and in the decisions which lead to its creation, that such creation should take place either through the Fund or in close association with it, in such a way as to strengthen the Fund in its present functions as the principal source of conditional liquidity and the guardian of an internationally agreed code of behavior with respect to foreign exchange policies and balance of payments adjustment.
FUND'S PLANS FOR RESERVE CREATION

PART 1
Special Reserve Facility in the IMF

A. Creation and distribution

Whenever a decision is taken to increase reserves under this plan, all members of the Fund will be entitled to participate, in amounts broadly proportionate to quotas, by entering into the commitment set forth in D below. The plan provides for a drawing facility of the gold tranche type (hereinafter referred to as the special reserve facility), which may be expanded or contracted from time to time.

In order to maintain members' conditional facilities unchanged in accordance with tranche policies and without prejudice to the compensatory financing facility, the Fund will be prepared to waive the 200 per cent limit on Fund holdings by the amount of the special reserve facility and the 25 per cent limit to the extent necessary. The special reserve facility will be expressed in absolute amounts and, therefore, the facility will not automatically change in amount as the result of subsequent quota changes.

B. Access to facility by members making conditional use

On the occasion of any reserve increase, members which at that time are already making a conditional use of the Fund's resources will at that stage receive an addition to their conditional facilities instead of receiving the special reserve facility. If the conditional use is less than the amount of reserve creation, they will receive the balance in the form of an immediate special reserve facility. In effect, members making a conditional use of the Fund's resources at the time of a reserve creation would be in the same position as if they had used the creation of the special reserve facility to make a repurchase which reconstituted their conditional facilities, except that they would not have had to pay a service charge on a drawing.

C. "Floating" character of facility

In order to enhance the value to members of the special reserve facility, members will be free to decide, subject to B above, whether to use the facility before or after using any part of their conditional facilities.

Without prejudice to the restoration of the compensatory financing facility under the applicable rules, all reductions in the Fund's holdings of a member currency will first reconstitute its conditional facilities, then its special reserve facility, and finally its gold tranche. Members that fall within B will begin to acquire the special reserve facility as appropriate reductions in the Fund's holdings of their currencies are made under this paragraph.

D. Provision of resources to Fund

In order to safeguard the Fund's liquidity and provide against future contingencies, the plan will require that members extend to the Fund lines of credit in adequate amounts. Members will become entitled to participate in any increase in the special reserve facility allocated to them if they grant to the Fund a line of credit equal to the increase. The lines of credit will be coterminous with the special reserve facility, provided that, if the Fund agrees, a member may terminate its line of credit, whereupon its participation in the special reserve facility shall cease. The Fund may utilize any line of credit whenever it considers this necessary in order to replenish its resources for the operations of the Fund and in the light of its policies on currencies to be drawn. Claims against the Fund under the lines of credit will be reserve assets which...
the lenders can realize in the same way as gold tranche facilities and GAB claims. The Fund, on its own initiative, may make repayment of a claim under a line of credit. The gold value of claims will be maintained and interest at an appropriate rate will be payable. As a result of this system, there will exist a pooling of all the Fund's resources (currencies, gold, credit lines) for both its general transactions and those taking place as a result of the special reserve facility.

E. Transferability

As with gold tranche positions, the effect of transferring the special reserve facility will be obtained under the Fund's drawing mechanism on the initiative of the "transferor" (drawing member) and under the guidance of the Fund's policies on currencies to be drawn. The request will be treated in accordance with gold tranche policy and procedure. The " transferees" (drawee members) will acquire increased reserve positions in the Fund (in the form of larger positions in the Fund or under the credit lines).

F. Repurchase

Declarations of intent or undertakings to repurchase will not be called for in connection with the use of the special reserve facility. However, members will still be expected to make no more than a temporary use of the Fund's resources, and to repurchase as their reserve positions improve whether or not the automatic repurchase provisions of the Articles bring this about. Members will continue to be subject to eligibility for an improper use of the Fund's resources.

It would seem advisable to adopt the same repurchase principles for drawings within the present gold tranche.

G. Decision making

Decisions relating to the creation, contraction, or termination of the special reserve facility will be taken by the Executive Directors. The decision will be adopted by a majority of votes cast but will become effective for any member agreeing to grant a line of credit when members having two thirds of the total quotas have so agreed, and provided that this proportion includes a special majority of certain specified members. This could be, for example, 9 of the members having the 12 largest quotas or three fourths of the members whose currencies have been used in Fund operations in substantial amounts during some specified number of preceding years.

The initial decision to create reserves can be for, say, five years in specified annual installments, with the lines of credit becoming available for use in corresponding amounts. The installments could be varied within the total but only under decisions taken and becoming effective in somewhat the same way as described in the foregoing paragraph. New decisions to create or contract reserves can be taken at any time, to become effective either before or after the expiration of the period for which an existing decision provides.

H. Settlement and Liquidation

1. The settlement of accounts between the Fund and a member withdrawing from the Fund, including those resulting from the special reserve facility, will be governed by the Articles of Agreement (Article XV and Schedule D).

2. If the Fund were liquidated, the provisions dealing with the distribution of assets (Schedule E) will apply to all of the assets and liabilities of the Fund.
3. Provisions will be necessary to safeguard the interests of members having claims under lines of credit and of the Fund if the special reserve facility is terminated or reduced or if a member's participation ceases.

PART II

Reserve Creation Through International Reserve Fund Units

A. Introduction

The establishment of a Fund unit scheme would involve new legislation for most members. If established within the Fund without the separation of accounts, it would involve extensive amendment of the Articles. If established within the Fund with the separation of accounts, the scheme would not call for elaborate amendment but nevertheless some amendment would be necessary. In what follows it is assumed that the units will be the liabilities of a Fund affiliate, herein referred to as the International Reserve Fund (IRF). The basic provisions governing the IRF would be included in the instrument establishing it; other matters would be left to subsequent decision making. The IRF would become effective on satisfaction of the participation requirement contained in the basic instrument, which would permit the scheme to take effect with legislative action by fewer members than would be required for amendment of the Articles. The relationship between the Fund and the IRF would be governed by the basic instrument and by agreement between the two if necessary.

B. Membership

All members of the Fund will qualify to be members of the IRF if they so desire.

C. Reserve creation and distribution

On the adoption of a decision by the IRF to increase reserves, all members of the IRF will exchange claims with the IRF in accordance with the rules of the IRF, unless they decide not to participate in the particular increase. Members participating in this exchange will acquire claims on the IRF expressed in IRF units of gold weight, and the IRF will acquire corresponding claims on the member.

The exchange of claims between the IRF and participants in the increases in question will be in amounts broadly proportionate to IMF quotas. On the occasion of any creation of units, participants that had made a net use of conditional drawing facilities of the IMF will be required to reconstitute those facilities through repurchase up to an amount equal to the reserve units they then received. There could be provisions according to which by agreement between the IMF and IRF the allocation of units to a member on the occasion of a reserve increase could be deferred or withheld.

D. Value maintenance guarantee and interest

Units and counterclaims would enjoy a gold value maintenance guarantee and would bear interest.

E. Transferability

(i) Subject to the other provisions of E, members will reduce their holdings of units only if they are satisfied that this is to meet an overall balance of payments need. There might be an understanding as to the proportion of the decline in their reserves that countries will finance by reducing their holdings of units.

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(ii) Each member will undertake to accept transfers of units from the IRF or from other members in accordance with the rules established by the IRF, but a member will not be bound to accept transfers to the extent that its holdings of units would exceed, say, three times the cumulative amounts of units allocated to it since the beginning of the scheme or if the proportion of its reserves held in forms other than units would fall below a specified minimum. Units in excess of these limits can be transferred without regard to balance of payments need.

(iii) The IRF may establish additional rules to regulate the transfers of units. Any such rules would follow the broad principle that, subject to the limits under (ii), members’ holdings of units should converge broadly toward an equal percentage of their total reserves, except for members in payments difficulties. The rules would be so drafted as to give the transferor some discretion in the choice of transferee.

(iv) All transfers will be made at par against U.S. dollars, or against the currency of the transferee, if it is convertible, at a rate to be determined.

F. Institutional aspects

1. Establishment of the IRF as an affiliate of the IMF, as already indicated, will not require amendment of the IMF Articles. It will be necessary to have minimum participation requirements for the establishment of the IRF.

2. For decision making by the IRF, requirements of majorities and effectiveness similar to those referred to in G of Part I will be included in the instrument establishing the IRF.

G. Withdrawal and liquidation

It will be necessary to include in the instrument establishing the IRF special provisions regarding withdrawal and liquidation that will ensure equitable treatment for all concerned.

Additional note

In order to enhance the usefulness of the units, it may be thought desirable to amend the IMF Articles to permit the IMF to accept units at par in lieu of gold in repurchase and payment of interest and on quota increases. In order to avoid detriment to the IMF’s own liquidity if this were done, it would be necessary to require members of the IRF to purchase units from the IMF at its request in exchange for their own currencies at par. This amendment of the IMF Articles would not be necessary in order to establish the IRF, but could be carried out independently at any subsequent date.
INTRODUCTION

(a) Intended sequence of the arrangements described in Parts I and II respectively. The two schemes presented were intended to be considered as alternative approaches to the same objective of creating additional international reserves. The underlying idea was that, although the two schemes were similar in most of their effects, members might have a preference for one or the other on either institutional, technical, or psychological grounds. It was also suggested in the memorandum by the Managing Director that there might be some convenience in starting with the first scheme even if this might involve going over later, as more experience had been gained, to the second scheme if that scheme were considered to be technically preferable for the longer run. There is nothing of a legal or technical nature in the two schemes, however, that would prevent their being in operation at the same time, if that approach to the problem were felt to be the most desirable.

(b) Provision of conditional and unconditional liquidity. In the introduction to his proposal, the Managing Director pointed out that an expanding world economy would require increases in both conditional and unconditional liquidity "in an appropriate mixture." The mixture between conditional and unconditional liquidity should be a reflection of the agreed views among countries as to the extent to which their ability to meet payments deficits should be subject to some measure of international control, i.e., be met by conditional liquidity, and in what degree countries should have resources freely at their disposal to meet such imbalances, even though their policies would still be the subject of international scrutiny or international rules of good behavior as established by the international organizations of which they were members.1

If countries wanted to preserve approximately the present balance between conditional and unconditional liquidity, quotas in the Fund would have to increase over time in approximately the same proportion as countries' own reserves. On the most recent occasion when countries decided to increase conditional liquidity, in connection with the increase in the Fund's quotas, the increase agreed was not much larger proportionately than that shown by reserves in recent years. The latest Quinquennial Review provided for a basic increase of 25 per cent and a number of special increases, making for a total increase of approximately 30 per cent of quotas. This involves a rate of increase of Fund quotas of the order of some 5 per cent per year over the six-year period elapsed since the previous general quota increase. This rate compares to increases in countries' reserves of 3½ per cent a year in recent years, and of about 8 per cent a year for all countries except the United States.

1 This approach implies that reserves and credit facilities would both be available to meet fluctuations on current and long-term and short-term capital account. It is not believed that an "appropriate mixture" of conditional and unconditional liquidity could be determined on the basis of the nature of the imbalances to be financed or the relative rate of growth of such imbalances.
PART I
Special Reserve Facility in the IMF

A. Creation and distribution

The scheme provides for reserve creation in amounts broadly proportionate to Fund quotas. The purpose of this provision is to make this facility no more rigid than a unit scheme as to the amounts of additional reserves to be made available to individual countries. Since the amounts to be created for each country will be expressed in absolute amounts, any subsequent quota increases, whether special or general, will not automatically lead to increases in the special reserve facility. It will be up to the Fund at that time to decide whether or not, and in what amount, quota increases should be accompanied by increases in the special facility.

B. Access to facility by members making conditional use

Under the new facility members acquire conditional or unconditional liquidity in the Fund depending on their position in the Fund. This "self-qualifying" principle is a normal feature of the Fund which for instance also applies when countries make gold payments on quota increases: countries that are at that time using the Fund in the credit tranches do not receive an addition to their gold tranche facilities, but an increase of their conditional access to the Fund.

It would have been possible to avoid this "self-qualifying" feature and to give all members an additional drawing right in the Fund of an unconditional character by making the new facility fully "floating." However, it was felt that the feature as proposed recommends itself in that it makes unconditional reserves in the first instance available only to countries that are not at that time meeting payments problems for which they have had recourse to the Fund's conditional liquidity, and, more generally, only to those countries which, in the light of their actual use of the Fund, can with good probability be expected to add to the average level of their reserves over time.²

C. "Floating" character of facility

Apart from the qualification mentioned under B, the new facility will be fully floating in the sense that members receiving it will be free, after they have used the gold tranche, to use it, in whole or in part, before or after they use any part of their conditional facilities.

If a member was using the Fund's resources in the credit tranches at the time of the first distribution of the special reserve facility, reductions in the Fund's holdings of its currency below an amount equivalent to its quota plus its allocation of this facility would begin to give the member this facility pro tanto. The member would thus gradually come into the same position as countries that had received the facility

² There is a strong correlation between countries' ability to acquire and hold substantial owned reserves and their ability to avoid use of the Fund, or to repurchase after a short period of use. The following table compares reserves as a percentage of imports for all Fund members for which adequate data were available at each year end, 1959 through 1964, with data of the same countries' simultaneous position in the Fund:

<table>
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<th>Fund Holdings of Currency as Per Cent of Quota</th>
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<td></td>
<td>Less Than 50%</td>
</tr>
<tr>
<td>Over 100 per cent</td>
<td>74</td>
</tr>
<tr>
<td>100 per cent or less</td>
<td>26</td>
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FUND'S PLANS FOR RESERVE CREATION

at the time of distribution. In other words, the member will in due course have the full special facility in addition to all of its established conditional and unconditional drawing privileges in the Fund.

For example, a country with a quota of $100 million and Fund holdings of its currency of $150 million would not receive the special facility of, say, $5 million at the time of the initial distribution. However, this country's established conditional drawing facilities would be increased so that the Fund's holdings of its currency could also rise to $205 million. As the country repurchased the Fund's holdings of its currency below $105 million, it would begin to acquire the special facility. For example, if it had repurchased the Fund's holdings down to $102 million, the country would have acquired the special facility for an amount of $3 million. Assuming that the member met the applicable policy criteria, it could then draw so as to increase the Fund's holdings to $202 million without using the facility or to $205 million with the use of the facility.

The process would work in a similar way on the occasion of subsequent distributions.

D. Provision of resources to Fund

Lines of credit equal for each member to its special reserve facility have been provided to safeguard the liquidity of the Fund. The equality of each member's facility and commitment is similar to that provided in the Fund's quota structure, where a member contributes an amount equal to its quota and can then draw, normally, an amount equal to 125 per cent of its quota. There are some differences from the quota structure:

(a) additional drawing rights under this scheme equal to 100 per cent of the line of credit and not 125 per cent as in the case of a quota increase;

(b) the additional drawing rights are (subject to B) unconditional, whereas under a quota increase they are at least four-fifths conditional; and

(c) the quota contribution includes 25 per cent in gold, whereas the line of credit is fully in currency.

The additional resources provided to the Fund through the lines of credit should be adequate to meet the additional drawing rights even without taking into account the Fund's other resources.

No suggestion is contained in the scheme as to the order in which the Fund would use currencies contributed under the quotas and those made available under the lines of credit. However, since the lines of credit provide loans under Article VII they could not be used unless the Fund needed to replenish holdings of a particular currency, and in practice this has not been done unless the Fund’s holdings were below 75 per cent of quota. Below the 75 per cent level it would make little difference in substance either to the Fund or to the member whose currency was used whether any amount was drawn from the Fund's ordinary resources or under the lines of credit. The only difference of any substance would be the interest payable on lines of credit, and even this difference would disappear if the Fund decided as a matter of policy to distribute preferential dividends under Article XII, Section 6 at a rate equal to the rate of interest paid under the lines of credit.

E. Transferability

This paragraph merely states that the existing mechanism of transferability applying to the gold tranche will also apply to the new special reserve facility.

F. Repurchase

The proposal on repurchase is intended to enhance the reserve-like quality of the gold tranche and the special reserve facility by dispensing with the representation that members make as to repurchase under the Decision of February 13, 1952. The representation is, in effect, that the member will repurchase as the problem for which it drew is overcome and within three to five years after the purchase at the latest. Although the representation on a gold tranche drawing is a representation of intention and not an obligation in the legal sense, and although it is in the form that if the member has not repurchased after three years it understands that it “will be requested” by the Fund to agree on repurchase within five years, some have thought that this detracts from the reserve quality of the gold tranche.

The proposal to remove this drawback cannot change the legal position that a member must make no more than a temporary use of the Fund’s resources. The Fund’s present policy understanding is that this is a period not exceeding five years. The Fund will continue to expect a member to make a temporary use even if repurchases do not accrue under Article V, Section 7 and even if the member no longer makes an express representation as to repurchase. There is a post hoc legal remedy for a protracted use in the ineligibility provisions, but the Fund had been reluctant to use this procedure. There is a further safeguard under Article V, Section 8 (d), and Rule 1-4 (g) in that the Fund’s charges continue to ascend beyond 5 per cent if a member fails to agree, in the consultation referred to in those provisions, on repurchase within five years.4

A member making a gold tranche drawing or using the special reserve facility would have to make the representation of Article V, Section 3 (a) (i), which encompasses both the need to draw and consistency with the provisions of the Articles. Legally, the Fund retains the capacity to challenge, but experience indicates that it can safely continue to give the overwhelming benefit of any doubt to gold tranche requests and extend this treatment to the proposed facility.

G. Decision making

The ideas set forth as examples of the way in which decisions of the Executive Directors can become operative are designed to ensure that the Fund will have adequate liquidity if it establishes the special reserve facility. The model on which the ideas are based is the general quota increase, which became operative when the Board of Governors, by 80 per cent of the total voting power, so decided and when consents were received from individual members totaling the specified minimum participation. The suggestions that have been advanced [on March 3, 1966] † would ensure adequate provision of resources without the need to wait for parliamentary action in countries representing 80 per cent of voting power. Care has been taken in all aspects of the plan, including the participation clause, to avoid the necessity of amending the Articles.

It should be noted that the ideas advanced [on March 3, 1966] † do not contemplate the establishment of a group of members to control liquidity creation. The members that have been mentioned as necessary participants are those that are indicated by the needs of the Fund’s own liquidity. The Executive Directors would

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4 This safeguard does not, however, apply to the gold tranche.

† See above, pp. 3-7.
FUND'S PLANS FOR RESERVE CREATION

adopt a participation clause at the time of a decision to create liquidity, and they
would then determine what the clause should be in the light of contemporary circum-
stances and prospective developments. The decision would be operative only for the
one distribution, i.e., for a five-year period, and it could be formulated in another way
for any subsequent distribution in the light of new circumstances and developments.

Any member of the Fund will be able to participate in the facility if it wishes,
provided that it grants a line of credit, and no vote will be necessary. The special
voting provisions do not apply to any use of the facility.

The participation clause refers to members, and not voting by Executive Directors,
if for no other reason than the fact that each member granting a line of credit would
be entering into an agreement to lend pursuant to Article VII, Section 2.

H. Settlement and liquidation

These provisions will require to be spelled out in greater detail at a later stage.

PART II

Reserve Creation Through International Reserve Fund Units

A. Introduction

The constitutional ideas touched on here and in section F can be clarified as
follows. Three approaches can be contemplated. The first would apply to certain
plans for integrating a unit scheme into the existing Articles with a merger of all
assets for all of the resulting operations of the Fund; this would require extensive
amendment of the Articles. A second approach would be to create a separate account
for a unit scheme, with separate assets held by the Fund; this could be done with a
simpler amendment of the Articles, which might be substantially or even exclusively
the addition of a new article to the present charter. Neither of these approaches is
proposed. The preferred solution is an affiliate with a separate charter and legal
personality. This will not involve amendment of the Articles. The relationship
between the Fund and the affiliate can be regulated in part by the charter of the
affiliate and for the rest by an agreement under Article X. One feature of this
approach would be that the participation for bringing the affiliate into being could
be chosen at will and it need not be the same as is required for amendment under
Article XVII (60 per cent of the membership having 80 per cent of total voting power).

B. Membership

C. Reserve creation and distribution

The currencies that members will pay to the Fund in exchange for units will
be kept in the Fund in a dormant account as a guarantee fund to meet claims by
members on liquidation, withdrawal of individual members, or reduction in the
amount of units outstanding.

The second sentence of the second paragraph introduces the self-qualifying
principle of Part I, paragraph B into the unit scheme. The third sentence envisages
the fact that some kind of parallel action may be desirable in the IRF if a country is
ineligible in the IMF or otherwise unable to draw. It is not suggested that ineligibility
in the Fund would freeze the ability of a country to make use of the units it held at
that time. The sentence referred to is intended to indicate that there might be

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circumstances in which a member, whether eligible or ineligible in the IMF, should not, for good reasons, participate in a particular new distribution. What might be considered good reasons could be left to agreement between the IMF and IRF. If it should be agreed that there was good reason why a particular member should not participate in some distribution, its share could be canceled or simply withheld.

D. Value maintenance guarantee and interest

E. Transferability

In essence this section attempts to establish rules for the transferability of units that reflect the experience of the Fund in its policies on drawings and on currencies to be drawn. There are some differences, however, which will be noted below. The suggested provisions also attempt to meet certain of the objectives which others have tried to achieve by suggesting that units could only be transferred in conjunction with an equal transfer of gold, i.e., to assure:

(a) that countries would not transfer units merely to change the composition of their reserves, and

(b) that countries would have to meet any payments deficit by a reasonable combination of traditional reserves and units. It is the staff’s view that the introduction of the link of units to gold in use would have undesirable side effects, and that, while units-cum-gold might require less reliance on rules for transferability than the circulation of units by themselves, such rules would still be necessary.

In accordance with these general objectives subsection (i) stipulates that members can dispose of units only in connection with a balance of payments need and, in the second sentence, makes the suggestion that members should meet only a certain proportion (say, half) of any total decline in their reserves by reducing their holdings of units. There is no suggestion that either of these two provisions be subject to a previous check or approval by the IRF; if it were clearly established what were “the rules of the game” for the use of units, members would be expected to adhere to these rules but without prior approval procedures of the IRF.

In subsection (ii) 5 creditor limits of 3 times the amounts of units allocated to a member are suggested. This is higher than the implicit creditor limit in Section D of Part I, which comes to twice the amounts allocated. There are various reasons for this. The Fund by being able to use its resources, including resources borrowed under Article VII outside of the credit lines, could accept a somewhat narrower provision of liquidity for the new facility than would be applicable to the IRF, which would have to rely fully on the acceptance rules of its own. It may also be a fact that countries might be more willing to undertake a commitment to purchase units for their reserves than to extend lines of credit to the Fund, although there is no inherent economic difference between the two commitments. In order to induce members to accept units beyond the limits specified in this subsection, the balance of payments need for the subsequent sale of units accepted beyond these limits is waived in the last sentence of this section.

The Fund’s experience with its policies on the currencies to be drawn suggests that members not only want to be assured of some equitable limits as to the amounts of reserves they are to be obliged to acquire in this form but are also anxious to have certain agreed rules on how transfers of units are to be made among holders within these limits. Subsection (iii) gives certain suggestions in this respect. The particular

5 The words “from the IRF or” in line 1 of this subsection [p. 7] are to be deleted.
suggestion of broad proportionality to the total of other reserves (an arrangement which at present exists, subject to other criteria, with respect to reserve positions in the Fund) incidentally resembles in some respects the suggestion made in certain proposals that units be held in proportion to countries' gold holdings, without the complications of the latter.

Since, as suggested in the last sentence of (iii), countries would have some discretion (and perhaps in the long run a large amount of discretion) in the choice of the transferee, it will be necessary to provide for a price at which units are transferred that will not in itself become an important determining factor as to the choice of transferee. It would not, therefore, seem possible to have all transfers at par against the currency of the transferee. The suggestion has, therefore, been made that the transfer be made at par against one currency, the U.S. dollar. Where the transfer is made against another convertible currency the exchange could be made against the currency of the transferee, but this would then have to be at an exchange rate reflecting the cross rate between that currency and the U.S. dollar.

F. Institutional aspects

G. Withdrawal and liquidation
Illustrative Schemes

In February 1967 the Managing Director circulated to the Executive Board the outlines of two illustrative schemes for creation of reserves: an Outline of an Illustrative Reserve Unit Scheme and an Outline of an Illustrative Scheme for a Special Reserve Facility Based on Drawing Rights in the Fund. These appear below as (A) and (B), respectively.

(A) Outline of an Illustrative Reserve Unit Scheme

(Feb. 23, 1967)

Comment

(i) There is set forth below the outline of an illustrative scheme based on reserve units.

(ii) The outline of the present scheme is meant to demonstrate how the main features of a reserve unit scheme could be fitted together. On certain aspects, such as opting out, the adjustment of votes for creditors, and compulsory repurchase from the Fund, consensus has not yet developed, and on other aspects there has been little or no discussion so far. Although it is recognized that many variants are possible, a choice has been made on all these topics in order to show how a scheme could look with provisions on these topics.

(iii) Since the outline is based on past studies in the Fund and in the Group of Deputies, it is not accompanied by any elaborate discussion. However, a few explanatory notes have been appended, mainly in order to draw attention to certain issues.

(iv) The outline does not include all of the provisions that would have to be included in the Articles of an International Reserve Organization. Some of the topics included in the outline could be made part of the By-Laws or Rules adopted by the Organization. Moreover, the contents of the outline have not been drafted as legal provisions or elaborated with the refinement of detail which the Articles would have to take into account. In this connection, it should be noted that there are a number of terms that would have to be defined with precision in the Articles, but these definitions have not been attempted in the outline.

(v) Any illustrative scheme inevitably includes certain magnitudes, such as quotas and percentages. The magnitudes included in this paper are to be considered illustrative.

(vi) Finally, the illustrative scheme contained in the outline envisages certain consequential amendments of the Articles of the Fund. The outline does not deal with the amendment of the Fund's Articles.

Introduction *

The purposes of the scheme, which will include the creation of an International Reserve Organization as an affiliate of the Fund, will be set forth in the preamble.

* Paragraphs marked with an asterisk are referred to in the attached Explanatory Notes.
of the Articles of the Organization. Any special considerations applicable to the first decision to create reserves could be included in the preamble or elsewhere, for example in a report accompanying the final act adopting the Articles.

I. Membership

1. Membership in the Organization will be confined to members of the Fund and will be available to them as of right if they accept membership by a specified date. Admission of members of the Fund after that date will be on terms and conditions prescribed by the Organization.

2. A member may withdraw from the Organization at any time with immediate effect.

3. Any member which ceases to be a member of the Fund will immediately cease to be a member of the Organization.

II. Quotas

Each member in the Organization will have a quota equal at all times to its quota in the Fund.

III. Distribution of Reserve Units and Opting Out

1. The Organization will decide at intervals on the amount of reserves to be distributed for a basic period ahead. The basic period will normally be five years, but the Organization may decide on different basic periods.

2. The amount of reserve units to be distributed will be expressed as a percentage of quotas, uniform for all members. Reserve units will be distributed each quarter on the basis of each member's quota at the time of distribution.

3. If the Organization finds that unexpected developments indicate that a change in the rate of distribution of reserve units during a basic period is desirable, the Organization may decide to increase or decrease the rate of distribution or to discontinue such distribution for the remainder of that basic period.

4. Decisions on the amount and timing of reserve units to be distributed will be taken by the Board of Governors. These decisions will be based on proposals made by the Managing Director after such consultations as will enable him to ascertain that there is broad support among members for the distribution of a particular amount of reserve units. The Managing Director's proposals shall be considered by the Executive Directors and shall be transmitted to the Board of Governors with a report of the Executive Directors.

5. Decisions by the Board of Governors on the amount and timing of reserve units to be distributed will be taken by a four-fifths majority of the total voting power, except that decisions to decrease the amount of reserve units to be distributed or to discontinue distribution for the remainder of a basic period will be taken by an ordinary majority of the total voting power.

6. In taking their first decision to distribute reserve units after entry into force of the Articles, the Board of Governors will take into account the special considerations referred to in the Introduction in this outline.

7. The Organization will distribute reserve units by crediting the account of each member quarterly with the number of reserve units determined in accordance with III.2 or under III.10, except in the cases covered by III.8 and 9.
8. A member must participate in distributions until the total amount of reserve units distributed to it are equal to half its initial quota in the Organization. Thereafter, a member which did not vote in favor of a decision to distribute reserve units in a basic period may elect, prior to the first distribution in that basic period, not to participate in the distributions for that period by giving notice to the Organization. Any member that has opted out with respect to a basic period may give notice to the Organization that it wishes to participate in distribution subsequent to its notice during the period.

9. If a member is ineligible to use the Fund's resources, its share in the distribution will be credited not to that member's regular account but to a suspense account in its name pending elimination of the ineligibility. A similar procedure will be followed if the Organization declares a member "ineligible" because it has failed to fulfill any of its obligations to the Organization.

10. The Organization may decide to distribute reserve units in connection with the payment of "gold" subscriptions on the occasion of general quota increases in the Fund. The Organization will decide whether or not to charge such distributions against the quarterly distributions.

IV. Recall of Reserve Units

1. The Organization may decide, at any time, to recall, at such dates as it may specify, part or all of the reserve units outstanding.

2. The amount to be recalled will be expressed as a percentage of net cumulative distributions, uniform for all members.

3. Decisions on the amount and timing of reserve units to be recalled will be taken by the Board of Governors. These decisions will be based on proposals made by the Managing Director after such consultations as will enable him to ascertain that there is broad support among members for the recall of a particular amount of reserve units. The Managing Director's proposals shall be considered by the Executive Directors and shall be transmitted to the Board of Governors with a report of the Executive Directors.

4. Decisions by the Board of Governors on the amount of reserve units to be recalled will be taken by a four-fifths majority of the total voting power, except that decisions to decrease the amount of reserve units to be recalled will be taken by an ordinary majority of the total voting power.

5. The Organization will debit the account of each member with the number of reserve units recalled.

V. Repayment of Fund Drawings in the Credit Tranches

If the Fund's holdings of a member's currency exceed its quota at the time of any distribution, the units received by the member in that distribution, or an equivalent amount in other reserve assets acceptable to the Fund, will be used at once in repurchase of the Fund's holdings of the member's currency, but such repurchase will not be allowed to reduce the Fund's holdings below the quota level.

VI. Holding, Use, and Acceptance of Reserve Units

1. Authorized holders. Reserve units will be held by the fiscal agencies of members, and the following provisions of VI deal primarily with holding, use, and acceptance by members. These provisions would have to be modified to reflect such provisions as may be agreed for the Fund. If it is decided to authorize the fiscal
agencies of nonmembers and other international institutions to hold reserve units, further modifications would be required.

2. Accounts. Reserve units will be held only in accounts opened by the Organization for each member.

3. (a) Members will be entitled to transfer reserve units to other members subject to the following provisions:

   (i) * Members will be expected not to make transfers of reserve units if, over a period of reasonable length and taking into account the effect of such transfers, their other reserves would increase. The Organization may make representations to any member that fails to comply with this expectation.

   (ii) * The Organization may make such rules and recommendations on the direction of transfers as it believes necessary for the effective and equitable operation of the system. Members will be obliged to follow these rules and to give due consideration to any recommendations.

   (b) * A member will be obliged to accept reserve units until it holds reserve units equal to three times the net cumulative distribution to it or until its holdings of reserve units are equal to such percentage of its gross reserves as may be specified from time to time by the Organization, whichever is less. A member may accept or enter into an agreement with the Organization to accept reserve units beyond these limits on terms and conditions not inconsistent with the provisions of the scheme.

   (c) Subject to VI.3 (a) (i), a member will be entitled to use reserve units to redeem balances of its currency presented to it for redemption without reference to the acceptance limits of the member requesting the redemption.

4. Currencies and rate of exchange

   (a) A member transferring reserve units will be entitled to receive, at its option, the currency of the transferee or the transferee's main reserve currency.

   (b) Transfers between members will be at par against U.S. dollars or, if against the currency of any other member, at the corresponding rate between that currency and the U.S. dollar. The Organization will certify this rate upon request. Transfers of reserve units between a member and the Fund will be at the par value of the member's currency or at the rate at which the Fund holds that currency.

5. The Organization might establish rules under which a member could pledge reserve units to another member or enter into some other form of security arrangement involving the units. Members entering into these arrangements would inform the Organization promptly.

VII. Interest

1. A member will pay interest on the amount by which, on the average, the net cumulative distribution of reserve units to it has exceeded its holdings of reserve units. The Organization will pay interest to each holder of reserve units on the amount by which, on the average, its holdings have exceeded its net cumulative distribution of reserve units.

2. The rate of interest paid and received by members will be the same and will be uniform for all members. The initial rate of interest will be stated in the Articles. The Organization may increase or decrease the rate from time to time.

3. The Organization may decide to pay a higher rate of interest to a member holding reserve units in excess of the prescribed limits under an agreement entered into under VI.3 (b). The cost of such additional interest paid to any member will be
assessed against all other members in proportion to the net cumulative distributions of reserve units to them.

4. Interest will be credited and debited by the Organization in reserve units.

VIII. General Provisions

1. Members will undertake to collaborate with the Organization to promote the purposes of the Organization and in particular to facilitate the proper functioning of the international monetary system and the effective use of reserve units within that system.

2. Reserve units will constitute obligations of the Organization to the holders and each member will be obligated to the Organization in the amount of the net cumulative distribution of reserve units to it.

3.* The value of reserve units will be equal to 0.388 671 gram of fine gold per unit. The quotas of members, the obligations of members to the Organization, and the obligations of the Organization will be expressed in terms of reserve units.

IX. Structure and Voting

1. The Organization will be a separate legal entity. The structure of the Organization will be similar to that of the Fund but with its own Board of Governors, Executive Directors, Managing Director, and staff.

2. All powers of the Organization will be vested in the Board of Governors, which will be able to delegate to the Executive Directors all except reserved powers. These reserved powers will include, in particular, decisions on the amounts and timing of the distribution or recall of reserve units.

3. The Managing Director of the Fund will be ex officio Managing Director of the Organization. The staff of the Fund, as needed, will serve as staff of the Organization.

4.* The Organization may assess members in order to meet part or all of the administrative expenses of the Organization, or such expenses may be covered by the Fund. The Organization and the Fund will enter into an agreement for this and other necessary purposes.

5.* Each member will have

(i) 250 votes plus

(ii) either

(a) one additional vote for each part of its quota equivalent to 100,000 reserve units,

or

(b) one additional vote for each 50,000 reserve units of its net cumulative distribution, whichever is greater;

plus

(iii) one additional vote for each 400,000 reserve units by which on the average over the preceding five years its holdings of reserve units exceeded its net cumulative distribution.

6. Each Governor will cast the votes of the member appointing him.

7. Each Executive Director will cast the votes of the member or members appointing or electing him as a bloc.
8. Except as will be otherwise provided in the Articles, all decisions of the Organization will be taken by a majority of the votes cast.

X. Settlement with a Withdrawing Member

1. When a member withdraws, the member's claim against the Organization will be offset against the member's obligation to the Organization. The Organization and the withdrawing member may agree on the settlement of any remaining balance. In the absence of such an agreement, X.2, 3 and 4 shall apply.

2. If the remaining balance is in favor of the withdrawing member, it will be able to elect either to hold and use the remaining balance as an authorized nonmember on terms and conditions established by the Organization in accordance with VI.1, or it may request the Organization to redeem the balance in equal quarterly installments over a five-year period, the first redemption to be made six months after the date of withdrawal. Redemption will take place in gold or currencies convertible in fact, as determined by the Organization. The necessary amounts will be made available to the Organization by all other members in proportion to the net cumulative distributions to them at the time of each quarterly redemption in exchange for equivalent amounts of the withdrawing member's reserve units.

3. If the remaining balance is in favor of the Organization, the withdrawing member will redeem the balance in equal quarterly installments over a five-year period, the first redemption to be made six months after the date of withdrawal, in gold or currencies convertible in fact and acceptable to the Organization. The Organization will apply the amounts received to redeem reserve units held by members in proportion to the amount by which their holdings exceed the net cumulative distributions to them at the time of each redemption.

4. Until the settlement under X.2 or 3 is completed, interest will be paid at the rates of the Organization in effect at the time of each redemption payment.

5. In the event of liquidation of the Organization within six months after the date of a member's withdrawal, the provisions of XI will apply to the settlement of the account with that member.

XI.* Settlement on Liquidation

1. On liquidation the obligations under VIII.2 will be discharged in accordance with the system that follows. The Organization will continue in existence for the purpose of administering this settlement.

2. Each member will discharge its obligation to the Organization, which will be equal to the net cumulative distribution of reserve units to it, in twenty quarterly payments. The Organization will specify the means of payment.

3. The Organization will redeem reserve units held by members in the following manner:
   
   (i) Members will be ranked according to the proportion of reserve units held by each to its net cumulative distribution.

   (ii) The Organization will first redeem reserve units from the member with the highest proportion until this proportion is reduced to the proportion of the next highest member; it will then redeem reserve units held by these two members until their proportions are reduced to the proportion of the next highest member, and so on until the amount available for redemption has been exhausted.

   (iii) Redemption payments will be made from the payments made by members in discharge of their obligations to the Organization.
Illustrative Schemes

XII. Entry into Force

1. The Agreement establishing the Organization will enter into force when it has been adhered to by members of the Fund having 85 per cent of the total of the quotas of the Fund.

2. If the attainment of the 85 per cent participation is delayed beyond a specified date, the Agreement will enter into force as soon as members of the Fund that have adhered to the Agreement and have at least two thirds of the total of Fund quotas inform the Managing Director of the Fund that they are prepared to have the Agreement enter into force among themselves.

EXPLANATORY NOTES

III.2

In deciding how to express the amounts of reserves to be created there is a choice between a round amount in terms of millions of reserve units, to be distributed among members of the Organization in proportion to their quotas, and a percentage of quotas. Such a percentage would be selected in the light of the amount of reserve creation which it would produce. For example, with total quotas at approximately $20 billion, every 1/4 of 1 per cent per quarter would represent an annual amount of reserve creation of approximately $200 million. The choice made in the outline is in favor of a percentage of quotas, which would give members an amount of reserve units each quarter that would not be fractionally influenced by changes in the quotas of other members or entry into the Fund of new members. However, on this basis, a substantial increase in the membership of the Fund would lead to an increase in the total amount of reserve creation, but this might be considered appropriate on the occasion of an enlargement of the area of operation of the Fund. In addition, a large increase in the amount of reserve creation could occur as the result of a general increase in Fund quotas which did not coincide with the beginning of a basic period of the Organization. It would be necessary for the Organization to decide whether the consequential increase in the amount of distributions would be desirable or whether this should be avoided by a reduction in the percentage of distribution.

III.7

It will be noted that it is proposed that members’ accounts with the Organization be credited in reserve units without corresponding transfers of members’ currencies. It has often been assumed that reserve creation would be accompanied by transfer to the Organization by each member of an amount of its currency equivalent to the value of reserve units credited to its account. Since such currency holdings of the Organization would be dormant, they clearly serve no purpose except in connection with withdrawal or liquidation; at other times they would have no more than an accounting significance. Provided that appropriate arrangements are made in connection with withdrawal and liquidation, it would be possible to dispense altogether with the requirement that currencies should be transferred to the Organization. This procedure could have the advantage of simplifying the legislation in member countries with respect to the acceptance of the obligations of the Agreement. In any event, it would be a simple matter to adjust the scheme as outlined if it were decided, after all, to require the transfer of currency to or by the Organization on the occasion of the distribution or recall of reserve units.

III.9

The question will also have to be considered whether reserve units should be placed in a suspense account and not distributed to a member when its access to the Fund’s resources has been limited under Article V, Section 5 of the Fund Agreement or Rule K-2 of the Rules and Regulations.

III.10

The distribution mentioned in III.10 goes beyond the other provisions of III under which the Organization can make only regular distributions of reserve units to members in propor-
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tion to quotas. It is possible to envisage other uses for reserve units even beyond those covered by III.10 and the other provisions of III. It has been suggested, for example, that reserve units might be made available to reserve centers on terms and conditions to offset certain declines in the amounts of reserve currencies outstanding. To give effect to such a proposal, it would be necessary to incorporate special provisions in the Articles of the Organization.

IV.5

Rules would have to be adopted to deal with the case in which a member did not hold enough reserve units to meet a recall.

V.

Whether or not a provision such as V were adopted, it would be desirable to amend the Fund's Articles so that reserve units would be part of a member's monetary reserves for the purpose of Article V, Section 7 (b), and Schedule B of the Fund's Articles, with resulting repurchase obligations.

If the principle of compulsory repurchase is adopted in accordance with V, the reference to the quota level of Fund holdings could be taken to exclude holdings resulting from drawings under the compensatory financing facility.

VI.3 (a) (i)

This paragraph reflects the basic principle which is often expressed in the form that members should not use reserve units solely in order "to change the composition of their reserves." This expression lacks precision because any use of reserve units changes the composition of reserves at that moment and also because the word "composition" could easily be misunderstood to mean "percentage composition." Therefore, VI.3 (a) (i) relates to the development of reserves as a whole over a reasonable period. It would be necessary to consider whether and to what extent this provision should apply to transfers to the Fund in discharge of obligations.

VI.3 (a) (ii)

The rules and recommendations would leave as much freedom to members in their choice of transferees as would be compatible with the purposes of the scheme and of guidance.

VI.3 (b)

The second sentence of this provision can be compared with Article VII, Section 2 (i) of the Articles of the Fund in that it makes possible further financial support for the system.

VIII.3

This provides for an absolute gold guarantee with no exception such as is theoretically possible under Article IV, Section 8 (d) of the Fund Agreement. If there were a waiver under that provision, the obligations on liquidation of the Organization would be more onerous. Again, in these circumstances the quotas in the Fund and the Organization would diverge.

IX.4

The administrative expenses of the Organization can be expected to be very small compared to those of the Fund and they might therefore be absorbed by the Fund.

The Fund as the holder of reserve units will receive interest from the Organization on these units. It does not follow, however, that the Fund will receive a net financial benefit to the extent of this interest. In order to determine whether and to what extent it would benefit in this way, it would be necessary to take into account a number of factors connected with the transaction in which it receives the units.
Illustrative Schemes

IX.5

There is, of course, a very wide range of possibilities for voting. This section follows closely the Fund voting system, although with certain important modifications. The basic votes and the additional votes related to a member’s quota are the same as in the Fund. On the basis of certain assumptions, including a Fund with total quotas equal to $20 billion, there will be a transition, for the purpose of computing votes under IX.5 as proposed, from quotas to net cumulative distributions after an aggregate distribution of 10 billion units. The suggestion of a transition from one basis for votes to the other is motivated by the opting out provisions, but relative voting power under the two systems could diverge for reasons other than opting out, such as special quota increases which would raise members’ participation in future but not in past distributions, and the entry into the scheme of new members.

If there is opting out, an alternative to the transition from one system to another might be a gradual transition by a system of IX.5 (ii) (a) plus (instead of or) IX.5 (ii) (b). This latter version could also be described as giving countries voting power in the Organization equal to their voting power in the Fund plus additional votes for their net cumulative distribution and their creditor position in the Organization. The additional votes suggested in IX.5 (iii) are of the same magnitude as the additional votes in the Fund, i.e., in a one to four ratio to the number of votes derived from quota. However, in contrast to the Fund, there is no provision for a reduction of votes for countries in a debtor position, nor is there a maximum for the addition to votes. It has been suggested that creditor positions in the Fund might also be taken into account in connection with voting power in the initial distribution of the Organization (when no creditor positions under the scheme had yet arisen).

XI.

The problem that requires the greatest consideration in devising a system of liquidation is what distribution to make of any default during the liquidation. The system described in the outline distributes defaults among all members in proportion to the net cumulative distribution of reserve units to each member. To the extent that any of the redemptions of reserve units could not be made because of continuing defaults, each member will hold a number of unredeemed reserve units. The proportion of these to the net cumulative distribution to each member will be uniform.

Other systems could be devised under which defaults would be distributed among members in proportion to their creditor positions or their holdings of reserve units at the time of liquidation.

The system in the outline, it should be noted, is not the same as the system of liquidation under Schedule E of the Fund Agreement. After certain initial payments, the distribution of the remaining Fund holdings of currency among members and the setoff of bilateral claims, each member in a creditor position in the Fund will have a claim on those members in a lesser creditor position and against all those in a debtor position. Only those members in a greater creditor position will have a claim on it. A member in a debtor position will have claims only on those in a greater debtor position and will have claims on it by all those in a creditor position or a lesser debtor position.

XII.2

It will be recalled that the participation clause in the Fourth Quinquennial Review of Quotas called for consents by members having two thirds of the total of quotas.
FUND'S PLANS FOR RESERVE CREATION

(B) Outline of an Illustrative Scheme for a Special Reserve Facility Based on Drawing Rights in the Fund

(February 28, 1967)

Comment

1. There is set forth below the outline of an illustrative scheme for a special reserve facility in the Fund in the form of drawing rights.

2. The general comments made to preface the outline of the illustrative reserve unit scheme are equally applicable to this outline.

3. The Managing Director’s Plan I of March 1966 attempted to formulate a drawing rights scheme without amendment of the Articles. The present outline sets forth a drawing rights scheme which would be comparable in most respects to the illustrative reserve unit scheme, and this would entail amendments of the Articles.

4. Plan I referred to above involved an extension into the credit tranches of the quasi-automatic drawing rights which members now enjoy in the gold tranche. A member would have been able to exercise those rights after it had used its gold tranche and at whatever point it chose while it was in the credit tranches. In the present outline special drawing rights would be exercisable by a member at whatever point it chose in the gold and credit tranches. In connection with the use of the Fund’s resources, the special facility could thus be thought of as having a completely floating character or as constituting something in the nature of a separate account within the Fund. An approach of this kind would require the modification of a number of provisions of the Articles.

5. With the present approach, there is a choice between giving the new facility the characteristics of the super gold tranche (Fund holdings not in excess of 75 per cent of quota) or the basic gold tranche (Fund holdings above 75 per cent but below 100 per cent of quota). In this outline some of the characteristics of each as they stand at present have been adopted. This is not intended to preclude any changes in these characteristics that might be adopted as the result of further study of the gold tranche.

6. In the preparation of this outline, a major preoccupation has been to equalize as far as possible the characteristics of the different reserve assets in the Fund: the basic gold tranche and super gold tranche, the special reserve drawing facility described herein, loan claims on the Fund of the existing type, and the loan claims that will arise as the lines of credit under this scheme are drawn upon. One of the ways in which it is possible to equalize the reserve quality of all these assets is by pooling all the resources of the Fund.

7. The form of amendment could be the addition of a new Article to the Fund Agreement or the amendment of various provisions throughout the Articles.

Introduction *

The purposes of the scheme will be set forth in an introductory section of an amendment. The guiding principles for the activation of this type of reserve creation could be included in that introductory section or in a report of the Board of Governors explaining the amendment.

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* Paragraphs marked with an asterisk are referred to in the attached Explanatory Notes.
I. Provision of Drawing Rights

1. Participation. The Fund will provide special drawing rights in accordance with this outline to those members that have undertaken to lend to the Fund pursuant to V.

2. Basic periods and amounts. Decisions to provide special drawing rights will prescribe the amount to be made available over a basic period ahead. The basic period will normally be five years but the Fund may decide on different basic periods. The amount to be provided will be expressed as a percentage of quota at the time the special drawing rights are made available, uniform for all members. Special drawing rights will be made available each quarter during the basic period.

3. Change in amounts. If the Fund finds that unexpected developments indicate that a change is desirable in the rate at which further special drawing rights are to be made available over a basic period, the Fund may decide to increase or decrease the rate or to discontinue the provision of further special drawing rights for the remainder of that basic period.

4. Procedure for decisions. Decisions on the amount and timing of special drawing rights to be provided will be taken by the Board of Governors. These decisions will be based on proposals made by the Managing Director after such consultations as will enable him to ascertain that there is broad support among members for the provision of a particular amount of special drawing rights. The Managing Director's proposals shall be considered by the Executive Directors and shall be transmitted to the Board of Governors with a report of the Executive Directors.

5. Voting majority. By amendment, decisions of the Board of Governors on the amount and timing of special drawing rights to be provided will be taken by a four-fifths majority of the total voting power, except that decisions to decrease the amount of special drawing rights to be provided or to discontinue the provision of such rights for the remainder of a basic period will be taken by an ordinary majority of the total voting power.

6. First decision. In taking their first decision to provide special drawing rights after the amendment enters into force, the Board of Governors will take into account the special considerations referred to in the Introduction in this outline.

7. Opting out. A member which did not vote in favor of the decision to provide special drawing rights for any basic period may elect not to receive such rights by giving notice to the Fund before they are first made available in that basic period. Any member that has opted out with respect to a basic period may give notice to the Fund that it wishes to receive the special drawing rights to be made available subsequent to that notice during the period.

8. Ineligibility. It will be necessary to decide whether a member which is ineligible to use the Fund's resources should also be ineligible to use special drawing rights, and also whether during such ineligibility it should be able to obtain repayment of any loan made pursuant to V.

II. Cancellation of Special Drawing Rights

1. Cancellation. The Fund may decide, at any time, to cancel, at such dates as it may specify, part or all of the special drawing rights that have been provided.

2. Amount of cancellation. The amount of special drawing rights to be canceled will be expressed as a percentage, uniform for all members, of the net amount of special drawing rights that have been provided to each member.

3. Procedure for decision. Decisions on the amount and timing of the cancellation of special drawing rights will be taken by the Board of Governors. These decisions
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will be based on proposals made by the Managing Director after such consultations as will enable him to ascertain that there is broad support among members for the recall of a particular amount of special drawing rights. The Managing Director's proposals shall be considered by the Executive Directors and shall be transmitted to the Board of Governors with a report of the Executive Directors.

4. Voting majority. By amendment of the Articles, decisions by the Board of Governors on the amount by which special drawing rights will be canceled will be taken by a four-fifths majority of the total voting power, except that decisions to decrease the amount of special drawing rights to be canceled will be taken by an ordinary majority of the total voting power.

III. Character and Use of Special Facility

1. Floating character of facility. A member will be free to decide whether to use special drawing rights before or after using any part of its other facilities. The Fund's holdings of currency resulting from the use of special drawing rights will be excluded from the Fund's holdings of that currency for the purposes of the Fund's tranche policies and for the purposes of such Articles as Article V, Section 3 (a) (iii) (limits on drawing rights), Article V, Section 5 (r) (charges on Fund holdings), and Article XII, Section 6 (b) (distribution of net income).

2.* Repayment of Fund drawings in credit tranches. Whenever special drawing rights are provided, members which at that time are already making a conditional use of the Fund's resources will be deemed to have used the newly provided special drawing rights immediately and to the extent necessary for the reconstitution of their conditional facilities.

3.* Principle of use. Members will be expected not to use their special drawing rights if, over a period of reasonable length and taking into account the effect of such use, their other reserves would increase. The Fund may make representations to any member that fails to observe this expectation.

4. Currencies to be drawn. The choice of currencies for drawings under the special facility will be in accordance with whatever may be the Fund's policy on currencies to be drawn at the time.

5.* Reconstitution. The provisions of the Articles and policies with respect to repurchase in the basic gold tranche will apply to repurchase of drawings under the special facility. Reductions in the Fund's holdings of a member's currency (as a result of repurchases, sales, etc.) will be allocated according to rules to be formulated which will follow the general principle that credit tranche drawing rights and basic gold tranche drawing rights are restored before restoration of the special facility.

IV. Charges and Interest

1.* Payable by members. A member will pay charges on the Fund's holdings of its currency resulting from the use of special drawing rights at such rate as the Fund may determine from time to time.

2.* Payable to members. The Fund will pay interest to members on amounts lent to the Fund pursuant to V at such rate as the Fund may determine from time to time.

V. Obligation to Lend

1.* Obligation. A member will have the obligation to lend to the Fund on demand a net cumulative amount of currency equal to twice the amount of special drawing rights provided to it, but no member will be called on to lend more than a percentage
of its gross reserves to be specified from time to time by the Fund. A member will be obliged to lend, at the option of the Fund, the member's own currency or its main reserve currency, provided that the consent of the currency issuer will be necessary if the Fund wishes to borrow the latter. The terms and conditions for loans will be consistent with this outline and will be laid down in advance.

2. Calls. The Fund may call on members to lend under this scheme for any of its operations.

3. Repayment on the initiative of the Fund
   (i) The Fund, at its discretion, may repay amounts lent to it, taking into account its present and prospective need for currencies.
   (ii) If, when the Fund reduces the amount of special drawing rights already provided, its borrowings from a member exceed twice the special drawing rights retained by the member after the reduction, the Fund will make arrangements to repay the excess to the member.
   (iii) Repayments under this V.3 may be made in the currency of the lender, in gold, or in currencies convertible in fact, as determined by the Fund.

4.* Repayment on the request of a member. A member which has lent to the Fund under this scheme may request the repayment of part or all of its loan claim if, over a period of reasonable length and taking into account the effect of such repayment, its other reserves would not increase. Repayments under this V.4 may be made in gold or in currencies convertible in fact, as determined by the Fund.

5.* Gold guarantee. Loans to the Fund could be given an absolute gold value guarantee or they could be given a guarantee under Article IV, Section 8.

VI.* Adjustment of Voting Power

The Articles already provide for adjustments in votes as the result of net purchases and net sales of currency, whether that currency is subscribed to or borrowed by the Fund. However, there are certain limits on these adjustments, and adjusted voting applies only to two types of decision. A number of modifications in the relevant Article could be made in connection with the scheme.

VII. Withdrawal from the Fund

Upon withdrawal from the Fund, any indebtedness of the Fund arising from loans obtained under V will be treated as amounts due from the Fund for the purposes of Article XV, Section 3, and Schedule D of the Fund Agreement.

VIII. Liquidation of the Fund

If the facility is liquidated as part of the liquidation of the Fund, any indebtedness of the Fund arising from loans obtained under V will be treated as liabilities of the Fund, and for the purposes of Schedule E of the Articles it will be stipulated that the loans are repayable in the currency of the member to which the Fund is indebted.

IX. Entry into Force

The entry into force provision for the scheme will be the procedure by which the amendment establishing the reserve facility will become effective under Article XVII of the Articles. The procedure for amending the Articles is to communicate such a proposal to the Chairman of the Board of Governors who must bring it before the Board. After approval of the proposal by the Board of Governors, which requires
majority of the votes cast, the Fund asks all members whether they accept the pro-
posed amendment. The proposed amendment enters into force for all members three
months or such shorter period as may be decided after the date the Fund formally
communicates to all members that three fifths of the members having four fifths of
the total voting power have accepted the amendment.

Explanatory Notes

1.4

This power would be added to the list of reserved powers in Article XII, Section 2 (b).

1.7

In contrast to the reserve unit scheme, where opting out would not be permitted with
respect to a certain initial amount of reserve unit distribution, the drawing rights scheme
permits opting out from the beginning. This would appear to be unavoidable in a scheme
which is built into the financial structure of the Fund on the basis of pooled resources. Access
to the facility is predicated on the extension of a line of credit, and without opting out, this
would face members with a choice between compulsory lending and withdrawal from the
Fund. Compulsory loans would be possible if membership in the scheme were optional.
However, optional membership would be difficult to reconcile with pooled resources and the
desirability of permitting all members to vote on all decisions relating to the use of the
Fund's resources.

1.8

The question will have to be considered whether special drawing rights could be used
by a member when its access to the Fund's resources has been limited under Article V,
Section 5 of the Articles or under Rule K-2 of the Rules and Regulations.

II.1

On reduction, the question would arise of repurchase or reclassification of any out-
standing use of the special drawing right in excess of the amount remaining after such
reduction or the setoff of this amount against special drawing rights to be provided in the
future.

III.2

The question would arise whether any drawings under the compensatory financing
facility would be deemed to be repurchased under this rule.

III.3

This formulation is the same as in VI.3 (a) (i) of the reserve unit scheme. A member's
representation that it had a need to use its special facility, understood in this way, would
receive the overwhelming benefit of any doubt or such other treatment as might be accorded
to representations connected with the use of other reserve facilities in the Fund.

III.5

With this formulation, members would be expected to make short-term use of the
special facility. This would continue to be true even if representations as to repurchase
under the Decision of February 13, 1952† were eliminated for the special facility and for
the basic gold tranche. However, if super gold tranche treatment were given to holdings
resulting from the use of the special drawing rights, these holdings would be reduced only
by the drawings of other members.

† E.B. Decision No. 102-(52/11), Selected Decisions of the International Monetary Fund
and Selected Documents, Seventh Issue, pp. 37-40, or International Monetary Fund, 1945-
It will be necessary to decide whether, in addition, members should pay a service charge on using their special drawing rights.

It will be necessary to decide whether members should receive transfer charges for such loans. On the analogy of the GAB, such charges would be paid, but not on the analogy of the illustrative reserve unit scheme.

It will be noted that the amount of the loan commitment is twice the amount of special drawing rights, in contrast to the principle of equality in the Managing Director's Plan I. V.1 is in conformity with the limits on acceptance obligations of the illustrative reserve unit scheme.

A member's loan of its main reserve currency is equivalent to the loan of its own currency and the conversion of it. The currency issuer's position in the Fund will not be affected by loans of its currency by other members if the currency is used by the Fund at once. It is possible, therefore, that the currency issuer might give some form of general consent.

Requests for repayment would be accorded the same treatment as representations connected with the use of the special drawing rights (see note to III.3).

If the Fund decided to exercise the waiver provision in Article IV, Section 8(d) and this waiver did not also extend to amounts borrowed by the Fund under the special facility, the Fund could find that its financial position would be jeopardized.

The modifications could provide, for example, for further additions to the votes of lenders by removing the present 25 per cent limit or by changing the formula for additional votes. A further question arises with respect to the categories of decisions to which such amended voting adjustments would apply.
Late in May and early in June 1967 the Managing Director circulated to the Executive Board tentative outlines both for a Reserve Facility Based on Drawing Rights in the Fund and for a Reserve Facility Based on Reserve Units and Administered by a Fund Affiliate. These are published below as (A) and (B), respectively. After discussion by the Executive Board, the Outline of a Reserve Facility Based on Drawing Rights in the Fund was revised; the revision appears as (C) below.

(A) An Outline of a Reserve Facility Based on Drawing Rights in the Fund *(May 29, 1967)*

This outline, which contains the principal elements of a reserve facility based on drawing rights in the Fund and whose resources are separate from those of the Fund, could serve as a basis for a report to be submitted to the Board of Governors for consideration at the Rio Annual Meeting. It reflects comments and suggestions made during recent discussions in the Fund, in the Group of Ten, and in the Third Joint Meeting.

The facility is described in this outline as being established within the framework of the Fund and, therefore, by an amendment of the Fund Articles. This course was followed for illustrative purposes and is not intended to imply a preference for it as compared with the establishment of an affiliate.

I. Establishment of a Reserve Drawing Account in the Fund

An amendment to the Articles will establish a Reserve Drawing Account through which all the operations relating to reserve drawing rights will be carried out. The resources and operations of the Reserve Drawing Account will be separate from the resources and operations of the present Fund which will be referred to as the General Account. Separate provisions will be included in the amendment for withdrawal from or liquidation of the Reserve Drawing Account; Article XVI, Section 2, and Schedules D and E on withdrawal and liquidation will continue to apply as they do at present to the General Account of the Fund.

II. Participants and Other Holders

1. **Participants.** Participation in the Reserve Drawing Account will be open to any member of the Fund that undertakes the obligations of the amendment. A member's quota in the Fund will be the same for the purposes of both the General and the Reserve Drawing Accounts of the Fund.

2. **Holding by General Account.** The General Account will be authorized to hold and use reserve drawing rights.

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1 The question of terminology will need to be examined further.
III. Distribution of Reserve Drawing Rights

1. Record of holdings. All changes in holdings of reserve drawing rights will be recorded in the books of the Reserve Drawing Account.

2. Principles for Decisions. The principles to be taken into consideration in connection with the first and subsequent decision to distribute reserve drawing rights will be included in an introductory provision of the amendment or in a report explaining the amendment.

3. Basic period and rate of distribution. (a) Decisions to distribute reserve drawing rights will prescribe the rate at which they will be distributed annually for a basic period.

(b) Basic periods will be five years in length, but the Fund may decide that any basic period may have a different length. The first basic period will commence on the effective date of the first decision to distribute reserve drawing rights.

(c) The rate at which reserve drawing rights will be distributed annually for a basic period will be expressed as a percentage, uniform for all participants, of Fund quotas on the date specified in the decision.

4. Procedure for decisions. (a) Any decision on the rate of distribution, basic period, and timing of the distribution of reserve drawing rights will be taken by the Board of Governors on the basis of a proposal to be made by the Managing Director. The Managing Director will conduct such consultations as will enable him to ascertain that there is broad support among participants for the distribution of reserve drawing rights at the proposed rate and for the proposed basic period. The Managing Director’s proposal will be considered by the Executive Directors who, if they concur, will transmit it to the Board of Governors.

(b) The Managing Director will make proposals with respect to the distribution of reserve drawing rights (i) normally not later than six months before the end of a basic period, (ii) in accordance with III.5 below, or (iii) within six months after a request that he do so is made by the Board of Governors. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among the participants to start the distribution of reserve drawing rights.

5. Change in rate of distribution and basic period. If the Managing Director considers that, because of unexpected major developments, a change is desirable in the rate at which further reserve drawing rights are to be distributed for a basic period, he may propose (i) that the rate be increased or decreased or the distribution of further reserve drawing rights be discontinued for the remainder of that basic period, or (ii) that the basic period be terminated and a different rate of distribution applied for a new basic period ahead. Paragraph 4 (a) will apply to such proposals.

6. Voting majority. Decisions of the Board of Governors on the rate of distribution, basic period, and timing of distribution of reserve drawing rights will be taken by a [ ] majority of the voting power of the participants, except that decisions to decrease the rate of distribution of reserve drawing rights or to discontinue the distribution of such rights for the remainder of a basic period will be taken by a simple majority of the voting power of the participants.

7. Opting out. (a) Subject to (b) below, participants will be required to receive reserve drawing rights distributed to them.

(b) After reserve drawing rights equal to one half a participant’s quota on the effective date of the amendment have been distributed to the participant, it may elect not to receive reserve drawing rights to be distributed to it under a decision if it did not
vote in favor of the decision and if it gave notice of its election prior to the distribution of any reserve drawing rights under the decision.

(c) A participant that has opted out in accordance with (b) above may, by giving notice to the Fund, withdraw its earlier notice insofar as it relates to reserve drawing rights to be distributed after such withdrawal.

IV. Cancellation of Reserve Drawing Rights

The principles set forth in III above relating to the procedure and voting for the distribution of reserve drawing rights will be applicable, with appropriate modifications, to the cancellation of such rights.

V. Use of Reserve Drawing Rights

1. Right to use reserve drawing rights. (a) A participant will be entitled to use its reserve drawing rights to acquire from another participant an equivalent amount of the other participant’s currency, or at the user’s option, of the other participant’s main reserve currency, either directly from the other participant or through the Reserve Drawing Account. A participant which provides currency to another participant, either directly or through the Reserve Drawing Account, will receive an equivalent amount of reserve drawing rights.

(b) Except as otherwise indicated in general rules as the Fund may adopt, a participant will be expected to make gross use of its reserve drawing rights only up to the extent that, over a reasonable period, its other reserves would otherwise decrease. The use of reserve drawing rights will not be subject to prior challenge on this basis, but the Fund may make representations to any participant which, in the Fund’s judgment, has failed to observe this expectation.

2. Provision of currency. (a) Except as otherwise indicated in general rules as the Fund may adopt, a participant may agree to acquire reserve drawing rights by providing currency to any other participant or holder.

(b) A participant will be bound to acquire reserve drawing rights by providing currency to another participant either directly or through the Reserve Drawing Account in accordance with such general and specific instructions as the Fund may issue.

(c) A participant’s obligation to provide currency in accordance with (b) above will not extend beyond a point at which its holdings of reserve drawing rights equal three times the net cumulative amount of such rights distributed to it. However, a participant may provide currency or agree with the Fund to provide currency in excess of this limit.

3. Participants from which currencies are to be acquired. The Fund’s instructions regarding the participants from which currencies are to be acquired by users of reserve drawing rights will be based on the following main general principles, supplemented as the Fund may find desirable from time to time:

(a) Currencies will normally be acquired from participants that have sufficiently strong balance of payments and reserve position, but this will not preclude the acquisition of currency from participants with strong reserve positions even though they have moderate balance of payments deficits.

(b) Subject to (a), the Fund’s primary criterion will be to seek to approach over time equality in the ratios of participants’ holdings of reserve drawing rights to total reserves.

(c) If a participant is making a large and sustained use of the reserve drawing rights distributed to it, the Fund may, after making an appropriate representation to
the participant, instruct other participants using their reserve drawing rights to acquire either directly or through the Reserve Drawing Account currency from such participant, even though it is not in a reasonably strong payments and reserve position.

4. Exchange rate. Uses of reserve drawing rights between participants either directly or through the Reserve Drawing Account will be at par against U.S. dollars or, if against the currency of any other member, at the corresponding rate between that currency and the U.S. dollar. The Fund will certify this rate upon request.

VI. Interest

1. Rate of interest. Interest will be credited by the Reserve Drawing Account at a rate uniform for all participants on the amount of reserve drawing rights held by each participant or other holder. The Fund may increase or decrease the rate from time to time.

2. Rate for holdings above limit. The Fund may decide to pay a higher rate of interest to a participant holding reserve drawing rights in excess of the limit prescribed under V.2 (c).

3. Assessment of interest. The interest credited under 1 and 2 above will be assessed against all participants in proportion to the net cumulative amounts of reserve drawing rights distributed to each.

4. Form of interest payments. All payments of interest will be debited or credited by the Reserve Drawing Account in reserve drawing rights.

VII. Functions of Fund Organs and Voting

1. Supervision. The decisions taken with respect to the Reserve Drawing Account, and the supervision of its operations, will be carried out by the organs of the Fund: the Board of Governors, the Executive Directors, the Managing Director, and the staff. Certain functions, in particular the adoption of decisions concerning reserve creation, will be reserved to the Board of Governors; certain other functions will be specifically granted to the other organs.

2. Voting. (a) Decisions on matters pertaining to the Reserve Drawing Account will be taken only by participants. In a vote on a matter pertaining to the Reserve Drawing Account only Governors of participants will be entitled to vote, and Executive Directors will cast only the votes of participants appointing or electing them. Each Executive Director will cast all of these votes as a bloc.

(b) Each participant will have

(1) 250 votes
plus

(2) the greater of either

(i) one vote for each part of its quota as of the effective date of the amendment equivalent to $100,000

or

(ii) one vote for each 50,000 of the net cumulative amount of reserve drawing rights distributed to it;
plus

(3) one vote for each [———] of reserve drawing rights by which on the average over the preceding [———] years its holdings of reserve drawing rights have exceeded the net cumulative amount distributed to it.
(c) Except as otherwise provided in the amendment all decisions pertaining to the Reserve Drawing Account will be taken by a majority of votes cast.

VIII. General Provisions

1. **Collaboration.** Participants will undertake to collaborate in facilitating the proper functioning and effective use of reserve drawing rights within the international monetary system.

2. **Gold guarantee.** The unit of value for expressing reserve drawing rights will be equal to 0.888 671 gram of fine gold. The obligations of participants and of the Reserve Drawing Account can be given an absolute gold guarantee or a guarantee similar to that of Article IV, Section 8 of the Fund Articles.

3. **Nonfulfillment of obligations.** (a) If the Fund finds that a participant has failed to fulfill its obligations to provide currency in accordance with the amendment, the Fund may suspend the right of the participant to use its reserve drawing rights.

(b) If the Fund finds that a participant has failed to fulfill any other obligation under the amendment or continues to make a large and sustained use of its reserve drawing rights, the Fund may suspend the rights of the participant to use any reserve drawing rights distributed to it subsequently.

(c) Suspension under (a) or (b) above will not affect a participant's obligation to provide currency in accordance with the amendment.

(d) The Fund may at any time terminate a suspension under (a) or (b) above.

4. **Ineligibility to use other Fund resources.** Ineligibility to use the resources of the General Account, or any limitation in connection therewith, will not prevent the use of reserve drawing rights.

IX. Settlement with a Withdrawing Member

1. **Withdrawal from the Fund or the Reserve Drawing Account.** A participant that withdraws from membership in the Fund will be deemed to have withdrawn automatically from both the General and Reserve Drawing Accounts. However, a participant will be permitted to withdraw from the Reserve Drawing Account without also withdrawing from the Fund.

2. **Obligations upon withdrawal.** Settlement between a withdrawing participant and the Reserve Drawing Account will be accomplished in a manner similar to that provided in the present Fund Articles. If no agreement is reached on a settlement, any net use or net receipt of reserve drawing rights by such a participant will be paid off by it or redeemed by the Fund, as the case may be, over a specified period of years.

X. Settlement on Liquidation

Liquidation will be in accordance with procedures comparable to those in Schedule E [of the Fund's Articles] and with rules that would distribute the cost of default among participants according to the net cumulative distribution of reserve drawing rights to each participant.

XI. Entry into Force

As an amendment to the Fund Agreement it would enter into force in accordance with the terms of Article XVII of the Articles of Agreement.
(B) An Outline of a Reserve Facility Based on Reserve Units and Administered by a Fund Affiliate

(June 8, 1967)

This outline contains the principal elements of a reserve facility based on reserve units and administered by a Fund affiliate. It has been prepared as a companion paper to the Outline of a Reserve Facility Based on Drawing Rights in the Fund, and could serve as a basis for a report to be submitted to the Board of Governors for consideration at the Rio Annual Meeting. This outline reflects comments and suggestions made during recent discussions in the Fund, in the Group of Ten, and in the Third Joint Meeting, and therefore parallels the first outline on many points.

The facility is described in the outline as involving the establishment of an affiliate of the Fund, and it would therefore be a separate legal entity with its own Articles of Agreement. However, provisions relating to some of the topics in this outline could be included in By-Laws or Rules and Regulations rather than in the Articles. An agreement between the Fund and the affiliate might be necessary to deal with certain administrative and other matters.

I. Establishment of an International Reserve Organization

Articles of Agreement will be adopted which will establish a new international organization and which will set forth the legal provisions relating to it. The organization will have some appropriate name, such as the International Reserve Union (IRU).

II. Members and Other Holders

1. Members. Membership in the IRU will be open to any member of the Fund that undertakes the obligations of the Articles of the IRU. A member of the IRU will have a quota equal at all times to its quota in the Fund.

2. Fund. The Fund will be authorized, by appropriate provisions in the Articles of the IRU and by amendment of the Fund’s Articles, to hold and use reserve units.

III. Issuance of Reserve Units

1. Principles for decisions. The IRU will issue reserve units in accordance with the provisions of its Articles. The principles to be taken into consideration in connection with the first and subsequent decisions to issue reserve units will be included in an introductory provision of the Articles or in a report explaining the Articles.

2. Basic period and rate of issuance. The following provisions will apply to any decision to issue reserve units:

   (i) The decision will prescribe a basic period during which reserve units will be issued annually. The period normally will be five years in length, but the IRU may decide that any basic period will be of different duration. The first basic period will begin on the effective date of the first decision to issue reserve units.

   (ii) The decision will also prescribe the rate or rates at which reserve units will be issued annually for a basic period. This rate will be expressed as a percentage, uniform for all members, of their quotas on the date specified in the decision.

† See above, pp. 30–34.
3. **Procedure for decisions.** (a) Any decision on the basic period for, timing of, or rate of issuance of reserve units will be taken by the Board of Governors on the basis of a proposal by the Managing Director concurred in by the Executive Directors. Before submitting a proposal, the Managing Director will conduct such consultations as will enable him to ascertain that there is broad support among members for the issuance of reserve units at the proposed rate and for the proposed basic period.

(b) The Managing Director will make proposals with respect to the issuance of reserve units (i) within sufficient time before the end of a basic period; (ii) in the circumstances of III.4; (iii) within six months after the Board of Governors or the Executive Directors request that he make a proposal. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among members to start the issuance of reserve units.

4. **Change in rate of issuance or basic period.** If there are unexpected major developments which make it desirable to change the rate at which further reserve units are to be issued for a basic period, (i) the rate may be increased or decreased, or (ii) the basic period may be terminated and a different rate of issuance adopted for a new basic period. Paragraph III.3 will apply to such changes.

5. **Voting majority.** Any decisions of the Board of Governors on the basic period for, timing of, or rate of issuance of reserve units will be taken by a [ ] majority of the voting power of members under VII.2, except that decisions to decrease the rate of issuance of reserve units for the remainder of a basic period will be taken by a simple majority of the voting power of members.

6. **Opting out.** (a) Subject to (b) below, members will be required to receive reserve units issued to them.

(b) After reserve units equal to one half a member's quota on the date the Articles enter into force have been issued to the member, it may elect not to receive reserve units to be issued to it under a decision if it did not vote in favor of that decision and if it gave notice of its election prior to the issuance of any reserve units under the decision.

(c) By giving notice to the IRU, a member that has opted out in accordance with (b) above may withdraw its earlier notice so that it ceases to apply to reserve units to be issued after such withdrawal.

**IV. Cancellation of Reserve Units**

The principles set forth in III relating to the procedure and voting for the issuance of reserve units will be applicable, with appropriate modifications, to the cancellation of such units.

**V. Use of Reserve Units**

1. **Right to transfer reserve units.** (a) A member will be entitled, in accordance with the provisions of V, to transfer reserve units to another member in return for an equivalent amount of the other member's currency or, at the transferor's option, the transferee's main reserve currency. If neither currency is convertible in fact, the transferee will provide a currency which is convertible in fact if the transferor so requests.

(b) Except as otherwise indicated in such general rules as the IRU may adopt, a member will be expected not to make a greater gross use of reserve units than it needs to make in the light of its balance of payments and reserve position. The use of reserve units will not be subject to prior challenge on the basis of this expectation,
but the IRU may make representations to any member which, in the IRU’s judgment, has failed to observe the expectation.

2. Voluntary acceptance of transfers. Except as otherwise indicated in such general rules as the IRU may adopt, a member may agree to accept reserve units in exchange for its own or any other currency from any other member or from the Fund.

3. Obligatory acceptance of transfers. (a) A member to which reserve units are tendered pursuant to such rules or instructions as the IRU may adopt under (c) will be obliged to accept the reserve units for currency.

(b) A member’s obligation to accept reserve units in accordance with (a) above will not extend beyond the point at which its holdings of reserve units equal three times the net cumulative amount of reserve units issued to it. However, a member may accept, or agree with the IRU to accept, reserve units in excess of this limit.

(c) The IRU’s rules and instructions relating to the members to which transfers of reserve units should be directed will be based on the following main general principles, supplemented by such principles as the IRU may find desirable from time to time:

(i) Normally, reserve units will be transferred to members that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility of transfers to members with strong reserve positions even though they have moderate balance of payments deficits.

(ii) The IRU’s primary criterion will be to seek to approach over time equality, among the members indicated from time to time by the criteria in (i) above, in the ratios of their holdings of reserve units to total reserves.

(iii) If notwithstanding VIII.1 a member is making a large and sustained use of the reserve units issued to it, the IRU, after making an appropriate representation to the member, may decide that the member will have to accept transfers of reserve units even though it is not in a reasonably strong balance of payments and reserve position.

4. Exchange rate. The use of reserve units between members will be at par if against U.S. dollars or, if against any other currency, at the corresponding market rate between that currency and the U.S. dollar. The IRU will certify this rate upon request.

VI. Interest

A moderate rate of interest will be paid in reserve units on holdings of reserve units. The cost of this interest will be assessed against all members in proportion to the net cumulative amounts of reserve units issued to them.

VII. Structure and Voting

1. Structure. (a) The structure of the IRU will be similar to that of the Fund, with Board of Governors, Executive Directors, Managing Director, and staff.

(b) Certain powers, and in particular those relating to the adoption of decisions concerning the issuance, cancellation, and certain aspects of the use of reserve units, will be reserved to the Board of Governors. All other powers, except those specifically granted to other organs, will be vested in the Board of Governors which will be able to delegate them to the Executive Directors.

(c) Governors of the Fund appointed by members of the IRU, Executive Directors of the Fund appointed or elected by members of the IRU, and the Managing Director of the Fund will serve ex officio as Governors, Executive Directors, and Managing Director of the IRU. The staff of the Fund, as needed, will serve as the staff of the IRU.
FUND'S PLANS FOR RESERVE CREATION

2. Voting. (a) Each member will have
   
   (1) 250 votes
   
   plus
   
   (2) the greater of either
   
   (i) one vote for each part of its quota as of the date of entry into force of the Articles equivalent to $100,000, or
   
   (ii) one vote for each 50,000 of the net cumulative amount of reserve units issued to it;
   
   plus
   
   (3) one vote for each [ ] of reserve units by which on the average over the preceding [ ] years its holdings of reserve units have exceeded the net cumulative amount issued to it.

(b) Each Governor will cast the votes of the member appointing him.

(c) Each Executive Director will cast, as a bloc, the votes of the member or members appointing or electing him.

(d) Except as otherwise provided, all decisions will be taken by a majority of votes cast.

VIII. General Provisions

1. Collaboration. Members will undertake to collaborate with the IRU to promote its purposes and in particular to facilitate the proper functioning and effective use of reserve units within the international monetary system. In accordance therewith, members will seek to avoid a large and sustained use of reserve units.

2. Maintenance of gold value. The value of reserve units will be equal to 0.888671 gram of fine gold. The rights and obligations of members and of the IRU can be subject to an absolute maintenance of gold value or to provisions similar to Article IV, Section 8 of the Fund's Articles.

3. Nonfulfillment of obligations. (a) If the IRU finds that a member has failed to fulfill its obligations to accept reserve units, the IRU may suspend the right of the member to use its reserve units.

(b) If the IRU finds that a member has failed to fulfill any other obligation under the Articles or continues to make a large and sustained use of its reserve units, the IRU may suspend the member's right to use any reserve units issued to, or acquired by, it after the suspension.

(c) Suspension under (a) or (b) above will not affect a member's obligation to accept reserve units in accordance with the Articles.

(d) The IRU may at any time terminate a suspension under (a) or (b) above.

4. Ineligibility to use Fund resources. Ineligibility to use the Fund's resources, or any limitation in connection therewith, will not prevent the use of reserve units.

5. Accounts. All changes in holdings of reserve units will take effect when recorded in the accounts of the IRU.

6. Reports. The Executive Directors will submit to the Board of Governors an annual report which will review the operations of the IRU.

IX. Settlement with a Withdrawing Member

1. Withdrawal from the Fund. A member of the IRU that withdraws from membership in the Fund will be deemed to have withdrawn automatically from membership
in the IRU. However, a member that withdraws from the IRU will not be deemed thereby to have withdrawn from the Fund.

2. **Obligations upon withdrawal.** Settlement between a withdrawing member and the IRU will be made in a manner similar to that provided for in the Fund’s Articles. If no agreement is reached on a settlement, any obligation resulting from the net use or net acquisition of reserve units by the withdrawing member will be satisfied by it or by the IRU, as the case may be, over a specified period of years.

X. **Settlement on Liquidation**

Liquidation will be in accordance with procedures comparable to those in Schedule E of the Fund’s Articles and with rules that would distribute the cost of default among members according to the net cumulative amount of reserve units issued to each member.

XI. **Entry into Force**

The Articles establishing the IRU will enter into force on the adherence by members of the Fund having 80 per cent of the total quotas of the Fund, or in accordance with some other appropriate formula.
FUND'S PLANS FOR RESERVE CREATION

(C) An Outline of a Reserve Facility
Based on Drawing Rights in the Fund—Revised
(June 8, 1967)

This outline, which contains the principal elements of a reserve facility based on drawing rights in the Fund separate from the present facilities of the Fund, could serve as a basis for a report to be submitted to the Board of Governors for consideration at the Rio Annual Meeting. It reflects comments and suggestions made during recent discussions in the Fund, in the Group of Ten, and in the Third Joint Meeting.

The facility is described in this outline as being established within the framework of the Fund and, therefore, by an amendment of the Fund's Articles. However, provisions relating to some of the topics in this outline could be included in By-Laws or Rules and Regulations rather than in the amendment itself. The technique of an amendment has been adopted for illustrative purposes and is not intended to imply a preference for it as compared with the establishment of an affiliate.

I. Establishment of a Reserve Drawing Account in the Fund

An amendment to the Articles will establish a Reserve Drawing Account through which all the operations relating to reserve drawing rights will be carried out. The operations of and resources available under the Reserve Drawing Account will be separate from the operations and resources of the present Fund which will be referred to as the General Account. Separate provisions will be included in the amendment for withdrawal from or liquidation of the Reserve Drawing Account; Article XVI, Section 2, and Schedules D and E on withdrawal and liquidation will continue to apply as they do at present to the General Account of the Fund.

II. Participants and Other Holders

1. Participants. Participation in the Reserve Drawing Account will be open to any member of the Fund that undertakes the obligations of the amendment. A member's quota in the Fund will be the same for the purposes of both the General and the Reserve Drawing Accounts of the Fund.

2. Holding by General Account. The General Account will be authorized to hold and use reserve drawing rights.

III. Distribution of Reserve Drawing Rights

1. Principles for decisions. The Reserve Drawing Account will distribute reserve drawing rights in accordance with the provisions of the amendment. The principles to be taken into consideration in connection with the first and subsequent decisions to distribute reserve drawing rights will be included in an introductory provision of the amendment or in a report explaining the amendment.

2. Basic period and rate of distribution. The following provisions will apply to any decision to distribute reserve drawing rights:

(i) The decision will prescribe a basic period during which reserve drawing rights will be distributed annually. The period normally will be five years in length, but the Fund may decide that any basic period will be of different duration. The first basic period will begin on the effective date of the first decision to distribute reserve drawing rights.
(ii) The decision will also prescribe the rate or rates at which reserve drawing rights will be distributed annually for a basic period. This rate will be expressed as a percentage, uniform for all participants, of Fund quotas on the date specified in the decision.

3. Procedure for decisions. (a) Any decision on the basic period for, timing of, or rate of distribution of reserve drawing rights will be taken by the Board of Governors on the basis of a proposal by the Managing Director concurred in by the Executive Directors. Before submitting a proposal, the Managing Director will conduct such consultations as will enable him to ascertain that there is broad support among participants for the distribution of reserve drawing rights at the proposed rate and for the proposed basic period.

(b) The Managing Director will make proposals with respect to the distribution of reserve drawing rights (i) within sufficient time before the end of a basic period; (ii) in the circumstances of III.4; (iii) within six months after the Board of Governors or the Executive Directors request that he make a proposal. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among the participants to start the distribution of reserve drawing rights.

4. Change in rate of distribution or basic period. If there are unexpected major developments which make it desirable to change the rate at which further reserve drawing rights are to be distributed for a basic period, (i) the rate may be increased or decreased, or (ii) the basic period may be terminated and a different rate of distribution adopted for a new basic period. Paragraph III.3 will apply to such changes.

5. Voting majority. Any decisions of the Board of Governors on the basic period for, timing of, or rate of distribution of reserve drawing rights will be taken by a [ ] majority of the voting power of participants under VII.2, except that decisions to decrease the rate of distribution of reserve drawing rights for the remainder of a basic period will be taken by a simple majority of the voting power of participants.

6. Opting out. (a) Subject to (b) below, participants will be required to receive reserve drawing rights distributed to them.

(b) After reserve drawing rights equal to one half of a participant's quota on the effective date of the amendment have been distributed to the participant, it may elect not to receive reserve drawing rights to be distributed to it under a decision if it did not vote in favor of that decision and if it gave notice of its election prior to the distribution of any reserve drawing rights under the decision.

(c) By giving notice to the Reserve Drawing Account, a participant that has opted out in accordance with (b) above may withdraw its earlier notice so that it ceases to apply to reserve drawing rights to be distributed after such withdrawal.

IV. Cancellation of Reserve Drawing Rights

The principles set forth in III relating to the procedure and voting for the distribution of reserve drawing rights will be applicable, with appropriate modifications, to the cancellation of such rights.

V. Use of Reserve Drawing Rights

1. Right to use reserve drawing rights. (a) A participant will be entitled, in accordance with the provisions of V, to use reserve drawing rights to acquire from another participant an equivalent amount of the other participant's currency or, at the user's option, the other participant's main reserve currency. If neither currency
FUND'S PLANS FOR RESERVE CREATION

is convertible in fact, the other participant will provide a currency which is convertible in fact if the user so requests. The currencies referred to may be obtained either directly from the other participant or through the Reserve Drawing Account, at the user's option. A participant which thus provides currency, either directly or through the Reserve Drawing Account, will receive an equivalent amount of reserve drawing rights.

(b) Except as otherwise indicated in such general rules as the Fund may adopt, a participant will be expected not to make a greater gross use of reserve drawing rights than it needs to make in the light of its balance of payments and reserve position. The use of reserve drawing rights will not be subject to prior challenge on the basis of this expectation, but the Fund may make representations to any participant which, in the Fund's judgment, has failed to observe the expectation.

2. Voluntary provision of currency. Except as otherwise indicated in such general rules as the Fund may adopt, a participant may agree with another participant or with the General Account to provide currency and thereby acquire reserve drawing rights.

3. Obligatory provision of currency. (a) A participant which is requested to provide currency pursuant to such rules or instructions as the Fund may adopt under (c) below will be obliged to provide currency and thereby acquire reserve drawing rights.

(b) A participant's obligation to provide currency in accordance with (a) above will not extend beyond a point at which its holdings of reserve drawing rights equal three times the net cumulative amount of such rights distributed to it. However, a participant may provide currency or agree with the Fund to provide currency in excess of this limit.

(c) The Fund's rules and instructions relating to the participants from which currencies should be acquired by users of reserve drawing rights will be based on the following main general principles, supplemented by such principles as the Fund may find desirable from time to time:

(i) Normally, currencies will be acquired from participants that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility that currency will be acquired from participants with strong reserve positions even though they have moderate balance of payments deficits.

(ii) The Fund's primary criterion will be to seek to approach over time equality, among the participants indicated from time to time by the criteria in (i) above, in the ratios of their holdings of reserve drawing rights to total reserves.

(iii) If notwithstanding VIII.1 a participant is making a large and sustained use of the reserve drawing rights distributed to it, the Fund, after making an appropriate representation to the participant, may decide that the participant will have to provide currency even though it is not in a reasonably strong balance of payments and reserve position.

4. Exchange rate. The use of reserve drawing rights between participants either directly or through the Reserve Drawing Account will be at par if against U.S. dollars, or if against any other currency the corresponding market rate between that currency and the U.S. dollar. The Reserve Drawing Account will certify this rate upon request.

VI. Interest

A moderate rate of interest will be paid in reserve drawing rights on holdings of reserve drawing rights. The cost of this interest will be assessed against all participants in proportion to net cumulative distributions of reserve drawing rights to them.
VII. Functions of Fund Organs and Voting

1. Exercise of powers. The decisions taken with respect to the Reserve Drawing Account, and the supervision of its operations, will be carried out by the Board of Governors, the Executive Directors, the Managing Director, and the staff of the Fund. Certain powers, and in particular those relating to the adoption of decisions concerning the distribution, cancellation, and certain aspects of the use of reserve drawing rights, will be reserved to the Board of Governors. All other powers, except those specifically granted to other organs, will be vested in the Board of Governors which will be able to delegate them to the Executive Directors.

2. Voting. (a) Decisions on matters pertaining to the Reserve Drawing Account will be taken only by participants. In a vote on a matter pertaining to the Reserve Drawing Account only Governors of participants will be entitled to vote, and Executive Directors will cast only the votes of participants appointing or electing them. Each Executive Director will cast all of these votes as a bloc.

(b) Each participant will have

(1) 250 votes

plus

(2) the greater of either

(i) one vote for each part of its quota as of the effective date of the amendment equivalent to $100,000, or

(ii) one vote for each 50,000 of the net cumulative amount of reserve drawing rights distributed to it;

plus

(3) one vote for each [———] of reserve drawing rights by which on the average over the preceding [———] years its holdings of reserve drawing rights have exceeded the net cumulative amount distributed to it.

(c) Except as otherwise provided in the amendment all decisions pertaining to the Reserve Drawing Account will be taken by a majority of votes cast.

VIII. General Provisions

1. Collaboration. Participants will undertake to collaborate with the Fund in order to facilitate the proper functioning and effective use of reserve drawing rights within the international monetary system. In accordance therewith, participants will seek to avoid a large and sustained use of reserve drawing rights.

2. Maintenance of gold value. The unit of value for expressing reserve drawing rights will be equal to 0.888 671 gram of fine gold. The rights and obligations of participants and of the Reserve Drawing Account can be subject to an absolute maintenance of gold value or to provisions similar to Article IV, Section 8 of the Fund’s Articles.

3. Nonfulfillment of obligations. (a) If the Fund finds that a participant has failed to fulfill its obligations to provide currency in accordance with the amendment, the Fund may suspend the right of the participant to use its reserve drawing rights.

(b) If the Fund finds that a participant has failed to fulfill any other obligation under the amendment or continues to make a large and sustained use of its reserve drawing rights, the Fund may suspend the participant’s right to use any reserve drawing rights distributed to, or acquired by, it after the suspension.

(c) Suspension under (a) or (b) above will not affect a participant’s obligation to provide currency in accordance with the amendment.
(d) The Fund may at any time terminate a suspension under (a) or (b) above.

4. Ineligibility to use other Fund resources. Ineligibility to use the resources of the General Account, or any limitation in connection therewith, will not prevent the use of reserve drawing rights.

5. Accounts. All changes in holdings of reserve drawing rights will take effect when recorded in the accounts of the Reserve Drawing Account.

6. Reports. The Executive Directors will review the operations of the Reserve Drawing Account as part of their annual report to the Board of Governors.

IX. Settlement with a Withdrawing Member

1. Withdrawal from the Fund or the Reserve Drawing Account. A participant that withdraws from membership in the Fund will be deemed to have withdrawn automatically from both the General Account and the Reserve Drawing Account. However, a participant will be permitted to withdraw from the Reserve Drawing Account without also withdrawing from the Fund.

2. Obligations upon withdrawal. Settlement between a withdrawing participant and the Reserve Drawing Account will be accomplished in a manner similar to that provided for in the Fund's Articles. If no agreement on a settlement is reached, any net use or net receipt of reserve drawing rights by such a participant will be paid off by it or redeemed by the Fund, as the case may be, over a specified period of years.

X. Settlement on Liquidation

Liquidation will be in accordance with procedures comparable to those in Schedule E of the Fund's Articles and with rules that would distribute the cost of default among participants according to the net cumulative distribution of reserve drawing rights to each participant.

XI. Entry into Force

The amendment would enter into force in accordance with the terms of Article XVII of the Fund's Articles.
PART TWO

Final Outline and Proposed Amendment
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Agreed Outline

At its Twenty-Second Annual Meeting in Rio de Janeiro in September 1967, the Board of Governors adopted a resolution (No. 22-8) approving the Outline of a Facility Based on Special Drawing Rights in the Fund and asked that work proceed on drafting amendments to the Articles for the purpose of establishing such a facility and of modifying certain of the Fund’s rules and practices. The Outline, which was attached to the resolution, follows. For the text of the resolution itself, see pages 54–55 below.

Outline of a Facility Based on Special Drawing Rights in the Fund
(September 29, 1967)

Introduction

The facility described in this Outline is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. It is to be established within the framework of the Fund and, therefore, by an Amendment of the Fund’s Articles. Provisions relating to some of the topics in this Outline could be included in By-Laws adopted by the Board of Governors or Rules and Regulations adopted by the Executive Directors rather than in the amendment.

I. Establishment of a Special Drawing Account in the Fund

(a) An amendment to the Articles will establish a Special Drawing Account through which all the operations relating to special drawing rights will be carried out. The purposes of the facility will be set forth in the introductory section of the amendment.

(b) The operations of and resources available under the Special Drawing Account will be separate from the operations of the present Fund which will be referred to as the General Account.

(c) Separate provisions will be included in the amendment for withdrawal from or liquidation of the Special Drawing Account; Article XVI, Section 2, and Schedules D and E on withdrawal and liquidation will continue to apply as they do at present to the General Account of the Fund.

II. Participants and Other Holders

1. Participants. Participation in the Special Drawing Account will be open to any member of the Fund that undertakes the obligations of the amendment. A member’s quota in the Fund will be the same for the purposes of both the General and the Special Drawing Accounts of the Fund.

2. Holding by General Account. The General Account will be authorized to hold and use special drawing rights.
III. Allocation of Special Drawing Rights

1. Principles for decisions. The Special Drawing Account will allocate special drawing rights in accordance with the provisions of the amendment. Special considerations applicable to the first decision to allocate special drawing rights, as well as the principles on which all decisions to allocate special drawing rights will be based, will be included in the introductory section of the amendment and, to the extent necessary, in a report explaining the amendment.

2. Basic period and rate of allocation. The following provisions will apply to any decision to allocate special drawing rights:

(i) The decision will prescribe a basic period during which special drawing rights will be allocated at specified intervals. The period will normally be five years in length, but the Fund may decide that any basic period will be of different duration. The first basic period will begin on the effective date of the first decision to allocate special drawing rights.

(ii) The decision will also prescribe the rate or rates at which special drawing rights will be allocated during the basic period. Rates will be expressed as a percentage, uniform for all participants, of quotas on the date specified in the decision.

3. Procedure for decisions.

(a) Any decision on the basic period for, timing of, or rate of allocation of special drawing rights will be taken by the Board of Governors on the basis of a proposal by the Managing Director concurred in by the Executive Directors.

(b) Before formulating any proposal, the Managing Director after having satisfied himself that the considerations referred to in III.1 have been met, will conduct such consultations as will enable him to ascertain that there is broad support among participants for the allocation of special drawing rights at the proposed rate and for the proposed basic period.

(c) The Managing Director will make proposals with respect to the allocation of special drawing rights: (i) within sufficient time before the end of a basic period; (ii) in the circumstances of III.4; (iii) within six months after the Board of Governors or the Executive Directors request that he make a proposal. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among the participants to start the allocation of special drawing rights.

(d) The Executive Directors will review both the operations of the Special Drawing Account and the adequacy of global reserves as part of their annual report to the Board of Governors.

4. Change in rate of allocation or basic period. If there are unexpected major developments which make it desirable to change the rate at which further special drawing rights are to be allocated for a basic period, (i) the rate may be increased or decreased, or (ii) the basic period may be terminated and a different rate of allocation adopted for a new basic period. Paragraph III.3 will apply to such changes.

5. Voting majority.

(a) For decisions on the basic period for, timing of, amount and rate of allocation of special drawing rights, an 85 per cent majority of the voting power of participants shall be required.

(b) Notwithstanding (a) above, the decisions to decrease the rate of allocation of special drawing rights for the remainder of the basic period will be taken by a simple majority of the voting power of participants.
6. Opting out. The amendment will include provisions that will prescribe to what extent a participant will be required initially to receive special drawing rights, but will stipulate that beyond any such amount a participant that does not vote in favor of a decision to allocate special drawing rights may elect not to receive them under that decision.

IV. Cancellation of Special Drawing Rights

The principles set forth in III relating to the procedure and voting for the allocation of special drawing rights will be applicable, with appropriate modifications, to the cancellation of such rights.

V. Use of Special Drawing Rights

1. Right to use special drawing rights.

(a) A participant will be entitled, in accordance with the provisions of V, to use special drawing rights to acquire an equivalent amount of a currency convertible in fact. A participant which thus provides currency will receive an equivalent amount of special drawing rights.

(b) Within the framework of such rules and regulations as the Fund may adopt, a participant may obtain the currencies referred to in (a) either directly from another participant or through the Special Drawing Account.

(c) Except as indicated in V.3 (c), a participant will be expected to use its special drawing rights only for balance of payments needs or in the light of developments in its total reserves and not for the sole purpose of changing the composition of its reserves.

(d) The use of special drawing rights will not be subject to prior challenge on the basis of this expectation, but the Fund may make representations to any participant which, in the Fund's judgment, has failed to observe the expectation, and may direct drawings to such participant to the extent of such failure.

2. Provision of currency. A participant's obligation to provide currency will not extend beyond a point at which its holdings of special drawing rights in excess of the net cumulative amount of such rights allocated to it are equal to twice that amount. However, a participant may provide currency, or agree with the Fund to provide currency, in excess of this limit.

3. Selection of participants to be drawn upon. The Fund's rules and instructions relating to the participants from which currencies should be acquired by users of special drawing rights will be based on the following main general principles, supplemented by such principles as the Fund may find desirable from time to time:

(a) Normally, currencies will be acquired from participants that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility that currency will be acquired from participants with strong reserve positions even though they have moderate balance of payments deficits.

(b) The Fund's primary criterion will be to seek to approach over time equality, among the participants indicated from time to time by the criteria in (a) above, in the ratios of their holdings of special drawing rights, or such holdings in excess of net cumulative allocations thereof, to total reserves.

(c) In addition, the Fund will, in its rules and instructions, provide for such use of special drawing rights, either directly between participants or through the intermediary of the Special Drawing Account, as will promote voluntary reconstitution and reconstitution under V.4.
(d) Subject to the provisions of V.1 (c), a participant may use its special drawing rights to purchase balances of its currency held by another participant, with the agreement of the latter.

4. Reconstitution.

(a) Members that use their special drawing rights will incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and the duration of the use. These principles will be laid down in rules and regulations of the Fund.

(b) The rules for reconstitution of drawings made during the first basic period will be based on the following principles:

(i) The average net use, taking into account both use below and holdings above its net cumulative allocation, made by a participant of its special drawing rights calculated on the basis of the preceding five years, shall not exceed 70 per cent of its average net cumulative allocation during this period. Reconstitution under this subparagraph (i) will be brought about through the mechanism of transfers, by the Fund directing drawings correspondingly.

(ii) Participants will pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and other reserves.

(c) Reconstitution rules will be reviewed before the end of the first and of each subsequent period and new rules will be adopted, if necessary. If new rules are not adopted for a basic period, the rules for the preceding period shall apply unless it is decided to abrogate reconstitution rules. The same majority as is required for decisions on the basic period, timing of, or rate of allocation of special drawing rights will be required for decisions to adopt, amend, or abrogate reconstitution rules. Any amendment in the rules will govern the reconstitution of drawings made after the effective date of the amendment, unless otherwise decided.

VI. Interest and Maintenance of Gold Value

(a) Interest. A moderate rate of interest will be paid in special drawing rights on holdings of special drawing rights. The cost of this interest will be assessed against all participants in proportion to net cumulative allocations of special drawing rights to them.

(b) Maintenance of gold value. The unit of value for expressing special drawing rights will be equal to 0.888 671 gram of fine gold. The rights and obligations of participants and of the Special Drawing Account will be subject to an absolute maintenance of gold value or to provisions similar to Article IV, Section 8 of the Fund's Articles.

VII. Functions of Fund Organs and Voting

1. Exercise of powers. The decisions taken with respect to the Special Drawing Account, and the supervision of its operations, will be carried out by the Board of Governors, the Executive Directors, the Managing Director, and the staff of the Fund. Certain powers, and in particular those relating to the adoption of decisions concerning the allocation, cancellation, and certain aspects of the use of special drawing rights, will be reserved to the Board of Governors. All other powers, except those specifically granted to other organs, will be vested in the Board of Governors which will be able to delegate them to the Executive Directors.
2. Voting. Except as otherwise provided in the amendment, all decisions pertaining to the Special Drawing Account will be taken by a majority of votes cast. The precise formula for the voting power of participants, which will include basic and weighted votes, and possibly the adjustment of voting power in relation to the use of special drawing rights, will be the subject of later consideration.

VIII. General Provisions

1. Collaboration. Participants will undertake to collaborate with the Fund in order to facilitate the proper functioning and effective use of special drawing rights within the international monetary system.

2. Nonfulfillment of obligations.

(a) If the Fund finds that a participant has failed to fulfill its obligations to provide currency in accordance with the amendment, the Fund may suspend the right of the participant to use its special drawing rights.

(b) If the Fund finds that a participant has failed to fulfill any other obligation under the amendment, the Fund may suspend the participant’s right to use any special drawing rights allocated to, or acquired by, it after the suspension.

(c) Suspension under (a) or (b) above will not affect a participant’s obligation to provide currency in accordance with the amendment.

(d) The Fund may at any time terminate a suspension under (a) or (b) above.

3. Accounts. All changes in holdings of special drawing rights will take effect when recorded in the accounts of the Special Drawing Account.

IX. Entry into Force

The amendment would enter into force in accordance with the terms of Article XVII of the Fund's Articles.
Proposed Amendment of Articles of Agreement

On April 17, 1968, the Executive Board submitted to the Board of Governors detailed proposals for amendments to the Articles of Agreement of the Fund. These proposals provided for a facility based on special drawing rights in the Fund, and for some other changes in the Articles. The proposals were approved by the Governors on May 31, 1968 and entered into force on July 28, 1969.

Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund

(April 1968)

A Report by the Executive Directors to the Board of Governors Proposing Amendment of the Articles of Agreement

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Proposed Amendment of Articles of Agreement

PART I

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ANNEX A

Resolution

Proposed Amendment to the Articles of Agreement of the International Monetary Fund, Prepared Pursuant to Board of Governors Resolution No. 22-8

A. Introductory Article
B. Article I. Purposes
C. Article III. Quotas and Subscriptions
D. Article IV. Par Values of Currencies
E. Article V. Transactions with the Fund
F. Article VI. Capital Transfers
G. Article XII. Organization and Management
H. Article XVIII. Interpretation
I. Article XIX. Explanation of Terms
J. Article XX. Final Provisions
K. Articles XXI through XXXII

Article XXI. Special Drawing Rights
Article XXII. General Account and Special Drawing Account
INTRODUCTION

At its Twenty-Second Annual Meeting at Rio de Janeiro in September 1967, the Board of Governors adopted the following Resolution:†

WHEREAS the functioning of the international monetary system and its improvement, including arrangements to meet the need, as and when it arises, for a supplement to existing reserve assets, have been the subject of extensive study and international discussion resulting in the Outline of a Facility Based on Special Drawing Rights in the International Monetary Fund, which Outline is attached to this Resolution; and

WHEREAS studies are currently under way on possible improvements in the present rules and practices of the Fund;

NOW, THEREFORE, the Board of Governors hereby resolves:

That the Executive Directors are requested to

1. Proceed with their work relating to both
   (a) the establishment in the Fund of a new facility on the basis of the Outline in order to meet the need, as and when it arises, for a supplement to existing reserve assets, and
   (b) improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of the Articles of Agreement of the Fund; and

2. Submit to the Board of Governors as soon as possible but not later than March 31, 1968

† Resolution No. 22-8.
(a) a report proposing amendments to the Articles of Agreement and the By-Laws for the purpose of establishing a new facility on the basis of the Outline, and

(b) a report proposing such amendments to the Articles of Agreement and the By-Laws as would be required to give effect to those modifications in the present rules and practices of the Fund that the Executive Directors will recommend.

As the Governors have been informed, it was not possible to complete by March 31, 1968 the work on the two subjects referred to in paragraph 1 of this Resolution. The Executive Directors are now submitting to the Board of Governors the present Report which combines the two reports envisaged in paragraph 2 of the Resolution. Part I constitutes the first and Part II the second of these two reports. The recommendations of the Executive Directors are presented together in Annex A to this Report.

Annex A submits for approval by the Board of Governors a Resolution proposing modifications in the Articles of Agreement of the International Monetary Fund for the purpose of (a) establishing in the Fund a facility for special drawing rights based on the Outline, and (b) giving effect to certain changes in the present rules and practices of the Fund that the Executive Directors have decided to recommend. They are not recommending modifications in the By-Laws at this time. It would not be possible for the Board of Governors to adopt By-Laws relating to the new facility until the participation requirement prescribed in Article XXIII, Section 1, has been met. Recommendations will be submitted in due course.

The modifications in the Articles of Agreement under both (a) and (b) above are set forth in the Proposed Amendment which appears in the attachment to the Resolution. The Executive Directors recommend to the Board of Governors the adoption of this Resolution.

The Outline referred to above is also annexed to this Report (Annex B).

While the modifications set forth in Annex A are for the most part self-explanatory, the Executive Directors believe that brief comments on various aspects of these modifications may be useful to Governors and to member governments. They are to be found in Parts I and II of the Report.

In addition, Part III of the Report describes the procedure to be followed in order to give effect to the proposed modifications.

The Executive Directors wish to take this opportunity to express their great appreciation of the outstanding contribution made by the Staff of the Fund at all levels in the implementation of the Governors' Resolution. Working under intense pressure, sustained for more than six months, they have at all times given the Executive Directors the benefit of their skill and experience.

PART I

The New Facility

1. General Comments

The Resolution adopted by the Board of Governors at its Rio de Janeiro Meeting envisaged the establishment in the Fund of a new facility based on special drawing rights to meet the need, as and when it arises, for a supplement to existing reserve assets. The changes in the Introductory Article and the addition of Articles XXI
through XXXII and Schedules F, G, H, and I, which are included in the Proposed Amendment, will achieve this purpose, and under them the Fund will acquire an important new function in the international monetary system. The new provisions also deal with the relationship of the new facility to the present functions of the Fund. However, the provisions of the Articles of Agreement, as amended, will constitute a single legal document.

As requested by the Rio de Janeiro Resolution, the Executive Directors, in drafting the modifications in the Articles of Agreement that would establish the new facility, have worked on the basis of the Outline attached to that Resolution. The Outline sets forth the main features of the new facility and several of its more detailed characteristics. It was, however, intentionally less than a complete plan of the facility, and the Executive Directors have had to elaborate certain aspects of the facility that were treated in the Outline only in a very general way. This applied, for example, to the establishment of the General and the Special Drawing Accounts, the terms on which the General Account may hold and use special drawing rights, the provision relating to "other holders," the cancellation of special drawing rights, the payment of interest, the levying of charges, withdrawal from the facility, and its liquidation. It was also necessary to provide in detail for the effects on the organizational structure of the Fund that follow from the fact that, while all members are entitled to become participants in the new facility, they are not required to participate. However, it has not been felt necessary to include in the Proposed Amendment a provision corresponding to Paragraph III.3 (d) of the Outline under which the Executive Directors are to review the operations of the Special Drawing Account and the adequacy of global reserves as part of their Annual Report to the Board of Governors. On the analogy of Article XII, Section 7, and Section 10 of the By-Laws, this requirement will be included in the By-Laws.

2. The Special Drawing Account

Under the Articles of Agreement as amended, there will be maintained in the Fund two separate Accounts, a General Account and a Special Drawing Account. The Fund will carry on its present operations and transactions, including those of an administrative character, through the General Account, and its functions relating to special drawing rights through the Special Drawing Account. There will be a corresponding separation of assets and property as well as liabilities and obligations.

Operations and transactions involving the acceptance or holding of special drawing rights by the Fund in the General Account or the use of special drawing rights thus held will be carried out through and recorded in both Accounts.

The separation of the two Accounts does not create a new legal entity. The Fund will continue to be the same institution with a single international personality.

3. Participation in the Special Drawing Account

Participation in the Special Drawing Account will be open to members of the Fund and only to them. Each member of the Fund will continue to be entitled to take part in General Account operations and transactions, but in order to become a participant in the Special Drawing Account a member will have to deposit with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all these obligations. No member will become a participant, however, before these instruments have been deposited by members that have at least 75 per cent of the total quotas in the Fund.
Participation in the Special Drawing Account will involve the assumption of both financial and nonfinancial obligations. The basic financial obligation that each participant will assume will be the obligation under Article XXV, Section 4, to provide currency convertible in fact, when the participant is designated by the Fund, to another participant using its special drawing rights, up to a total net amount equivalent to twice the net amount of special drawing rights allocated to the designated participant. The participant providing currency will receive an equivalent amount of special drawing rights. The circumstances in which a participant will be designated to provide currency are set forth in Article XXV, Section 5, and Schedule F.

A participant whose Governor did not vote in favor of a decision under which allocations of special drawing rights are being made will not have to receive allocations under that decision if it does not wish to do so. A participant will be required to receive special drawing rights allocated to it if its Governor voted in favor of the decision under which the allocations are made. Accordingly, a participant that wishes to receive special drawing rights to be allocated to it under a decision and that needs parliamentary or other legal authorization in order to be able to meet the financial obligation assumed under Article XXV, Section 4, should obtain, prior to the adoption of the relevant decision to make allocations, the necessary authorization.

The domestic legal steps that each member will need to take in order to enable it to carry out the obligations of a participant, both financial and nonfinancial, will have to be determined by the authorities of the member in accordance with its own constitutional and other legal requirements. One way in which a member will be able to put itself into a position to meet its obligations under Article XXV, Section 4, to provide currency will be to give its central bank the power to acquire and hold special drawing rights without limitation, thus obviating any need for further legal action from time to time. Central banks in many countries already have authority to acquire gold and some or all forms of foreign exchange.

An alternative course would be for a member to seek parliamentary or other legal authority, as may be necessary, for a specified amount, e.g., authority to receive allocations equal to not less than 50 per cent of quota with the consequent obligation to provide currency up to a total net amount at least equal to its quota.

4. Holders of Special Drawing Rights Other than Participants

Allocations of special drawing rights may be made only to participants, but the holding of such rights is not restricted to participants. Article XXIII, Section 2, authorizes the Fund itself to accept and hold special drawing rights in, and use them through, the General Account. Detailed provisions with respect to these operations and transactions are contained in Article XXV, Section 7.

Section 3 of Article XXIII foresees the possibility that the Fund may permit others to accept, hold, and use special drawing rights. Under this provision the Fund, by an 85 per cent majority of the total voting power, will be able to permit non-members and members that are not participants to engage in operations and transactions involving special drawing rights. Other holders that the Fund could authorize to engage in these operations and transactions would be institutions that perform one or more functions of a central bank for more than one member. Regional organizations in which members or their central banks pool some of their reserves and the Bank for International Settlements are considered to fall within this description. The expression "operations and transactions" in Article XXIII, Section 3, will cover the operations and transactions of a central banking character engaged in by the organizations referred to in this section.
The Fund has the power to prescribe, by an 85 per cent majority, the terms and conditions for the operations and transactions between participants and these other holders, but these terms and conditions must be consistent with the provisions of the Articles. In exercising this power the Fund will necessarily be guided by the nature of special drawing rights as a supplement to existing reserve assets and by the desirability of ensuring their proper use. Under this power the Fund will be able to prescribe, where it is found appropriate, that operations and transactions between participants and other holders will be subject to the requirement of need which is discussed in section 15 below. It is expected that normally the requirement of need will be prescribed as part of the terms and conditions for transactions in which participants use special drawing rights to obtain currency from other holders.

5. Recording and Information

Article XXII, Section 3, provides that all changes in holdings of special drawing rights, whether the result of allocations and cancellations or of operations and transactions, will become effective only when recorded by the Fund in the Special Drawing Account. This will apply not only to operations and transactions between participants but also to operations and transactions between other holders and participants. The Fund will record changes resulting from operations and transactions that are in conformity with the obligations of participants under the provisions of the Articles or any terms and conditions prescribed by the Fund under these provisions. To enable the Fund to carry out this task, participants are required to inform the Fund of any operation or transaction involving special drawing rights that they enter into and to indicate at the same time the provisions of the Articles under which the operation or transaction is entered into. The obligation falls on both parties to the operation or transaction if they are participants. It is expected that a similar requirement will be included in the terms and conditions for other holders.

6. Principles Governing Allocations and Cancellations

Article XXIV, Section 1 (a), states the basic principle which is to govern all decisions to allocate or cancel special drawing rights. This principle is that the Fund must seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets, in a manner that will promote the attainment of the Fund’s purposes as set forth in Article I, and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

7. First Decision to Allocate Special Drawing Rights

Article XXIV, Section 1 (b), provides that the first decision to allocate special drawing rights shall be based on the principles that guide all decisions to allocate special drawing rights, and in addition, that it shall take into account certain special considerations. The first of these special considerations is a collective judgment that there is a global need to supplement reserves. The term “collective judgment” reflects the requirement of an 85 per cent majority of the total voting power for the adoption by the Board of Governors of decisions to allocate special drawing rights. The other special considerations are the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future. While the situation of all members is relevant to a judgment with respect to the attainment of a better balance of payments equilibrium, the judgment to be made at the time will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments.
8. Allocation and Cancellation

Special drawing rights will be allocated or canceled over periods, referred to in the Articles as "basic" periods, which normally will be five years in duration and which will run consecutively. Allocations to participants will be made at yearly intervals and on the basis of their quotas on the date of the relevant decision to allocate, unless the Fund decides that allocations are to be made at different intervals or are to be based on quotas at different dates.

The concept of consecutive basic periods has been introduced for technical reasons and does not prejudice the exercise by the Fund of its discretion to allocate special drawing rights, or to cancel special drawing rights, or to do neither. The Fund will exercise its discretion on the basis of the judgment it forms on the need to supplement existing reserve assets. It will be possible to have basic periods in which there are neither allocations nor cancellations. A basic period can be an "empty period," either because the Governors have approved a proposal by the Managing Director that no allocation or cancellation should be made, or because the Managing Director, having ascertained that there is no broad support for a proposal that would be consistent with the requirements of the Articles, has been unable to make a proposal, or because a proposal by the Managing Director to allocate or to cancel has failed to command the required majority.

A member that becomes a participant after a basic period has started will not receive allocations during that basic period, unless the Fund decides that the member will start to receive allocations beginning with the next allocation after it becomes a participant. It is expected that normally the Fund will so decide.

9. Decisions on Allocations and Cancellations

Under Article XXIV, Section 4 (a), and Article XXVII (a) (i), decisions to allocate or cancel special drawing rights may be made only by the Board of Governors and only by an 85 per cent majority of the total voting power. These decisions may be made by the Governors only on the basis of proposals of the Managing Director concurred in by a decision of the Executive Directors.

The Managing Director is required to make proposals at certain times and in certain circumstances. Whenever he is required to make proposals but he reaches a conclusion that there is no proposal that would be consistent with the principles and considerations governing allocation and cancellation that would have broad support among participants, he must submit a report to both the Board of Governors and the Executive Directors.

10. Operations and Transactions in Special Drawing Rights

As stated in Article XXV, Section 1, special drawing rights may be used only in the operations and transactions authorized by or under the provisions of the Articles. The term "transactions," as used in Articles XXI through XXXII, refers to uses of special drawing rights to obtain currency. The main examples are transactions under Article XXV, Section 2. The term "operations" refers to all other uses of special drawing rights authorized by or under the Articles, such as the payment of interest, charges, and assessments under Article XXVI.

11. Receipt of Allocations

Article XXIV, Section 2 (c), requires each member that has become a participant to accept an allocation of special drawing rights unless its Governor voted against or
did not vote on the decision under which the allocation is to be made and, prior to
the first allocation under that decision, the participant has given the Fund notice that it
does not wish to receive the allocation. In other words, a participant whose Gov-
ernor did not vote affirmatively may "opt out" of allocations under a decision (i.e.,
may choose not to receive special drawing rights and incur the corresponding obliga-
tions) by giving notice to that effect.

A participant that has opted out with respect to a basic period may "opt back in"
(i.e., resume receiving allocations) with the permission of the Fund, but the participant
will receive only the allocations made after it has been permitted to opt back in.
Opting back in is not possible with respect to allocations that were made previously
during the basic period. It is expected that the Fund will give sympathetic consideration
to a request by a participant to opt back in.

12. Character of Special Drawing Rights

Special drawing rights will be issued by the Fund but they will not confer on
participants a claim against the Fund itself to provide currency, except as prescribed
by the provisions of Articles XXX and XXXI and Schedules G and H relating to the
termination of participation and liquidation. Participants will be able to use special
drawing rights to obtain currency from other participants in accordance with the
provisions of Article XXV. The provisions of Article XXV require the Fund to desig-
nate participants to provide currency to other participants using their special drawing
rights in accordance with Section 2(a) of that Article, so that participants can be
assured that at all times they will be able to use their special drawing rights in a
manner consistent with the provisions of the Articles.

13. Designation of Participants to Provide Currency

The principles that will govern the designation of participants to provide currency
to other participants using their special drawing rights in accordance with Article XXV,
Section 2(a), are indicated in the three subsections of Section 5(a) of the same
Article. However, this listing is not exhaustive; the Fund may supplement these
principles with other principles.

As regards the order of priority between designations under subsections (a)(i)
and (a)(ii) of Section 5 and among the three categories mentioned in subsection (a)(ii),
subsection (a)(iii) prescribes that priority shall normally be given to those participants
that need to acquire special drawing rights to meet the objectives of designation under
subsection (a)(ii). Thus, it may be assumed that, as a general rule, the Fund will
designate participants under subsection (a)(ii) if there are participants that need
special drawing rights in order to comply with the reconstitution requirements of
Schedule G, to reduce a negative balance (i.e., the amount of special drawing rights
that the participant owes the Fund because, at the time of a cancellation, it did not
hold an amount of rights equivalent to its share of the cancellation), or to offset the
effect of a failure to fulfill the expectation referred to in Article XXV, Section 3(a),
on the requirement of need for the use of special drawing rights.

The Outline contained two possible criteria to guide designation among partici-
pants with a sufficiently strong balance of payments and reserve position: (i) the
ratios of these participants' holdings of special drawing rights to their gross reserves,
and (ii) the ratios of such holdings in excess of net cumulative allocations to gross
reserves.

The Executive Directors have examined the relative merits of these two criteria.
The excess holdings criterion is expected, on balance, to offer significant advantages in
its application and to give the new facility a broad basis for designation consistent with the universal approach of the scheme, thereby contributing to the confidence of participants in the new instrument of special drawing rights. At the same time the Executive Directors considered a certain flexibility to be desirable for the future, and they have therefore provided in Article XXV, Section 5 (c), for a review of the rules for designation before the end of each basic period, in order to enable the Fund to adopt new rules if it deems this to be desirable. The Executive Directors have also considered that the results of a system of designation will depend not only on the choice of a criterion to determine the target distribution of holdings of special drawing rights among participants but also on the selection of the participants that should be subject to designation and on the particular formula used to aim over time at harmonization of individual ratios.

Accordingly, Schedule F envisages that participants shall be designated for such amounts as will promote over time equality in their ratios of excess holdings of special drawing rights to their holdings of gold and foreign exchange. Because initially these ratios will be zero for all participants, paragraph (b) (i) of the Schedule indicates that participants will be designated in amounts that are proportionate to their official holdings of gold and foreign exchange. With the passage of time situations are likely to arise in which such ratios for one or more participants subject to designation may be significantly below those of the majority of other participants in the group. Paragraph (b) (ii) therefore envisages a designation process which will tend to reduce gradually the difference between low and high ratios among participants subject to designation, in order to avoid sudden and massive designation of participants with relatively low ratios. The intention is that such participants, once their position permitted their being made subject to designation, would be designated, to the extent that the volume of designation permits, in amounts calculated to raise their ratios at a steady pace within approximately one year to the vicinity of the ratios that are relatively high. The formula for doing this will be determined from time to time by the Fund. Any amounts not designated in accordance with this formula would normally be assigned to the other participants subject to designation under subsection (a) (i) of Article XXV, Section 5, in a manner consistent with the objective of a harmonization of ratios.

The Fund will exercise its power of designation in a manner that will ensure that participants will be able to use their special drawing rights in order to obtain currency. Thus, if a designated participant were to fail to provide currency to a participant using its special drawing rights in accordance with Article XXV, Section 2 (a), the Fund would make any necessary additional designations.

14. Transactions Not Requiring Designation

Under Article XXV, Section 2 (b) (ii), the Fund is given the power to prescribe transactions in which a participant may engage in agreement with any other participant whether designated or not. The provision contains a list of transactions that the Fund may prescribe. The prescription of these transactions may be made by a decision or by rules and regulations adopted by the Executive Directors. The Fund is given discretion to specify transactions from among those listed. It may specify all or none of the categories listed; or it may specify individual transactions in one or more of the categories. By an 85 per cent majority in the Board of Governors, additional transactions or categories of transactions outside the categories in the list may be prescribed. Under Article XXV, Section 2 (b) (ii), a principle is established for the adoption of decisions under that provision. These decisions of the Fund must be consistent with the provisions of the Agreement and with the proper use of special drawing rights.
under the Agreement; participants will be expected to observe this principle and avoid engaging in transactions without designation which might prejudice basic features of the scheme such as the requirement of need.

Article XXV, Section 2 (b) (i), expressly exempts certain transactions from designation. The Fund may prescribe any necessary rules and regulations under Article XII, Section 2 (g), in order to implement this provision.

15. Requirement of Need

As a general rule, a participant will be expected to use special drawing rights in transactions with other participants only if it has a need as defined in Article XXV, Section 3 (a). Section 4 of this Report deals with the requirement of need in operations and transactions in which participants obtain currency from other prescribed holders.

The definition of need given in Article XXV, Section 3 (a), covers all balance of payments needs, whether these arise from current or capital transactions. Because these needs can be defined in various ways, reference is also made to “developments in its [a participant’s] official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund,” to indicate that these developments, even if attributable to conversions of balances of the member’s currency and not to a balance of payments deficit, may give rise to a need to use special drawing rights. Use of special drawing rights merely to reduce holdings of such rights while the total of holdings of gold and foreign exchange and the reserve position in the Fund is increasing or would increase as a result of such use would not be regarded as meeting the requirement of need. However, the use of rights to meet a payments need may have the incidental effect of changing the relative proportions in which a participant holds different reserve assets.

16. Transactions Without Requirement of Need

Under Article XXV, Section 3 (c), the Fund is authorized to prescribe transactions in which participants may use special drawing rights without fulfilling the requirement of need. The categories of transactions listed in that provision are the same as those listed in Article XXV, Section 2 (b) (ii), but, in contrast to the exemptions from the requirement of designation, the list is exhaustive and the Fund cannot prescribe transactions that go beyond its scope. As in the case of the prescription of transactions that are not subject to designation, prescriptions under Article XXV, Section 3 (c), may be made by a decision or by rules and regulations adopted by the Executive Directors, and may relate to individual transactions or categories of transactions falling within the listed categories. The transactions exempted by prescription from the requirement of need do not have to coincide at any given time with those that are exempted from the requirement of designation. In prescribing transactions or categories of transactions that are exempted from the requirement of need the Fund will take into account the extent to which a participant has to obtain special drawing rights for the purpose of meeting the objectives of Section 3 (c) of Article XXV.

17. Reconstitution

Under the reconstitution principles set forth in Article XXV, Section 6, and Schedule G, a participant’s net use of its special drawing rights must be such that the average of its daily holdings of special drawing rights over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocations of special drawing rights over the same period. It is envisaged that the Fund will assist participants to comply with this requirement through designation of Article XXV,
Section 5 (a) (ii), and rules to that effect will be adopted by the Fund. If a participant is unable to obtain sufficient special drawing rights through designation, it must obtain them from the General Account or from another participant specified by the Fund for this purpose to the extent that the General Account is unable to supply them.

The reconstitution rules set forth in Schedule G will be reviewed by the Fund before the end of each basic period. The Board of Governors by an 85 per cent majority of the total voting power may adopt, modify, or abrogate rules for reconstitution.

18. Operations and Transactions Through the General Account

The principal provisions governing the acceptance and use of special drawing rights by the Fund in operations and transactions conducted through the General Account are set forth in Article XXV, Section 7. These provisions impose an obligation on the Fund to accept special drawing rights in two specified cases in which the provisions of the Articles require payments to be made to the Fund in special drawing rights. However, the Fund will have authority to accept, to the extent that it may decide, special drawing rights in the General Account in the cases indicated in subsection (c) of Section 7.

Subsections (d), (e), and (f) describe the circumstances in which the Fund will be authorized to use special drawing rights held in the General Account to obtain currencies from participants. Under subsection (d) the Fund may require a participant to provide its currency to the Fund for special drawing rights, if the Fund deems it appropriate to replenish its holdings of the participant's currency in the General Account and has consulted the participant on alternative ways of replenishment under Article VII, Section 2. Under subsection (f) the Fund may use special drawing rights only by agreement with the participant involved in the operation or transaction.

In order to assist a participant to meet its need for special drawing rights to carry out the objective of reconstitution, to eliminate any negative balance, or to reverse the effects of a transaction engaged in inconsistently with the rule of need, subsection (e) authorizes the Fund to provide this participant with special drawing rights from the General Account for gold or currency acceptable to the Fund.

19. Exchange Rates

Under Article XXV, Section 8, the exchange rates for operations and transactions are to be such as will ensure that a participant using its special drawing rights will receive the same value, on the basis of the exchange rates prevailing at the time the transaction takes place, whatever the currencies that might be provided and whichever the participant that provides the currency. The Fund will have to adopt regulations to give effect to this principle, and will consult a participant on the procedure for determining rates of exchange for its currency.

The rates prescribed under Article XXV, Section 8, will not apply to operations and transactions in special drawing rights with the General Account. Those operations and transactions will be executed at the rate at which the Fund holds the currency involved, which normally is the par value of the currency.

20. Interest and Charges

Under the provisions of Article XXVI, the rate of interest and the rate of charges will be the same. The net effect of these provisions will be the payment of interest by the Fund to a participant on the excess of its holdings of special drawing rights over its net cumulative allocation, and the payment of charges by a participant on the
amount by which its holdings of special drawing rights are less than its net cumulative allocation. As a matter of accounting practice, the amount of interest to be paid to a participant and the amount of charges to be paid by that participant will be offset and only the balance will be paid or collected, as the case may be, by the Fund. Interest and charges will be payable in special drawing rights.

Section 3 of Article XXVI sets the rate at 1/2 per cent per annum, but the Fund is given authority to apply a different rate within maximum and minimum levels. Under this authority, the Fund could set the rate at the same level as the remuneration to be paid to members under Article V, Section 9, but it will not be required to do so.

If a participant does not have sufficient special drawing rights to meet the payment of charges, it will be able to obtain special drawing rights from the General Account or from another participant specified by the Fund for this purpose to the extent that the General Account is unable to supply them.

21. Expenses of the Special Drawing Account

The expenses of conducting the business of the Special Drawing Account are to be met by the Fund from the resources held in the General Account. However, under Article XXII, Section 2, the Fund will be reimbursed periodically on the basis of a reasonable estimate of these expenses. For the purpose of such reimbursement, the Fund will levy assessments under Article XXVI, Section 4, on all participants in proportion to their net cumulative allocations. The amounts assessed will be paid directly into the General Account and, like interest and charges, will be payable in special drawing rights.

22. Administration of the Special Drawing Account

Because participation may not be coextensive with membership in the Fund, Article XXVII contains special rules for calling meetings, determining quorums, and voting majorities for the Board of Governors and the Executive Directors of the Fund when these organs consider matters pertaining to the Special Drawing Account. There is no change in the composition of these two organs of the Fund. All Governors and Directors remain entitled to attend and participate in all meetings and in the discussion of any item on the agenda. However, if a decision is to be taken on an item that pertains exclusively to the Special Drawing Account, for example, on a proposal by the Managing Director to allocate or cancel special drawing rights, only Governors for members that are participants may vote and each Director will be able to cast only the votes of the Fund members appointing or electing him that are participants. It is, therefore, possible that a Director will not have any votes to cast. Similarly, whether a Governor or Director may cast votes on an item pertaining exclusively to the Special Drawing Account will determine whether he may put an item on the agenda, whether he may request that a meeting be called, and whether there is a quorum for any meeting.

There is no special provision in Article XXVII regarding the voting power of members that are participants for the purpose of decisions on matters relating to the Special Drawing Account. There is no need for such a provision because the voting power of these members will be determined for all purposes by the present provisions of Article XII, Section 5. Accordingly, for the purposes of the Special Drawing Account as well, each participating member will have 250 votes plus one vote for each part of its quota equivalent to one hundred thousand U.S. dollars.

Decisions on certain important issues that require an 85 per cent majority of the total voting power as well as a decision to liquidate the Special Drawing Account can be taken only by the Board of Governors. These issues are those relating to the
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prescription of other holders, the allocation and cancellation of special drawing rights, the prescription of additional transactions not requiring designation, and the amendment or abrogation of reconstitution rules.

23. Suspension of Participants' Use of Special Drawing Rights

Article XXIX, Section 2 (f), makes it clear that the suspension of a participant's use of special drawing rights pursuant to the provisions of that Article will not affect, in any way, its right as a member to make use of the resources of the Fund in the General Account, and conversely, any limitation of this right of a member that is a participant will not affect, in any way, the participant's right to use its special drawing rights.

24. Definition of Currency Convertible in Fact for Transactions in Special Drawing Rights

The provisions of Article XXXII (b) are designed to ensure that any participant using special drawing rights to obtain "currency convertible in fact" from a designated participant can obtain, directly or indirectly, any one of a number of convertible currencies that he may choose, in amounts determined by the exchange rates prescribed under Article XXV, Section 8, in accordance with the principle of equal value.

This objective is to be achieved by establishing a group of currencies which will be interconvertible at appropriate rates of exchange for balances arising in connection with the use of special drawing rights. Only currencies with respect to which there are procedures designed to ensure this interconvertibility to the satisfaction of the Fund and which in addition are convertible in the sense that they are the currencies of participants that freely buy and sell gold under Article IV, Section 4 (b), or have accepted the obligations of Article VIII, Sections 2, 3, and 4, will qualify for inclusion in this group.

In addition to the currencies mentioned in the preceding paragraph, currency convertible in fact will also include balances of any other currency for which suitable arrangements exist for conversion, at rates of exchange prescribed by the Fund, into any of the currencies in the group that are interconvertible. Through one or more conversions, such balances can in fact be converted into any of the currencies in the group.

25. Definition of Reserve Position in the Fund

Article XXXII (c) defines a participant's "reserve position in the Fund" as the sum of the gold tranche purchases that the participant could make and the amount of any Fund indebtedness to the participant which is "readily repayable" under a loan agreement. Examples of the latter are the indebtedness of the Fund to participants in the General Arrangements to Borrow and the indebtedness to Italy under the 1966 Loan Agreement, both of which have been entered into under Article VII, Section 2. Members that have made loans to the Fund under these agreements may obtain early repayment by representing to the Fund that there is a balance of payments need for repayment and requesting such repayment.

26. Termination of Participation

The principles governing termination of participation in the Special Drawing Account, which are set forth in Article XXX and Schedule H, are generally the same as those governing the settlement of accounts on withdrawal of a member from membership in the Fund. A participant may terminate its participation in the Special
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Drawing Account at any time without withdrawing from membership in the Fund. Withdrawal from the Fund automatically terminates participation in the Special Drawing Account.

27. Liquidation

The principal issue in devising any procedure for liquidation is the distribution of the burden of any default. Article XXXI and Schedule I distribute the burden of default among all participants on the basis of their net cumulative allocations. This is accomplished by a system of liquidation under which the Fund redeems special drawing rights first from the participant that holds the largest amount in proportion to its net cumulative allocation until this proportion is reduced to that of the participant with the second highest proportion. The Fund then redeems special drawing rights held by these two participants until the proportion held by each is reduced to that of the participant with the third highest proportion and so on until all amounts paid in the Fund by participants have been distributed. Thus a participant's share of any possible default does not increase as its holdings of special drawing rights increase above its net cumulative allocation.

PART II

Modifications in Rules and Practices of the Fund

28. General Comments

Board of Governors Resolution No. 22-8, which called on the Executive Directors to propose amendments to the Articles and the By-Laws of the Fund for the purpose of establishing the new facility based on special drawing rights, also requested the Executive Directors to consider at the same time and report on possible improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of its Articles of Agreement. The Executive Directors have considered various suggestions for improvements and have decided to recommend the introduction of certain changes in the present rules and practices of the Fund, all of which would be made by amending the Articles. These changes relate to: certain quota increases and associated matters; uniform proportionate changes in par values and the maintenance of the gold value of the Fund's assets in the event that such changes in par values are made; the use of the Fund's resources in the gold tranche, including use for capital transfers; a limitation on the Fund's power to introduce new facilities in the General Account for the unconditional use of the Fund's resources; the rules on repurchase under Article V, Section 7; the payment of a remuneration to members whose currencies are held by the Fund in amounts less than 75 per cent of quota; the distribution of net income; and the interpretation of the Articles of Agreement. The modifications in Articles I, III, IV, V, VI, XII, XVIII, and XIX, and in Schedule B, which are included in the Proposed Amendment, are intended to give effect to these changes.

Three general points should be made in connection with these modifications. First, some of them represent no more than a clarification or codification of practices developed over the years and followed currently by the Fund on the basis of the Articles of Agreement in their present form. Secondly, some modifications are intended to adapt the Articles to the fact that there will be a facility which will make it possible to allocate special drawing rights of an unconditional character. Finally, while one of the effects of these modifications will be to prevent the establishment of new facilities for the unconditional use of the Fund's resources, they are not intended
to make the rules and practices relating to the use of the Fund's resources more restrictive than they are at the present time.

29. Quota Changes and Related Matters

Under Article III, Section 2, in its present form, all changes in quotas require a four-fifths majority of the total voting power. Under the Proposed Amendment decisions on changes in quotas, including special increases and increases by installments, proposed as the result of a general review will require a new special majority, i.e., 85 per cent of the total voting power. The general reviews referred to in the amended provision are those that have as their purpose an examination of the appropriateness of the quotas of all members, and they will include not only the reviews of the quotas of all members which the Fund is required to conduct at intervals of five years but also any reviews of this kind conducted at other times. All other changes in quotas will continue to require a four-fifths majority of the total voting power.

The majority of 85 per cent will also apply to decisions specifying conditions precedent to the effectiveness of quota increases proposed as a result of a general review. The adoption of these conditions is subject at present to the four-fifths majority which is applicable to quota increases. Examples of such conditions drawn from past practice are the requirement of a minimum total participation in a general increase and the payment of the additional subscriptions before the increases become effective. As at present, the power to adopt these conditions will be exercised by the Board of Governors as a reserved power.

Under a new provision, Article III, Section 4 (c), an 85 per cent majority will be required for decisions on other matters that are related to quota increases proposed as the result of a general quota review even though they do not involve conditions precedent to the effectiveness of the increases. These decisions include any decision pursuant to Article III, Section 4 (a), under which a member may be permitted to pay less than 25 per cent of its additional subscription in gold. The new provision will also apply to any decision intended to mitigate the effects of the payment of additional subscriptions. At present, the Articles provide that all of these decisions are to be made by the Executive Directors by a majority of the votes cast. After the Proposed Amendment enters into force the power to make such decisions will be reserved to the Board of Governors.

The special majority of 85 per cent of the total voting which will be required as the result of various changes in the rules and practices of the Fund is analogous to the majority required for a number of important decisions under the new facility based on special drawing rights.

30. Uniform Proportionate Changes in Par Values and Maintenance of Gold Value

Under the modifications in Article IV, Section 7, a decision to make a uniform proportionate change in par values also will require an 85 per cent majority of the total voting power. This changes the present provision in two respects. It replaces the simple majority with a special majority and eliminates the requirement that the uniform proportionate change be approved by those members that have 10 per cent or more of the total of Fund quotas. The power to make a uniform proportionate change in par values will continue to be reserved to the Board of Governors.

Under the modifications in Article IV, Section 8 (d), and Article XII, Section 2 (b) (iii), a decision to waive the maintenance of the gold value of the Fund's
assets in the event of a uniform proportionate change in par values will require an 85 per cent majority of the total voting power, and the power to make the decision will be reserved to the Board of Governors. At present the power to make a decision of this kind is not reserved to the Board of Governors and a special majority is not required.

31. Temporary Character of Use of the Fund’s Resources

The modifications in Article I and the inclusion in Article V of a new Section 3 (c) state expressly what is regarded as implicit in the present Articles, i.e., that use of the Fund’s resources must be of a temporary character and that the Fund must adopt policies intended to encourage members to take measures that will help them to avoid a use which is not of such a character. In this way the Fund safeguards the revolving character of its resources. Therefore, no changes in the established policies and practices of the Fund, as set forth in the Fund’s decision of February 13, 1952, and in other decisions would be called for by the entry into force of the Proposed Amendment. The resources of the Fund referred to in Article I (v) and in other provisions of the Articles are those that will be held by the Fund in the General Account.

32. Legal Automaticity of Gold Tranche Purchases

Requests for gold tranche purchases now enjoy de facto automaticity. One of the effects of the modifications in Article V, Section 3, will be to make the use of the Fund’s resources in the gold tranche legally automatic.

After the amendment, the use of the Fund’s resources in the gold tranche will continue to be subject to the provisions of Article V, Section 3 (a). Accordingly, members making requests for purchases in the gold tranche will still be required to make the representation of need prescribed by Article V, Section 3 (a) (i). However, the Fund will not have the legal power to challenge this representation.

Article V, Section 3 (a) (iii), will be amended to eliminate the necessity for a waiver that might have been required for a gold tranche purchase in certain circumstances. Furthermore, Article VI, Sections 1 (a) and 2, as amended, will remove the present limitation on making gold tranche purchases for meeting capital transfers. A member will be able to make gold tranche purchases even though they are to meet what might be regarded as a large or sustained outflow of capital. The established legal position will be maintained in respect of requests for purchases other than gold tranche purchases. Accordingly, a member will be able, as at present, to use the Fund’s resources to meet capital outflows subject to Article VI, Section 1.

The legal automaticity of gold tranche purchases will not prejudice the application of the Fund’s policies on the currencies to be used in purchases. These policies are set forth in the Fund’s Decision of July 20, 1962 and are applicable to all purchases including gold tranche purchases.

The legal automaticity of gold tranche purchases raises the question of possible misuse by a member of its right to make such purchases without challenge by failing to observe the principle of need set forth in Article V, Section 3 (a) (i). The Executive Directors believe that if the question should arise it could be met by an adjustment, in due time, of the Fund’s policies with respect to the currencies to be used in purchases in order to bring about a correction of the effects of any misuse by a member of the kind referred to above.

The Fund will continue to have authority under the Articles of Agreement to declare a member ineligible to use the Fund’s resources even in the gold tranche if the member makes gold tranche purchases without observing the principle of need.
33. Definition of Gold Tranche Purchases

The changes in the Articles commented upon in sections 32, 34, and 36 of this Report should be understood in the light of the definition of gold tranche purchases in a new provision, Article XIX (j). This definition is somewhat different from the definition of gold tranche purchases which prevailed in Fund practice until less than two years ago and according to which a gold tranche purchase was understood as a purchase which did not cause the Fund's holdings of a member's currency to exceed 100 per cent of its quota. By permitting the exclusion of purchases under the compensatory financing facility and the holdings of currency acquired by the Fund as a result of those purchases, the definition in Article XIX (j) will make it possible for the Fund to continue the present practice of treating the compensatory financing facility as separate for the purpose of applying the Fund's policies on the use of its resources. This practice was introduced by the amendments to the Decision on Compensatory Financing of Export Fluctuations adopted on September 20, 1966, under which the Fund applies "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 drawing outstanding under paragraph (5)" of that decision.

Under the definition in Article XIX (j), a purchase under paragraph (5) of the compensatory financing decision will not be regarded as a gold tranche purchase even if it does not raise the Fund's holdings of a member's currency above the level of the member's quota. Conversely, a purchase not under the compensatory financing facility which raises the Fund's holdings above that level will be regarded as a gold tranche purchase, provided that the amount by which the quota level is exceeded will not be larger than the amount of any purchases outstanding under the compensatory financing decision.

In view of the possibility that, under the definition of gold tranche purchases in Article XIX (j), a gold tranche purchase may increase the Fund's holdings above the quota level and in order to preserve the legal automaticity of requests to make gold tranche purchases under Article V, Section 3 (d), the text of Article V, Section 3 (a) (iii), is amended so that a waiver under Article V, Section 4, will not be necessary. Under the amended text of Section 3 (a) (iii), however, a purchase under the compensatory financing decision which, together with any other net increases in the Fund's holdings of the member's currency, causes these holdings to increase by more than 25 per cent of quota during the period of 12 months ending on the date of the purchase, will require a waiver under Article V, Section 4, even though it does not raise the Fund's holdings above the quota level. At present, any purchase below the quota level, including a purchase under the compensatory financing decision, does not require a waiver.

34. Termination of Power to Establish New Unconditional Facilities in the General Account

As a result of the adoption of Article V, Section 3 (d), the Fund will not have the power to create any new facility in the General Account for the unconditional use of its resources. This provision reflects the view that, with the establishment of the new facility based on special drawing rights, any need for additions to existing reserve assets will be met, as and when it arises, through allocations of special drawing rights. The provision makes it explicit that a member's representation under Article V, Section 3 (a), must be examined in order to determine that the requested purchase would be consistent with the provisions of the Articles and the policies on the use of the Fund's resources adopted under Article V, Section 3 (e). This means that the Fund will not grant de fact
automaticity (i.e., "the overwhelming benefit of any doubt" or treatment having the same effect) to requests for purchases other than gold tranche purchases. The Fund will continue to be able to adapt its policies governing purchases other than gold tranche purchases in all other respects.

The changes in Article V, Section 3, will be without prejudice also to the Fund's compensatory financing facility and the adjustment of that policy if this should be considered desirable. In addition, as already indicated, these changes are not intended to make the rules and practices relating to the use of the Fund's resources more restrictive than they are at present.

35. Rules on Repurchase

The modifications in Article V, Section 7, Article XII, Section 2 (b), Article XIX (a) and (e), and Schedule B, will introduce the following changes in the present rules on repurchase:

(a) At present, the amounts of a member's currency that are held by the governmental agencies and other official institutions of other members, as well as by banks within the territories of the latter, are deducted from the member's official holdings of gold and convertible currencies under Article XIX (e). The deduction of these currency liabilities will be abolished, thereby introducing a gross concept of monetary reserves as the basis of the calculation of members' repurchase obligations and for certain other purposes. This change is effected through the modifications in Article XIX (a) and (e). The new paragraph 6 of Schedule B sets forth a transitional rule designed to prevent the accrual of repurchase obligations solely because of the elimination of the deduction of currency liabilities during a financial year of the Fund. It will apply only in the year in which the Proposed Amendment enters into force and, thereafter, no deductions will be made for currency liabilities.

(b) The abatement of repurchase obligations calculated in a member's currency, which the Fund may not accept because the acceptance would increase the Fund's holdings of that currency above 75 per cent of the member's quota, will be eliminated. Under paragraph 1 (d) of Schedule B the amounts that would be abated for this reason will have to be discharged in other convertible currencies as determined by the Fund.

(c) The present paragraph 2 of Schedule B, which will be retained as paragraph 2 (a), prohibits the Fund from acquiring the currency of any nonmember by way of repurchase but does not indicate how repurchase obligations that accrue in specified nonmember currencies are to be treated. The proposed paragraph 2 (b) of Schedule B provides that repurchase obligations that accrue in specified nonmember currencies will be paid in the convertible currencies of members as determined by the Fund. The Fund has never specified a nonmember currency for the purposes of repurchases but would be likely to do so if it found that members held appreciable amounts of a nonmember currency.

(d) The present Article V, Section 7 (c) (i), provides that a repurchase shall not be carried out to the extent that it would reduce the repurchasing member's monetary reserves, as presently defined on a net basis, below an amount equal to its quota. Under the amended Article V, Section 7 (c) (i), a level of monetary reserves, defined on a gross basis, equivalent to 150 per cent of quota will be substituted for the quota level. If a repurchase obligation accrues which would exceed this limit, the excess will be abated.

(e) Under the proposed Article V, Section 7 (c) (iv), there will be an annual limit on repurchases under Article V, Section 7 (b), equal to 25 per cent of a member's quota. Under the new paragraph 1 (e) of Schedule B, if an obligation accrues which exceeds
Proposed Amendment of Articles of Agreement

this amount, the excess will be postponed to the end of the subsequent financial year or years, but not more than 25 per cent of the member’s quota will have to be repurchased in any one year under postponed and other repurchase obligations accruing under Article V, Section 7 (b). This new rule will not affect repurchases made outside Article V, Section 7 (b).

(f) A change will be introduced in the formula on the basis of which repurchase obligations are calculated. The present formula takes account of increases in the Fund’s holdings of a member’s currency and increases or decreases in its monetary reserves during a year. Under the modified formula in Article V, Section 7 (b) (i), account will also be taken of decreases in the Fund’s holdings of the member’s currency during the year. This change will reduce a member’s repurchase obligation under Article V, Section 7 (b), at the end of a financial year by the full amount of other repurchases made during that year, whereas at present they reduce the obligation only by one half of the full amount. It should be noted that, in respect of repurchases outside Article V, Section 7 (a) or (b), the Fund has legal authority to specify the acceptable convertible currencies that the repurchasing member may use.

(g) In accordance with paragraph 5 of Schedule B, the Fund, in its discretion, will be able to accede to a member’s request that in the calculation of its monetary reserves a deduction be made for its outstanding obligations resulting from swap transactions with other members.

(h) The Fund will have the power to revise the percentage of quota below which repurchases may not reduce a repurchasing member’s monetary reserves and the annual limit on repurchases under Article V, Section 7 (b). In addition, the Fund will be able to revise and supplement, in a manner consistent with the other repurchase provisions of the Articles, the newly introduced rules in paragraph 1 (c), (d), and (e) and paragraph 2 (b) of Schedule B. The Fund is granted this power under Article V, Section 7 (d). Under this provision and Article XII, Section 2 (b) (ix), the power is reserved to the Board of Governors which can exercise it by an 85 per cent majority of the total voting power.

(i) Under Article XXV, Section 7 (a) and (b), special drawing rights are to be included in the monetary reserves of members for the purposes of the Articles. As a result of these provisions and of the modifications in the introductory parts of Article V, Section 7 (b), and in paragraph 1 of Schedule B, repurchase obligations may accrue in special drawing rights, and the Fund will accept special drawing rights in repurchase under Article V, Section 7 (b). However, the Fund may decide that no account be taken of any increase or decrease in monetary reserves during a financial year which is due to allocations or cancellations of special drawing rights during the same year.

36. Service Charge

Article V, Section 8 (a), as amended, will maintain the existing maximum rate of the service charge that the Fund can levy on exchange transactions. The present minimum rate for exchange transactions will be unaffected, except that the Fund will be authorized to levy a lower charge or no charge on gold tranche purchases. The Executive Directors believe that initially no service charge should be levied on gold tranche purchases, subject to any change in this policy that would be appropriate in the light of subsequent developments.

37. Remuneration

A new provision, Article V, Section 9, will require the Fund to pay a return to members on the excess of 75 per cent of a member’s quota over the average of the

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Fund's holdings of the member's currency, or, in other words, on the Fund's net use of a member's normal currency subscription. The rate of remuneration will be $1\frac{1}{2}$ per cent per annum. However, the Executive Directors would be able to specify other rates within the limits of 1 to 2 per cent per annum by a majority of the votes cast. The Executive Directors would be able to make changes beyond these limits by a three-fourths majority of the total voting power, but it is not expected that this would be done unless it were necessary in the light of developments in international money markets.

The remuneration will be payable in gold or in the member's own currency or partly in gold and partly in that currency. The Executive Directors believe that the Fund's policy should be to pay remuneration in gold to the extent that receipts of gold from members in payment of charges under Article V, Section 8, would permit, subject again to any change in this policy that would be appropriate in the light of subsequent developments.

38. Distribution of Net Income

Article XII, Section 6, in its present form, requires that, before any distribution of the net income of any year is made by the Fund to all members on the basis of quotas, a 2 per cent noncumulative payment be made to each member on the amount by which 75 per cent of its quota exceeded the Fund's average holdings of the member's currency during the year. Under the amended provision, instead of the 2 per cent preferential payment, the Fund will have to distribute first to members eligible to receive remuneration under Article V, Section 9, an amount of net income which will raise to 2 per cent the return paid to them as remuneration for the year for which net income is distributed.

Under Article XII, Section 6 (c), the Fund will be able to transfer to general reserve all or part of its special reserve to which the yield of its investment is placed. The yield of the investment is not net income in the sense of, and cannot be distributed under, Article XII, Section 6. Moreover, it can be used only for the limited purpose of meeting administrative deficits. Amounts transferred from special to general reserve, however, will be available to meet a deficit of any character, whether operational or administrative, including a deficit resulting from the payment of remuneration under Article V, Section 9, but they will continue to be unavailable for distribution as net income under Article XII, Section 6.

The power to make transfers to general reserve from the existing or any other special reserve will be without prejudice to any future decisions on the maintenance or termination of the Fund's investment. The power to make transfers will be exercised by the Board of Governors, and a provision reserving it to the Board of Governors is inserted as Article XII, Section 2 (b) (x).

39. Interpretation

Article XVIII, as amended, will require the establishment of a standing Committee on Interpretation of the Board of Governors. A question of interpretation of the Articles, on which the Executive Directors have given a decision under Article XVIII and which, at the request of a member made within three months from the date of that decision, is referred to the Board of Governors, will have to be considered first by this Committee. The decision of this Committee will be regarded as the decision of the Board of Governors, and therefore final, unless the Board of Governors decides otherwise by an 85 per cent majority of the total voting power. Article XVIII (b) prescribes that each member of the Committee on Interpretation shall have one vote. Other
matters, such as the membership, procedures, and voting majorities of the Committee, are left for later determination by the Board of Governors by means of a By-Law. In addition, under Article XXVII (c), the Board of Governors will have the power to determine whether all members of the Committee will be entitled to vote on a question of interpretation pertaining exclusively to the Special Drawing Account.

PART III

Procedure

40. Applicable Legal Provisions

The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XVII which reads:

(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);
(ii) the provision that no change in a member’s quota shall be made without its consent (Article III, Section 2);
(iii) the provision that no change may be made in the par value of a member’s currency except on the proposal of that member (Article IV, Section 5 (b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

41. Resolution of Board of Governors

Annex A contains the text of a Resolution, and there is attached to it a Proposed Amendment to the Articles of Agreement. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund bring the Resolution and Proposed Amendment before the Board of Governors for its approval. Pursuant to this request the Secretary is transmitting them to the Board with this Report.

In the judgment of the Executive Directors the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Directors, pursuant to Section 13 of the By-Laws, request Governors to vote without meeting. In accordance with established practices, the Executive Directors have also decided to waive the requirement that no Governor shall vote until seven days after the dispatch of the motion. To be valid votes must be received at the seat of the Fund on or before May 31, 1968.
For the adoption of the Resolution it will be necessary that replies be received from a majority of the Governors exercising two thirds of the total voting power and that a majority of the votes cast be in favor of the Resolution. The Resolution must be voted on as a whole.

42. Acceptance of Proposed Amendment by Members

By adopting the annexed Resolution the Board of Governors will grant its approval to the Proposed Amendment of the Articles of Agreement. Members will then be asked, by circular letter or telegram, to notify the Fund whether they accept the Proposed Amendment. The Proposed Amendment can be accepted only in its entirety. That is to say, members will not be able to accept part only of the Proposed Amendment.

In accordance with Article XVII (a) the Proposed Amendment must be accepted by three fifths of the members, having four fifths of the total voting power, before it can enter into force.

43. Entry into Force of Proposed Amendment

When the Proposed Amendment has been accepted by the necessary majority, the Fund will certify the fact by a formal communication to be sent by the Secretary of the Fund to all members. Pursuant to Article XVII (c), the Executive Directors recommend that the Proposed Amendment enter into force on the date of the formal communication instead of three months after that date. In accordance with that provision and paragraph 3 of the Resolution, the circular letter or telegram by which members will be asked whether they accept the Proposed Amendment will specify the date of the formal communication referred to above as the date of the entry into force of the Proposed Amendment.

The Proposed Amendment will enter into force for all members on the date of the formal communication, whether they accepted the Amendment or not. Presumably, members accepting the Proposed Amendment will have taken any legislative and other action that may be necessary to enable them to carry out their obligations under the Articles of Agreement as amended. Other members that have not accepted the Proposed Amendment will need to consider whether any action is necessary in order to enable them to carry out their obligations under the Articles of Agreement as amended.

44. Notification to Depositary of Articles of Agreement

Upon certification of the entry into force of the Proposed Amendment it is intended to notify that fact to the Government of the United States, which is the depositary of the Articles of Agreement of the Fund, so that it may record the Amendment. It is also intended to ask the Government of the United States to register the Amendment with the Secretary-General of the United Nations, pursuant to Article 102 of the United Nations Charter.

ANNEX A

RESOLUTION †

WHEREAS the Executive Directors have completed their work relating to the establishment in the International Monetary Fund of a new facility based on special...  

† Resolution No. 23-5, adopted by the Board of Governors effective May 31, 1968.
drawing rights in order to meet the need, as and when it arises, for a supplement to existing reserve assets, and on improvements in the present rules and practices of the Fund, pursuant to Resolution No. 22-8 of the Board of Governors of the International Monetary Fund at its Twenty-Second Annual Meeting in Rio de Janeiro; and

WHEREAS the Executive Directors have prepared a Report setting forth proposals for modifications in the Articles of Agreement of the International Monetary Fund for the purpose of establishing the new facility and giving effect to certain modifications in the present rules and practices of the Fund; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposals of the Executive Directors before the Board of Governors; and

WHEREAS the Report of the Executive Directors setting forth their proposals has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Directors have requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 23 of the By-Laws of the Fund;

Now, THEREFORE, the Board of Governors, noting the said Report of the Executive Directors, hereby RESOLVES that:

1. The Proposed Amendment to the Articles of Agreement of the International Monetary Fund set forth in the attachment to this Resolution is approved.

2. The Secretary of the Fund is directed to ask, by letter or telegram, all members of the Fund whether they accept, in accordance with the provisions of Article XVII, the Proposed Amendment to the Articles of Agreement as set forth in the attachment to this Resolution.

3. The circular letter or telegram to be sent to all members in accordance with 2 above shall specify that the Proposed Amendment to the Articles of Agreement set forth in the attachment to this Resolution shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having four-fifths of the total voting power, have accepted the modifications.

PROPOSED AMENDMENT TO THE ARTICLES OF AGREEMENT
OF THE INTERNATIONAL MONETARY FUND
PREPARED PURSUANT TO BOARD OF GOVERNORS
RESOLUTION NO. 22-8

A

Introductory Article

The Introductory Article shall read:

“(i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted, and as subsequently amended in order to institute a facility based on special drawing rights and to effect certain other changes.

(ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Account and a Special Drawing Account. Membership in the Fund shall give the right to participation in the Special Drawing Account.

(iii) Operations and transactions authorized by this Agreement shall be conducted through the General Account except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account:”
FINAL OUTLINE AND PROPOSED AMENDMENT

B

Article I

Purposes

1. Article I (v) shall read:

“(v) To give confidence to members by making the Fund’s resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”

2. The last sentence of Article I shall read:

“The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.”

C

Article III

Quotas and Subscriptions

1. Section 2 shall read:

“Section 2. Adjustment of quotas

The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. An eighty-five percent majority of the total voting power shall be required for any change in quotas proposed as the result of a general review and a four-fifths majority of the total voting power shall be required for any other change in quotas. No quota shall be changed without the consent of the member concerned.”

2. The following subsection (c) shall be added to Section 4. Payments when quotas are changed:

“(c) A majority of eighty-five percent of the total voting power shall be required for any decisions dealing with the payment, or made with the sole purpose of mitigating the effects of the payment, of increases in quotas proposed as the result of a general review of quotas.”

D

Article IV

Par Values of Currencies

1. Section 7 shall read:

“Section 7. Uniform changes in par values

Notwithstanding the provisions of Section 5 (b) of this Article, the Fund by an eighty-five percent majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members. The par value of a member’s currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund’s action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.”

2. In Section 8. Maintenance of gold value of the Fund’s assets, subsection (d) shall read:

“(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.”
Proposed Amendment of Articles of Agreement

E

Article V

Transactions with the Fund

1. In Section 3. Conditions governing use of the Fund's resources, subsection (a) (iii) shall read:

"(iii) The proposed purchase would be a gold tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase or to exceed two hundred percent of its quota;"

2. The following subsections (c) and (d) shall be added to Section 3:

"(c) A member's use of the resources of the Fund shall be in accordance with the purposes of the Fund. The Fund shall adopt policies on the use of its resources that will assist members to solve their balance of payments problems in a manner consistent with the purposes of the Fund and that will establish adequate safeguards for the temporary use of its resources."

"(d) A representation by a member under (a) above shall be examined by the Fund to determine whether the proposed purchase would be consistent with the provisions of this Agreement and with the policies adopted under them, with the exception that proposed gold tranche purchases shall not be subject to challenge."

3. In Section 7. Repurchase by a member of its currency held by the Fund, the first sentence of subsection (b) shall read:

"(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with each type of monetary reserve, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to the following changes that have occurred during the year: one-half of any increase in the Fund's holdings of the member's currency, plus one-half of any increase, or minus one-half of any decrease, in the member's monetary reserves, or, if the Fund's holdings of the member's currency have decreased, one-half of any increase in the member's monetary reserves minus one-half of the decrease in the Fund's holdings of the member's currency."

4. In Section 7, subsection (c) shall read:

"(c) None of the adjustments described in (b) above shall be carried to a point at which

(i) the member's monetary reserves are below one hundred fifty percent of its quota, or

(ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or

(iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned, or

(iv) the amount repurchased exceeds twenty-five percent of the quota of the member concerned."

5. The following subsection (d) shall be added to Section 7:

"(d) The Fund by an eighty-five percent majority of the total voting power may revise the percentages in (c) (i) and (iv) above and revise and supplement the rules in paragraph 1 (c), (d), and (e) and paragraph 2 (b) of Schedule B."

6. In Section 8. Charges, subsection (a) shall read:

"(a) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay, in addition to the parity price, a service charge uniform
for all members of not less than one-half percent and not more than one percent, as
determined by the Fund, provided that the Fund in its discretion may levy a service
charge of less than one-half percent on gold tranche purchases."

7. The following Section shall be added to Article V:

"Section 9. Remuneration

(a) The Fund shall pay remuneration, at a rate uniform for all members, on the
amount by which seventy-five percent of a member's quota exceeded the average of the
Fund's holdings of the member's currency, provided that no account shall be taken of
holdings in excess of seventy-five percent of quota. This rate shall be one and one-half
percent per annum, but the Fund in its discretion may increase or reduce this rate,
provided that a three-fourths majority of the total voting power shall be required for any
increase above two percent per annum or reduction below one percent per annum.

(b) Remuneration shall be paid in gold or a member's own currency as determined
by the Fund."

F

Article VI

Capital Transfers

1. In Section 1. Use of Fund's resources for capital transfers, subsection (a) shall read:

"(a) A member may not use the Fund's resources to meet a large or sustained outflow
of capital except as provided in Section 2 of this Article, and the Fund may request a
member to exercise controls to prevent such use of the resources of the Fund. If, after
receiving such a request, a member fails to exercise appropriate controls, the Fund may
declare the member ineligible to use the resources of the Fund."

2. Section 2 shall read:

"Section 2. Special provisions for capital transfers

A member shall be entitled to make gold tranche purchases to meet capital transfers."

G

Article XII

Organization and Management

1. In Section 2. Board of Governors, subsection (b) (ii) and (iii) shall read:

"(ii) Approve a revision of quotas, or to decide on the payment, or on the mitigation
of the effects of payment, of increases in quotas proposed as the result of a general
review of quotas."

"(iii) Approve a uniform change in the par values of the currencies of all members, or to
decide when such a change is made that the provisions relating to the maintenance
of gold value of the Fund's assets shall not apply."

2. The following shall be added to Section 2 (b):

"(ix) Revise the provisions on repurchase or to revise and supplement the rules for the
distribution of repurchases among types of reserves."

"(x) Make transfers to general reserve from any special reserve."

3. The title of Section 6 shall read:

"Reserves and distribution of net income"

4. In Section 6, subsection (b) shall read:

"(b) If any distribution is made of the net income of any year, there shall first be
distributed to members eligible to receive remuneration under Article V, Section 9, for
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that year an amount by which two percent per annum exceeded any remuneration that has been paid for that year. Any distribution of the net income of that year beyond that amount shall be made to all members in proportion to their quotas. Payments to each member shall be made in its own currency."

5. The following subsection (c) shall be added to Section 6:

"(c) The Fund may make transfers to general reserve from any special reserve."

H

Article XVIII
Interpretation

Article XVIII (b) shall read:

"(b) In any case where the Executive Directors have given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board by an eighty-five per cent majority of the total voting power decides otherwise. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors."

I

Article XIX
Explanation of Terms

1. Article XIX (a) shall read:

"(a) A member’s monetary reserves means its official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify."

2. Article XIX (e) shall read:

"(e) The sums deemed to be official holdings of other official institutions and other banks under (c) above shall be included in the member’s monetary reserves."

3. The following shall be added to Article XIX:

"(i) Gold tranche purchase means a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund’s holdings of the member’s currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations."

J

Article XX
Final Provisions

The title of Article XX shall read:

"Inaugural Provisions"
The following Articles XXI through XXXII shall be added after Article XX:

"Article XXI

Special Drawing Rights

Section 1. Authority to allocate special drawing rights

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Account.

Section 2. Unit of value

The unit of value of special drawing rights shall be equivalent to 0.888 671 gram of fine gold.

Article XXII

General Account and Special Drawing Account

Section 1. Separation of operations and transactions

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account. All other operations and transactions of the Fund authorized by or under this Agreement shall be conducted through the General Account. Operations and transactions pursuant to Article XXIII, Section 2, shall be conducted through the General Account as well as the Special Drawing Account.

Section 2. Separation of assets and property

All assets and property of the Fund shall be held in the General Account, except that assets and property acquired under Article XXVI, Section 2, and Articles XXX and XXXI and Schedules H and I shall be held in the Special Drawing Account. Any assets or property held in one Account shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Account, except that the expenses of conducting the business of the Special Drawing Account shall be paid by the Fund from the General Account which shall be reimbursed from time to time by assessments under Article XXVI, Section 4, made on the basis of a reasonable estimate of such expenses.

Section 3. Recording and information

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Account. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

Article XXIII

Participants and Other Holders of Special Drawing Rights

Section 1. Participants

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Account as of the date the instrument is deposited, except that no member shall become a participant before Articles XXI through XXXII and Schedules F through I have entered into force and instruments have
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been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. General Account as a holder

The Fund may accept and hold special drawing rights in the General Account and use them, in accordance with the provisions of this Agreement.

Section 3. Other holders

The Fund by an eighty-five percent majority of the total voting power may prescribe:

(i) as holders, non-members, members that are non-participants, and institutions that perform functions of a central bank for more than one member;

(ii) the terms and conditions on which these holders may be permitted to accept, hold, and use special drawing rights, in operations and transactions with participants; and

(iii) the terms and conditions on which participants may enter into operations and transactions with these holders.

The terms and conditions prescribed by the Fund for the use of special drawing rights by prescribed holders and by participants in operations and transactions with them shall be consistent with the provisions of this Agreement.

Article XXIV

Allocation and Cancellation of Special Drawing Rights

Section 1. Principles and considerations governing allocation and cancellation

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Section 2. Allocation and cancellation

(a) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(b) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(c) In its decision for any basic period the Fund may provide, notwithstanding (a) and (b) above, that:

(i) the duration of the basic period shall be other than five years; or

(ii) the allocations or cancellations shall take place at other than yearly intervals; or

(iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel.

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a par-
participant unless the Fund decides that the new participant shall start to receive allocations
beginning with the next allocation after it becomes a participant. If the Fund decides that a
member that becomes a participant during a basic period shall receive allocations during
the remainder of that basic period and the participant was not a member on the dates
established under (b) or (c) above, the Fund shall determine the basis on which these allo-
cations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any
decision to allocate unless:

(i) the governor for the participant did not vote in favor of the decision; and

(ii) the participant has notified the Fund in writing prior to the first allocation of
special drawing rights under that decision that it does not wish special drawing
rights to be allocated to it under the decision. On the request of a participant, the
Fund may decide to terminate the effect of the notice with respect to allocations of
special drawing rights subsequent to the termination.

(f) If on the effective date of any cancellation the amount of special drawing rights held
by a participant is less than its share of the special drawing rights that are to be cancelled,
the participant shall eliminate its negative balance as promptly as its gross reserve position
permits and shall remain in consultation with the Fund for this purpose. Special drawing
rights acquired by the participant after the effective date of the cancellation shall be applied
against its negative balance and cancelled.

Section 3. Unexpected major developments

The Fund may change the rates or intervals of allocation or cancellation during the rest
of a basic period or change the length of a basic period or start a new basic period, if at
any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. Decisions on allocations and cancellations

(a) Decisions under Section 2 (a), (b), and (c) or Section 3 of this Article shall be made
by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Directors.

(b) Before making any proposal, the Managing Director, after having satisfied himself
that it will be consistent with the provisions of Section 1 (a) of this Article, shall conduct
such consultations as will enable him to ascertain that there is broad support among par-
ticipants for the proposal. In addition, before making a proposal for the first allocation, the
Managing Director shall satisfy himself that the provisions of Section 1 (b) of this Article
have been met and that there is broad support among participants to begin allocations;
he shall make a proposal for the first allocation as soon after the establishment of the
Special Drawing Account as he is so satisfied.

(c) The Managing Director shall make proposals:

(i) not later than six months before the end of each basic period;

(ii) if no decision has been taken with respect to allocation or cancellation for a basic
period, whenever he is satisfied that the provisions of (b) above have been met;

(iii) when, in accordance with Section 3 of this Article, he considers that it would be
desirable to change the rate or intervals of allocation or cancellation or change the
length of a basic period or start a new basic period; or

(iv) within six months of a request by the Board of Governors or the Executive Directors;
provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there
is no proposal which he considers to be consistent with the provisions of Section 1 of this
Article that has broad support among participants in accordance with (b) above, he shall
report to the Board of Governors and to the Executive Directors.

(d) A majority of eighty-five percent of the total voting power shall be required for
decisions under Section 2 (a), (b), and (c) or Section 3 of this Article except for decisions
under Section 3 with respect to a decrease in the rates of allocation.

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Article XXV
Operations and Transactions in Special Drawing Rights

Section 1. Use of special drawing rights

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. Transactions between participants

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights:

(i) to obtain an equivalent amount of its own currency held by the other participant; or

(ii) to obtain an equivalent amount of currency from the other participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 5 of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in Section 3 (a) of this Article; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations. The Fund by an eighty-five percent majority of the total voting power may prescribe additional transactions or categories of transactions under this provision. Any transactions or categories of transactions prescribed by the Fund under this subsection (b) (ii) shall be consistent with the other provisions of this Agreement and with the proper use of special drawing rights in accordance with this Agreement.

(c) A participant that provides currency to a participant using special drawing rights shall receive an equivalent amount of special drawing rights.

Section 3. Requirement of need

(a) In transactions under Section 2 of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only to meet balance of payments needs or in the light of developments in its official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund, and not for the sole purpose of changing the composition of the foregoing as between special drawing rights and the total of gold, foreign exchange, and reserve position in the Fund.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIX, Section 2 (b).

(c) Participants may use special drawing rights without fulfilling the expectation in (a) above to obtain an equivalent amount of currency from another participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 5 of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in (a) above; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations.

Section 4. Obligation to provide currency

A participant designated by the Fund under Section 5 of this Article shall provide on demand currency convertible in fact to a participant using special drawing rights under Section 2 (a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may provide currency in excess of the obligatory limit or any agreed higher limit.
Section 5. Designation of participants to provide currency

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2 (a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

(i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6 (a) of this Article; to reduce negative balances in holdings of special drawing rights; or to offset the effect of failures to fulfill the expectation in Section 3 (a) of this Article.

(iii) In designating participants the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a) (i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation shall be reviewed before the end of the first and each subsequent basic period and the Fund may adopt new rules as the result of a review. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. Reconstitution

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

(b) The rules for reconstitution shall be reviewed before the end of the first and each subsequent basic period and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of the review shall continue to apply. An eighty-five percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. Operations and transactions through the General Account

(a) Special drawing rights shall be included in a member’s monetary reserves under Article XIX for the purposes of Article III, Section 4 (a), Article V, Section 7 (b) and (c), Article V, Section 8 (f), and Schedule B, paragraph 1. The Fund may decide that in calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), no account shall be taken of any increase or decrease in those monetary reserves which is due to allocations or cancellations of special drawing rights during the year.

(b) The Fund shall accept special drawing rights:

(i) in repurchases accruing in special drawing rights under Article V, Section 7 (b); and

(ii) in reimbursement pursuant to Article XXVI, Section 4.

(c) The Fund may accept special drawing rights to the extent it may decide:

(i) in payment of charges; and

(ii) in repurchases other than those under Article V, Section 7 (b), in proportions which, as far as feasible, shall be the same for all members.
(d) The Fund, if it deems such action appropriate to replenish its holdings of a participant's currency and after consultation with that participant on alternative ways of replenishment under Article VII, Section 2, may require that participant to provide its currency for special drawing rights held in the General Account subject to Section 4 of this Article. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Section 5 of this Article.

(e) To the extent that a participant may receive special drawing rights in a transaction prescribed by the Fund to promote reconstitution by it under Section 6(a) of this Article, prevent or reduce a negative balance, or offset the effect of a failure by it to fulfill the expectation in Section 3(a) of this Article, the Fund may provide the participant with special drawing rights held in the General Account for gold or currency acceptable to the Fund.

(f) In any of the other operations and transactions of the Fund with a participant conducted through the General Account the Fund may use special drawing rights by agreement with the participant.

(g) The Fund may levy reasonable charges uniform for all participants in connection with operations and transactions under this Section.

Section 8. Exchange rates

(a) The exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

(b) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(c) For the purpose of this provision the term participant includes a terminating participant.

Article XXVI

Special Drawing Account Interest and Charges

Section 1. Interest

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. Charges

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. Rate of interest and charges

The rate of interest shall be equal to the rate of charges and shall be one and one-half percent per annum. The Fund in its discretion may increase or reduce this rate, but the rate shall not be greater than two percent or the rate of remuneration decided under Article V, Section 9, whichever is higher, or smaller than one percent or the rate of remuneration decided under Article V, Section 9, whichever is lower.

Section 4. Assessments

When it is decided under Article XXII, Section 2, that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. Payment of interest, charges, and assessments

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled
to obtain them with currency convertible in fact from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

Article XXVII

Administration of the General Account and the Special Drawing Account

(a) The General Account and the Special Drawing Account shall be administered in accordance with the provisions of Article XII, subject to the following:

(i) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board with respect to special drawing rights except those under Article XXIII, Section 3, Article XXIV, Section 2 (a), (b), and (c), and Section 3, the penultimate sentence of Article XXV, Section 2 (b), Article XXV, Section 6 (b), and Article XXXI (a).

(ii) For meetings or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Account only requests by or the presence and the votes of governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.

(iii) For decisions by the Executive Directors on matters pertaining exclusively to the Special Drawing Account only directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority.

(iv) Questions of the general administration of the Fund, including reimbursement under Article XXII, Section 2, and any question whether a matter pertains to both Accounts or exclusively to the Special Drawing Account shall be decided as if they pertained exclusively to the General Account. Decisions with respect to the acceptance and holding of special drawing rights in the General Account and the use of them, and other decisions affecting the operations and transactions conducted through both the General Account and the Special Drawing Account shall be made by the majorities required for decisions on matters pertaining exclusively to each Account. A decision on a matter pertaining to the Special Drawing Account shall so indicate.

(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Account shall be submitted to the Executive Directors pursuant to Article XVIII (a) only on the request of a participant. In any case where the Executive Directors have given a decision on a question of interpretation pertaining exclusively to the Special Drawing Account only a participant may require that the question be referred to the Board of Governors under Article XVIII (b). The Board of Governors shall decide whether a governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Account.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Account or between the Fund and any participant during the liquidation of the Special Drawing Account with respect to any matter arising exclusively from participation in the Special Drawing Account, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XVIII (c).
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Article XXVIII
General Obligations of Participants

In addition to the obligations assumed with respect to special drawing rights under other Articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with this Agreement.

Article XXIX
Suspension of Transactions in Special Drawing Rights

Section 1. Emergency provisions

In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the provisions relating to special drawing rights, and the provisions of Article XVI, Section 1(b), (c), and (d), shall then apply.

Section 2. Failure to fulfill obligations

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XXV, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise determines.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant’s obligation to provide currency in accordance with Article XXV, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligation under Article XXV, Section 6(a), shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund’s resources under Article IV, Section 6, Article V, Section 5, Article VI, Section 1, or Article XV, Section 2(a). Article XV, Section 2, shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

Article XXX
Termination of Participation

Section 1. Right to terminate participation

(a) Any participant may terminate its participation in the Special Drawing Account at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Account.
Section 2. Settlement on termination

(a) When a participant terminates its participation in the Special Drawing Account, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Account. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable dispatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. Interest and charges

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates prescribed under Article XXVI. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with currency convertible in fact to pay charges or assessments in a transaction with a participant specified by the Fund or by agreement from any other holder, or to dispose of special drawing rights received as interest in a transaction with any participant designated under Article XXV, Section 5, or by agreement with any other holder.

Section 4. Settlement of obligation to the Fund

Gold or currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the gold or currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

Section 5. Settlement of obligation to a terminating participant

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency or gold provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XXV, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or currency convertible in fact or gold to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, currency convertible in fact, or gold from any holder, if the Fund so permits.

Section 6. General Account transactions

In order to facilitate settlement with a terminating participant the Fund may decide that a terminating participant shall:

(i) use any special drawing rights held by it after the setoff in Section 2(b) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Account to obtain its own currency or currency convertible in fact at the option of the Fund; or
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(ii) obtain special drawing rights in a transaction with the Fund conducted through the General Account for a currency acceptable to the Fund or gold to meet any charges or installment due under an agreement or the provisions of Schedule H.

Article XXXI

Liquidation of the Special Drawing Account

(a) The Special Drawing Account may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Special Drawing Account may be necessary, they may temporarily suspend allocations or cancellations and all transactions in special drawing rights pending decision by the Board. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Account and the Special Drawing Account.

(b) If the Board of Governors decides to liquidate the Special Drawing Account, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Account shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XVIII (c), Article XXVI, Article XXVII (d), Article XXX and Schedule H, or any agreement reached under Article XXX subject to paragraph 4 of Schedule H, Article XXXII, and Schedule I.

(c) Upon liquidation of the Special Drawing Account, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Account.

(d) Liquidation of the Special Drawing Account shall be administered in accordance with the provisions of Schedule I.

Article XXXII

Explanation of Terms with Respect to Special Drawing Rights

In interpreting the provisions of this Agreement with respect to special drawing rights the Fund and its members shall be guided by the following:

(a) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XXIV, Section 2 (a).

(b) Currency convertible in fact means:

(1) a participant's currency for which a procedure exists for the conversion of balances of the currency obtained in transactions involving special drawing rights into each other currency for which such procedure exists, at rates of exchange prescribed under Article XXV, Section 8, and which is the currency of a participant that

(i) has accepted the obligations of Article VIII, Sections 2, 3, and 4, or

(ii) for the settlement of international transactions in fact freely buys and sells gold within the limits prescribed by the Fund under Section 2 of Article IV; or

(2) currency convertible into a currency described in paragraph (1) above at rates of exchange prescribed under Article XXV, Section 8.

(c) A participant's reserve position in the Fund means the sum of the gold tranche purchases it could make and the amount of any indebtedness of the Fund which is readily repayable to the participant under a loan agreement.
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Schedule B

Provisions with Respect to Repurchase by a Member of its Currency Held by the Fund

1. Paragraph 1 shall read:

"1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7(b), shall be made with each convertible currency and each of the other types of monetary reserve, the following rule, subject to 2 below, shall apply:

(a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

(b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase, minus one-half of any decrease in the Fund's holdings of the member's currency that has occurred during the year, shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.

(c) If after the repurchases required under Article V, Section 7(b), had been made, the result would exceed either of the limits specified in Article V, Section 7(c) (i) or (ii), the Fund shall require such repurchases to be made by the member proportionately in such manner that these limits will not be exceeded.

(d) If after all the repurchases required under Article V, Section 7(b), had been made, the result would exceed the limit specified in Article V, Section 7(c) (iii), the amount by which the limit would be exceeded shall be discharged in convertible currencies as determined by the Fund without exceeding that limit.

(e) If a repurchase required under Article V, Section 7(b), would exceed the limit specified in Article V, Section 7(c) (iv), the amount by which the limit would be exceeded shall be repurchased at the end of the subsequent financial year or years in such a way that total repurchases under Article V, Section 7(b), in any year would not exceed the limit specified in Article V, Section 7(c) (iv)."

2. Paragraph 2 shall read:

"2. (a) The Fund shall not acquire the currency of any non-member under Article V, Section 7(b) and (c).

(b) Any amount payable in the currency of a non-member under 1(a) or 1(b) above shall be paid in the convertible currencies of members as determined by the Fund."

3. The following paragraphs 5 and 6 shall be added to Schedule B:

"5. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), the Fund may, in its discretion, on the request of a member, that deductions shall be made for obligations outstanding as the result of transactions between members under a reciprocal facility by which a member agrees to exchange on demand its currency for the currency of the other member up to a maximum amount and on terms requiring that each such transaction be reversed within a specified period not in excess of nine months."

"6. In calculating monetary reserves and the increase in monetary reserves for the purpose of Article V, Section 7(b) and (c), Article XIX (e) shall apply except that the following provision shall apply at the end of a financial year if it was in effect at the beginning of that year:
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'A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above.'

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The following Schedules shall be added after Schedule E:

"Schedule F

Designation

During the first basic period the rules for designation shall be as follows:

(a) Participants subject to designation under Article XXV, Section 5 (a) (i), shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.

(b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:

(i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

Schedule G

Reconstitution

1. During the first basic period the rules for reconstitution shall be as follows:

(a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.

(ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a) (i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XXV, Section 5 (a) (ii), in order to assist them to comply with the requirement in (a) (i) above.

(iii) The Fund shall give special notice to a participant when the calculations under (a) (ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (a) (i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (a) (ii) above.

(iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, at its option for gold or currency
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acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify.

(b) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their holdings of gold and foreign exchange and their reserve positions in the Fund.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIX, Section 2(b).

Schedule II
Termination of Participation

1. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (a) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXX, Section 5, or (b) by permitting the terminating participant to use its special drawing rights to obtain its own currency or currency convertible in fact from a participant specified by the Fund, the General Account, or any other holder.

2. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (a) by the payment to the Fund of currency convertible in fact or gold at the option of the terminating participant, or (b) by obtaining special drawing rights, in accordance with Article XXX, Section 6, from the General Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Account going into liquidation under Article XXXI within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXXI and Schedule I.

Schedule I
Administration of Liquidation of the Special Drawing Account

1. In the event of liquidation of the Special Drawing Account, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in currency convertible in fact and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Account.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Account, the liquidation of the Special Drawing Account shall
not proceed until drawing rights held in the General Account have been distributed in accordance with the following rule:

After the distribution made under 2 (a) of Schedule E, the Fund shall apportion its special drawing rights held in the General Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2 (a). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2 (c) of Schedule E, the Fund shall deduct the distribution of special drawing rights made under this rule.

3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

(a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Account shall be redeemed in accordance with the terms of any agreement under Article XXX or Schedule H.

(b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.

(c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with gold or a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 2 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Account and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Account shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods
or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.”

ANNEX B

[The Outline of a Facility Based on Special Drawing Rights in the Fund that was attached as Annex B is reproduced above, pp. 47-51]
PART THREE

Basic Documents
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Articles of Agreement

The Articles of Agreement of the International Monetary Fund were adopted at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, on July 22, 1944 and entered into force on December 27, 1945. On April 17, 1968 the Executive Board submitted to the Board of Governors proposals for amendments to the Articles (see pages 52-94 above). On May 31, 1968 the Board of Governors approved these proposals; and, after acceptance by the required number of members having the required voting power, the Articles as amended entered into force on July 28, 1969.

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

(i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted, and as subsequently amended in order to institute a facility based on special drawing rights and to effect certain other changes.

(ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Account and a Special Drawing Account. Membership in the Fund shall give the right to participation in the Special Drawing Account.

(iii) Operations and transactions authorized by this Agreement shall be conducted through the General Account except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account.

Article I

Purposes

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article II
Membership

Section 1. Original members
The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2 (e).

Section 2. Other members
Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

Article III
Quotas and Subscriptions

Section 1. Quotas
Each member shall be assigned a quota. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2 (e), shall be those set forth in Schedule A. The quotas of other members shall be determined by the Fund.

Section 2. Adjustment of quotas
The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. An eighty-five percent majority of the total voting power shall be required for any change in quotas proposed as the result of a general review and a four-fifths majority of the total voting power shall be required for any other change in quotas. No quota shall be changed without the consent of the member concerned.

Section 3. Subscriptions: time, place, and form of payment
(a) The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the member becomes eligible under Article XX, Section 4 (c) or (d), to buy currencies from the Fund.

(b) Each member shall pay in gold, as a minimum, the smaller of

(i) twenty-five percent of its quota; or
Articles of Agreement

(ii) ten percent 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.

(c) Each member shall pay the balance of its quota in its own currency.

(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.

Section 4. Payments when quotas are changed

(a) Each member which consents to an increase in its quota shall, within thirty days
after the date of its consent, pay to the Fund twenty-five percent of the increase in gold
and the balance in its own currency. If, however, on the date when the member
consents to an increase, its monetary reserves are less than its new quota, the Fund
may reduce the proportion of the increase to be paid in gold.

(b) If a member consents to a reduction in its quota, the Fund shall, within thirty
days after the date of the consent, pay to the member an amount equal to the reduction.
The payment shall be made in the member's currency and in such amount of gold
as may be necessary to prevent reducing the Fund's holdings of the currency below
seventy-five percent of the new quota.

(c) A majority of eighty-five percent of the total voting power shall be required
for any decisions dealing with the payment, or made with the sole purpose of mitigating
the effects of the payment, of increases in quotas proposed as the result of a general
review of quotas.

Section 5. Substitution of securities for currency

The Fund shall accept from any member in place of any part of the member's
currency which in the judgment of the Fund is not needed for its operations, notes or
similar obligations issues by the member or the depository designated by the member
under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and
payable at their par value on demand by crediting the account of the Fund in the
designated depository. This Section shall apply not only to currency subscribed by
members but also to any currency otherwise due to, or acquired by, the Fund.

Article IV

Par Values of Currencies

Section 1. Expression of par values

(a) The par value of the currency of each member shall be expressed in terms of
gold as a common denominator or in terms of the United States dollar of the weight
and fineness in effect on July 1, 1944.

(b) All computations relating to currencies of members for the purpose of applying
the provisions of this Agreement shall be on the basis of their par values.
Section 2. Gold purchases based on par values

The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

Section 3. Foreign exchange dealings based on parity

The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

(i) in the case of spot exchange transactions, by more than one percent; and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Section 4. Obligations regarding exchange stability

(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

Section 5. Changes in par values

(a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection,

(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests,

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(d) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (c) above.

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed
change because of the domestic social or political policies of the member proposing the change.

Section 6. **Effect of unauthorized changes**

If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2(b).

Section 7. **Uniform changes in par values**

Notwithstanding the provisions of Section 5(b) of this Article, the Fund by an eighty-five percent majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Section 8. **Maintenance of gold value of the Fund's assets**

(a) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(c) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.

Section 9. **Separate currencies within a member's territories**

A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2(g). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

**Article V**

**Transactions with the Fund**

Section 1. **Agencies dealing with the Fund**

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

Section 2. **Limitation on the Fund's operations**

Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the
initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

Section 3. **Conditions governing use of the Fund's resources**

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

(i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;

(iii) The proposed purchase would be a gold tranche purchase, or would not cause the Fund’s holdings of the purchasing member’s currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase or to exceed two hundred percent of its quota;

(iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2(a), that the member desiring to purchase is ineligible to use the resources of the Fund.

(b) A member shall not be entitled without the permission of the Fund to use the Fund’s resources to acquire currency to hold against forward exchange transactions.

(c) A member’s use of the resources of the Fund shall be in accordance with the purposes of the Fund. The Fund shall adopt policies on the use of its resources that will assist members to solve their balance of payments problems in a manner consistent with the purposes of the Fund and that will establish adequate safeguards for the temporary use of its resources.

(d) A representation by a member under (a) above shall be examined by the Fund to determine whether the proposed purchase would be consistent with the provisions of this Agreement and with the policies adopted under them, with the exception that proposed gold tranche purchases shall not be subject to challenge.

Section 4. **Waiver of conditions**

The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3 (a) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund’s resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member’s willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

Section 5. **Ineligibility to use the Fund’s resources**

Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member’s use of the Fund’s resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.
Section 6. Purchases of currencies from the Fund for gold

(a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

Section 7. Repurchase by a member of its currency held by the Fund

(a) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund’s holdings of its currency in excess of its quota.

(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with each type of monetary reserve, as determined in accordance with Schedule B, part of the Fund’s holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to the following changes that have occurred during the year: one-half of any increase in the Fund’s holdings of the member’s currency, plus one-half of any increase, or minus one-half of any decrease, in the member’s monetary reserves, or, if the Fund’s holdings of the member’s currency have decreased, one-half of any increase in the member’s monetary reserves minus one-half of the decrease in the Fund’s holdings of the member’s currency. This rule shall not apply when a member’s monetary reserves have decreased during the year by more than the Fund’s holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a member’s holdings of another member’s currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(c) None of the adjustments described in (b) above shall be carried to a point at which

(i) the member’s monetary reserves are below one hundred fifty percent of its quota, or

(ii) the Fund’s holdings of its currency are below seventy-five percent of its quota, or

(iii) the Fund’s holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned, or

(iv) the amount repurchased exceeds twenty-five percent of the quota of the member concerned.

(d) The Fund by an eighty-five percent majority of the total voting power may revise the percentages in (c) (i) and (iv) above and revise and supplement the rules in paragraph 1 (c), (d), and (e) and paragraph 2 (b) of Schedule B.

Section 8. Charges

(a) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay, in addition to the parity price, a service charge uniform for all members of not less than one-half percent and not more than one percent, as determined by the Fund, provided that the Fund in its discretion may levy a service charge of less than one-half percent on gold tranche purchases.
(b) The Fund may levy a reasonable handling charge on any member buying gold from the Fund or selling gold to the Fund.

(c) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

(i) On amounts not more than twenty-five percent in excess of the quota: no charge for the first three months; one-half percent per annum for the next nine months; and thereafter an increase in the charge of one-half percent for each subsequent year.

(ii) On amounts more than twenty-five percent and not more than fifty percent in excess of the quota: an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(iii) On each additional bracket of twenty-five percent in excess of the quota: an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(d) Whenever the Fund's holdings of a member's currency are such that the charge applicable to any bracket for any period has reached the rate of four percent per annum, the Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (c) above until they reach five percent and failing agreement, the Fund may then impose such charges as it deems appropriate.

(e) The rates referred to in (c) and (d) above may be changed by a three-fourths majority of the total voting power.

(f) All charges shall be paid in gold. If, however, the member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserves bear to one-half of its quota, and shall pay the balance in its own currency.

Section 9. Remuneration

(a) The Fund shall pay remuneration, at a rate uniform for all members, on the amount by which seventy-five percent of a member's quota exceeded the average of the Fund's holdings of the member's currency, provided that no account shall be taken of holdings in excess of seventy-five percent of quota. The rate shall be one and one-half percent per annum, but the Fund in its discretion may increase or reduce this rate, provided that a three-fourths majority of the total voting power shall be required for any increase above two percent per annum or reduction below one percent per annum.

(b) Remuneration shall be paid in gold or a member's own currency as determined by the Fund.

Article VI

Capital Transfers

Section 1. Use of the Fund’s resources for capital transfers

(a) A member may not use the Fund’s resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund.
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(b) Nothing in this Section shall be deemed

(i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or

(ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 2. Special provisions for capital transfers

A member shall be entitled to make gold tranche purchases to meet capital transfers.

Section 3. Controls of capital transfers

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3 (b), and in Article XIV, Section 2.

Article VII

Scarcity of Currency

Section 1. General scarcity of currency

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 2. Measures to replenish the Fund's holdings of scarce currencies

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

(ii) Require the member to sell its currency to the Fund for gold.

Section 3. Scarcity of the Fund's holdings

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the member shall have complete jurisdiction in deter-
mining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. Administration of restrictions

Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3 (b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. Effect of other international agreements on restrictions

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

Article VIII

General Obligations of Members

Section 1. Introduction

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. Avoidance of restrictions on current payments

(a) Subject to the provisions of Article VII, Section 3 (b), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) 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. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

Section 4. Convertibility of foreign held balances

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

(i) that the balances to be bought have been recently acquired as a result of current transactions; or

(ii) that their conversion is needed for making payments for current transactions. The buying member shall have the option to pay either in the currency of the member making the request or in gold.
(b) The obligation in (a) above shall not apply

(i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or

(ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or

(iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or

(iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3 (a); or

(v) when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

Section 5. Furnishing of information

(a) The Fund may require members to furnish it with such information as it deems necessary for its operations, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

(i) Official holdings at home and abroad, of (1) gold, (2) foreign exchange.

(ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.

(iii) Production of gold.

(iv) Gold exports and imports according to countries of destination and origin.

(v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.

(vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.

(vii) International investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.

(viii) National income.

(ix) Price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices.

(x) Buying and selling rates for foreign currencies.

(xi) Exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.

(xii) Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(b) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable, and, so far as possible, to avoid mere estimates.
(c) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

Section 6. Consultation between members regarding existing international agreements

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements will consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

Article IX

Status, Immunities and Privileges

Section 1. Purposes of Article

To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2. Status of the Fund

The Fund shall possess full juridical personality, and, in particular, the capacity:
(i) to contract;
(ii) to acquire and dispose of immovable and movable property;
(iii) to institute legal proceedings.

Section 3. Immunity from judicial process

The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4. Immunity from other action

Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. Immunity of archives

The archives of the Fund shall be inviolable.

Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the operations provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. Privilege for communications

The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

Section 8. Immunities and privileges of officers and employees

All governors, executive directors, alternates, officers and employees of the Fund
(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity.
(ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members.

(iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. Immunities from taxation

(a) The Fund, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to executive directors, alternates, officers or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held

(i) which discriminates against such obligation or security solely because of its origin; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10. Application of Article

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

Article X

Relations with Other International Organizations

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment of this Agreement under Article XVII.

Article XI

Relations with Non-Member Countries

Section 1. Undertakings regarding relations with non-member countries

Each member undertakes:

(i) Not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;
(ii) Not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

(iii) To cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

Section 2. Restrictions on transactions with non-member countries

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

Article XII
Organization and Management

Section 1. Structure of the Fund

The Fund shall have a Board of Governors, Executive Directors, a Managing Director and a staff.

Section 2. Board of Governors

(a) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

(i) Admit new members and determine the conditions of their admission.

(ii) Approve a revision of quotas, or to decide on the payment, or on the mitigation of the effects of payment, of increases in quotas proposed as the result of a general review of quotas.

(iii) Approve a uniform change in the par values of the currencies of all members, or to decide when such a change is made that the provisions relating to the maintenance of gold value of the Fund's assets shall not apply.

(iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).

(v) Determine the distribution of the net income of the Fund.

(vi) Require a member to withdraw.

(vii) Decide to liquidate the Fund.

(viii) Decide appeals from interpretations of this Agreement given by the Executive Directors.

(ix) Revise the provisions on repurchase or to revise and supplement the rules for the distribution of repurchases among types of reserves.

(x) Make transfers to general reserve from any special reserve.
(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

(g) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and alternates shall serve as such without compensation from the Fund, but the Fund shall pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the Managing Director.

Section 3. Executive Directors

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be not less than twelve directors who need not be governors, and of whom

(i) Five shall be appointed by the five members having the largest quotas;

(ii) Not more than two shall be appointed when the provisions of (c) below apply;

(iii) Five shall be elected by the members not entitled to appoint directors, other than the American Republics; and

(iv) Two shall be elected by the American Republics not entitled to appoint directors.

For the purposes of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they become members in accordance with Article XX or in accordance with Article II, Section 2. When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

(c) If, at the second regular election of directors and thereafter, the members entitled to appoint directors under (b) (i) above do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

(d) Subject to Article XX, Section 3 (b) elections of elective directors shall be conducted at intervals of two years in accordance with the provisions of Schedule C,
supplemented by such regulations as the Fund deems appropriate. Whenever the Board of Governors increases the number of directors to be elected under (b) above, it shall issue regulations making appropriate changes in the proportion of votes required to elect directors under the provisions of Schedule C.

(e) Each director shall appoint an alternate with full power to act for him when he is not present. When the directors appointing them are present, alternates may participate in meetings but may not vote.

(f) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the members who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(g) The Executive Directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5 (b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(k) The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

Section 4. Managing Director and staff

(a) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of his functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence,
pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. Voting

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above, adjusted:

(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8 (d) of that Article.

(d) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

Section 6. Reserves and distribution of net income

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(b) If any distribution is made of the net income of any year, there shall first be distributed to members eligible to receive remuneration under Article V, Section 9, for that year an amount by which two percent per annum exceeded any remuneration that has been paid for that year. Any distribution of the net income of that year beyond that amount shall be made to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

(c) The Fund may make transfers to general reserve from any special reserve.

Section 7. Publication of reports

(a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its transactions and its holdings of gold and currencies of members.

(b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

Section 8. Communication of views to members

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an executive director, it shall be entitled to representation in accordance with Section 3(i) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.
Article XIII
Offices and Depositories

Section 1. Location of offices
The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. Depositories
(a) Each member country shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Directors may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. Guarantee of the Fund's assets
Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

Article XIV
Transitional Period

Section 1. Introduction
The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2. Exchange restrictions
In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Section 3. Notification to the Fund
Each member shall notify the Fund before it becomes eligible under Article XX, Section 4(c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared
to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Section 4. Action of the Fund relating to restrictions

Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. 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 articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2(a).

Section 5. Nature of transitional period

In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

Article XV
Withdrawal from Membership

Section 1. Right of members to withdraw

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. Compulsory withdrawal

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. Settlement of accounts with members withdrawing

When a member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.
Article XVI
Emergency Provisions

Section 1. Temporary suspension

(a) In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

(i) Article IV, Sections 3 and 4

(ii) Article V, Sections 2, 3, 7, 8 (a) and (f)

(iii) Article VI, Section 2

(iv) Article XI, Section 1

(b) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(c) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(d) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

Section 2. Liquidation of the Fund

(a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Fund may be necessary, they may temporarily suspend all transactions, pending decision by the Board.

(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XVIII, paragraph (c), in Schedule D, paragraph 7, and in Schedule E.

(c) Liquidation shall be administered in accordance with the provisions of Schedule E.

Article XVII
Amendments

(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);
(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);

(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5(b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

Article XVIII
Interpretation

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director it shall be entitled to representation in accordance with Article XII, Section 3(c).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board by an eighty-five percent majority of the total voting power decides otherwise. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article XIX
Explanation of Terms

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following:

(a) A member's monetary reserves means its official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify.

(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).

(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 non-members specified under (d) below.

(d) A member's holdings of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangements under Article XIV, Section 2, together with its holdings of the currencies of such non-members as the Fund may from time to time specify. The term currency for this purpose includes without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months.

(e) The sums deemed to be official holdings of other official institutions and other banks under (c) above shall be included in the member's monetary reserves.

(f) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

(g) The Fund, after consultation with a member which is availing itself of the transitional arrangements under Article XIV, Section 2, may deem holdings of the currency of that member which carry specified rights of conversion into another currency or into gold to be holdings of convertible currency for the purpose of the calculation of monetary reserves.

(h) 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.

(i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

1. All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
2. Payments due as interest on loans and as net income from other investments;
3. Payments of moderate amount for amortization of loans or for depreciation of direct investments;
4. Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

(j) Gold tranche purchase means a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations.

**Article XX**

**Inaugural Provisions**

**Section 1. Entry into force**

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A.
Articles of Agreement

and when the instruments referred to in Section 2 (a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

Section 3. Inauguration of the Fund

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member having the largest quota shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries

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for which the largest quotas are set forth in Schedule A shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule C and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

Section 4. Initial determination of par values

(a) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (d) below shall apply.

(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period determined by the Fund in the light of all relevant circumstances, agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(d) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (b) above shall apply, subject to the following modifications:

(i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.

(ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.

(iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (a) above.

(e) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (d) (i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (d) above shall apply.
(f) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5 (c).

(g) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2 (g) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. On the basis of the par value so communicated, the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (a), (b) or (d) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (d) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

(h) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(i) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

(j) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2.

Article XXI
Special Drawing Rights

Section 1. Authority to allocate special drawing rights

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Account.

Section 2. Unit of value

The unit of value of special drawing rights shall be equivalent to 0.888671 gram of fine gold.

Article XXII
General Account and Special Drawing Account

Section 1. Separation of operations and transactions

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account. All other operations and transactions of the Fund authorized by or under this Agreement shall be conducted through the General
Account. Operations and transactions pursuant to Article XXIII, Section 2, shall be conducted through the General Account as well as the Special Drawing Account.

Section 2. Separation of assets and property

All assets and property of the Fund shall be held in the General Account, except that assets and property acquired under Article XXVI, Section 2, and Articles XXX and XXXI and Schedules H and I shall be held in the Special Drawing Account. Any assets or property held in one Account shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Account, except that the expenses of conducting the business of the Special Drawing Account shall be paid by the Fund from the General Account which shall be reimbursed from time to time by assessments under Article XXVI, Section 4, made on the basis of a reasonable estimate of such expenses.

Section 3. Recording and information

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Account. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

Article XXIII

Participants and Other Holders of Special Drawing Rights

Section 1. Participants

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Account as of the date the instrument is deposited, except that no member shall become a participant before Articles XXI through XXXII and Schedules F through I have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. General Account as a holder

The Fund may accept and hold special drawing rights in the General Account and use them, in accordance with the provisions of this Agreement.

Section 3. Other holders

The Fund by an eighty-five percent majority of the total voting power may prescribe:

(i) as holders, non-members, members that are non-participants, and institutions that perform functions of a central bank for more than one member;

(ii) the terms and conditions on which these holders may be permitted to accept, hold, and use special drawing rights, in operations and transactions with participants; and

(iii) the terms and conditions on which participants may enter into operations and transactions with these holders.

The terms and conditions prescribed by the Fund for the use of special drawing rights by prescribed holders and by participants in operations and transactions with them shall be consistent with the provisions of this Agreement.
Article XXIV

Allocation and Cancellation of Special Drawing Rights

Section 1. Principles and considerations governing allocation and cancellation

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Section 2. Allocation and cancellation

(a) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(b) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(c) In its decision for any basic period the Fund may provide, notwithstanding (a) and (b) above, that:

(i) the duration of the basic period shall be other than five years; or
(ii) the allocations or cancellations shall take place at other than yearly intervals; or
(iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel.

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

(i) the governor for the participant did not vote in favor of the decision; and
(ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.
(f) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. Unexpected major developments

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. Decisions and cancellations

(a) Decisions under Section 2 (a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Directors.

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1 (a) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1 (b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Account as he is so satisfied.

(c) The Managing Director shall make proposals:

(i) not later than six months before the end of each basic period;

(ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (b) have been met;

(iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or

(iv) within six months of a request by the Board of Governors or the Executive Directors;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (b) above, he shall report to the Board of Governors and to the Executive Directors.

(d) A majority of eighty-five percent of the total voting power shall be required for decisions under Section 2 (a), (b), and (c) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

Article XXV

Operations and Transactions in Special Drawing Rights

Section 1. Use of special drawing rights

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

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Section 2. Transactions between participants

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights:

(i) to obtain an equivalent amount of its own currency held by the other participant; or

(ii) to obtain an equivalent amount of currency from the other participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6 (a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in Section 3 (a) of this Article; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations. The Fund by an eighty-five percent majority of the total voting power may prescribe additional transactions or categories of transactions under this provision. Any transactions or categories of transactions prescribed by the Fund under this subsection (b) (ii) shall be consistent with the other provisions of this Agreement and with the proper use of special drawing rights in accordance with this Agreement.

(c) A participant that provides currency to a participant using special drawing rights shall receive an equivalent amount of special drawing rights.

Section 3. Requirement of need

(a) In transactions under Section 2 of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only to meet balance of payments needs or in the light of developments in its official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund, and not for the sole purpose of changing the composition of the foregoing as between special drawing rights and the total of gold, foreign exchange, and reserve position in the Fund.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIX, Section 2 (b).

(c) Participants may use special drawing rights without fulfilling the expectation in (a) above to obtain an equivalent amount of currency from another participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6 (a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in (a) above; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations.

Section 4. Obligation to provide currency

A participant designated by the Fund under Section 5 of this Article shall provide on demand currency convertible in fact to a participant using special drawing rights under Section 2 (a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may provide currency in excess of the obligatory limit or any agreed higher limit.
Section 5. Designation of participants to provide currency

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Section 2 (a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

(i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6 (a) of this Article; to reduce negative balances in holdings of special drawing rights; or to offset the effect of failures to fulfill the expectation in Section 3 (a) of this Article.

(iii) In designating participants the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a) (i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation shall be reviewed before the end of the first and each subsequent basic period and the Fund may adopt new rules as the result of a review. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. Reconstitution

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

(b) The rules for reconstitution shall be reviewed before the end of the first and each subsequent basic period and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of the review shall continue to apply. An eighty-five percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. Operations and transactions through the General Account

(a) Special drawing rights shall be included in a member's monetary reserves under Article XIX for the purposes of Article III, Section 4 (a), Article V, Section 7 (b) and (c), Article V, Section 8 (f), and Schedule B, paragraph 1. The Fund may decide that in calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), no account shall be taken of any increase or decrease in those monetary reserves which is due to allocations or cancellations of special drawing rights during the year.

(b) The Fund shall accept special drawing rights:

(i) in repurchases accruing in special drawing rights under Article V, Section 7 (b); and

(ii) in reimbursement pursuant to Article XXVI, Section 4.
(c) The Fund may accept special drawing rights to the extent it may decide:

(i) in payment of charges; and

(ii) in repurchases other than those under Article V, Section 7 (b), in proportions which, as far as feasible, shall be the same for all members.

(d) The Fund, if it deems such action appropriate to replenish its holdings of a participant's currency and after consultation with that participant on alternative ways of replenishment under Article VII, Section 2, may require that participant to provide its currency for special drawing rights held in the General Account subject to Section 4 of this Article. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Section 5 of this Article.

(e) To the extent that a participant may receive special drawing rights in a transaction prescribed by the Fund to promote reconstitution by it under Section 6 (a) of this Article, prevent or reduce a negative balance, or offset the effect of a failure by it to fulfill the expectation in Section 3 (a) of this Article, the Fund may provide the Participant with special drawing rights held in the General Account for gold or currency acceptable to the Fund.

(f) In any of the other operations and transactions of the Fund with a participant conducted through the General Account the Fund may use special drawing rights by agreement with the participant.

(g) The Fund may levy reasonable charges uniform for all participants in connection with operations and transactions under this Section.

Section 8. Exchange rates

(a) The exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

(b) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(c) For the purpose of this provision the term participant includes a terminating participant.

Article XXVI
Special Drawing Account
Interest and Charges

Section 1. Interest

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. Charges

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. Rate of interest and charges

The rate of interest shall be equal to the rate of charges and shall be one and one-half percent per annum. The Fund in its discretion may increase or reduce this rate, but the rate shall not be greater than two percent or the rate of remuneration decided
under Article V, Section 9, whichever is higher, or smaller than one percent or the rate of remuneration decided under Article V, Section 9, whichever is lower.

Section 4. Assessments

When it is decided under Article XXII, Section 2, that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. Payment of interest, charges, and assessments

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

Article XXVII
Administration of the General Account and the Special Drawing Account

(a) The General Account and the Special Drawing Account shall be administered in accordance with the provisions of Article XII, subject to the following:

(i) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board with respect to special drawing rights except those under Article XXIII, Section 3, Article XXIV, Section 2 (a), (b), and (c), and Section 3, the penultimate sentence of Article XXV, Section 2 (b), Article XXV, Section 6 (b), and Article XXXI (a).

(ii) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Account only requests by or the presence and the votes of governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.

(iii) For decisions by the Executive Directors on matters pertaining exclusively to the Special Drawing Account only directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority.

(iv) Questions of the general administration of the Fund, including reimbursement under Article XXII, Section 2, and any question whether a matter pertains to both Accounts or exclusively to the Special Drawing Account shall be decided as if they pertained exclusively to the General Account. Decisions with respect to the acceptance and holding of special drawing rights in the General Account and the use of them, and other decisions affecting the
operations and transactions conducted through both the General Account and the Special Drawing Account shall be made by the majorities required for decisions on matters pertaining exclusively to each Account. A decision on a matter pertaining to the Special Drawing Account shall so indicate.

(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Account shall be submitted to the Executive Directors pursuant to Article XVIII (a) only on the request of a participant. In any case where the Executive Directors have given a decision on a question of interpretation pertaining exclusively to the Special Drawing Account only a participant may require that the question be referred to the Board of Governors under Article XVIII (b). The Board of Governors shall decide whether a governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Account.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Account or between the Fund and any participant during the liquidation of the Special Drawing Account with respect to any matter arising exclusively from participation in the Special Drawing Account, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XVIII (c).

Article XXVIII
General Obligations of Participants

In addition to the obligations assumed with respect to special drawing rights under other Articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with this Agreement.

Article XXIX
Suspension of Transactions in Special Drawing Rights

Section 1. Emergency provisions

In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the provisions relating to special drawing rights, and the provisions of Article XVI, Section 1 (b), (c) and (d), shall then apply.

Section 2. Failure to fulfill obligations

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XXV, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise determines.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the
complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant’s obligation to provide currency in accordance with Article XXV, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligation under Article XXV, Section 6 (a), shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund’s resources under Article IV, Section 6, Article V, Section 5, Article VI, Section 1, or Article XV, Section 2 (a). Article XV, Section 2, shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

Article XXX
Termination of Participation

Section 1. Right to terminate participation

(a) Any participant may terminate its participation in the Special Drawing Account at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Account.

Section 2. Settlement on termination

(a) When a participant terminates its participation in the Special Drawing Account, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Account. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable dispatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. Interest and charges

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating
participant shall pay charges on any outstanding obligation owed to the Fund at the
times and rates prescribed under Article XXVI. Payment shall be made in special
drawing rights. A terminating participant shall be entitled to obtain special drawing
rights with currency convertible in fact to pay charges or assessments in a transaction
with a participant specified by the Fund or by agreement from any other holder, or
to dispose of special drawing rights received as interest in a transaction with any
participant designated under Article XXV, Section 5, or by agreement with any other
holder.

Section 4. Settlement of obligation to the Fund

Gold or currency received by the Fund from a terminating participant shall be used
by the Fund to redeem special drawing rights held by participants in proportion to the
amount by which each participant's holdings of special drawing rights exceed its net
cumulative allocation at the time the gold or currency is received by the Fund. Special
drawing rights so redeemed and special drawing rights obtained by a terminating
participant under the provisions of this Agreement to meet any installment due under
an agreement on settlement or under Schedule H and set off against that installment
shall be cancelled.

Section 5. Settlement of obligation to a terminating participant

Whenever the Fund is required to redeem special drawing rights held by a ter-
minating participant, redemption shall be made with currency or gold provided by
participants specified by the Fund. These participants shall be specified in accordance
with the principles in Article XXV, Section 5. Each specified participant shall provide
at its option the currency of the terminating participant or currency convertible in
fact or gold to the Fund and shall receive an equivalent amount of special drawing
rights. However, a terminating participant may use its special drawing rights to
obtain its own currency, currency convertible in fact, or gold from any holder, if the
Fund so permits.

Section 6. General Account transactions

In order to facilitate settlement with a terminating participant the Fund may decide
that a terminating participant shall:

(i) use any special drawing rights held by it after the setoff in Section 2 (b) of
this Article, when they are to be redeemed, in a transaction with the Fund
conducted through the General Account to obtain its own currency or cur-
rency convertible in fact at the option of the Fund; or

(ii) obtain special drawing rights in a transaction with the Fund conducted
through the General Account for a currency acceptable to the Fund or gold
to meet any charges or installment due under an agreement or the provisions
of Schedule H.

Article XXXI

Liquidation of the Special Drawing Account

(a) The Special Drawing Account may not be liquidated except by decision of the
Board of Governors. In an emergency, if the Executive Directors decide that liquida-
tion of the Special Drawing Account may be necessary, they may temporarily suspend
allocations or cancellations and all transactions in special drawing rights pending
decision by the Board. A decision by the Board of Governors to liquidate the Fund
shall be a decision to liquidate both the General Account and the Special Drawing
Account.
If the Board of Governors decides to liquidate the Special Drawing Account, all allocations or cancellations and all operations and transactions in special drawing rights and activities of the Fund with respect to the Special Drawing Account shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XVIII (c), Article XXVI, Article XXVII (d), Article XXX and Schedule H, or any agreement reached under Article XXX subject to paragraph 4 of Schedule H, Article XXXII, and Schedule I.

Upon liquidation of the Special Drawing Account, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Account.

Liquidation of the Special Drawing Account shall be administered in accordance with the provisions of Schedule I.

Article XXXII
Explanation of Terms with Respect to Special Drawing Rights

In interpreting the provisions of this Agreement with respect to special drawing rights the Fund and its members shall be guided by the following:

(a) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XXIV, Section 2 (a).

(b) Currency convertible in fact means:

(1) a participant's currency for which a procedure exists for the conversion of balances of the currency obtained in transactions involving special drawing rights into each other currency for which such procedure exists, at rates of exchange prescribed under Article XXV, Section 8, and which is the currency of a participant that

(i) has accepted the obligations of Article VIII, Sections 2, 3, and 4, or

(ii) for the settlement of international transactions in fact freely buys and sells gold within the limits prescribed by the Fund under Section 2 of Article IV; or

(2) currency convertible into a currency described in paragraph (1) above at rates of exchange prescribed under Article XXV, Section 8.

(c) A participant's reserve position in the Fund means the sum of the gold tranche purchases it could make and the amount of any indebtedness of the Fund which is readily repayable to the participant under a loan agreement.

[The signature and depository clause reproduced below followed the text of Article XX in the original Articles of Agreement]

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.
Articles of Agreement

Schedule A

Quotas
(In millions of United States dollars)

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<th>Country</th>
<th>Quota</th>
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*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

Schedule B

Provisions with Respect to Repurchase by a Member of Its Currency Held by the Fund

1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7 (b), shall be made with each convertible currency and each of the other types of monetary reserve, the following rule, subject to 2 below, shall apply:

   (a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

   (b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase, minus one-half of any decrease in the Fund's holdings of the member's currency that has occurred during the year, shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.
(c) If after the repurchases required under Article V, Section 7 (b), had been made, the result would exceed either of the limits specified in Article V, Section 7 (c) (i) or (ii), the Fund shall require such repurchases to be made by the member proportionately in such manner that these limits will not be exceeded.

(d) If after all the repurchases required under Article V, Section 7 (b), had been made, the result would exceed the limit specified in Article V, Section 7 (c) (iii), the amount by which the limit would be exceeded shall be discharged in convertible currencies as determined by the Fund without exceeding that limit.

(e) If a repurchase required under Article V, Section 7 (b), would exceed the limit specified in Article V, Section 7 (c) (iv), the amount by which the limit would be exceeded shall be repurchased at the end of the subsequent financial year or years in such a way that total repurchases under Article V, Section 7 (b) in any year would not exceed the limit specified in Article V, Section 7 (c) (iv).

2. (a) The Fund shall not acquire the currency of any non-member under Article V, Section 7 (b) and (c).

(b) Any amount payable in the currency of a non-member under 1 (a) or 1 (b) above shall be paid in the convertible currencies of members as determined by the Fund.

3. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), no account shall be taken, unless deductions have otherwise been made by the member for such holdings, of any increase in those monetary reserves which is due to currency previously inconvertible having become convertible during the year; or to holdings which are the proceeds of a long-term or medium-term loan contracted during the year; or to holdings which have been transferred or set aside for repayment of a loan during the subsequent year.

4. In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

5. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), the Fund may decide in its discretion, on the request of a member, that deductions shall be made for obligations outstanding as the result of transactions between members under a reciprocal facility by which a member agrees to exchange on demand its currency for the currency of the other member up to a maximum amount and on terms requiring that each such transaction be reversed within a specified period not in excess of nine months.

6. In calculating monetary reserves and the increase in monetary reserves for the purpose of Article V, Section 7 (b) and (c), Article XIX (e) shall apply except that the following provision shall apply at the end of a financial year if it was in effect at the beginning of that year:

"A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with similar liabilities to other official institutions and other banks.
in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above."

Schedule C

Election of Executive Directors

1. The election of the elective executive directors shall be by ballot of the governors eligible to vote under Article XII, Section 3 (b) (iii) and (iv).

2. In balloting for the five directors to be elected under Article XII, Section 3 (b) (iii), each of the governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5 (a). The five persons receiving the greatest number of votes shall be directors, provided that no person who received less than nineteen percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When five persons are not elected in the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected, and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above twenty percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above twenty percent of the eligible votes the twenty percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until twenty percent is reached.

5. Any governor part of whose votes must be counted in order to raise the total of any person above nineteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed twenty percent.

6. If, after the second ballot, five persons have not been elected, further ballots shall be held on the same principles until five persons have been elected, provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

7. The directors to be elected by the American Republics under Article XII, Section 3 (b) (iv) shall be elected as follows:

(a) Each of the directors shall be elected separately.

(b) In the election of the first director, each governor representing an American Republic eligible to participate in the election shall cast for one person all the votes to which he is entitled. The person receiving the largest number of votes shall be elected provided that he has received not less than forty-five percent of the total votes.

(c) If no person is elected on the first ballot, further ballots shall be held, in each of which the person receiving the lowest number of votes shall be eliminated, until one person receives a number of votes sufficient for election under (b) above.

(d) Governors whose votes contributed to the election of the first director shall take no part in the election of the second director.

(e) Persons who did not succeed in the first election shall not be ineligible for election as the second director.
A majority of the votes which can be cast shall be required for election of the second director. If at the first ballot no person receives a majority, further ballots shall be held in each of which the person receiving the lowest number of votes shall be eliminated, until some person obtains a majority.

The second director shall be deemed to have been elected by all the votes which could have been cast in the ballot securing his election.

Schedule D

Settlement of Accounts with Members Withdrawing

1. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in gold, or in such other manner, as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-year installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or by the delivery of gold.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in gold or, at its option, in the currencies of members which at the time of redemption are convertible. Redemption shall be made at the parity existing at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the par value of its currency on the date of withdrawal and the value realized by the Fund on disposal under 4 and 5 above.
7. In the event of the Fund going into liquidation under Article XVI, Section 2, within six months of the date on which the member withdraws, the account between the Fund and that government shall be settled in accordance with Article XVI, Section 2, and Schedule E.

Schedule E

Administration of Liquidation

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

(a) the currency in which the liability is payable;

(b) gold;

(c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund’s liabilities in accordance with 1 above, the balance of the Fund’s assets shall be distributed and apportioned as follows:

(a) The Fund shall distribute its holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas. These members shall share the gold so distributed in the proportions of the amounts by which their quotas exceed the Fund’s holdings of their currencies.

(b) The Fund shall distribute to each member one-half the Fund’s holdings of its currency but such distribution shall not exceed fifty percent of its quota.

(c) The Fund shall apportion the remainder of its holdings of each currency among all the members in proportion to the amounts due to each member after the distributions under (a) and (b) above.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2 (c) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in gold or, at its option, in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the
amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the par value of its currency on the date of the decision to liquidate the Fund and the value realized by such members on disposal of its currency.

Schedule F

Designation

During the first basic period the rules for designation shall be as follows:

(a) Participants subject to designation under Article XXV, Section 5 (a) (i), shall be designated for such amounts as will promote over time equality in the ratios of the participants’ holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.

(b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:

(i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

Schedule G

Reconstitution

1. During the first basic period the rules for reconstitution shall be as follows:

(a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.

(ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a) (i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XXV, Section 5 (a) (ii), in order to assist them to comply with the requirement of (a) (i) above.

(iii) The Fund shall give special notice to a participant when the calculations under (a) (ii) above indicate that it is unlikely that the participant will
be able to comply with the requirement in (a) (i) above unless it ceases
to use special drawing rights for the rest of the period for which the
calculation was made under (a) (ii) above.

(iv) A participant that needs to acquire special drawing rights to fulfill this
obligation shall be obligated and entitled to obtain them, at its option
for gold or currency acceptable to the Fund, in a transaction with the
Fund conducted through the General Account. If sufficient special draw-
ing rights to fulfill this obligation cannot be obtained in this way, the
participant shall be obligated and entitled to obtain them with currency
convertible in fact from a participant which the Fund shall specify.

(b) Participants shall also pay due regard to the desirability of pursuing over
time a balanced relationship between their holdings of special drawing rights
and their holdings of gold and foreign exchange and their reserve positions
in the Fund.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall
determine whether or not the circumstances justify suspension under Article XXIX,
Section 2 (b).

Schedule II
Termination of Participation

1. If the obligation remaining after the setoff under Article XXX, Section 2 (b),
is to the terminating participant and agreement on settlement between the Fund and
the terminating participant is not reached within six months of the date of termination,
the Fund shall redeem this balance of special drawing rights in equal half-yearly
installments within a maximum of five years of the date of termination. The Fund
shall redeem this balance as it may determine, either (a) by the payment to the
terminating participant of the amounts provided by the remaining participants to the
Fund in accordance with Article XXX, Section 5 or (b) by permitting the terminating
participant to use its special drawing rights to obtain its own currency or currency
convertible in fact from a participant specified by the Fund, the General Account,
or any other holder.

2. If the obligation remaining after the setoff under Article XXX, Section 2 (b),
is to the Fund and agreement on settlement is not reached within six months of the
date of termination, the terminating participant shall discharge this obligation in equal
half-yearly installments within three years of the date of termination or within such
longer period as may be fixed by the Fund. The terminating participant shall discharge
this obligation, as the Fund may determine, either (a) by the payment to the Fund
of currency convertible in fact or gold at the option of the terminating participant,
or (b) by obtaining special drawing rights, in accordance with Article XXX, Section 6,
from the General Account or in agreement with a participant specified by the Fund
or from any other holder, and the setoff of these special drawing rights against the
installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date
of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Account going into liquidation under
Article XXXI within six months of the date a participant terminates its participation,
the settlement between the Fund and that government shall be made in accordance
with Article XXXI and Schedule I.
Schedule I
Administration of Liquidation of the Special Drawing Account

1. In the event of liquidation of the Special Drawing Account, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in currency convertible in fact and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Account.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Account, the liquidation of the Special Drawing Account shall not proceed until special drawing rights held by holders in the General Account have been distributed in accordance with the following rule:

   After the distribution made under 2(a) of Schedule E, the Fund shall apportion its special drawing rights held in the General Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(a). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(c) of Schedule E, the Fund shall deduct the distribution of special drawing rights made under this rule.

3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

   (a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Account shall be redeemed in accordance with the terms of any agreement under Article XX or Schedule H.

   (b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.

   (c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with gold or a currency specified by the Fund. Special drawing rights received as charges
in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 2 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Account and all of the Fund’s liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Account shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.
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By-Laws and Rules and Regulations

The By-Laws and the Rules and Regulations of the Fund are reproduced below as they stood on March 20, 1972.

By-Laws of the International Monetary Fund
(March 20, 1972)

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These By-Laws are adopted under the authority of, and are intended to be complementary to, the Articles of Agreement of the International Monetary Fund; and they shall be construed accordingly. In the event of a conflict between anything in these By-Laws and any provision or requirement of the Articles of Agreement, the Articles of Agreement shall prevail.

SEC. 1. PLACES OF BUSINESS

The principal office of the Fund shall be located within the metropolitan area of Washington, D. C., United States of America.
By-Laws

The Executive Directors may establish and maintain agencies or branch offices at any place in the territories of other members, whenever it is necessary to do so in order to facilitate the efficient conduct of the business of the Fund.

Adopted March 16, 1946

SEC. 2. GENERAL ACCOUNT AND SPECIAL DRAWING ACCOUNT

In matters pertaining exclusively to the Special Drawing Account the references in these By-Laws, other than in Sections 4, 5, and 13 (b), to members of the Fund or to Governors and Executive Directors shall be understood to refer only to members that are participants or to Governors appointed by members that are participants and Executive Directors appointed or elected by at least one member that is a participant.

Adopted October 2, 1969

SEC. 3. MEETINGS OF THE BOARD OF GOVERNORS

(a) The annual meeting of the Board of Governors shall be held at such time and place as the Board of Governors shall determine; provided, however, that, if the Executive Directors shall, because of special circumstances, deem it necessary to do so, the Executive Directors may change the time and place of such annual meeting.

(b) Special meetings of the Board of Governors may be called at any time by the Board of Governors or the Executive Directors and shall be called upon the request of five members of the Fund or of members of the Fund having in the aggregate one-fourth of the total voting power. Whenever any member of the Fund shall request the Executive Directors to call a special meeting of the Board of Governors, the Managing Director shall notify all members of the Fund of such request and of the reasons which shall have been given therefor.

(c) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

Adopted March 16, 1946, amended October 2, 1946

SEC. 4. NOTICE OF MEETINGS OF THE BOARD OF GOVERNORS

The Managing Director shall cause notice of the time and place of each meeting of the Board of Governors to be given to each member of the Fund by telegram or cable which shall be dispatched not less than 42 days prior to the date set for such meeting, except that in urgent cases such notice shall be sufficient if dispatched by telegram or cable not less than ten days prior to the date set for such meeting.

Adopted March 16, 1946, amended October 2, 1946

SEC. 5. ATTENDANCE AT MEETINGS

(a) The Executive Directors and their Alternates may attend all meetings of the Board of Governors and may participate in such meetings, but an Executive Director or his Alternate shall not be entitled to vote at any such meeting unless he shall be entitled to vote as a Governor or an Alternate or temporary Alternate of a Governor.

(b) The Chairman of the Board of Governors in consultation with the Executive Directors, may invite observers to attend any meeting of the Board of Governors.
(c) The Executive Directors are authorized to invite the International Bank for Reconstruction and Development to send a representative of the Bank to meetings of the Board of Governors and Executive Directors who may participate in such meetings, but shall have no vote.

(d) The Executive Directors are authorized to accept invitations from the Bank to send a representative of the Fund to participate in meetings of the Board of Governors or Executive Directors of the Bank.

Adopted March 16, 1946, amended October 2, 1946; paragraphs (c) and (d) were adopted as Sec. 2 on March 16, 1946

SEC. 6. AGENDA OF MEETINGS OF THE BOARD OF GOVERNORS

(a) Under the direction of the Executive Directors, the Managing Director shall prepare a brief agenda for each meeting of the Board of Governors and shall cause such agenda to be transmitted to each member of the Fund with the notice of such meeting.

(b) Additional subjects may be placed on the agenda for any meeting of the Board of Governors by any Governor provided that he shall give notice thereof to the Managing Director not less than seven days prior to the date set for such meeting. In special circumstances the Managing Director, by direction of the Executive Directors, may at any time place additional subjects on the agenda for any meeting of the Board of Governors. The Managing Director shall cause notice of the addition of any subjects to the agenda for any meeting of the Board of Governors to be given as promptly as possible to each member of the Fund.

(c) The Board of Governors may at any time authorize any subject to be placed on the agenda for any meeting of such Board even though the notice required by this section shall not have been given.

(d) Except as otherwise specifically directed by the Board of Governors, the Chairman of the Board of Governors jointly with the Managing Director, shall have charge of all arrangements for the holding of meetings of the Board of Governors.

Adopted March 16, 1946, amended October 2, 1946

SEC. 7. ELECTION OF CHAIRMAN AND VICE-CHAIRMEN

At each annual meeting the Board of Governors shall select a Governor to act as Chairman and at least two other Governors to act as Vice-Chairmen until the next annual meeting.

In the absence of the Chairman, the Vice-Chairman designated by the Chairman shall act in his place.

Adopted March 16, 1946

SEC. 8. SECRETARY

The Secretary of the Fund shall serve as Secretary of the Board of Governors.

Adopted March 16, 1946

SEC. 9. MINUTES

The Board shall keep a summary record of its proceedings which shall be available to all members and which shall be filed with the Executive Directors for their guidance.

Adopted March 16, 1946
SEC. 10. REPORT OF EXECUTIVE DIRECTORS

The Executive Directors shall have prepared for presentation at the annual meeting of the Board of Governors an annual report in which shall be discussed the operations and policies of the Fund and which shall make recommendations to the Board of Governors on the problems confronting the Fund. The Executive Directors shall review, as part of the annual report, both the operation of the Special Drawing Account and the adequacy of global reserves.

Adopted March 16, 1946, amended October 2, 1969

SEC. 11. VOTING

Except as otherwise specifically provided in the Articles of Agreement, all decisions of the Board shall be made by a majority of the votes cast. At any meeting the Chairman may ascertain the sense of the meeting in lieu of a formal vote but he shall require a formal vote upon the request of any Governor. Whenever a formal vote is required the written text of the motion shall be distributed to the voting members.

Adopted March 16, 1946

SEC. 12. PROXIES

No Governor or Alternate may vote at any meeting by proxy or by any other method than in person, but a member may make provision for the designation of a temporary Alternate to vote for the Governor at any Board session at which the regularly designated Alternate is unable to be present.

Adopted March 16, 1946

SEC. 13. VOTING WITHOUT MEETING

(a) Whenever, in the judgment of the Executive Directors, any action by the Fund must be taken by the Board of Governors which should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board, the Executive Directors shall request Governors to vote without meeting.

(b) The Executive Directors shall present to each member by any rapid means of communication a motion embodying the proposed action.

(c) Votes shall be cast during such period as the Executive Directors may prescribe, provided that no Governor shall vote on any such motion until 7 days after dispatch of the motion, unless he is notified that the Executive Directors have waived this requirement. At the expiration of the period prescribed for voting, the Executive Directors shall record the results and the Managing Director shall notify all members. If the replies received do not include a majority of the Governors exercising two-thirds of the total voting power, which is required for a quorum of the Board of Governors, the motion shall be considered lost.

Adopted March 16, 1946, amended October 2, 1969

SEC. 14. TERMS OF SERVICE

(a) Governors and Alternates shall receive their actual transport expenses to and from the place of meeting in attending meetings, and $75 for each night which attendance at such meetings requires them to spend away from their normal place of residence, this amount being reduced to $15 for each night when accommodation is included in the price of transportation.

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(b) Pending the necessary action being taken by members to exempt from national taxation salaries and allowances paid out of the budget of the Fund, the Governors and the Executive Directors, and their Alternates, the Managing Director and the staff members shall be reimbursed by the Fund for the taxes which they are required to pay on such salaries and allowances.

In computing the amount of tax adjustment to be made with respect to any individual, it shall be presumed for the purposes of the computation that the income received from the Fund is his total income. All salary scales and expense allowances prescribed by this section are stated as net on the above basis.

(c) The salary of the Managing Director shall be $50,000 per annum. The Fund shall also pay any reasonable expenses incurred by the Managing Director in the interest of the Fund (including travel and transportation expenses for himself, and expenses for his family, and his personal effects in moving once to the seat of the Fund during or immediately before his term of office and in moving once from the seat during or immediately after his term of office). The contract of the Managing Director shall be for a term of five years and may be renewed for the same term or for a shorter term at the discretion of the Executive Directors, provided that no person shall be initially appointed to the post of Managing Director after he had reached his sixty-fifth birthday and that no Managing Director shall hold such post beyond his seventieth birthday.

(d) It shall be the duty of an Executive Director and his Alternate to devote all the time and attention to the business of the Fund that its interests require, and, between them, to be continuously available at the principal office of the Fund; however, in the event that both an Executive Director and his Alternate are unable to be available at the principal office of the Fund for reasons of health, absence while on business of the Fund, or similar reasons, the Executive Director may designate a temporary Alternate to act for him for periods of time which shall not in the aggregate exceed fifteen business days in the course of any financial year. An Advisor to Executive Director may be designated to serve as a temporary Alternate for an additional aggregate period not exceeding fifteen business days. A temporary Alternate shall receive no salary or expense allowance for his services in this capacity.

(e) The maximum salary and expense allowance including housing, entertainment and all other expenses [except those specified in subsection (f)] shall be $35,000 per year for Executive Directors and $27,000 per year for Alternates. It will be the duty of each Executive Director and each Alternate to state how much of these amounts he intends to draw whether as salary or as expense allowance.

A Joint Committee on the Remuneration of Executive Directors and their Alternates, appointed by the Chairmen of the Boards of Governors of the Fund and Bank and consisting of one of the Chairmen and two former Governors or Alternate Governors of the Fund or Bank chosen by the Chairmen in consultation with the Managing Director of the Fund and the President of the Bank, shall be constituted in January of each year in which a regular election of Executive Directors is scheduled, starting with the year 1972, to consider the adequacy of the remuneration of Executive Directors of the Fund and the Bank, and their Alternates, and to prepare a report, which shall be submitted to the Board of Governors of the Fund by July 1 of that year, containing such recommendations for any changes in such remuneration or for any other action by the Board of Governors relating thereto as the Joint Committee shall deem appropriate.

(f) The Executive Directors and their Alternates are to be reimbursed, in addition, for all reasonable expenses incurred during absence from the seat of the Fund while
on official Fund business, and for reasonable expenses actually incurred by them in Washington or in the place of the annual meeting of the Board of Governors in connection with official Fund business to entertain senior officials coming from the countries that appointed, elected, or designated them. They shall also be reimbursed for travel and transportation expenses for themselves, their families, and their personal effects in moving once to the seat of the Fund during or immediately before their periods of service, and in moving once from the seat during or within a reasonable period after their periods of service.

In addition, any Executive Director or Alternate shall in the third year of continuous full-time service in either capacity and in every second year of such service thereafter be entitled to reimbursement for the cost of transportation expenses for his family in traveling once to and from the country of which he or his wife is a national, provided that in cases where the wife is a national of another country the reimbursement for transportation expenses to and from her country does not exceed that to and from the country of which he is a national. For home leave travel more frequent than every third year, reimbursement shall be made on the basis of cabin- or economy-class accommodations.

(g) Where not specified, it is assumed that the Director and Alternate will be a full-time Director and Alternate. Where it is intended that he shall not devote his full time, it shall be so indicated. Where an Executive Director or Alternate indicates that he intends to devote only part of his time to the Fund, his remuneration shall be pro-rated on the basis of a representation by him of the proportion of his time he has devoted to the interests of the Fund. He may make such representation each month.

(h) Where an individual is serving both Fund and Bank, the aggregate of salary received from both shall not exceed the full annual single salary indicated above.

In all cases of salaries or expenses involving dual offices in the Fund or Bank, or both, the individual affected is entitled to take his choice as to which salary or expense he elects, but he shall not be entitled to both.

(i) An individual putting forward a claim for reimbursement for any expenses incurred by him shall include therewith a representation that he has not received and will not claim reimbursement in respect to those expenses from any other source.

(j) Secretarial, staff services, office space, and other services incidental to the performance of the duties of the Executive Directors and Alternates shall be provided by the Fund.

Adopted March 16, 1946; paragraph (a) amended March 18, 1946 and June 6, 1966; paragraph (c) amended July 27, 1951; December 14, 1960, effective December 1, 1960; and February 13, 1969, effective November 1, 1968; paragraph (d) amended September 17, 1947 and December 20, 1971; paragraph (e) amended January 5, 1951, effective January 1, 1951; December 2, 1957, effective November 1, 1957; December 28, 1959, effective November 1, 1959; November 7, 1962, effective September 1, 1962; August 8, 1966, effective November 1, 1965; February 13, 1969, effective November 1, 1968; and July 30, 1969, effective August 1, 1969; paragraph (f) amended September 17, 1947, September 30, 1948, August 18, 1961, September 10, 1964, and February 13, 1969.

SEC. 15. DELEGATION OF AUTHORITY

The Executive Directors are authorized by the Board of Governors to exercise all the powers of the Fund except those reserved to the Board by Article XII, Section 2 (b), Article XXVII (a) (i), and other provisions of the Articles of Agreement. The Execu-
tive Directors shall not take any action pursuant to powers delegated by the Board of Governors which is inconsistent with any action taken by the Board.

*Adopted March 16, 1946, amended October 2, 1969*

**SEC. 16. RULES AND REGULATIONS**

The Executive Directors are authorized by the Board of Governors to adopt such Rules and Regulations, including financial regulations, as may be necessary or appropriate to conduct the business of the Fund. Any Rules and Regulations so adopted, and any amendments thereof, shall be subject to review by the Board of Governors at their next annual meeting.

*Adopted March 16, 1946*

**SEC. 17. VACANT DIRECTORSHIPS**

Whenever a new Director must be elected because of a vacancy requiring an election, the Managing Director shall notify the members who elected the former Director of the existence of the vacancy. He may convene a meeting of the Governors of such countries exclusively for the purpose of electing a new Director; or he may request nominations by mail or telegraph and conduct ballots by mail or telegraph. Successive ballots shall be cast until one candidate has a majority; and after each ballot, the candidate with the smallest number of votes shall be dropped from the next ballot.

When a new elective Director is named, the office of Alternate shall be deemed to be vacant and an Alternate shall be named by the newly-elected Director.

*Adopted March 16, 1946*

**SEC. 18. ADDITIONAL DIRECTORS**

At least one month before the second and subsequent regular elections of Directors, the Managing Director shall notify all members of the two members whose currencies held by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts. He shall state whether either or both are entitled to appoint a Director in accordance with Article XII, Section 3 (c) of the Articles of Agreement.

When a member becomes entitled to appoint a Director in accordance with Article XII, Section 3 (b) (i) and 3 (c) of the Articles of Agreement, it shall not participate in the election of any Director.

*Adopted March 16, 1946*

**SEC. 19. REPRESENTATION OF MEMBERS NOT ENTITLED TO APPOINT A DIRECTOR**

(a) Each member not entitled to appoint a Director may, in accordance with the regulations provided in this section, send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration. A member, so electing, may waive its rights under this provision. The Executive Directors shall determine whether a matter under consideration particularly affects a member not entitled to appoint a Director, which determination shall be final.

(b) Whenever a member not entitled to appoint a Director desires to present its views at the meeting of the Executive Directors at which a request the member has made is to be considered, it shall so notify the Fund when it makes the request and
shall designate a representative for this purpose who shall be available at the seat of the Fund. Failure to give such notice or to designate an available representative shall constitute a waiver of the member's right to present its views at the meeting.

(c) Whenever the Executive Directors are to consider a matter which has been determined particularly to affect a member not entitled to appoint a Director, the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Directors with respect to such matter, nor any question particularly affecting such member submitted to the Boards of Governors, until the member has either waived its rights under paragraph (a) of this section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Directors, of which the member has had reasonable notice.

*Adopted March 16, 1946, amended September 17, 1947*

**SEC. 20. BUDGET AND AUDITS**

(a) The Executive Directors shall instruct the Managing Director to prepare an annual administrative budget to be presented to them for approval. The budget so approved shall be incorporated in the annual report to be presented to the Board of Governors at their annual meeting.

(b) An external audit of the financial records and transactions of the Fund shall be made annually and such audit shall relate to the period representing the fiscal year of the Fund. The Executive Directors shall submit the Fund's audited balance sheet and audited statement of income and expense to the Board of Governors to be considered by them at their annual meeting.

The annual audit shall be made by an audit committee consisting of either three or five persons each of whom shall be nominated by a different member of the Fund and confirmed by the Executive Directors. At least one person serving on each audit committee shall be nominated by one of the six members of the Fund having the largest quotas, and at least one person shall be nominated by a member that is also a participant. The Executive Directors shall determine, in the case of each audit, whether the audit committee shall consist of three or five persons and which members of the Fund shall be requested to nominate persons to serve on the committee. The service of the members of each audit committee shall terminate upon completion of the annual audit and submission of the report on audit.

Each audit committee shall elect one of its members as chairman, shall determine its own procedure, and shall otherwise be independent of the Management of the Fund in conducting the annual audit according to generally accepted auditing standards.

The annual audit shall be comprehensive with respect to examination of the financial records of the Fund; shall extend, insofar as practicable, to the ascertainment that operations and transactions conducted through the General Account or the Special Drawing Account during the period under review are supported by the necessary authority; and shall determine that there is adequate and faithful accounting for the assets and liabilities of the Fund and for special drawing rights. It shall thereby establish an appropriate basis for conclusion concerning the financial position of the Fund at the close of the fiscal year and the results of its operations and transactions during that year. For this purpose, the audit committee shall have access to the accounting records of the Fund and other supporting evidence of its operations and transactions, and shall be furnished by the Management of the Fund with such information and representations as may be required in connection with the audit. The
members of the audit committee shall respect the confidential nature of their service and the information made available for purposes of the audit.

All accounts of the General Account shall be summarized in special drawing rights of the value prescribed in Article XXI, Section 2. The currencies of members shall be converted at their par values, or in accordance with decisions of the Fund. The accounts of the Special Drawing Account shall be summarized in units of value of special drawing rights.

The Executive Directors shall decide all questions of policy raised by requests of the audit committee for particular information or the inspection of particular records or documents. The refusal of any such requests for reasons of policy shall be explained in the comments of the Executive Directors forwarded to the Board of Governors with the report on audit.

Any question the audit committee may have concerning interpretation of the Articles of Agreement, the By-Laws, or the Rules and Regulations shall be discussed with the Managing Director, or officials designated by him, and if the reply is not completely satisfactory to the audit committee, shall be referred to the Executive Directors through the Managing Director.

The audit committee shall submit its report on audit to the Board of Governors for consideration by them at their annual meeting. Such submission shall be made through the Managing Director and the Executive Directors who shall forward with the report on audit their comments thereon. The audit committee shall afford the Managing Director an opportunity for explanation to them before deciding that any matter seems to require criticism in the report on audit.

The audit committee may formally furnish the Managing Director and Executive Directors their views and suggestions concerning the system of accounting, internal financial control, and documentary or other procedure which may technically strengthen or improve the administration of the Fund’s financial affairs. Such matters need not be dealt with in the report on audit unless the audit committee believes they are of such moment as to warrant inclusion.

The Managing Director shall determine what expenses are necessary and reasonable in connection with each annual audit and the Fund shall bear such expenses.

Adopted March 16, 1946, amended September 17, 1947, October 2, 1969, and March 20, 1972

SEC. 21. APPLICATIONS FOR MEMBERSHIP

Subject to any special provisions that may be made for countries listed in Schedule A of the Articles of Agreement, any country may apply for membership in the Fund by filing with the Fund an application setting forth all relevant facts.

When submitting an application to the Board of Governors, the Executive Directors after consultation with the applicant country shall recommend to the Board the amount of the quota, the form of payment, the parity of the currency, conditions

† The first two sentences of this paragraph came into effect on March 20, 1972 and are not relevant to Volume I of this history, for which the closing date is December 31, 1971. On that date, these two sentences were one and read as follows: “All accounts of the General Account shall be summarized in United States dollars; and for this purpose gold shall be valued in terms of United States dollars at the par value of the United States dollar, and all members’ currencies shall be converted at their par values or in accordance with a decision of the Fund pursuant to Article IV, Section 8 of the Articles of Agreement.”
regarding exchange restrictions, and such other conditions as, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe.

*Adopted March 16, 1946*

**SEC. 22. COMPULSORY WITHDRAWAL**

Before any member is required to withdraw from membership in the Fund, the matter shall be considered by the Executive Directors who shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing. The Executive Directors shall recommend to the Board of Governors the action they deem appropriate. The member shall be informed of the recommendation and the date on which its case will be considered by the Board and shall be given a reasonable time within which to present its case to the Board both orally and in writing. Any member so electing may waive this provision.

*Adopted March 16, 1946*

**SEC. 23. COMMITTEE ON INTERPRETATION**

[to be adopted]

**SEC. 24. SETTLEMENT OF DISAGREEMENTS**

The President of the International Court of Justice is prescribed as the authority to appoint an umpire whenever there arises a disagreement of the type referred to in Article XVIII (c) or Article XXVII (d) of the Articles of Agreement.

*Adopted as Sec. 23 March 16, 1946, amended October 2, 1969*

**SEC. 25. OTHER HOLDERS**

Applications to be permitted to accept, hold, and use special drawing rights under Article XXIII, Section 3, shall be filed with the Fund with all relevant facts. When submitting an application to the Board of Governors, the Executive Directors after consultation with the applicant shall recommend to the Board such terms and conditions as, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe.

*Adopted October 2, 1969*

**SEC. 26. AMENDMENT OF BY-LAWS**

These By-Laws may be amended by the Board of Governors at any meeting thereof or by vote without a meeting as provided in Section 13.

*Adopted as Sec. 24 October 2, 1946*
## BASIC DOCUMENTS

### Rules and Regulations of the International Monetary Fund
(March 20, 1972)

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A—SCOPE OF RULES AND REGULATIONS

A-l. These Rules and Regulations supplement the Fund Agreement and the By-Laws adopted by the Board of Governors. They are not intended to replace any provision of either the Agreement or the By-Laws. The Rules and Regulations attempt to provide such operating rules, procedures, regulations, and interpretation as are necessary and desirable to carry out the purposes and powers contained in the Agreement, as supplemented by the By-Laws. If any provision in the Rules and Regulations is found to be in conflict with any provision in the Agreement or in the By-Laws, the Agreement and By-Laws shall prevail and an appropriate amendment should be made to these Rules and Regulations.

Adopted September 25, 1946

A-2. Additions to, and changes of, the Rules and Regulations will be made as experience brings to light new problems or suggests modifications in procedures already adopted.

Adopted September 25, 1946

B—TERMS, DEFINITIONS, AND SYMBOLS EMPLOYED IN THIS DOCUMENT

B-l. Executive Director, except where otherwise specified, shall include the Alternate or the temporary Alternate, as the case may be. In matters pertaining exclusively to the Special Drawing Account references in these Rules and Regulations to Executive Director, other than in Rules C-1, C-5 (a), C-15, and C-16, shall apply to an Executive Director appointed or elected by at least one member that is a participant.

Adopted September 25, 1946, amended August 14, 1947, effective September 17, 1947, and September 18, 1969

B-2. Executive Board refers to the Executive Directors presided over by the Chairman.

Adopted September 25, 1946

B-3. Chairman, except where otherwise specified, shall refer to the Chairman or Acting Chairman of the Executive Board.

Adopted September 25, 1946

B-4. Agenda ordinarily refers to both the list of items to be considered at a meeting and the supplementary documents pertinent thereto.

Adopted September 25, 1946

B-5. Fund Agreement refers to the Articles of Agreement of the International Monetary Fund and, where the context is clear, Agreement shall also refer to the Articles of Agreement.

Adopted September 25, 1946

B-6. FA refers to the Fund Agreement.

BL refers to the By-Laws of the International Monetary Fund as adopted by the Board of Governors.

RR refers to these Rules and Regulations.

Adopted September 25, 1946

B-7. Executive Session refers to a Meeting of the Executive Directors in which no person is present except the Executive Directors, Managing Director, and, with the
approval of the Board granted separately for each Executive Session, the Secretary of the Board.

Adopted September 25, 1946

B-8. Business day refers to the normal working hours of the Fund, 9:00 a.m. to 5:30 p.m. at the official time for the District of Columbia, on Monday through Friday of each week with the following exceptions (which will include the preceding Friday whenever one of the dates below falls on a Saturday and the following Monday whenever one falls on a Sunday):

- New Year's Day, January 1
- Washington's Birthday, the third Monday in February
- Memorial Day, the last Monday in May
- Independence Day, July 4
- Labor Day, the first Monday in September
- Columbus Day, the second Monday in October
- Veterans Day, the fourth Monday in October
- Thanksgiving Day, the fourth Thursday in November
- Christmas Day, December 25


C—MEETINGS OF THE EXECUTIVE BOARD

Meetings

C-1. Meetings of the Executive Directors shall be called by the Chairman as the business of the Fund may require. Except in special circumstances the Chairman shall notify all Executive Directors of meetings at least two business days in advance.

Adopted September 25, 1946, amended May 28, 1947

C-2. The Chairman shall call a meeting at the request of any Executive Director.

Adopted September 25, 1946

C-3. Meetings of the Executive Board shall be open to attendance by the Secretary and such members of the staff as the Chairman indicates. At the request of the Chairman or any Executive Director meetings may be held in Executive Session, or the Executive Board may determine which particular members of the staff may attend any session.

Adopted September 25, 1946, amended January 15, 1948

C-4. The Executive Directors shall meet at the principal office of the Fund unless it is decided that a particular meeting shall be held elsewhere.

Adopted September 25, 1946

C-5. (a) Any Executive Director may participate in any meeting of the Executive Board or committees of the Executive Board.

(b) In the absence of the Managing Director, the Deputy Managing Director shall act as Chairman and shall have a deciding vote in case of an equal division. In the absence of both the Managing Director and the Deputy

---

1 The definition of "business day" does not affect in any way the arrangements which have been made for the receipt of messages at all times and for prompt action upon them as required by circumstances and the Fund Agreement, By-Laws and Rules and Regulations.
Managing Director, the Executive Director selected by the Executive Board shall act as Chairman. An Executive Director shall retain his right to vote when serving as Acting Chairman.

Adopted September 25, 1946, amended November 12, 1948 and September 18, 1969

Agenda

C-6. The agenda for each meeting shall be prepared by the Chairman. The agenda shall include any item requested by an Executive Director.

Adopted September 25, 1946

C-7. Except in special circumstances the Chairman shall notify Executive Directors of new items on the agenda at least two full business days before their consideration in meetings. Additional advance notice shall be given at the discretion of the Chairman before the consideration of new items of especial importance which may require consultation with members or the return to the seat of the Fund of Executive Directors who are absent.

Adopted September 25, 1946, amended May 28, 1947

C-8. Matters not on the agenda for a meeting may be considered at that meeting only by unanimous consent of the Executive Directors present.

Adopted September 25, 1946

C-9. Any item of the agenda for a meeting, consideration of which has not been completed at that meeting, shall, unless the Executive Directors decide otherwise, be automatically included in the agenda of the next meeting.

Adopted September 25, 1946

Voting

C-10. The Chairman will ordinarily ascertain the sense of the meeting in lieu of a formal vote. Any Executive Director may require a formal vote to be taken with votes cast as prescribed in Article XII, Section 3 (i), or Article XXVII (a) (iii).

Adopted September 25, 1946, amended September 18, 1969

C-11. There shall be no formal voting in committees and subcommittees. The Chairman of the committee or subcommittee shall determine the sense of the meeting (including alternative points of view) which shall be reported.

Adopted September 25, 1946

C-12. No Executive Director may vote at any meeting by proxy or by any other method than in person.

Adopted September 25, 1946

Language

C-13. The working language of the Fund will be English. The discussion, documents, and reports of meetings will ordinarily be in English. Speeches or papers presented in other languages shall be translated into English.

Adopted September 25, 1946
BASIC DOCUMENTS

Minutes

C-14. Under the direction of the Managing Director, the Secretary shall be responsible for the preparation of a summary record of the proceedings of the Executive Board.

Adopted September 25, 1946

C-15. Verbatim records will be taken only if the Chairman, the Executive Board or an Executive Director so requests. In such case, the Secretariat shall be given advance notice of the desire for verbatim recording.

Adopted September 25, 1946

C-16. Draft minutes will be circulated to all Executive Directors as quickly as possible after meetings. They will normally be submitted for approval at the next meeting of the Executive Board following the day they are circulated, and in any case will be submitted for approval not later than the third succeeding meeting.

Adopted September 25, 1946, amended May 28, 1947 and August 14, 1947

D—APPLICATION FOR MEMBERSHIP, CHANGES IN QUOTAS, AND APPLICATION TO BE AN OTHER HOLDER OF SPECIAL DRAWING RIGHTS

Application for Membership

D-1. When a country applies for membership in the Fund, and the application is placed before the Executive Board, the Chairman shall announce a reasonable time to be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. If this decision is in the affirmative the Fund may proceed to obtain all relevant information and discuss with the applicant any matters relating to its application. Any Executive Director may request such information to be added to the list requested of the applicant as in his opinion is relevant to the decision to be made. The Executive Board shall then decide whether to submit an application for membership with its views to the Board of Governors for a telegraphic vote or hold the application until the next meeting of the Board of Governors.

Adopted September 25, 1946

Quotas

D-2. When a member requests an adjustment of its quota, the Executive Board, after consulting the member, shall submit a written report on the request to the Board of Governors at its next meeting. If the Board of Governors approves an increase in the quota of a member, and on the date the member consents to the increase its monetary reserves are less than its new quota, the Executive Board may reduce the proportion of the increase to be paid in gold. The member shall, if it desires such a reduction, transmit to the Fund by rapid means of communication within ten days after its consent, the data necessary to determine its monetary reserves as at the date of the consent. The decision of the Executive Board shall be made within ten days after receipt of such data.

Adopted September 25, 1946, amended May 28, 1947
D-3. At least one year prior to the time when a review of quotas must be undertaken by the Fund, the Executive Board shall appoint a committee to study the problem and to prepare a written report.  
Adopted September 25, 1946

Other Holders

D-4. When an application to be permitted to accept, hold, and use special drawing rights under Article XXIII, Section 3, is received by the Fund and it is placed before the Executive Board, the Chairman shall announce a reasonable time to be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. If this decision is in the affirmative the Fund may proceed to obtain all relevant information and discuss with the applicant any matters relating to its application. Any Executive Director may request such information to be added to the list requested of the applicant as in his opinion is relevant to the decision to be made. The Executive Board shall then decide whether to submit an application with its views to the Board of Governors for a telegraphic vote or hold the application until the next meeting of the Board of Governors.  
Adopted September 18, 1969

E—SUBSCRIPTIONS

E-1. Gold depositories of the Fund shall be established in the United States, United Kingdom, France, and India. The gold of the Fund shall be held with the depositories designated by the members in whose territories they are located at places agreed with the Fund. A member may pay its gold subscription to the Fund at one or more of the specified gold depositories within the terms of Article XIII, Section 2.  
Adopted September 25, 1946, amended November 29, 1956

E-2. A member shall pay its currency subscription to the Fund at the designated depository. Each member is authorized to substitute in accordance with Article III, Section 5, non-negotiable, non-interest bearing notes payable to the Fund on demand for that part of the currency holdings of the Fund which exceed 1 per cent of the member’s quota, and the depository shall hold such notes for the account of the Fund. Such notes shall not be accepted until the Fund is satisfied that they are in proper form and that their issue has been authorized. The balances held in the administrative accounts of the Fund shall not be considered as part of the currency holdings of the Fund for the application of this Rule.  
Adopted September 25, 1946, amended February 20, 1950

E-3. The Executive Board may agree to alter the 1 per cent requirement in the case of any member should circumstances in the opinion of the Executive Board warrant a different percentage.  
Adopted September 25, 1946, amended February 20, 1950

E-4. The member is allowed 24 hours in which to deposit the currency necessary to maintain the amount required under E-2 and E-3.  
Adopted September 25, 1946

E-5. For purposes of Article III, Section 3, initial gold payments in excess of the minimum shall be accepted on the same basis as the minimum payment.  
Adopted September 25, 1946
F—PAR VALUES

F-1. The Fund shall arrange through the fiscal agencies of members that frequent and regular information as to the market rates of members' currencies bought and sold in their territories is made available to the Fund.

Adopted September 25, 1946

F-2. Members shall notify the Fund whether for the settlement of international transactions they, in fact, freely buy and sell gold within the prescribed limits of price and shall notify the Fund of any changes in such policy.

Adopted September 25, 1946

F-3. A member desiring to change the par value of its currency shall give the Fund as much notice as the circumstances allow, and shall submit a full and reasoned statement why, in its opinion, such a change is necessary to correct a fundamental disequilibrium.

Adopted September 25, 1946

F-4. For transactions in gold by a member the margin above and below par value shall be, at the option of the member, either:

1. One quarter of one per cent plus the following charges:
   a. The actual or computed cost of converting the gold transferred into good delivery bars at the normal center for dealing in gold of either the buying member or the member whose currency is exchanged for the gold;
   b. The actual or computed cost of transporting the gold transferred to the normal center for dealing in gold of either the buying member or the member whose currency is exchanged for the gold;
   c. Any charges made by the custodian of the gold transferred for effecting the transfer;

2. One per cent, which one per cent shall be taken to include all of the charges set forth in 1 above.


G—OPERATIONS AND TRANSACTIONS

G-1. Each member shall designate a fiscal agency in accordance with Article V, Section 1, and may change the agency after notifying the Fund.

Adopted September 25, 1946, amended September 18, 1969

Foreign Exchange

G-2. Each request from a member to purchase currency from the Fund shall be made by the fiscal agency designated in accordance with Article V, Section 1, such request to be authenticated in the manner agreed upon by the Fund and the agency. In its operations on behalf of the Fund a depository will act only on instructions authenticated in such manner as may be agreed upon by the Fund and the depository.

Adopted September 25, 1946, amended February 20, 1947

G-3. When a duly authenticated request for the purchase of foreign exchange in accordance with Article V, Section 3, is received, the Fund shall, on the third business day following the day of receipt of the request, instruct the appropriate depository to make the transfer, except in cases which the Executive Board may indicate. The
first business day after receipt of the request shall be regarded as the first of the three days.

Adopted September 25, 1946, amended February 7, 1947

G-4. When a member expects to purchase from the Fund, in a single transaction or a series of transactions, an unusually large sum of any other member’s currency (unusually large relative to the quota of that other member), the member shall give the Fund as much notice of the proposed transaction or transactions as can reasonably be effected.

Adopted September 25, 1946

G-5. When the request of a member, if consummated, would increase to more than 5 per cent of its quota the aggregate purchases by the member pursuant to Article V, Section 3, during the thirty-day period preceding the date of action specified in G-3 the Managing Director shall notify each Executive Director (or his Alternate if the Executive Director is not available) on the first business day after receipt of the request. If neither the Executive Director nor the Alternate is in Washington or its environs, the notification will be assumed to have been duly delivered if appropriate notice is delivered to his office.

At the request of any Executive Director or on the initiative of the Managing Director, a special meeting shall be called by the Managing Director to discuss the request as soon as feasible, but not later than the morning of the second business day.

Adopted February 7, 1947

Gold

G-6. Gold due to the Fund may be delivered at any gold depository of the Fund. Whenever the Fund accepts gold situated elsewhere than at a gold depository of the Fund, the member delivering such gold may be required to assume the actual or estimated costs, as the case may be, of moving the gold to the Fund’s nearest gold depository. Where the member is required to reimburse the Fund for such actual or estimated costs, the Fund shall advise the member in what form reimbursement shall be made.

Adopted July 30, 1948

G-7. When any member sells gold to the Fund pursuant to Article V, Section 6 (a), the member may be required to assume the estimated costs that would be incurred by the Fund if it used the gold so acquired to purchase the currency it has sold. The Fund shall advise the member in what form such payment shall be made.

Adopted July 30, 1948

H—EXCHANGE CONTROLS, CURRENCY PRACTICES, AND AGREEMENTS

H-1. The Fund shall keep all exchange controls under review and shall consult with members with a view to the progressive removal of exchange restrictions in accordance with the Fund Agreement.

Adopted September 25, 1946

H-2. If a member complains to the Executive Board that another member is not complying with its obligations concerning exchange controls, discriminatory currency
arrangements, or multiple currency practices, the complaint shall give all facts pertinent to an examination.

Adopted September 25, 1946

H-3. Upon receipt of a complaint from a member, the Executive Board shall make arrangements promptly for consultation with the members directly involved.

Adopted September 25, 1946

H-4. All requests by a member under Article VIII, Sections 2 and 3, that the Fund approve the imposition of restrictions on the making of payments and transfers for current international transactions, or the use of discriminatory currency arrangements or multiple currency practices, shall be submitted to the Executive Board in writing, with a statement of the reasons for making the request.

Adopted September 25, 1946

H-5. The Executive Board shall decide each request for approval expeditiously.

Adopted September 25, 1946

I—REPURCHASES AND CHARGES IN RESPECT OF GENERAL ACCOUNT TRANSACTIONS

I-1. The first time that a member has to make a gold payment to the Fund it shall deliver gold of designated weight and fineness at least sufficient in value to meet the payment. Any surplus balance of gold shall be held by the Fund under earmark at the disposal of the member and may be used to meet other payments incurred in the future.

Adopted September 25, 1946

I-2. The service charge payable by a member buying, in exchange for its own currency, the currency of another member or special drawing rights shall be 1/2 of 1 per cent, except that no service charge shall be payable in respect of any purchase to the extent that it is a gold tranche purchase. The service charge shall be paid at the time the transaction is consummated. The service charge shall be reviewed in connection with any review of charges under Rule I-4.


I-3. Rule I-3, adopted September 25, 1946, was eliminated on July 30, 1948, and the substance of the Rule was incorporated into Rule G-6 on that date.

I-4. (a) As soon as possible after July 31, October 31, January 31 and April 30, the Fund shall notify each member by cable of the charges it owes to the Fund pursuant to Article V, Section 8 (c) or (d), for the three calendar months ending on each such date. These charges shall be payable within thirty days after the sending of such notice.

Adopted September 25, 1946, amended July 30, 1948 and February 24, 1954
(b) Such charges payable by each member shall be computed on the basis of the "average of the holdings" which, as used in this section, means the average daily balances of its currency held by the Fund in excess of its quota calculated as follows:

(i) At the end of each calendar month there shall be averaged for each member the daily amounts by which the Fund's holdings of its currency on the Fund's books at the close of each day during that month have exceeded its quota on each such day;

(ii) The Fund's holdings of each member's currency shall consist of all its currency except amounts, not in excess of 1% of 1 per cent of the member's quota, in a special account to meet administrative expenses and amounts in sundry cash accounts.

*Adopted July 30, 1948, amended November 1, 1968*

(c) The period of time during which the Fund's holdings of a member's currency have been at a particular level shall be the continuous period of time during which the average of the holdings has not fallen below that level, and, in determining periods of time for the application of the charges, changes in the average of the holdings shall affect the calculation of time periods in the following way:

(i) Each increase in the average of the holdings shall create a new segment of the holdings which will be equal to the amount of the increase and the period of time during which each segment is held shall be measured from the beginning of the month in which the increase in the average of the holdings occurs.

(ii) Each decrease in the average of the holdings shall terminate the period of time during which the holdings have been in excess of the new average and the period of time shall terminate at the end of the month preceding that in which the decrease in the average of the holdings occurs.

*Adopted July 30, 1948*

[Rule 1-4 (d) and (e) have been omitted because the charges provided thereunder are no longer applicable to any segment of the Fund's holdings. For the text, see the 22nd issue of the By-Laws and Rules and Regulations.]

(f) (1) With respect to each segment of the holdings of a member's currency to the extent that it represents the acquisition of that currency by the Fund from January 1, 1954 through April 30, 1963:

(i) The charge to be levied on each segment to the extent that it is within the first bracket of 50 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next fifteen months, and an additional 1/2 per cent per annum for each subsequent six months.

(ii) The charge to be levied on each segment to the extent that it is within the second bracket of more than 50 per cent and not more than 75 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next nine months, and an additional 1/2 per cent per annum for each subsequent six months.

(iii) The charge to be levied on each segment to the extent that it is within the third bracket of more than 100 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the
next three months, and an additional $\frac{1}{2}$ per cent per annum for each subsequent six months.


(g) The Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced whenever the Fund's holdings of a member's currency are such that the charge under (f) above applicable to any segment for any period has reached the rate of 4 per cent per annum. Thereafter, the charges shall rise in accordance with (f) above, provided that the rate shall not increase beyond 5 per cent per annum when agreement is reached under this Rule for repurchase within three to five years after a drawing in accordance with Executive Board Decision No. 102-(52/11). In the case of agreements on means to reduce the Fund's holdings beyond five years, the Fund may adopt higher maximum rates. In the absence of agreement on means to reduce the Fund's holdings, the Fund may impose such charges as it deems appropriate after the rate of 5 per cent is reached. When an agreement for repurchase within three to five years after a drawing is not reached or observed, the charges to be imposed shall rise in accordance with (f) above, provided that when the charges payable on any segment have reached 6 per cent the Fund will review the charges to be imposed thereafter. In the case of non-observance, if 5 per cent is payable on any segment at the date of non-observance, it shall continue to be payable only for that part of a period of six months for which it has not yet been payable; and when the repurchases to which the non-observance relates are made or a new agreement for repurchase not later than five years after the drawing is made all charges in excess of 5 per cent shall be reduced to 5 per cent.


I-5. (a) If, in accordance with Article V, Section 8 (f), a member wishes to pay in its own currency part of any charge due to the Fund pursuant to I-4, the proportion to be paid in such currency shall be calculated on the basis of its monetary reserves at the end of the quarter of the financial year of the Fund to which such charges apply.

Adopted September 25, 1946, amended May 28, 1947 and July 30, 1948

(b) If, in accordance with Article V, Section 8 (f), a member wishes to pay in its own currency part of any charge due to the Fund pursuant to I-2 or I-8, the proportion to be paid in such currency shall be calculated on the basis of its monetary reserves on the day before the day on which the charge is due; provided, however, that if the member would encounter undue difficulties in providing for that day the data required by the Fund in the monetary reserve report forms sent to members, the proportion to be paid in the member's currency shall be calculated on the basis of its monetary reserves at the end of the quarter of the financial year of the Fund in which the charge becomes due. The member, when making a provisional payment in accordance with (c) below, shall advise the Fund whether the member will provide monetary reserve data for the day before the day on which the charge becomes due or for the end of the quarter in which the charge becomes due.

Adopted July 30, 1948, amended March 24, 1950

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(c) Whenever a charge is due under 1-2, 1-4, or 1-8, and the member wishes to pay part thereof in its own currency, the member shall make a provisional payment in gold and currency on the basis of its own estimate of its monetary reserves for the appropriate day or end of quarter of the financial year of the Fund as specified in (a) or (b) above. The member shall provide the Fund with the data, for such appropriate day or end of quarter, required by the Fund in the monetary reserve report forms sent to members, and such data shall be provided to the Fund not later than six months from the aforesaid appropriate day or end of quarter. On the basis of such data, the Fund shall make a final determination of the proportions of the charge to be paid in gold and in currency, and final adjustment of the provisional payment shall be made on the date specified by the Fund. If the member fails to provide its monetary reserve data within the period prescribed herein, the whole of the charge shall be finally payable in gold.

Adopted July 30, 1948

I-6. (a) Each member shall furnish the data necessary for the calculation of its monetary reserves and its repurchase obligation, if any, within two months after the end of each financial year of the Fund, subject to (h) below. All data shall be supplied to the Fund in the monetary reserve report forms sent to members by the Fund.

(b) Each member's monetary reserves and repurchase obligation, if any, shall be computed on the basis of the aforesaid data.

(c) When a repurchase obligation has thus been computed for a member, the Managing Director, after consultation with the Executive Director appointed or elected by the member, shall notify the member by letter containing all the necessary details of the computation, including the distribution of the amount payable among the types of reserves and any amount to be postponed.

(d) If the member is in agreement with the aforesaid computation, the member shall so advise the Fund within thirty days from the day on which the member receives notice thereof. The Managing Director shall then send to the member a formal request for payment, and shall at the same time notify the Board of such request. The member shall discharge the amount due within thirty days from the day on which the member receives the formal request for payment.

(e) If the member disagrees with the computation notified to it under (c) above, it shall so advise the Fund within thirty days from the day on which the member receives notice thereof, and shall at the same time or within the said thirty days inform the Fund of its reasoned objections. If agreement with the member is not reached within a period regarded by the Managing Director as reasonable in the circumstances of the case, the Managing Director, after consultation with the Executive Director appointed or elected by the member, shall refer the matter to the Executive Board.

(f) After agreement with the member if reached under (e) above, or after a decision by the Executive Board determining the member's repurchase obligation, the Managing Director shall send to the member a formal request for payment, and shall at the same time notify the Board of such request. The member shall discharge the amount due within thirty days
from the day on which the member receives the formal request for payment or within such other period as may be decided by the Executive Board.

(g) The Managing Director shall report to the Executive Board any case in which it appears the above procedure has not been followed.

(h) Notwithstanding (a) above, a member which is unable to report within two months after the end of a financial year of the Fund the necessary data with respect to holdings of its other official institutions and the other banks within its territories and the amounts of currency due to official institutions and banks in the territories of members or nonmembers specified by the Fund shall furnish these data not later than six months after the end of the financial year of the Fund. On the basis of these data and Article XIX (c) the Fund may decide to recalculate the member's monetary reserves and repurchase obligation calculated in accordance with (b) above. Paragraphs (c) through (g) above shall apply to the recalculated repurchase obligation.

Adopted September 25, 1946, amended July 28, 1950; paragraph (a) amended April 21, 1971; paragraphs (c), (d), and (f) amended May 20, 1970; paragraph (h) added April 21, 1971

1-7. For the purposes of Article V, Section 7, the term “financial year” shall be defined as beginning on May 1 and ending on the succeeding April 30; provided, however, that the first financial year shall begin on March 1, 1947 and end on April 30, 1948.

For purposes of the Fund’s accounts and reports, its fiscal year shall begin on May 1 and end on the succeeding April 30; provided, however, that the fiscal year 1946/47 shall begin on July 1, 1946 and end on June 30, 1947, and the fiscal year 1947/48 shall begin on July 1, 1947 and end on April 30, 1948.

Adopted February 7, 1947, amended May 28, 1947, effective September 17, 1947

1-8. When any member sells gold to the Fund pursuant to Article V, Section 6 (a), or buys gold from the Fund, the Fund may levy a handling charge which shall be paid in accordance with Article V, Section 8 (f).

Adopted February 7, 1947, amended July 30, 1948

1-9. (a) Remuneration shall accrue daily and shall be paid as of the end of each financial year of the Fund. Remuneration shall be paid in gold to the extent that receipts of gold, during the financial year, in payment of charges under Article V, Section 8 (f), exceed payments during that year of gold as transfer charges and interest on borrowings. If the amount of gold thus available is less than the total remuneration to be paid, the gold shall be paid to each member in proportion to the remuneration to which it is entitled.

(b) Payments in gold pursuant to (a) above shall be made only to the extent that these can be effected in bars.

(c) Any remuneration due to each member and not payable in gold shall be paid in that member’s currency.

(d) The Executive Board shall review from time to time the rate of remuneration and the extent to which remuneration shall be paid in gold.

Adopted September 18, 1969
J—ACCOUNTING AND REPORTING

Accounts

J-1. (a) The accounts of the General Account shall be kept in terms of the currencies held in the General Account and in terms of special drawing rights, except that administrative receipts and expenditures shall be recorded in terms of currencies and summarized in special drawing rights. For this purpose, currencies shall be converted at their par values or in accordance with decisions of the Fund.†

(b) The accounts of the Special Drawing Account shall be kept in terms of the unit of value of special drawing rights.


J-2. The accounts of the General Account and the Special Drawing Account shall be kept in a manner that will show clearly the nature and amount of each operation and transaction, the position of the General Account and the Special Drawing Account, the position of each participant and each other holder, and the nature and amount of all operations and transactions in special drawing rights.

Adopted September 25, 1946, amended September 18, 1969

J-3. (a) A summary statement of the operations and transactions conducted through the General Account and the holdings in the General Account of gold, special drawing rights, and currencies of members shall be issued at intervals of three months or less, and a monthly statement of balances shall be sent to all members.

(b) A summary statement of all operations and transactions in special drawing rights, and the position of each participant and each other holder shall be issued at intervals of three months or less and a monthly statement of balances of special drawing rights shall be sent to participants and other holders.

(c) A monthly summary statement of all transactions under Article XXV, Section 2 (a), (b) (i), and (b) (ii), shall be sent to all participants.

Adopted September 25, 1946, amended September 18, 1969

Annual Budget

J-4. The Managing Director shall prepare an annual administrative budget, which shall include a projection of the expense of conducting the business of the Special Drawing Account, for presentation to the Executive Board for approval not later than April 1 of each year.

Adopted September 25, 1946, amended February 20, 1948 and September 18, 1969

Annual Report

J-5. Not later than June 30 of each year, the Managing Director shall present to the Executive Board a summary of the matters which in his opinion should be included

†This paragraph came into effect on March 20, 1972 and is not relevant to Volume I of this history, for which the closing date is December 31, 1971. On that date, Rule J-1 (a) read as follows: "The accounts of the General Account shall be kept in terms of the currencies held in the General Account and United States dollars on the basis of the established parities.
in the annual report to the Board of Governors. At least one month before the annual meeting of the Board of Governors, the Managing Director shall submit to the Executive Board for its consideration, a draft of the annual report.

*Adopted September 25, 1946*

**Audit**

J-6. At least one month before the annual meeting of the Board of Governors, the audited accounts of the Fund shall be submitted to the Executive Board for its consideration.

*Adopted September 25, 1946*

**K—LIMITATION AND INELIGIBILITY**

K-1. The Managing Director shall report to the Executive Board any case in which it appears to him that a member is not fulfilling obligations under the Fund Agreement that could lead to the application of the provisions of Article XV, Section 2.

*Adopted September 25, 1946, amended September 18, 1969*

K-2. Whenever the Executive Board would be authorized to declare a member ineligible to use the resources of the Fund it may refrain from making the declaration and indicate the circumstances under which, and/or the extent to which, the member may make use of the resources.

*Adopted September 25, 1946*

K-3. When a member has changed the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the Executive Board may determine the circumstances under which, and the extent to which, a member may use the resources of the Fund.

*Adopted September 25, 1946*

K-4. Before any member is declared, pursuant to Article XV, Section 2 (a), ineligible to use the resources of the Fund, the matter shall be considered by the Executive Board, who shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing.

*Adopted September 25, 1946*

K-5. When any member that is ineligible to use the resources of the Fund, or whose use of the resources has been limited, according to K-2 or K-3 above, requests the Executive Board to permit the resumption of exchange transactions with or without special limitations and the Executive Board decides not to permit such resumption, a written report shall be made to the member stating what further action is required before such resumption will be permitted.

*Adopted September 25, 1946, corrected October 18, 1950*

**L—CAPITAL TRANSFERS**

L-1. If there is taking place a large or sustained outflow of capital from a member country:

(a) that member or any other member may notify the Fund, presenting such information as it deems necessary; and may request the Fund's views with respect to such capital movement; and
(b) the Fund may present to the member or members concerned a report setting forth its views, and may request the member or members to report on the situation within a suitable time.

*Adopted September 25, 1946*

L-2. Whenever the Fund has requested a member to exercise controls to prevent use of the resources of the Fund to meet a large or sustained outflow of capital, the Fund shall request the member to notify it promptly and in detail of the measures taken.

*Adopted September 25, 1946*

L-3. Each member shall inform the Fund in detail of the measures it is taking to regulate international capital movements and of changes made in such measures.

*Adopted September 25, 1946*

L-4. If the Fund is of the opinion that the controls exercised by a member to regulate international capital movements are restrictive of payments for current transactions, or unduly delay transfers of funds in settlement of commitments, the Fund shall, subject to the provisions of Article VII, Section 3(b) and Article XIV, Section 2, consult with the member on the manner in which the controls are exercised. If, after consultation, the Fund is not satisfied that the controls are exercised in a manner consistent with the Fund Agreement, it shall so inform the member in a written report and request it to modify the controls.

*Adopted September 25, 1946*

**M—RELATIONS WITH NON-MEMBERS**

M-1. The Fund may request the cooperation of any member with a view to the application of appropriate measures to prevent transactions with non-members or with persons in their territories, contrary to the provisions of the Agreement or the purposes of the Fund.

*Adopted September 25, 1946*

M-2. When the Fund finds that a member or any of its fiscal agencies referred to in Article V, Section 1, engages in any transaction with or cooperates in practices with a non-member or with persons in a non-member's territory, contrary to the provisions of the Agreement or the purposes of the Fund, it shall present to the member a report setting forth its views and may request the cessation or modification of the transactions or practices.

*Adopted September 25, 1946*

M-3. A member shall inform the Fund promptly and in detail of any restrictions which it imposes on exchange transactions with non-members or with persons in their territories.

*Adopted September 25, 1946*

M-4. Any member may notify the Fund of restrictions imposed by a member on exchange transactions with non-members or with persons in their territories which are deemed to prejudice the interests of members and to be contrary to the purposes of the Fund.

*Adopted September 25, 1946*
M-5. When the Fund finds that the restrictions imposed by a member on exchange transactions with non-members or with persons in their territories are prejudicial to the interests of members and contrary to the purposes of the Fund, it shall present to the member a report setting forth its views and may request the abolition or modification of the restrictions.

*Adopted September 25, 1946*

M-6. The Fund deems that it would be prejudicial to the interests of members and contrary to the purposes of the Fund for a member to impose restrictions on exchange transactions with those non-members having entered into special exchange agreements under the General Agreement on Tariffs and Trade, or with persons in their territories, which the member would not in similar circumstances be authorized to impose on exchange transactions with other members or persons in their territories. Therefore, pursuant to Article XI, Section 2, members should not institute restrictions on exchange transactions with such non-members, or persons in their territories, unless the restrictions (a) if instituted on transactions with other members, or persons in their territories, would be authorized under the Fund Agreement, or (b) have been approved in advance by the Fund. Requests for prior approval shall be submitted in writing with a statement of reasons.

*Adopted June 7, 1950*

**N—STAFF REGULATIONS**

**Personnel**

N-1. The employment, classification, promotion, and assignment of personnel in the Fund shall be made without discriminating against any person because of sex, race or creed.

*Adopted September 25, 1946*

N-2. Persons on the staff of the Fund shall be nationals of members of the Fund unless the Executive Board authorizes exceptions in particular cases.

*Adopted September 25, 1946*

N-3. In the discharge of their functions, the persons on the staff shall owe their duty entirely to the Fund and to no other authority.

*Adopted September 25, 1946*

N-4. All persons on the staff must avoid any action, and in particular any kind of pronouncement, which may reflect unfavorably upon their position as employees of an international organization, either in their own country or elsewhere. They should always bear in mind the reserve and tact incumbent upon them by reason of their international functions, and they are required to exercise the utmost discretion in regard to matters of official business. At no time should they in any way use to private advantage information known to them by reason of their official position.

*Adopted September 25, 1946*

N-5. Except in the course of his official duties or by express authorization of the Managing Director, no person on the staff may, during the term of his appointment of service, publish, cause to be published, or assist in the publication of any book, pamphlet, article, letter, or other document relative to the policies or activities of the Fund or to any national political questions; deliver any speech, lecture, or radio broadcast, or grant any press interview on such policies, activities, or questions; or communicate to any person any unpublished information known to him by reason of
his official position. After termination of his period of service with the Fund, a person formerly on the staff may not, without the express authorization of the Managing Director, disclose any confidential information he has received during his service with the Fund by reason of his official position.

_Adopted September 25, 1946_

N-6. No person on the staff shall hold other public or private employment or engage in any occupation or profession which in the Fund’s opinion is incompatible with the proper performance of his official duties.

_Adopted September 25, 1946_

N-7. A person on the staff may retain re-employment rights or pension rights acquired in the service of a public or private organization.

_Adopted September 25, 1946_

N-8. Any person on the staff who accepts a public office of a political character shall immediately resign from the Fund.

_Adopted September 25, 1946_

N-9. No person on the staff may accept any honor, decoration, favor, gift, or bonus from any government, or from any other authority or person external to the Fund, for services rendered during the period of his appointment or service with the Fund.

_Adopted September 25, 1946_

N-10. Upon appointment, each person on the staff will subscribe in writing to the following affirmation:

I solemnly affirm:

That, to the best of my ability, I will carry out my responsibilities in a manner that will further the purposes of the International Monetary Fund;

That I will refrain from communicating confidential information to persons outside the Fund;

That I will not use to private advantage information known to me by reason of my official position; and

That I will accept no instruction in regard to the performance of my duties from any government or authority external to the Fund.

_Adopted September 25, 1946_

N-11. All persons appointed to permanent positions on the staff shall be classified by grades or positions according to the nature of their duties and responsibilities. Salary increases within each grade will be progressively available upon the successful completion of successive periods of work or upon the recommendation of supervisors.

_Adopted September 25, 1946_

N-12. The salary scale for permanent employees of the Fund shall, so far as practicable, conform to the salary scale of the United Nations.

_Adopted September 25, 1946_

N-13. The Managing Director shall inform the Executive Board at least two weeks in advance of any action to appoint or initiate the dismissal of any person at or above the rank of division chief within a department or office or receiving a salary equal to
or more than that of a division chief within a department. All other appointments to
the staff shall be made by the Managing Director or his designated representative.

Adopted September 25, 1946, amended July 1, 1959

N-14. The Managing Director is authorized to issue General Orders, with the
approval of the Executive Board, concerning the general personnel policies which shall
apply to the operating staff of the Fund.

Adopted September 25, 1946

Travel

N-15. (a) Official travel will be undertaken by staff members only with the
approval of the Managing Director or officials designated by him. In the
case of travel outside the continental United States, however, the specific
approval of the Managing Director is required.

Adopted September 25, 1946, amended February 11, 1948

(b) The Managing Director will inform the Executive Board of all such
travel at least once a month.

Adopted February 11, 1948

(c) Staff participation in activities of national agencies and staff travel to a
member's territory require consultation in advance with the Executive
Director appointed or elected by the member.

Adopted February 11, 1948

(d) Staff participation in deliberations or activities of international agencies
or conferences as well as staff travel to a member's territory, undertaken
in response to a formal invitation, require the advance approval of the
Executive Board.

Adopted February 11, 1948

O—TRANSACTIONS INVOLVING SPECIAL DRAWING RIGHTS

Currency Convertible in Fact

O-1. In deciding whether currency is convertible in fact under Article XXXII (b),
the Fund will consult participants with respect to

(i) procedures for the convertibility of currencies in accordance with
Article XXXII (b) (I), and

(ii) arrangements for the conversion of balances of currency into a currency
convertible in accordance with Article XXXII (b) (I).

The Fund shall inform all participants of the procedures or arrangements for con-
version. Participants shall consult the Fund with respect to any changes they propose
to make in their procedures or arrangements.

Adopted September 18, 1969

O-2. (a) Currency shall cease to be convertible in fact if

(i) the issuer of that currency notifies the Fund that the currency will
no longer be convertible in fact; or

(ii) the Fund decides after consultation with the issuer of the currency that
the currency is no longer convertible in fact.
(b) If a participant receives currency in a transaction under Article XXV, Section 2 (a), which cannot be converted into the currency desired in accordance with Rule O-6 it shall inform the Managing Director and may return the currency to the designated participant which shall substitute other currency convertible in fact.

Adopted September 18, 1969

Exchange Rates

O-3. The exchange rate in terms of special drawing rights for a currency provided in a transaction between participants or involved in a conversion associated with such a transaction, shall be

(i) for the United States dollar: its par value;

(ii) for the currency of a participant having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar can be readily ascertained: that representative rate;

(iii) for the currency of a participant having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar cannot be readily ascertained but in which a representative rate can be readily ascertained for spot delivery for a currency as described in (ii): the rate calculated by reference to the representative rate for spot delivery for that currency and the rate ascertained pursuant to (ii) above for the United States dollar in terms of that currency;

(iv) for any other currency: a rate determined by the Fund.

Adopted September 18, 1969

O-4. The exchange rate for each currency for the purposes of Rule O-3 shall be determined as of:

(i) the date of dispatch of the Fund’s designation instruction in a transaction under Article XXV, Section 2 (a), or

(ii) the date of dispatch of the notification under Rule O-10 by the participant using special drawing rights in any other transaction.

Adopted September 19, 1969

O-5. Exchange rates shall be determined under Rules O-3 and O-4 by procedures established in consultation between the Fund and the participants.

Adopted September 18, 1969

Provision and Conversion of Currency

O-6. A participant shall inform the Fund of its intention to use special drawing rights in a transaction under Article XXV, Section 2 (a). If it desires a particular currency convertible in fact pursuant to Rule O-1 (i), the participant shall indicate this in its communication.

Adopted September 18, 1969

O-7. In a transaction under Article XXV, Section 2 (a), the instructions for any conversion of currency provided pursuant to Rule O-1 (i) or Rule O-1 (ii) shall be given by the Fund in accordance with the indication under Rule O-6. In any other transaction, a participant using special drawing rights may ask the Fund in its notification under Rule O-10 to give instructions for any conversion of currency.

Adopted September 18, 1969
O-8. Currency convertible in fact shall be provided at, or converted through, an official agency of the participant issuing the currency and in accordance with the procedures or arrangements under Article XXXII (b) and Rule O-1. Instructions for the provision or conversion of any currency shall be carried out promptly.

Adopted September 18, 1969

O-9. No participant shall levy any charge in respect of the provision or conversion of currency in connection with the use of special drawing rights.

Adopted September 18, 1969

Notification

O-10. Both parties to a transaction, except for participants designated under Article XXV, Section 5, or the General Account, shall notify the Fund under which provision of the Articles, or prescription under Article XXV, Section 2 (b) (ii), that transaction is undertaken.

Adopted September 18, 1969

O-11. A participant using special drawing rights under Article XXV, Section 2, shall declare in its notification under Rule O-10 that the use is in accordance with Article XXV, Section 2 (a), or a specific prescription under Article XXV, Section 3 (c).

Adopted September 18, 1969

Recording

O-12. A participant using special drawing rights shall inform the Fund immediately of the receipt of currency in accordance with the Articles of Agreement and these Rules and Regulations.

Adopted September 18, 1969

O-13. The Fund shall record a transaction in the Special Drawing Account when it is satisfied that the transaction is in conformity with the obligations of participants under the Articles of Agreement and with the Rules and Regulations and any applicable decisions of the Fund. A transaction shall be recorded as of the date on which currency is provided.

Adopted September 18, 1969

Designation of Participants to Provide Currency

O-14. At quarterly intervals the Executive Board shall decide, in accordance with Article XXV, Section 5, and Schedule F, on the plan, including the amounts, by which designations will be made until the next decision takes effect. On the request of any participant, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any plan adopted pursuant to this Rule.

Adopted September 18, 1969

Transactions Without Designation

O-15. The Executive Board may prescribe transactions or categories of transactions under Article XXV, Section 2 (b) (ii), without designation under Article XXV, Section 5, in which a participant in agreement with any other participant may use its special drawing rights. The Managing Director shall inform participants from time to time.
Rules and Regulations

of the participants and the amounts of special drawing rights each may receive under any prescription made under this Rule.

Adopted September 18, 1969

Transactions Without the Requirement of Need

O-16. The Executive Board may prescribe transactions or categories of transactions under Article XXV, Section 3 (c), in which a participant may use its special drawing rights without regard to the requirement of need in Article XXV, Section 3 (a). The Managing Director shall inform participants from time to time of the participants and the amounts each may use under any prescription made under this Rule.

Adopted September 18, 1969

P—RECONSTITUTION

P-1. Any period of five years ending five years after the first allocation or at the end of any calendar quarter thereafter shall be a reconstitution period under Schedule G, paragraph 1.

Adopted September 18, 1969

P-2. The calculations for each participant under Schedule G, paragraph 1 (a) (ii), shall be based on the assumptions that the Executive Board makes from time to time with respect to allocations or cancellations during the remainder of any reconstitution period and on the assumptions that a participant will

(i) make no use of special drawing rights during the remainder of the reconstitution period for which the calculation is made; and

(ii) obtain any net additional amount of special drawing rights which it needs to hold, in addition to allocations assumed pursuant to this Rule, in order to comply with the requirement in Schedule G, paragraph 1 (a) (i), in equal quarterly amounts on the fifteenth day of each calendar quarter during the remainder of the reconstitution period for which the calculation is made.

Adopted September 18, 1969

P-3. When these calculations indicate that a participant would need to obtain special drawing rights in order to comply with the requirement in Schedule G, paragraph 1 (a) (i), the Managing Director shall inform the participant of the amount it would have to obtain quarterly and hold during the remainder of the reconstitution period in order to comply with this requirement.

Adopted September 18, 1969

P-4. When these calculations indicate that a participant would need to obtain special drawing rights for any reconstitution period in an amount per quarter that equals or exceeds ten per cent of the participant’s net cumulative allocation at the end of the reconstitution period, the participant shall be subject to designation under Article XXV, Section 5 (a) (ii), as of the beginning of the calendar quarter following the calculation, for an amount of special drawing rights equal to the largest amount per quarter calculated for any reconstitution period.

Adopted September 18, 1969

P-5. The Managing Director shall give the special notice required under Schedule G, paragraph 1 (a) (iii), when these calculations indicate that the quarterly amount of special drawing rights which the participant needs to obtain in order to comply with
the reconstitution requirement in Schedule G, paragraph 1 (a) (i), for any reconstitution period equals or exceeds 50 per cent of its net cumulative allocation at the end of the reconstitution period.

*Adopted September 18, 1969*

P-6. To the extent that a participant may receive special drawing rights in a transaction under any prescription to promote reconstitution by it, the Fund shall provide special drawing rights held in the General Account to the participant at its request for gold or currency acceptable to the Fund. A participant shall consult the Managing Director before making a request under this Rule.

*Adopted September 18, 1969*

P-7. The Fund shall specify the participant and the amount of special drawing rights it shall provide when this is required by Schedule G, paragraph 1 (a) (iv); Article XXVI, Section 5; and Article XXX, Section 3.

*Adopted September 18, 1969*

**Q—INTEREST, CHARGES, AND ASSESSMENTS IN RESPECT OF SPECIAL DRAWING RIGHTS**

Q-1. Interest and charges in respect of special drawing rights shall accrue daily and shall be paid promptly as of the end of each financial year of the Fund. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.

*Adopted September 18, 1969*

Q-2. Assessments shall be levied promptly, as of the end of each financial year of the Fund, on the basis of a reasonable estimate of the expenses of conducting the business of the Special Drawing Account for the financial year, and the accounts of participants shall be debited with the amounts of the assessments.

*Adopted September 18, 1969*

**R—SUSPENSION OF USE OF SPECIAL DRAWING RIGHTS**

R-1. The Managing Director shall report to the Executive Board any facts on the basis of which it appears to him that a participant is not fulfilling obligations under the Fund Agreement that could lead to suspension under Article XXIX, Section 2, and may include a complaint in his report.

*Adopted September 18, 1969*

R-2. A participant may complain that another participant is not fulfilling obligations under the Fund Agreement that could lead to suspension under Article XXIX, Section 2, and the Managing Director shall transmit the complaint to the Executive Board with his comments. Any complaint shall be made in writing or by any rapid means of communication, and it shall be accompanied by a statement of the facts on which the participant bases its complaint.

*Adopted September 18, 1969*

R-3. The Managing Director shall immediately inform a participant of any complaint against it and the statement of the facts on which the complaint is based.

*Adopted September 18, 1969*
R-4. If the complaint is that the participant has failed to fulfill its obligations under Article XXV, Section 4, the participant shall not use special drawing rights and this limitation shall continue pending the disposition of the complaint.

Adopted September 18, 1969

R-5. A participant against which a complaint has been made under Rule R-1 or Rule R-2, the Managing Director, or an Executive Director may request the Executive Board to dismiss the complaint. The Executive Board shall consider the request forthwith.

Adopted September 18, 1969

R-6. If the right of a participant to use special drawing rights has been limited under Rule R-4, and a request under Rule R-5 has been made by a participant, the complaint shall be deemed to have been dismissed at the end of ten business days after the request, or at the end of such longer period as the participant states in the request, unless within this time the Executive Board has taken a decision disposing of the complaint.

Adopted September 18, 1969
Executive Board Decisions

The decisions of the Executive Board reproduced here comprise those of a general nature that have been cited in Volume I above. They are arranged in the order of the Articles to which they refer, and they are listed below in numerical order with the page numbers.

Selected Decisions of the Executive Board

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Transactions and Computations Involving Fluctuating Currencies

The Fund has examined certain problems relating to the adjustment of its holdings of fluctuating currencies and to transactions and computations involving such currencies and has come to the following conclusions:

I. The Fund does not intend to apply the rules set forth in II below to its holdings of members' currencies having fluctuating rates when there is no practical interest for the Fund or members to do so. To avoid misunderstanding, it may be useful to point out that these rules do not constitute a formula for dealing with the currencies of countries in which current transactions are conducted at multiple rates.

II. Subject to I above, the following rules are adopted:

Where the foreign exchange value of a currency fluctuates so that exchange transactions in that currency are not based on parity in accordance with Article IV, Section 3, and the Fund decides to apply Article IV, Section 8, computations by the Fund relating to that currency (hereinafter referred to as "fluctuating currency") for the purpose of applying the provisions of the Articles of Agreement of the Fund will be made as follows:

1. (i) Computations will be based on the mid-point between the highest rate and the lowest rate for the United States dollar quoted, for cable transfers for spot delivery, in the main financial center of the country of the fluctuating currency on the day specified in sub-paragraph (ii) below; provided, however, that when prescribed by sub-paragraph (iii) below computations will be based on the mid-point between the highest rate and the lowest rate for the fluctuating currency quoted in New York for cable transfers for spot delivery. Arrangements will be made with the Fund's depository in the country of the appropriate exchange market as determined hereunder to communicate to the Fund the rates referred to in this sub-paragraph (i).

(ii) For the purpose of sub-paragraph (i) the specified day will be:

(a) For the sale or purchase by the Fund of a fluctuating currency in exchange for another currency, or the purchase of gold by the Fund under Article V, Section 6 (a), or the sale of gold by the Fund under Article VII, Section 2, or repurchases other than repurchases under Article V, Section 7 (b), or borrowing or the repayment of borrowing under Article VII, Section 2, the last business day in the main financial center of the country of the fluctuating currency, before the Fund instructs its depository to transfer or receive the fluctuating currency.

(b) For computations for the purpose of Article V, Section 7 (b) or Article V, Section 8 (f), the day as of which the computation is made, provided that for computations involving currency substituted pursuant to Schedule B, Paragraph 1 (c) and paragraph 1 of Executive Board Decision No. 3049-(70/44), adopted May 20, 1970, the specified day will be the last business day before the Fund instructs its depository to receive the payment in that currency.

(iii) If a mid-point cannot be determined in the main financial center of the country of the fluctuating currency in accordance with sub-paragraph (i) for the day specified in sub-paragraph (ii), there will be substituted therefor the mid-point for the fluctuating currency in New York determined in accordance
with sub-paragraph (i) for the same calendar day. If no such mid-point can be determined for that day, there will then be substituted, to the extent necessary, first the previous business day in the main financial center of the country of the fluctuating currency, and secondly the same calendar day in New York. This procedure will be followed to the extent necessary, until a mid-point is determined in accordance with sub-paragraph (i), except where the Fund decides to make a special determination under paragraph 6 below.

2. Where as the result of the application of paragraph 1 the amount of currency which the Fund has agreed to sell would exceed the amount that the purchasing member is entitled to purchase under Article V, Section 3 (a) (iii), the amount of currency to be sold will be reduced to the amount the purchasing member is entitled to purchase under that provision unless the Fund makes a waiver under Article V, Section 4.

3. The Fund will revalue all of its holdings of a fluctuating currency on the basis of the mid-point employed for a computation under paragraph 1, and such revaluation will take effect as of the day specified for the computation in sub-paragraph (ii) of paragraph 1. As a minimum, revaluation will be made as of each July 31, October 31, January 31, and April 30.

4. Whenever the Fund revalues its holdings of a fluctuating currency under paragraph 3, it will 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 fluctuating 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.

5. Any account receivable or payable established under paragraph 4 above will be settled promptly after each July 31, October 31, January 31, and April 30, provided, however, that settlement will not be necessary for any July 31, October 31, or January 31 on which the mid-point as determined under paragraph 1 above does not differ by more than five per cent from the rate for the last settlement. Settlement of any account receivable or payable established under paragraph 4 above will always be made when requested by either the Fund or the member.

6. In any case in which it appears to the Fund that any of the provisions of paragraphs 1 to 5 above are not adequate or satisfactory, the Fund will make a special determination for the treatment of such case.

III. Sections I and II above of this decision shall be communicated to members together with SM/54/25 as amended by SM/54/25, Supplement 1 as an explanatory memorandum.

Decision No. 321-(54/32),
June 15, 1954, as amended by
Decisions Nos. 1245-(61/45), August 4, 1961;
1283-(61/56), December 20, 1961;
3272-(71/14), February 23, 1971;
and 3325-(71/37), May 4, 1971

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Executive Board Decisions

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\(\frac{1}{2}\) 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\(\frac{1}{2}\) 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\% per cent from the central rate, provided that these margins may be within 4\% per cent from the central rate if they result from the maintenance by the member of rates within margins of 2\% 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.
**Article V, Sections 3, 4, and 5**

**Use of Fund's Resources and Stand-By Arrangements**

**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.
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

†See also paragraph 4 of Decision No. 3153-(70/95), below, p. 215.
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
1/8 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

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 percent 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 co-operated 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), January 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 Decision 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-(53/98) 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 Conference 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
BASIC DOCUMENTS

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

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.t

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 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.

† See pp. 204-206 below.
‡ Following the change in the par value of the U.S. dollar on May 8, 1972, references in this Decision to $35 per ounce were understood by the Fund as being references to $38 per ounce.
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 Agree-
ment 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 pay-
ments 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 con-
verted 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 author-

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ities (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 matters 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 members 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

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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

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-(63/36), 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 forthwith 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-(63/36), 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 (e) (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

REPURCHASES: SMALL AMOUNTS INCLUDED IN ARTICLE V, SECTION 7 (b), OBLIGATIONS

A. 1. If a provisional or final repurchase obligation includes an amount of gold or currency equivalent to $500 or less, such amount shall not be collected. No adjustments of repurchase obligations shall be made if they involve an amount of gold or currency equivalent to $500 or less.

2. This decision supersedes Executive Board Decision No. 705-(57/55).

B. Paragraph 1 of Executive Board Decision No. 1813-(65/4) is amended to read as follows:

1. Where on any April 30 the Fund holds a member's currency in an amount that is in excess of 75 per cent of the member's quota by more than $500, the member shall make a provisional monetary reserves report to the Fund not later than May 31, preferably by cable.

Decision No. 2499-(68/77)
April 19, 1968

MONETARY RESERVES: ABOLITION OF PROVISIONAL REPORTING, SPEEDING UP OF FINAL REPORTING, AND SIMPLIFICATION OF REPORT FORMS AND CALCULATIONS

a. Calculation of Repurchase Obligations

(1) Rule 1-6 of the Fund's Rules and Regulations is amended to read as follows:

(a) Each member shall furnish the data necessary for the calculation of its monetary reserves and its repurchase obligation, if any, within two months after the end of each financial year of the Fund, subject to (h) below. All data shall be supplied to the Fund in the monetary reserve report forms sent to members by the Fund.

(h) Notwithstanding (a) above, a member which is unable to report within two months after the end of a financial year of the Fund the necessary data with respect to holdings of its other official institutions and the other banks within its territories and the amounts of currency due to official institutions and banks in the territories of members or nonmembers specified by the Fund shall furnish these data not later than six months after the end of the financial year of the Fund. On the basis of these data and Article XIX (c) the Fund may decide to recalculate the member's monetary reserves and repurchase obligation calculated in accordance with (b) above. Paragraphs (c) through (g) above shall apply to the recalculated repurchase obligation.

(2) This Decision supersedes Executive Board Decision No. 1510-(63/23), adopted May 3, 1963, as amended by Executive Board Decision No. 1813-(65/4), adopted January 18, 1965, and Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.

Decision No. 3314-(71/33)
April 25, 1971

* * *

† This decision was abrogated by E. B. Decision No. 3315-(71/33), April 21, 1971.
Article VII, Section 2
Borrowing

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: 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

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.

[Signature]

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 A. SOUTHARD, JR.  
Acting Managing Director

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

FELIX SCHNYDER

BILATERAL BORROWING *

The proposed text of an agreement between the Fund and Italy under Article VII, Section 2 (i) as set forth in EBS/66/167 (7/25/66) is approved and the Managing Director is authorized to send the letter attached to EBS/66/167 (Attachment I).

Decision No. 2151-(66/66)
August 3, 1966

* Exchange of letters between the Acting Managing Director of the Fund and the Minister of the Treasury of Italy

August 3, 1966

Your Excellency:

In accordance with Article VII, Section 2 of the Articles of Agreement of the International Monetary Fund (hereinafter referred to as "the Article" and "the Fund"), and pursuant to Decision No. 2151-(66/66) of its Executive Directors, I hereby propose on behalf of the Fund that Italy agree to lend to the Fund by depositing lire to the Fund's account with the Bank of Italy on the following terms and conditions:

1. The amount of the loan shall be equivalent to 7,142,857.143 fine ounces of gold, which amount shall be deposited to the Fund's account with the Bank of Italy on the request of the Fund, provided that the request is made not later than August 22, 1966.

2. (a) Subject to the other provisions of this paragraph 2, five years after the date on which lire are deposited to the Fund's account, the Fund shall repay Italy an amount equivalent to the gold value of the amount lent. Repayment shall be, as determined by the Fund, in lire whenever feasible, or in gold, or, after consultation with Italy, in other currencies that are convertible in fact.

(b) Before the date prescribed in paragraph 2 (a), the Fund, after consultation with Italy, may make repayment to Italy, in part or in full, with any increases in the Fund's holdings of lire that exceed the Fund's working requirements, and Italy shall accept such repayment.
(c) Before the date prescribed in paragraph 2 (a), Italy may give notice to the Fund representing that it has a balance of payments need for repayment of part or all of the amount lent to the Fund and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to Italy’s representation. Repayment shall be made after consultation with Italy in the currencies of other members of the Fund that are convertible in fact, or made in gold, as determined by the Fund.

3. (a) The Fund shall pay to Italy a charge of one-half of one per cent on the amount lent to the Fund.

(b) The Fund shall pay to Italy interest on its indebtedness at the rate of \( \frac{1}{2} \) 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 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 Italy in accordance with this agreement shall be delivered at any gold depository of the Fund chosen by Italy at which the Fund has sufficient gold for making the payment. Such delivery shall be free of any charges or costs for Italy.

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

(b) Upon repayment of the amount of any instrument issued under paragraph 4 (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.

5. Italy may not transfer all or part of its claim to repayment except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

6. For all of the purposes of this agreement, the equivalent in currency of any number of fine ounces of gold, 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. 322-(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.

7. The Fund’s indebtedness to Italy shall be treated as an amount due from the Fund for the purpose of Article XV, Section 3, and Schedule D of the Articles.

8. (a) The obligation of the Fund to make repayments in accordance with this agreement shall be suspended during any suspension of exchange transactions under Article XVI of the Articles.

(b) In the event of liquidation of the Fund, the Fund’s indebtedness to Italy shall constitute a liability 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 the lira.

9. Any question of interpretation of this agreement which does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of Italy and the Fund.
If the foregoing proposal is acceptable to the Government of Italy, this communication and your reply shall constitute an agreement between Italy and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,

/s/
FRANK A. SOUTHARD, JR.
Acting Managing Director

His Excellency
Emilio Colombo
Minister of the Treasury
Rome, Italy

6 August 1966

Mr. Frank A. Southard
Acting Managing Director
International Monetary Fund
19th & H Street, N.W.
Washington, D.C. 20431

Sir:

Reference is made to your communication dated August 3, 1966. On behalf of Italy, the Italian Government hereby agrees to lend to the International Monetary Fund by depositing to the Fund's account with the Bank of Italy lire in an amount equivalent to 7,142,857,143 fine ounces of gold on the terms and conditions stated in your communication.

The Italian Government further agrees that your communication dated August 3, 1966, and this reply constitute an agreement between Italy and the Fund, such agreement to take effect on the date indicated in your communication.

In accordance with paragraph 4 (a) of your communication, I hereby request that the non-negotiable instruments evidencing the Fund's indebtedness to Italy be issued to the Ufficio Italiano dei Cambi, an agency of the Italian Government.

Very truly yours,

/s/
EMILIO COLOMBO

Article VII, Section 2
Replenishment of Currencies

Sales of Gold by the Fund Under Article VII, Section 2 (ii), in Accordance with Board of Governors Resolution: Increases in Quotas of Members—Fifth General Review

1. Pursuant to paragraph 7 of Board of Governors Resolution No. 25-3, the Managing Director shall arrange for sales of gold not exceeding the equivalent of US$700 million pursuant to Article VII, Section 2 (ii), for the replenishment of the Fund's holdings of the currencies of members which sell gold to other members in connection with the payment of increases in their quotas under Resolution No. 25-3, provided that the amount of gold sold by the Fund to a member shall not exceed the amount of gold sold by the member to other members for that purpose, and provided further that a replenishment shall not increase the Fund's holdings of the currency being replenished above 75 per cent of that member's quota. The arrangements shall be in accordance with paragraphs 17 and 18 of the Report of the Executive Directors to the Board of Governors entitled Increases in Quotas of Members—Fifth General Review.
2. These sales of gold to members and any purchases of excess amounts of gold paid by members up to one standard gold bar shall be made without payment of charges and shall be at the parity price as determined by the par value of the member’s currency or the applicable rate of exchange pursuant to Article IV, Section 8.

3. In connection with sales of gold by the Fund, under paragraph 1 of this decision, there shall be transferred to the Fund’s gold bar holdings from the general deposits of gold with the Bank of England and the Federal Reserve Bank of New York an amount of gold calculated on each occasion of sales of gold by the Fund on the basis of the proportions which each of those deposits bear to the Fund’s total gold holdings. The transfer of gold from the general deposits to the Fund’s gold bar holdings shall take place either on the occasion of the sale of gold or shortly after the sales of gold have taken place or when the amount of gold sold by the Fund in replenishment reaches an amount equivalent to $100 million.

Decision No. 3150-(70/93)
October 23, 1970

Article VIII and Article XIV
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 inter-national 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 applica-
Executive Board Decisions

tions 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.

Article VIII and Article XIV

Multiple Currency Practices

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 XII, Section 3

Executive Directors

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 \( \frac{1}{n} \) 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.

\[ \text{Decision No. 574-2, May 18, 1950, as amended by Decision No. 2620-(68/141), November 1, 1968} \]

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.

\[ \text{Decision No. 2493-(68/74) April 16, 1968} \]

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.

* For the report and the proposed amendment, see pp. 52-74 and 75-94 above. The text of Resolution No. 22-8 is on pp. 54-55 above.
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 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

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 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 tarto 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

Stand-By Arrangements—Repurchases with Special Drawing Rights

The text of the last sentence of the standard repurchase clause in future stand-by arrangements shall be as follows:

Repurchases shall be made in gold, or in convertible currencies acceptable to the Fund, or in special drawing rights, in accordance with the Fund's policies and practices at the time of the repurchase.

Decision No. 2944-(70/3) G/S January 14, 1970

Use of Special Drawing Rights in Payment of Remuneration

Pursuant to Article XXV, Section 7 (f), the Fund shall offer to pay participants, at their option, in special drawing rights for any amount of gold or currency payable as
remuneration, provided that the General Account's holdings of special drawing rights at the end of a financial year exceed the amount of remuneration payable for that year.

Decision No. 3033-(70/38)
April 29, 1970

Use of Special Drawing Rights in Distribution of Net Income

Pursuant to Article XXV, Section 7 (f), the Fund shall pay, at the option of a participant, an equivalent amount of special drawing rights in substitution for the amount of currency payable to it as a distribution of net income for the financial year ended April 30, 1970, provided that the General Account's holdings of special drawing rights at the time of payment exceed the amount of distribution to which all such participants may be entitled.

Decision No. 3130-(70/87)
September 11, 1970

Use of Special Drawing Rights in Distribution of Net Income, Fiscal Year 1970/71

Pursuant to Article XXV, Section 7 (f) the Fund shall pay, at the option of a participant, an equivalent amount of special drawing rights in substitution for the amount of currency payable to it as a distribution of net income for the fiscal year ended April 30, 1971, provided that the Fund's holdings of special drawing rights in the General Account at the time of payment exceed the amount of distribution to which all such participants may be entitled.

Decision No. 3383-(71/81) G/S
August 2, 1971

Article XXV, Section 7
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: Currency 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 O-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 O-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

REPRESENTATIVE EXCHANGE RATE: FRENCH FRANC

The Fund finds, after consultation with the French authorities, that the representative rate for the French franc under Rule O-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 O-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

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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 O-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 O-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 O-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 O-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 lira under Rule O-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 O-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. 2965-(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 O-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 O-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. 2967-(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 O-3 (ii) is the middle rate between the spot buying and selling rates for U.S. dollars in the Amsterdam market at 1:15 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 O-4, the exchange rate for that date shall be the rate ascertained for the preceding business day.

Decision No. 2989-(70/19) S
March 5, 1970
Executive Board Decisions

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

Representative Exchange Rate: Netherlands Guilder

The Fund finds, after consultation with the Netherlands authorities, that the representative exchange rate for Netherlands guilders under Rule O-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 O-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

General

Investment of Fund's Assets

Investment of Fund's Assets

The Executive Board, observing that the Fund has had and may continue to have an excess of expenditure over income and that the greater part of the Fund's administrative expenditures has been and will continue to be in United States dollars, considers that in the interest of good administration and conservation of the Fund's resources it would be appropriate to raise income towards meeting the deficit by the investment of a portion of the Fund's gold in a manner which will enable the Fund to reacquire gold at any time and will maintain the gold value of the investment.

In view of the foregoing and noting the willingness of the United States to consent to investment by the Fund in United States Treasury bills, the Executive Board takes the following decisions:

I. The Executive Board, acting pursuant to Article XVIII (a) of the Articles of Agreement, interprets the Articles of Agreement to permit the investment described in the present decisions, namely, sale of a portion of the Fund's gold to the United States for the purpose of investment of the proceeds in United States Treasury bills having not more than ninety-three days to run, subject to the following conditions:

1. The amount of gold to be sold for investment:

   (a) will not be such as to limit the ability of the Fund to make its resources available to members in accordance with the Articles of Agreement; and
   (b) will be such as to produce an amount of income reasonably related to the deficit of the Fund;

2. Whenever the Fund decides to reacquire gold after the sale or maturity of any United States Treasury bills invested in, it will be able to reacquire the same amount of gold as was sold for investment in such bills; and the United
States, at the request of the Fund, will sell the said amount of gold to the Fund for U.S. dollars at the United States selling price at the time of the sale to the Fund;

(3) In any computations for the purpose of applying the provisions of the Articles of Agreement the Fund will treat the following assets as representing gold and not as holdings of United States currency:

(a) the dollar proceeds of the sale of gold before investment in United States Treasury bills; and

(b) the United States Treasury bills invested in; and

(c) the dollar proceeds resulting from the sale or maturity of any such bills before the purchase of gold therewith.

II. (1) The Executive Board, acting pursuant to Article XVIII (a) of the Articles of Agreement, interprets Article IV, Section 8 (a) to require the United States to maintain the gold value of the assets set forth in paragraph I (3) (a), (b) and (c) above, notwithstanding changes in the par or foreign exchange value of the currency of the United States. This obligation of the United States shall be fully discharged by its maintaining the gold value of the dollar proceeds resulting from the sale of the gold or from the sale or maturity of the U.S. Treasury bills purchased therewith.

(2) For the purposes of paragraphs I and II of these decisions the dollar proceeds resulting from the sale or maturity of the U.S. Treasury bills invested in shall not include the income of the investment.

III. Subject to the receipt of an assurance from the United States in accordance with paragraph I (2) above satisfactory to the Fund, the Executive Board decides that an amount of the Fund's gold sufficient to realize approximately but not more than two hundred million United States dollars shall be sold to the United States and the proceeds invested and reinvested in United States Treasury bills having not more than ninety-three days to run. The Executive Board will review the amount and operation of the investment at annual intervals and at such other times as may be appropriate.

**Decision No. 488-(56/5), January 25, 1956, as amended by Decision No. 2844-(69/90), September 19, 1969**

The Managing Director shall arrange to reacquire gold in an amount equivalent to not more than US$400 million from the United States on or before September 30, 1970, pursuant to Executive Board Decision No. 488-(56/5), adopted January 25, 1956 (as amended by Executive Board Decision No. 2844-(69/90), adopted September 19, 1969), Executive Board Decision No. 708-(57/57), adopted November 27, 1957, Executive Board Decision No. 905-(59/32), adopted July 24, 1959, and Executive Board Decision No. 1107-(60/30), adopted November 30, 1960. The gold shall be reacquired with the U.S. dollar proceeds, excluding those proceeds credited to the Special Reserve as income, received on the maturity or by the sale of U.S. Government securities held for investment.

**Decision No. 3132-(70/87), September 11, 1970**
PART FOUR

Special Reports
Stabilization of Prices of Primary Products

On September 29, 1967, at the Twenty-Second Annual Meeting, in Rio de Janeiro, and on October 4, 1968, at the Twenty-Third Annual Meeting, in Washington, the Boards of Governors of the Fund and the World Bank adopted parallel resolutions requesting a staff study of the problem of stabilization of prices of primary products and a report on this subject by the Executive Board.

Part I of the study, which was prepared jointly by the staffs of the Fund and the World Bank, was submitted to the two Boards of Governors on September 12, 1968.† On June 27, 1969, the Managing Director transmitted to the Fund’s Board of Governors a report of the Fund’s Executive Board, a decision taken by the Board on June 25, 1969, and Part II of the staff study, entitled Scope for Action by the Fund. The report and the study by the Fund staff are published below.‡ The decision (No. 2772-(69/47)) is reproduced on page 201 above.

Report of the Executive Directors
(June 27, 1969)

At its Twenty-Second Annual Meeting in Rio de Janeiro, the Board of Governors adopted the following Resolution:

RESOLUTION NO. 22-9
Stabilization of Prices of Primary Products

WHEREAS Governors of the Fund and the Bank for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the Managing Director of the International Monetary Fund the following request:

Considering the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in Dakar request that in Rio study be made of the conditions in which IMF, IBRD, and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.

† Part I, which is not reproduced here, was published in 1969 under the title The Problem of Stabilization of Prices of Primary Products: A Joint Staff Study (Part I).

‡ The World Bank also published a Part II of this study in 1969, entitled Stabilization of Prices of Primary Products: Part II, Report of the Executive Directors of the International Bank for Reconstruction and Development with a List of Staff Papers and a Report by the Bank Staff.

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AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Fund.

NOW THEREFORE the Board of Governors resolves that the Managing Director is hereby invited to have the staff, in consultation with the Bank staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

In response to this Resolution the staff prepared jointly with the staff of the Bank a general and analytical section of the study (Part I), which, at the request of the Executive Directors, the Managing Director of the Fund, on September 12, 1968, transmitted to the Board of Governors.

At the 1968 Annual Meeting in Washington, D.C., the Board of Governors adopted the following Resolution:

RESOLUTION NO. 23-13
Stabilization of Prices of Primary Products

Resolved:

that the Board of Governors

(a) Note the section of the study already prepared on the problem of the stabilization of prices of primary products;

(b) Invite the Managing Director to have the staff complete as soon as possible the work already initiated, particularly by completing a section which considers specific financial measures and other ways in which the Fund might assist in finding feasible solutions to the problem; and

(c) Request the Executive Directors to transmit to the Board of Governors the section of the study referred to in (b) above not later than June 30, 1969, together with such comments or recommendations as they may have on the entire study and a report on any actions regarding it which they may have taken.

In accordance with this Resolution, the staff of the Fund continued its work toward the completion of its study, with particular reference to an examination of possible courses of action by the Fund, and has prepared Part II of the study, entitled "Scope for Action by the Fund." This Part II of the study is transmitted herewith to the Board of Governors in response to the above Resolution.

The Executive Directors have considered this study, which includes an examination of ways in which the Fund might assist members in finding feasible solutions to the problem of stabilization of prices of primary products, and wish to express their appreciation for the staff's work. As a result of their deliberations, the Executive Directors find themselves in general agreement with the approach to Fund policy set out in Part II of the study.

The Executive Directors have adopted on June 25, 1969, a decision which is attached to this Report.†

† E.B. Decision No. 2772-(69/47), June 25, 1969. The decision has been omitted here, as it appears in the section on Executive Board decisions in Part Three of this volume: see p. 281 above.
Having regard to the importance of stabilization of prices of primary products for members of the Fund, the Executive Directors intend to pay continuing attention to all relevant aspects of the subject, and to review the decision in the light of experience and developing circumstances. In its work in the commodity field, the Fund will, where appropriate, consult closely with the World Bank Group and maintain contact with other international organizations active in this field.
Scope for Action by the Fund
(Part II of a Staff Study)

CHAPTER I
Introduction

Part I of this study has described in some considerable detail the problems related to price instability and unfavorable price trends that face the producers of primary commodities. The difficulties which many of the primary producing countries, in particular those with a relatively low average per capita income, encounter as a result of these problems can be alleviated and overcome only through action in many fields. In part such action is related to the general climate in which world trade is conducted. This includes the maintenance of a sustainable rate of expansion in the industrial countries, and hence in a world demand for primary products; a world trade and payments system relatively free of restrictions and discrimination; and an adequate global level of international reserves. In another part the required action is related to the progress of development in general, and, more particularly, the diversification of the output of the developing countries away from products in actual or potential serious oversupply. Beyond these broad aspects, and the action in the field of domestic policy that individual countries might appropriately take, action will be needed more directly aimed at the supply and demand for individual primary products, their prices, and the foreign exchange obtained from their sale abroad.

The analysis in Part I, it may be recalled, suggests that commodity stabilization is likely to achieve its most important results where the stabilization of prices improves the long-term position of the commodity. This may occur if more stable prices add to long-term demand, or if they reduce long-term instability of supply. In certain cases, stabilization of commodity prices may also help to stabilize export earnings of producing countries, and may then sometimes achieve this latter objective to a lower cost in foreign exchange than action specifically directed to stabilizing export availabilities through loans. Generally, however, it is not to be expected that comparable results in the stabilization of export availabilities are to be obtained from price stabilization as from action specifically directed to this objective, particularly where price instability reflects variations on the side of supply. Supply variations have been an important element in commodity instability in recent years, especially for agricultural products. In these instances, the price stabilization mechanism will have to provide for temporary limitation of export quantities (e.g., by quotas) in order to achieve satisfactory results in terms of the stabilization of export earnings.

The stabilization of commodity prices, in contrast to the stabilization of export availabilities through loans, involves both potential benefits and costs. These are costs in real terms that are distinct from transfers of income or purchasing power. These costs may arise in the form of excessive global investment in stocks; in loss of production or in additional inputs for a given volume of production; or in misallocation of resources in other ways, including misallocation as a result of misjudgment of the trend in prices and, consequently, misdirected and unsuccessful stabilization attempts.

The need, in the case of price stabilization schemes, to weigh the expected gains from successful price stabilization against these costs often makes it difficult to reach an assessment of the value of any such scheme, not only in advance but also in retrospect.\footnote{1}{Defined as the proceeds from exports plus receipts from compensatory loans or drawings minus repayments of such loans or drawings.}
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The difficulty of making such assessments, as well as the varying balance of considerations for different participants, has been an important deterrent to the conclusion of international commodity agreements hitherto. No clear-cut basis exists for determining which particular commodity arrangements and which particular quantity and price objectives are in the general interest, or in the interest of less developed countries as a group. It is not possible, therefore, even assuming that a scheme is managed on the basis of a realistic appraisal of medium-term market prospects, to make a meaningful estimate of the aggregate financial resources "needed" for price stabilization. For any individual commodity, the amount of finance that might be absorbed by stabilization may vary widely in relation to different stabilization objectives and different market circumstances.

On these grounds, an important test for any particular stabilization scheme would always have to be willingness of participating countries that expect to derive benefits from the scheme to commit the necessary resources, whether drawing on their own reserves or on their general access to borrowed international financial resources.

The financial implications of commodity arrangements are most prominent in the case of international buffer stocks, though important financial implications also arise for other mechanisms. Even in relation to particular objectives for particular commodities, estimates of financing costs of buffer stocks may vary widely. One set of elements in this uncertainty comprises the market responses, in demand and supply, to the envisaged price adjustments. Another element is the choice among alternative means of financing and operating buffer stocks. Thus, the inclusion of some self-financing element, such as the levy on cocoa shipments envisaged in the draft cocoa agreement, will over time reduce or eliminate the need for outside financing of the cost of acquisition of stock. A device of this kind, together with a possible need for particularly large resources at the outset of the scheme when the durability of the arrangement is not yet secure in the eyes of traders, may mean that significantly larger resources are needed to establish a buffer stock than to maintain it over the years—always provided it is managed on balanced lines and does not lead to continuing accumulations of stock. Financial requirements may also be reduced by provision for lagged or partial payments on transactions undertaken directly with marketing authorities in producing countries.

The above factors have their influence on costs of stock acquisition. Carrying costs will depend on costs of storage and interest charges. These may vary widely in different circumstances; the level of the interest rate may turn the scale between a profit and a loss in the buffer stock operation. But these annual carrying costs are not normally amenable to the direct influence of the buffer stock agency. The cumulative level of these costs will, of course, be related to the period of storage. This will depend in part on the time path of fluctuations in the particular commodity market, and on policy decisions by the buffer stock management in relation to these market movements.

Beyond carrying costs and interest charges, the financial result of buffer stock operations will depend on trading profits or losses. These are in part determined by the "outside" influence of the course of market prices; but they can also be influenced by varying the margin between buffer stock buying and selling prices. A relatively wide margin will tend to increase trading profits, for any given volume of two-way transactions. However, insofar as this wide margin is achieved by setting the selling price at a high level, this may be at the expense of delaying disposal of stocks, and thereby adding to carrying costs; insofar as it is achieved by setting the purchase price at a low level, it will delay the buffer stock becoming effective in price support until prices have fallen correspondingly. In either case, the effectiveness of
the buffer stock will be reduced as an instrument of price stabilization, though not necessarily as an instrument of earnings stabilization.

The Articles of Agreement\(^2\) envisage a two-sided approach by the Fund to the problems in its field of action: through consultations with its members and through the provision of its resources to its members. In dealing with individual problems the Fund combines the two components of its approach in such measure as appears most effective. In accordance with this Fund approach, the discussion of the additional contributions that the Fund might make toward the solution of problems facing members in the field of primary production are presented below in two chapters, the first one dealing with the consultative aspects of possible Fund action and the second one dealing with new provisions for financing.

CHAPTER II
Consultation with Members

Over the years the Fund has developed close relations and contacts with its members, both developed and developing countries. Initially, these contacts related in particular to the discharge of the direct responsibility of the Fund to approve exchange practices. But they have widened and grown in value, both to individual member countries and the Fund, through the annual visits by the Fund staff in connection with consultations under Article VIII and Article XIV. These visits, as they are now practiced, provide an opportunity for a broad review of all the policies bearing on member countries' balance of payments, and thus of those developments affecting primary products entering international trade. More recently, consultations have sometimes included discussion of the circumstances which have led to use of the compensatory financing facility for fluctuations in export earnings. The discussion of the staff's reports by the Fund's Executive Board provides a regular forum for the expression of opinions and for the development of a common international view on the policies of members. In addition to these annual consultations there have been growing contacts in relation to the provision of Fund assistance—both financial and technical. Particularly in the context of the development of a stabilization program, there are extensive discussions on the member country's policies, including policy bearing on commodity trade, at the critical time when the policies and measures are evolving rapidly. The basis therefore exists for Fund views on any aspect of commodity policy to be brought to the attention of member countries in ways which enable the authorities to take them into account as their own policies evolve.

Matters that bear on commodity policy have been particularly important in the Fund's relations with primary producing countries, where commodity problems play a large role in the economy. In virtually every area of primary concern to the Fund—credit or fiscal policy, the balance of payments, exchange rates, and so on—problems frequently present themselves for which a solution must be based on an understanding of the issues involved in appropriate commodity policies. These have included the incentives or controls to be applied to producers, the incentives to be provided for the production and export of alternative products, and the degree of support to be provided through credit facilities or the budget for stock-building under national and

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\(^2\)On May 31, 1968 the Board of Governors approved proposed amendments to the Articles of Agreement, and these amendments are now before the Fund membership for acceptance. In this Report reference to the Articles of Agreement is to be read as reference to the Articles as they will stand after these amendments become effective.
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international arrangements. More precisely, commodity policy issues have to be carefully considered in connection with each of the following policy decisions.

(1) Frequently, commodity conditions have been the single most important factor taken into account in determining exchange rate policy. The maintenance of an exchange rate which provides suitable incentives to exporters (and to producers who compete with imports) plays a vital role in limiting the difficulties which can arise from a weak commodity situation. The Fund has frequently assisted members when they have adjusted their exchange rates to more appropriate levels, and thereby has enabled them to achieve the most effective incentive for the diversification of export production away from weak commodities and for expansion of production of commodities in strong demand. It has been the experience of the Fund that without the market incentives provided by an appropriate exchange rate, diversification policy of a viable kind is critically inhibited.

The Fund has been given responsibilities in respect to exchange rates in order to ensure inter alia that this policy instrument is not used irresponsibly to further one member's exports over those of another by competitive devaluation. This has not been a serious problem in the period of the Fund's operation, but approval of member countries' exchange rates remains an essential part of the Fund's powers which is of particular relevance to commodity problems.

(2) In the related field of taxation and subsidies on particular commodities, policy decisions by individual member countries have at times taken the form of practices subject to approval by the Fund. In practice, the Fund's advice and approval on these matters has been based on market judgments reflecting the basic demand and supply conditions of the commodities in question. It is important, as has been brought out in Part I of this study, that effective action be taken to reduce production of those commodities which are in serious oversupply. An example of the application of this principle in recent years is the staff's recognition that coffee was in such a position. The Fund has, in many countries where this was appropriate, supported the domestic taxation of coffee production, which has had the effect of restraining production. Where possible, it has urged that this taxation be levied directly under the government's tax powers, one reason being that this provides the greatest assurance of continuity in policy. However, there have been several countries in which it has not been feasible to use the tax system directly and where the Fund has approved exchange measures involving the imposition of substantial taxes through the exchange system.

(3) Stockpiling requires provision for finance and consequently has been the subject of review in many domestic financial or stabilization programs. Owing to the widespread incidence of commodity problems, many such programs have had to include provisions for the financing of stockpiling of primary products. The provisions have been based first upon a review of the merits of stockpiling, i.e., whether it is in the medium-term interest of the country as a whole on the basis of a realistic appraisal of market prospects. Where this was the case, the program provided for its financing through appropriate taxation or, if the overall financial circumstances permitted, through an extension of credit. In other cases, where the stock accumulation has appeared to be based on historic prices that were no longer realistic because of later developments, the Fund has advised adjustment of prices to more realistic levels.

(4) Developing countries exporting a commodity in a relatively weak market position have sometimes been faced by insistence by their trade partners on bilateral payments arrangements under which the developing country is forced to accept payments through bilateral account, usable only for purchases at prices that may be noncompetitive. The Fund has actively pressed for the elimination of such bilateral payments, and has been successful in this effort in many cases.
practices whenever practicable, in order to aid members to obtain convertible currency payment for their exports and to lessen the discrimination inherent in bilateralism.

With respect to other restrictions on exports, which may not fall as directly as those mentioned above within the Fund's jurisdiction, the Fund provides a channel through which the developing members can describe, and bring to the attention of other members, the practices which they believe constitute unreasonable impediments to their efforts to increase their export earnings. This procedure can be helpful in directing attention to the need for reconsideration of such practices by other members.

In consultations with industrial countries, relatively less attention has been paid to the commodity problems of the type here reviewed, and this was appropriate from the point of view of the lesser importance of these commodities to the economies of these countries. At the same time, the primary product policies of industrial countries are among the important causes of the inadequate trend in the world prices and market capacity of a number of leading primary products. This occurs at a time when the share of primary production in total employment in most industrial countries has shrunk to a low percentage.

In present circumstances it seems appropriate to ask that the industrial countries test the policies they apply with respect to primary products against the Fund's purposes and consider whether such policies "facilitate the expansion and balanced growth of international trade" (Article I (ii)). The Fund itself could pay additional attention to these matters, and periodically review the outlook for particular commodities and the policies of members with respect to them, with both producing and consuming countries. It would be hoped that this approach would increase the attention paid to commodity problems by the industrial members and focus their attention toward action to remove artificial disadvantages to the exports of the primary producing countries.

CHAPTER III
Fund Assistance in Financing Stabilization Operations

Part I of this study has shown that the most appropriate approach toward stabilization depends to a large extent on certain market and physical characteristics of the individual commodities for which stabilization is sought. For purposes of discussion of the appropriateness of Fund financial assistance in particular relation to the objective of stabilization in the markets of primary products, a distinction is here being made among three methods of stabilization:

1. The stabilization of "export availabilities."
2. Price stabilization by means of international buffer stocks.
3. Other stabilization action, with special reference to stocking activities by individual producing countries.

As a general proposition it can be stated that insofar as the Fund provides assistance to its primary producing members in conjunction with commodity stabilization policies, it should do so in a manner most suitable to the particular commodities involved and on terms and conditions that are equitable among members.

In appraising the adequacy of special facilities, both the compensatory financing facility and the new facility outlined in the following sections of this chapter, it should be borne in mind that a member can also use, for the purposes which these facilities are intended to meet, its normal drawing potential in the Fund, subject of course to
the degree of conditionality appropriate to the tranche of the quota in which any
drawing would take place.

1. Stabilization of Export Availabilities

Under this approach international financial assistance is made available on a
temporary basis to assist in evening out over time the amounts of exchange at the
disposal of countries. This is achieved by making exchange available, in effect on a
credit basis, in years when export proceeds are low compared with the medium-term
trend, in the expectation of a reversal of the transaction in a reasonably short period,
preferably at a time when export proceeds are high relative to the medium-term trend.
A major technical advantage of this compensatory financing approach is the generality
of its applicability. The approach can be used for all member countries and with
respect to the proceeds from all exports. It applies without distinction to fluctuations
in earnings whether these originate on the demand side or on the supply side of the
market. It does not require any special arrangements in the commodity field. It does
not stand in the way of specific arrangements for price stabilization wherever these
are appropriate and feasible. Because of the limited number of commodities to which
buffer stock may be appropriate and the difficulty of concluding agreements of this
nature, it seems probable that compensatory financing will, for the foreseeable future,
have to continue to play a major role in the financing of fluctuations in earnings.

A systematic scheme for stabilization of export availabilities has been introduced
by means of the Fund’s facility for Compensatory Financing of Export Fluctuations.
The Fund’s first decision on this facility was taken in 1963 and it was substantially
broadened in 1966.1

Under this Decision the Fund stands ready to meet requests for drawings by
members whose export proceeds over the latest 12-month period for which the Fund
has statistical data have fallen short of the estimated medium-term trend of exports
defined as a five-year moving average centered on the shortfall year. This estimate
is arrived at partly by forecasting the export yield of individual commodities, and
partly by means of statistical formulas derived from the exports of previous years.
While compensatory drawings take place after the shortfall to which they relate,
ordinary drawings made by members in anticipation of their entitlement can later be
reclassified under the facility.

In order to qualify for compensatory financing, the member must be prepared
to cooperate with the Fund in finding appropriate solutions for its balance of payments
difficulties and the shortfall must be largely attributable to circumstances beyond the
control of the member.

Amounts drawn under the facility are regarded as separate from and additional
to a member’s normal drawing rights in the Fund. The policy conditions on which the
Fund will consent to drawings under its ordinary facilities become increasingly strict
the greater the amount of drawings already outstanding. In accordance with the
separate status of the compensatory facility, however, drawings outstanding under that
facility are disregarded by the Fund when considering the policy conditions to be
applied to other drawing requests.

Subject to the limits discussed below, export shortfalls are compensated in full
after due allowance for any part of them that may be deemed to have been com-
pensated by previous ordinary or compensatory drawings. The use of the Fund’s
resources in this way is, however, subject to certain quantitative limits in that com-

1 Compensatory Financing of Export Fluctuations—Developments in the Fund’s Facility:
Compensatory drawings outstanding can normally not increase by more than 25 per cent of a member’s quota in any 12-month period, and the total amount outstanding cannot exceed 50 per cent of quota.

Compensatory drawings have to be repaid within an outer limit of three to five years, but the Fund recommends that in any year in which a member’s exports exceed the medium trend, earlier repayment from part of the excess should be made. Repayments of compensatory drawings restore the facility pro tanto.

Drawings under the compensatory facility have taken place as shown in the table. After a fairly substantial use of the facility in the first year of its existence, little use was made of it for a year or two owing to the relatively favorable export experience of primary producing countries during 1963 and 1964. Since its revision and extension

<table>
<thead>
<tr>
<th>Drawings Under Decision on Compensatory Financing of Export Fluctuations</th>
<th>Drawings Date</th>
<th>Amount (Million U.S. dollars)</th>
<th>Repurchases through May 31, 1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963 Decision</td>
<td>Brazil</td>
<td>June 1963</td>
<td>60.0</td>
</tr>
<tr>
<td></td>
<td>United Arab Republic</td>
<td>Oct. 1963</td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>Sudan</td>
<td>June 1965</td>
<td>11.25</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>87.25</td>
</tr>
<tr>
<td>1966 Decision</td>
<td>Dominican Republic</td>
<td>Dec. 1966</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td>Ghana</td>
<td>Dec. 1966</td>
<td>17.25</td>
</tr>
<tr>
<td></td>
<td>Ceylon</td>
<td>Apr. 1966</td>
<td>19.3</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>May 1967</td>
<td>18.9</td>
</tr>
<tr>
<td></td>
<td>New Zealand</td>
<td>May 1967</td>
<td>19.9</td>
</tr>
<tr>
<td></td>
<td>Haiti</td>
<td>Dec. 1967</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Syrian Arab Republic</td>
<td>Sept. 1967</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>Burma</td>
<td>Nov. 1967</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Iceland</td>
<td>Nov. 1967</td>
<td>3.75</td>
</tr>
<tr>
<td></td>
<td>Iraq</td>
<td>Nov. 1967</td>
<td>17.5*</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>Dec. 1967</td>
<td>90.0</td>
</tr>
<tr>
<td></td>
<td>Guatemala</td>
<td>Feb. 1968</td>
<td>6.25*</td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
<td>Feb. 1968</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>United Arab Republic</td>
<td>Mar. 1968</td>
<td>23.0</td>
</tr>
<tr>
<td></td>
<td>Afghanistan</td>
<td>June 1968</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td></td>
<td>290.5</td>
</tr>
</tbody>
</table>
| | * Reclassification of an ordinary drawing as a compensatory drawing under paragraph (9) of the Decision on Compensatory Financing of Export Fluctuations, as amended on September 20, 1966 [E.B. Decision No. 1477-163/6], February 27, 1963, as amended by E.B. Decision No. 2182-(66/81), September 20, 1966; see above, p. 200].

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in 1966, however, the facility has been much more intensively used, partly because primary producing countries have experienced more substantial export shortfalls and partly because of increasing familiarity with the facility, and appreciation of its advantages.

It may be concluded that the Fund's compensatory financing facility has performed a useful function and would continue to perform this function even if there were a widened approach by the Fund toward facilitating stabilization in the primary commodity field.

As part of the 1963 Decision on Compensatory Financing, the Fund also made provision for increases in the quotas of primary producing countries to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria.

2. Financing of Buffer Stocks

Certain general considerations will have to be kept in view in judging the usefulness of buffer stock operations and the role of Fund assistance in such arrangements. There will also be a need to approach arrangements on a commodity-by-commodity basis, in order to take into account the specific circumstances of each such commodity situation, as well as other policies and measures with which the buffer stock arrangement may be associated. The analysis in Part I suggests that where price instability is caused predominantly by shifts in demand rather than in supply and where flexible price policies based on a realistic appraisal of medium-term trends are pursued, international buffer stocks will normally tend to stabilize not only prices but also aggregate export earnings along with prices. Experience since 1950 suggests that most metals, together with some agricultural raw materials, fall potentially in this category. But additional criteria have to be applied to determine whether an international buffer stock is a suitable stabilizing mechanism for any given commodity. These include the effects on resource allocation, which may include costs as well as benefits. The effect on commercial stocks has to be considered in relation both to aggregate resource costs and specific financial costs. Insofar as the buffer stock imparts a greater degree of certainty to the market outlook, it may reduce or eliminate destabilizing movements in commercial stocks, and thereby have a catalytic stabilizing effect. Insofar, on the other hand, as it takes over some of the stabilizing functions earlier performed by commercial stocks, which in itself may or may not be desirable, a substantial and often rather indeterminate commitment may have to be added to the financial resources of the buffer stock.

While the earnings stabilization criterion for international buffer stocks appears to be potentially met for most metals, the economic suitability or practicality of the buffer stock device is, however, questionable for some of these on other grounds. These include the relative length of the price swings, which may result in high and perhaps uneconomic costs of buffer stocks, and the prevalence in the production of some metals of a relatively small number of large international corporations. Over the whole range of primary commodities, instances may arise where a better approach to earnings stabilization will be through national stock management or temporary supply restriction, possibly in combination with buffer stock arrangements. Such measures may not give rise to the need for full and direct compensation in foreign exchange. This applies, in particular where supply disturbances are dominant, and may also in certain cases be a more convenient way of dealing with the problems of commercial stocks. Provisions of this kind in association with a buffer stock scheme are included in the International Tin Agreement and also in the scheme currently under consideration for cocoa. Fund support of national action is discussed in Section (3) of this chapter.
If it were to be judged that many commodities could fall appropriately within the purview of buffer stock financing, this conclusion could effect the institutional arrangements for administering the financing as well as the techniques for raising the necessary funds. If, however, as is suggested above, the range of commodities for which buffer stocks are feasible on an economic basis is not very extensive, and the total costs not unduly large, and on the expectation that an appropriate part of the resources required would be obtained from sources other than international financial institutions, the funds to be provided internationally could be within the capacity of the Fund to handle without the necessity of establishing new institutional arrangements. It would also follow that separate resources would not need to be obtained by the Fund for this specific purpose.

If, however, the Fund were to assume this responsibility, it could do so only subject to certain limitations. Short of further amendment of the Articles, the financing would have to be (i) provided to members directly, (ii) available only to members which (taking into account their transactions with the buffer stock) had a balance of payments need to draw, (iii) temporary in duration within the Fund's present or future understanding of that concept, (iv) "floating" only above the gold tranche as defined by the Proposed Amendment, if it were to "float" at all,\(^2\) and (v) available only as a conditional facility.\(^3\) It would, of course, be possible to eliminate by amendment any of these features of Fund financing of buffer stock operations. It should, however, be stressed that the provision of international funds for commodity stocking on a relatively modest scale, on a short-term repayment basis, to participating countries rather than to a commodity agency directly, and in the context of existing facilities of short-term borrowing, has certain economic merits irrespective of institutional considerations, in providing what may be thought to be necessary safeguards against unduly extensive and economically costly absorption of resources in this direction.

The following ideas are presented on the basis of the assumptions that have been outlined, including the one that there would not be resort to amendment.

A number of considerations argue in favor of a joint upper limit on the amount of resources provided for the compensatory financing facility and any assistance that the Fund might extend in connection with buffer stock financing. First, the number of commodities for which international buffer stocks, in their various possible forms, might be appropriate, and the number of countries that could be expected to benefit substantially if buffer stocks were introduced where appropriate, seems likely on the present assessment to be small, so that any special facility, to the extent that it is additional, would provide Fund resources to a relatively small group of countries. It seems equitable that this additional element be subject to a reasonable limitation. Secondly, the buffer stock approach and the compensatory financing approach toward stabilization have common features. Both are intended to deal with short-term instability in the economies of primary producing countries brought about by factors wholly or largely beyond their control. The former approach aims at averting the consequential disturbances in exports, the latter at offsetting them, so that where buffer stock operations deal successfully with the instability arising from demand fluctuations for a commodity that represents the bulk of any country's exports, that country's export proceeds will have been rendered more stable and hence its need for assistance of the compensatory financing type reduced. Of course, the two approaches also differ in important ways. Compensatory financing is directed specifically to

\(^2\) For an explanation of this point, see footnote 6 of this chapter.

\(^3\) For a suggestion as to what might be regarded as constituting an appropriate conditionality in this case, see numbered paragraphs (3) and (4) of this chapter.
stabilization of "export availabilities," while buffer stock financing, through its stabilizing effect on prices for a commodity, may influence the long-term demand and supply and hence cumulative export earnings, though it may also have associated financial and real costs. It is recognized also that the two approaches are not full substitutes for each other: this is taken into account in the suggested provisions for operation.\(^4\)

The remainder of this section discusses a number of issues that would arise if the Fund decided to extend assistance to members for buffer stock financing on the basis of a quantitative link to the existing compensatory financing facility. This discussion does not presuppose that problems of financing have been the main stumbling block in the conclusion of agreements for particular commodities. Nevertheless, some international agreements of a useful and otherwise practical character may not be negotiable without some possibility of financial assistance over and above what governments could contemplate providing from their own resources. In those circumstances assistance from an international institution can play an important role as a catalyst and may thus help individual countries to agree on action that is of collective benefit.

(1) The assistance in connection with buffer stock financing discussed here is intended essentially as a facility under which Fund resources are made available to members in their capacity as exporters of primary products. As recommended by UNCTAD, the financial resources of a buffer stock should be provided in a form that is equitable for all parties concerned. When importing countries assume financial commitments in buffer stock arrangements, for example, as one of the possible means of ensuring equity and a balanced responsibility for operation of buffer stocks, the facility should be available to them as well. The sums involved for importing countries would probably rarely be such as to have a significant effect on the balance of payments of these countries, save possibly in the case of a developing country that was a large importer of a primary commodity. It would also be expected that an appropriate part of the resources required for a particular scheme would be met from sources other than international financial institutions.

(2) In the case of the financing of export shortfalls, the right of a country to make use of the compensatory financing facility, on the terms of that facility, is determined by the existence of a shortfall and the associated conditions referred to in the preceding section. With respect to assistance to members to enable them to finance buffer stocks, the primary justification for a drawing would lie in the fact that a member was required to make contributions for the financing of new purchases of stock or of operating expenditures as determined by an international commodity agreement, with respect to which certain associated conditions are described at (4) below, or for refinancing of short-term indebtedness incurred for such purposes. In addition, the member would also have to fulfill the condition described at (3) below. The member would, of course, have to have a balance of payments need to draw. By analogy with experience under the Compensatory Financing Decision, it might be expected that many members would not find it necessary to draw on the facility to make such payments to the international agency, either because they had no payments need or because the amount involved for them would be small, in particular where the commodity in question was a relatively minor export.

(3) A member that draws under the compensatory financing facility undertakes to cooperate with the Fund in an effort to find, where required, appropriate solutions

\(^4\)See numbered paragraphs (7) and (8) of this chapter.
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for its balance of payments difficulties. The Fund would want to apply this condition to any buffer stock assistance as well.

(4) In addition, the Fund must be satisfied that the transactions which it is helping to finance are compatible with its purposes and with the short-term character of the facilities which it provides. This implies that the scheme in connection with which the facility is used should in its conception, governing provisions, and actual management be satisfactory from the point of view of certain criteria which are set forth in Annex A to this Report. These relate to such matters as observance of certain general principles of intergovernmental relations in commodity agreements, and as regards the appropriate operation of buffer stocks in relation to the temporary use of Fund resources and measures for long-term restriction of supply. It is desirable that these criteria should apply not only to the provisions of the commodity agreement on its initiation or renewal, but also to its actual operation. At the same time, the Fund's commitment to help members finance buffer stock operations would have to be a reasonably firm one if it is to be of value as a basis for their commitments to a buffer stock agency and in framing the overall set of measures incorporated in a commodity agreement. This is an area of great difficulty and sensitivity. The preparation, negotiation, and management of commodity schemes would be the responsibility of governments and appropriate bodies established for these purposes, and not of the Fund; under the UN procedures described in Annex A, these activities are subject to rules of publicity, and the operation of agreements to at least annual review. To the extent that the Fund was providing finance, or standing ready to do so, the exercise of the necessary safeguards would require it to be satisfied that the operation of the scheme was such that a member’s use of the Fund’s resources in connection with it would be temporary.

(5) The principle of the direct responsibility of members rather than of the Fund for the conduct of commodity operations of any buffer stock agency would be reinforced by the fact that any transactions would be conducted between the Fund and its members, and would be on the repayment terms applying to all Fund drawings. The Fund would not lend to a commodity agency as such. The main reason for this approach is the one just stated. As mentioned earlier, direct lending by the Fund to a commodity agency would require amendment of the Articles of Agreement.

(6) Parallelism with the Compensatory Financing Decision would suggest that assistance in the financing of buffer stocks would be “floating,” i.e., it would be separate from, and additional to, members' general access to the Fund’s resources.6

(7) At present, members’ access to Fund resources under the Compensatory Financing Decision is limited to a maximum of 50 per cent of quota. It is suggested that a similar limit of 50 per cent of quota be applied to members’ access to the Fund’s resources for the purpose of buffer stock financing. The pattern of trade for some commodities for which buffer stocks have been proposed and appear economically feasible, and the possible terms of agreements relating to them, would suggest that the availability of Fund resources to this extent would be of substantial assistance even for countries for which the commodity in question was a large proportion of total

5 In practice, commodity agreements have been concluded and renewed for terms of not more than five years, as recommended under the UN procedures mentioned in Annex A.

6 Any new facility could not, however, float into the gold tranche. This means that a member that drew under the facility at a time when it still had gold tranche drawing rights at its disposal would pro tanto lose such automatic drawing rights; in contrast, a member that makes a compensatory financing drawing in the same circumstances conserves its right to use its gold tranche drawing rights later.
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exports. It is not suggested, however, that total purchases outstanding under the two facilities at any one time be allowed to the full extent of 100 per cent of quota. The close economic relationship between buffer stock operations and compensatory financing would make it reasonable that Fund assistance to members under these heads should be subjected to a somewhat lower common upper limit. Specifically, the total outstanding amount made available to a member for the compensation of export shortfalls under the compensatory financing decision and for the contribution to buffer stocks combined could appropriately be limited to 75 per cent of quota. The fact that a member is benefiting from the stabilizing influence of a buffer stock for its export product should to some extent reduce its need for compensatory financing, and it is thought that the joint limit suggested would meet any joint need to use the two facilities, though, of course, it is impossible to anticipate precisely a country’s possible total requirements in terms of both compensatory financing and its participation in one or more buffer stock arrangements. In any event, the proportion of purchases in terms of quotas that can appropriately be made under facilities of this nature cannot be determined on considerations of “need” alone. The Fund must strike a reasonable balance between the amount countries can draw under the Fund’s general policies and the amount available under special facilities and on special terms.

(8) Drawings outstanding under the compensatory financing facility need not be increased by more than 25 per cent of quota in any 12-month period except in the case of shortfalls resulting from disasters or major emergencies. To make an annual limit apply to drawings on the buffer stock facility might inflict hardship on countries requiring to use that facility, and perhaps place obstacles in the way of the adoption of a buffer stock scheme. It is, therefore, suggested that while the limitation on the annual increase in compensatory financing drawings outstanding should remain as at present, no such limit be placed on the increase in drawings outstanding under the buffer stock facility.

(9) In accordance with established policies regarding the temporary use of the Fund’s resources, the standard three- to five-year rule on repurchase would apply to drawings in support of buffer stocks. In addition, since these resources would be made available for the purpose of assisting buffer stock financing of a revolving character, a rule might be established that the member would repurchase from the Fund to the extent that the buffer stock distributed cash to its members. By benefiting from differences in timing in the stocking needs for different commodities, Fund assistance to buffer stock operations would be provided with the minimum possible drain on its resources.

(10) Repayment by a member would, of course, reopen pro tanto the facility as described at (7) above. However, it follows from (4) above that it would not be the intention that commodity stocking should be financed by reliance on long-term use of Fund resources.

3. Other Stabilization Action

National or international action for the temporary limitation of export supplies can in principle deal more effectively than international buffer stocks alone with the problem of earnings stabilization when supply is variable, since they are confined to obviating the depression of market prices by withholding excess offerings, while avoiding the overcompensation which will occur if the excess offerings are remunerated at full market prices as stocks taken up by an international agency. Where such commodity action in other forms is judged to be viable and consistent with Fund objectives, being based on a realistic appraisal of the medium-term trend, Fund support

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might be as appropriate as for the financing of stock purchases in foreign exchange by an international buffer stock.

The building up of stocks financed by national authorities or the withholding of supplies in observance of international quota commitments does not require an immediate foreign exchange outlay, but, depending on the extent to which payment is made to domestic producers and on what offsetting action is taken elsewhere in the economy, it may put additional strains on the domestic economy and hence on the balance of payments.

In contrast to the situation applying to international buffer stocks, which rest on the ability of members of a commodity scheme to make prompt payment to meet demands by the administration of the buffer stock, this form of supply management does not involve an immediate and precisely determinable use of foreign exchange. Fund support may be appropriate; but only analysis of the individual country situation can determine this. Some national stockpiling policies may be of great international interest and conducive to the balanced growth of international trade; others are likely to be disastrous both to the country investing in the stockpile and, in the slightly longer run, to other producers as well. The distinction cannot always readily be drawn; and it cannot be derived from some formal characteristic, e.g., whether the stockpiling is a commitment under an international commodity agreement. Moreover, the impact on the balance of payments of domestic stocking activities cannot be separated from the impact of other investment activities financed by the government. Indeed such stocking activities cannot be considered solely from the point of view of the price of the commodity and the income of its producers, but must also be appraised in the general context of a country's policies of aggregate demand and economic stability. The problems posed here are, therefore, very closely connected with the general relations between the member and the Fund, both consultative and financial. Any assistance by the Fund in connection with national stocking activities (other than in relation to an export shortfall permitting a drawing under the Compensatory Financing Decision) should therefore be approached in the context of the Fund's general tranche policies.

In appraising the fiscal and monetary impact of domestic accumulations of carry-over stocks in the context of a member's economic objectives and its possible use of the Fund's resources, consideration would, as at present, be given to the appropriateness of members' domestic credit arrangements. In addition, specific attention would be given in future to the appropriateness of such accumulations in the light, inter alia, of international commodity arrangements, general repercussions on the other main producing countries, and the interests of consuming and importing countries. Consideration would be given to the appropriate policies of the member relating to domestic credit and fiscal arrangements in this connection. Equally, in assessing the impact on the balance of payments of liquidations of stocks on external markets—and the domestic fiscal and monetary position of members—specific consideration would be given to any repercussions in international commodity markets.

Fund support of international supply management would obviously have to reflect certain general principles, in particular the need for the observance of the short-term character of the stabilization operation in conformity with the apparent medium-term trend. The integration of the Fund's concern with members' cooperation in acceptable international commodity policies into its general relationship with members could be both an important support for such policies and a means of guiding commodity arrangements in appropriate directions. In dealing with other questions, for example in relation to bilateral trade arrangements for particular commodities, the
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Fund might also, where appropriate, bear in mind the international commodity aspects of members' policies.

In the context of this general approach to a country's economy, the Fund could be prepared as in the past to grant members access to its resources, in accordance with its purposes, to meet payments problems arising from investment in stocks of primary products. The Fund would, in consultation with the member, determine in each case the amount it considered appropriate in the circumstances, which would be granted within the framework of the normal tranche policies.

4. Effects with Respect to Fund Liquidity

When, in 1966, the Fund decided to expand the compensatory financing facility, considerable attention was paid to the effects which this might have on Fund liquidity. The finding was that the expanded facility would involve maximum potential drawings of $1.3 billion, but that probably no more than about half of this amount would be realized, since countries with adequate reserves will often not use opportunities for compensatory drawings that are open to them and since any use made of the compensatory facility is likely to reduce to some extent requests for ordinary drawings.

Since these estimates were made, frequent use has been made of the compensatory financing facility, including use by at least one country with a very large quota. However, in nearly three years' operation of the facility in its expanded form, the amount outstanding under the facility at no time exceeded $290 million as shown in the chart.

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1 Compensatory Financing of Export Fluctuations, pp. 27–28 [cited above in footnote 1, p. 235].
The suggestion made for possible Fund support in connection with international buffer stock operations would increase a member's total access to floating facilities. It might also, on occasion, entail the use, for buffer stock purposes, of resources formerly available for compensatory financing that would otherwise have remained unused. On the other hand, the operation of international buffer stocks might mitigate the need for countries to ask for Fund assistance in connection with compensatory financing.

The nature of the problem does not permit, therefore, a quantitative estimate of the additional pressure on the Fund's liquidity that might arise from the association of assistance to international buffer stocks into the compensatory financing facility. Much would depend on the extent to which it will in fact prove desirable and practicable to bring international buffer stock schemes into being, on the international climate in which any such buffer stocks would have to operate, and on the skill with which they would be managed. The joint limit suggested for a country's access to the compensation of export shortfalls and the assistance to buffer stock operations combined is intended to ensure that the total of claims on the Fund's liquidity under these headings would not become excessive.

Insofar as the Fund's liquidity has been under a certain strain in recent years, Fund operations under the compensatory financing facility and, more generally, Fund operations with the primary producing countries have not been responsible to any major extent. Outstanding drawings of the less developed countries fluctuate little and show only a slowly rising trend in amount.

CHAPTER IV
The Problem of Members' Short-Term Indebtedness

Any consideration given by the Fund to measures to extend assistance to its members should also involve the aspect of the possible effects on these members' short-term indebtedness. In its relationships with its members, the Fund is too often faced with this problem to ignore the risk that it might be further aggravated by increased drawings on the facilities of the Fund. Some consideration was already given to this question in connection with the extension of the compensatory financing facility in 1966; but the question arises more broadly in connection with all Fund transactions with countries with a basically weak international financial position.

It may be taken as a general proposition that, where the assumptions underlying the transaction prove to be correct, the member is fully justified in undertaking a short-term commitment to the Fund. For example, where a Fund drawing is based on a stabilization program, the member should without difficulty be able to repay the Fund once the program has taken hold. A compensatory drawing made to meet a shortfall in export proceeds that is established as a short-term shortfall should be readily reversible once exports have regained a satisfactory level. A buffer stock that has made purchases to deal with a situation of temporary disequilibrium between supply and demand should be able to unwind its position when supply and demand are again in better balance, and this should then permit repayment to the Fund by the exporting countries participating in the buffer stock arrangements.

There is thus a fundamental distinction between the difficulties that arise when short-term credit is resorted to for the finance of long-term needs and the kind of difficulties that may occasionally arise when short-term finance is being used to deal with difficulties which are ostensibly short term but which prove, even with flexible and realistic management of stabilization activities, not to be short term in character.
Stabilization of Prices of Primary Products

The answer to this problem goes well beyond the scope of this report, and should not be confined to considerations more directly relevant to the expanded assistance that the Fund might want to give to its members in dealing with commodity price fluctuation. Considered from a broad point of view, the indebtedness problem merges with that of the difficulties that primary producing countries have in attracting sufficient development capital. Problems arising in these circumstances are the concern of a number of international agencies, whose activities and programs of assistance are relevant to the Fund’s operations.

Financial assistance of a long-term character is clearly not a task for the Fund whose resources can be employed only on a revolving basis. But there is no doubt that it would be in the interest of both the Fund and its members if financial resources were available to assist members in dealing with commodity problems which required solutions of a long-term character. It is important to note in this connection that the Executive Directors of the World Bank Group have adopted a number of decisions on the feasible role of the Bank Group at this time in contributing to a solution of the commodity problem.

ANNEX A

Criteria for Fund Assistance to Members in Connection with International Buffer Stocks

Criteria for appraisal of international buffer stock proposals are considered below under three categories relating respectively to (a) observance of certain general principles of intergovernmental relations as regards commodity agreements and international trade measures, (b) the temporary use of Fund resources and the appropriate operation of international buffer stocks, and (c) buffer stocks and price support measures.

General Principles of Intergovernmental Relations in Commodity Agreements

(1) Participation. Certain general principles and rules have been adopted by the United Nations Economic and Social Council regarding procedures to ensure equity in the conclusion and conduct of international commodity agreements. The Council has recommended that members of the United Nations should continue to accept these principles as a general guide to intergovernmental consultation or action with respect to commodity problems. It is suggested that adherence to these general principles as they relate to participation, voting, equitable treatment, and duration, should be a necessary condition for the provision of Fund assistance.

These general principles are those included in Articles 60 (1), 63 (b), and 65 (1) of the Havana Charter for the then proposed International Trade Organization. Article 60 (1) states:

The Members shall observe the following principles in the conclusion and operation of all types of intergovernmental commodity agreements:

(a) Such agreements shall be open to participation, initially by any Member on terms no less favourable than those accorded to any other country, and thereafter in accordance with such procedure and upon such terms as may be established in the agreement, subject to approval by the Organization.

(b) Non-Members may be invited by the Organization to participate in such agreements and the provisions of sub-paragraph (a) applying to Members shall also apply to any non-Member so invited.

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General acceptance of the procedures dealing with the preparation, negotiation, and conduct of commodity agreements has been an important change by comparison with the interwar attempts to deal with difficult commodity situations mainly by producers alone. Most postwar agreements have been concluded initially under UN auspices, they have been open to participation on the widest basis, and periodic reports on their operations have been submitted to UN bodies. In practice, the preparation and stages of negotiation of some agreements, especially those renewing existing agreements, have been conducted under the auspices of commodity councils, GATT, and FAO; the general procedures as laid down in the Havana Charter have been broadly observed in most negotiations, even where these have not been carried out under the aegis of the United Nations or UNCTAD.

The question of the extent to which interested countries take advantage of the opportunities presented to them of participating in the operation and management of a commodity scheme is also of importance. The widest possible active participation would, of course, be desirable. However, a scheme may operate effectively and equitably without the participation of all countries with a substantial interest in the commodity. Evaluation of schemes from this point of view should therefore be on a case-by-case basis.

(2) Trade restrictions. The successful negotiation and operation of a commodity agreement including buffer stock operations may necessitate provisions requiring members, in certain defined circumstances, not to trade in the product with countries not members of the agreement. The possibility of consequential trade discrimination among Fund member countries, while not a matter falling within the Fund's jurisdic-

c) Under such agreements there shall be equitable treatment as between participating countries and non-participating Members, and the treatment accorded by participating countries to non-participating Members shall be no less favourable than that accorded to any non-participating non-Member, due consideration being given in each case to policies adopted by non-participants in relation to obligations assumed and advantages conferred under the agreement.

d) Such agreements shall include provision for adequate participation of countries substantially interested in the importation or consumption of the commodity as well as those substantially interested in its exportation or production.

e) Full publicity shall be given to any inter-governmental commodity agreement proposed or concluded, to the statements of considerations and objectives advanced by the proposing Members, to the nature and development of measures adopted to correct the underlying situation which gave rise to the agreement and, periodically, to the operation of the agreement.

The reference to Article 63 (b) is as follows:

The Members shall observe the following principles governing the conclusion and operation of commodity control agreements, in addition to those stated in Article 60:

(b) Under such agreements, participating countries which are mainly interested in imports of the commodity concerned shall, in decisions on substantive matters, have together a number of votes equal to that of those mainly interested in obtaining export markets for the commodity. Any participating country, which is interested in the commodity but which does not fall precisely under either of the above classes, shall have an appropriate voice within such classes.

Article 65 (1) states:

Commodity control agreements shall be concluded for a period of not more than five years. Any renewal of a commodity control agreement, including agreements referred to in paragraph 1 of Article 68, shall be for a period not exceeding five years. The provisions of such renewed agreements shall conform to the provisions of this Chapter.
Stabilization of Prices of Primary Products

Stabilization (unlike discrimination in payments arrangements) is nonetheless of concern to the Fund, having regard to its purposes. It could be expected that Fund member countries parties to a buffer stock agreement would seek to avoid any consequential discrimination in their trade with other Fund member countries. The procedures for consultation with members participating in buffer stock arrangements would afford an opportunity for discussion of any recourse to discriminatory trade practices in connection with the arrangements.

The Temporary Use of Fund Resources and the Appropriate Operation of International Buffer Stocks

It is proposed that drawings under the buffer stock financing facility should be temporary in character and subject to the repayment terms applicable to all Fund drawings including the standard three-to five-year rule on repurchases, with the addition of a special provision under which the member should repurchase from the Fund earlier to the extent that the buffer stock distributed cash to its members. Members that make use of the buffer stock financing facility will be expected to make the necessary provision, both inside the buffer stock agreement and in their own arrangements, to enable them to meet their repurchase commitments to the Fund.

Despite this partial separation of the member's obligations to the Fund from any arrangements it may have with the buffer stock, the Fund is concerned that the operation of the scheme should be such as to ensure that the member's use of Fund resources is no more than temporary. This fits well with the objective of the facility to foster the smoothing out of short-term price fluctuations round a medium-term trend. The following points are intended to meet these desiderata:

(3) Stability of export earnings. The relationship between price stabilization and the stability of a country's earnings from a commodity should be an explicit consideration in the drafting of commodity schemes. As indicated in Part I of the staff study on Stabilization of Prices of Primary Products, the elasticity of demand might be such that price stabilization by a buffer stock agency could tend to destabilize rather than to stabilize export earnings in certain circumstances, namely, when price fluctuations are caused by supply fluctuations rather than by demand fluctuations.

From the Fund's point of view, there would be serious reservations with regard to any scheme which appeared likely significantly to destabilize export proceeds for any considerable proportion of individual countries, and thus, inter alia, to increase rather than to reduce the use of Fund resources in the form of drawings under the Compensatory Financing Decision. In practice, even where supply fluctuations are important, a variety of techniques might be used to secure full or partial stabilization of export earnings in association with some degree of price stabilization. These include adjustment of the price range in response to overall supply variations, partial postponement of payment for stocks acquired in glut years, and temporary quota arrangements. The Fund would wish to consider the extent to which the possibilities offered by such techniques have been utilized in the arrangements.

The Fund recognizes that even arrangements for price stabilization that tended to increase earnings instability might have longer-term benefits in improving the trend in demand and the allocation of resources in producing countries or might otherwise reduce real costs. Nevertheless, having in mind the difficulties which buffer stocking with a destabilizing effect on earnings could create for the repayment of Fund drawings used in the financing of the stocks, it would seem appropriate for the Fund to confine

2 See pp. 44-49 and 158. [The study is cited on p. 227 above.]
its assistance to schemes which appear likely to increase (or at least not to reduce) the stability of export earnings for the generality of the developing countries concerned.

Even where price stabilization measures may be expected to reduce earnings fluctuations for the majority of participants, the earnings of some individual countries may be destabilized. Where there appear to be wide-ranging benefits from the scheme for participants taking one year with another, this should not preclude Fund assistance to the scheme.

(4) The stabilization of prices. The type of buffer stock scheme for which Fund financing would generally be suitable would be one that aimed at stabilizing prices round a medium-term trend, i.e., one in which stock accumulation and decumulation could be expected to balance out roughly in the medium term without resort to abrupt ad hoc variation of export quotas or ceiling prices undertaken regardless of the stability of export earnings.

In order to meet these desiderata it is necessary that the intervention price range should itself be flexible within the period of operation of the scheme. For example, it might be fixed for a maximum of one year ahead in time and changed in the light of revisions in anticipated demand and supply conditions. It is not feasible to lay down a specific formula for determining the medium-term trend value of the intervention range from year to year. However, once the scheme had been in operation for some time, the intervention range for any year might be set at a level which, if maintained, would be likely to result in a balance of stock accumulations and decumulations over a reasonable medium-term period centered on the year with respect to which the range was fixed, with some allowance for any stock accumulation prior to the period in question and for other relevant circumstances.

An important question concerns the width of the range between the upper and lower intervention points. A fairly wide range, though it permits a greater degree of price variation, has considerable advantages in reducing the probable amount of stock accumulation and thus the danger that the buffer stock will exhaust its financial resources, and in increasing the profitability of the operation of the buffer stock and thus facilitating the building up of reserve funds. On the other hand, a wide range could delay disposals at the upper intervention level and lengthen the cycle of stock transactions. It would thus be important to provide for flexibility in reversing the width as well as the level of the price range in the light of continual market appraisal.

In all matters having to do with the determination of intervention prices, it will clearly be important that careful preliminary studies be made employing the best available techniques for forecasting variations in demand and supply conditions affecting the commodity.

Procedures recommended under the UN Resolutions to which reference was made earlier, envisaged the establishment of specialized study groups as a first preparatory stage in the conclusion of commodity agreements. Under UNCTAD procedures extensive use has been made of preliminary consultations and exploratory meetings prior to the convening of formal commodity conferences for negotiation. Judgment by the Fund on specific commodity arrangements should be facilitated by such procedures.

(5) Supplementary techniques for medium-term stabilization. Most discussion of the role of buffer stocks envisages the use of supplementary measures such as quantitative controls on exports or national commitments on internal stock levels. As already indicated, such measures could play a useful role particularly in mitigating short-term fluctuations in exports and export earnings induced from the supply side, leaving the buffer stock to take the impact primarily of demand fluctuations; and effective provisions permitting the temporary application of quotas for this purpose...
might be indispensable to protect the financial resources of the buffer stock. Where such resources are very limited, it might be necessary to apply such measures even where the effect was to destabilize export earnings. Too much recourse to this device, however, might be an indication that other features of the arrangement—the price range or the amount of financing available to the buffer stock—were unsatisfactory.

(6) Financial arrangements. The various features of buffer stock schemes discussed at (3) to (5) above should all make it easier for the buffer stock so to arrange its transactions with countries participating in the scheme as to make it easier for the latter to repurchase from the Fund any amounts they may have drawn under the proposed facility. However, certain aspects of the facility and of the financing of the scheme are also important in this connection.

In the first place, not all types of payments from participants to the buffer stock authority would qualify for financing by the Fund. For example, buffer stock expenditures for the construction of storage facilities are clearly of a long-term character and not suitable for indirect financing by the Fund. Again, use of the facility would presumably be confined to reimbursement of members' contributions for the financing of new purchases of stock or of operating expenditures or for refinancing of short-term indebtedness incurred for such purposes. Third, it is envisaged that in the event of the buffer stock distributing cash to its participants, these amounts would be used for repurchases of drawings on the proposed Fund facility. Any subsequent transfers of cash from Fund members to the buffer stock authority, provided it was for the acquisition of additional stocks and not for the refinancing of any temporary borrowing operation related to stocks previously financed through drawings on the Fund, would then give rise to a possibility of new drawings on the facility.

Moreover, it would be expected that an appropriate part of the initial and operating costs of buffer stocking would be met from sources other than international financial institutions. This could be achieved from the start by means of contributions by countries which would be unlikely to draw on the facility, or in appropriate cases by a restriction of drawings on the facility to some proportion less than 100 per cent of the amounts transferred from participants to the buffer stock authority. Lagged or phased systems of payment can also play an important part in appropriate market conditions in reducing initial foreign exchange costs; countries accepting lagged or phased payments would thus bear a proportion of the financial burden of the scheme. Such provisions might provide safeguards for the prudent operation of buffer stocks. Also the buffer stock might be expected to build up a reserve fund from non-Fund sources to minimize any danger that stocks might have to be sold at an inappropriate time merely to facilitate repurchases to the Fund. This could be achieved, for example, through the collection of a trade levy (which itself would of course not qualify for refinancing through the proposed facility), and by the accumulation of any operating profits earned by the buffer stock.

Buffer Stocks and Price Support Measures

(7) Long-term restriction of supply. Merely to provide, as has been suggested above, that the price and other provisions of commodity agreements involving buffer stocks should be such as to promote a balance between stock accumulation and decumulation in the medium term is not enough to ensure that prices will tend toward the level that would obtain in stable and liberalized trading conditions. Buffer stocking arrangements may be introduced as part of an agreement combining other and potentially restrictive elements such as export quotas, restrictions on output, or diversion of supplies into low value uses.
 Provision for the possible application of temporary export quotas has been regarded above as a desirable function of such agreements in the interest both of price stabilization and of the short-term character of stock accumulation and decumulation. However, quotas can be, and frequently are, employed not temporarily but more or less continuously and for the purpose not merely of stabilizing the price of the commodity in question round a medium-term trend but also of maintaining prices in the medium and even in the long term above the level that would otherwise have obtained.

Articles 57 (c) and 63 (a) (in conjunction) of the Havana Charter provide that commodity control agreements (those involving trade or output control or regulating prices) should be designed to assure the availability of supplies adequate at all times for world demand at such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between supply and demand.

This formulation would not appear to preclude agreements envisaging export quotas or restrictions on output that would be continuous throughout the lifetime of an agreement if these were required to prevent prices from being drawn down in the medium term to unreasonably low levels, as a result, e.g., of a past accumulation of national stocks, or overextension of production capacity, or other such cause. However, it would appear to preclude the use of such restrictions to maintain a price that would in all likelihood require the continuance of such controls in perpetuity.

In more recent years a concept has developed—largely in the context of the UNCTAD, but reflected in the request by a number of Fund Governors with reference to which the Rio Resolution was passed—according to which commodity agreements should aim at prices that are “remunerative”\(^3\) to developing producing countries, even though this may involve a permanent real income transfer from consumers to producers.

In considering the relative merits of these not entirely compatible criteria of long-term price fixing, it should be taken into account:

(a) that if the agreement is negotiated in accordance with the principles laid down in (1) above and therefore includes provision for adequate participation of consuming countries, the latter may be deemed to have consented to any real income transfer involved in quantitative restrictions, concessional sales, etc.; and

(b) that if the provisions of the agreement relating to prices appear likely, despite the various controls proposed, to result sooner or later in a breakdown of the arrangement, the Fund, with its interest in stabilization, cannot afford to overlook this consideration in determining whether or not the buffer stock element in the agreement is worthy of Fund support.

It may be wise for the Fund not to decide in any general terms as between the different criteria of long-term price determination, but to judge on the merits of each case, whether “the expansion and balanced growth of international trade ... and the development of the productive resources of all members” would be furthered by Fund assistance to such arrangements.

\(^3\) For a possible interpretation of this term, see Part I, The Problem of Stabilization of Prices of Primary Products, p. 117 [cited on p. 227 above].
Allocation of Special Drawing Rights

On September 12, 1969 the Managing Director, in accordance with the procedures established by the amended Articles of Agreement, transmitted to the Board of Governors a report containing his proposal for the allocation of special drawing rights to participants in the Special Drawing Account. The Executive Board had concurred in this proposal. On October 3, 1969, at the Twenty-Fourth Annual Meeting, in Washington, the Board of Governors approved the Managing Director's proposal and adopted the resolution set forth on pages 262-63 below. This constituted the first decision of the Fund to allocate special drawing rights.

A Report to the Board of Governors of the International Monetary Fund Containing the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period (September 12, 1969)

CONTENTS

INTRODUCTION

Article XXIV, Section 4 (a) and (b) of the Articles of Agreement of the Fund provides that:

(a) Decisions under Section 2 (a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Directors.

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1 (a) of this Article, shall
conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1 (b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Account as he is so satisfied.

Pursuant to these provisions, I am submitting to the Board of Governors a proposal for the allocation of special drawing rights during the first basic period. This proposal is set forth in Part III of this Report. The draft of a resolution of the Board of Governors approving the allocation of special drawing rights in accordance with this proposal is also set forth in Part III.

Before making this proposal, I have satisfied myself, as required by Article XXIV, Section 4 (b), that the proposal will be consistent with the provisions of Section 1 (a) of that Article. Section 1 (a) provides that:

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

In addition, as is required by Article XXIV, Section 4 (b), I have satisfied myself that the provisions of Article XXIV, Section 1 (b) have been met and that there is broad support among participants to begin allocations. Section 1 (b) provides that:

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Consultations have been conducted pursuant to Article XXIV, Section 4 (b), which have enabled me to ascertain that there is broad support among participants for the proposal set forth in this Report.

It should be noted that Article XXIV, Section 4 (b), requires the Managing Director to make a proposal for the first allocation as soon after the establishment of the Special Drawing Account as he is satisfied that the provisions of Section 1 of the same Article are met.

Parts I and II of this Report, which follow, discuss the reasons underlying my proposal and explain its various features. The proposal appears in Part III of the Report.

PART I

Need to Supplement Reserves

1. Past Developments in the Supply of Reserves

In Chapter 2 of this year's Annual Report, the Executive Directors have pointed out that world reserves, which consist of official holdings of gold, foreign exchange, and reserve positions in the Fund, have declined by over 50 per cent relative to world trade since the early 1950's; relative to international transactions the decline would have been even steeper. After 1964 reserve growth became much less rapid than in earlier years; indeed, reserves would have shown a decline not merely in relative but in absolute terms, owing mainly to gold hoarding, had it not been for the creation of
reserves as a by-product of the use of Fund credit facilities, swap arrangements, and other international credit facilities.

As the Report also indicates, over most of the period any effect of declining reserve ratios in impairing the reserve ease of most countries was offset, if not outweighed, by a marked improvement in the distribution of reserves, in the sense of a shift from countries (notably the United States) where in the early 1950's reserves had been very high to other countries where they had been inadequate. Possibly, also, there was some decline in the magnitude of payments imbalances relative to international transactions, though, even so, the trend of imbalances rose faster than that of global reserves.

Since about 1964, there has been a change in the situation: growth of reserves flattened markedly, the ratio of reserves to trade declined more rapidly, the transfer of reserves from deficit to surplus countries ceased to act as a force tending to equalize reserve ratios, and there was increasing resort to international credit as a means of relieving the tightness of reserves.

2. Basic Criteria of Reserve Adequacy

In order to assess the long-term global need, if any, for reserve supplementation, as the Fund must do in order to conform to Article XXIV, Section 1 (a), it is necessary to arrive at a view, not only as to the probable development of reserves other than special drawing rights, but also as to the long-term development in the need for global reserves. This in turn may be defined as that amount and rate of growth of reserves which is most conducive to the attainment of the objectives described in that provision.

These objectives are contained in the Fund's Purposes, as set forth in Article I, as follows:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The relevant objectives contained herein may be grouped as follows:

(a) expansion of international trade, economic activity, and development;

(b) promotion of multilateral payments and elimination of restrictions;

(c) promotion of exchange stability and orderly exchange rate adjustments; and

(d) correction of payments maladjustments and reduction in payments disequilibria without resort to measures destructive of national or international prosperity.
To these, Article XXIV, Section 1 (a), adds a further objective, viz.,
(c) the avoidance of economic stagnation and deflation as well as excess demand and inflation in the world.

The objectives at (a) and (c) above fall mainly within the sphere of demand policy, (b) of payments and trade policy, (c) of exchange policy, and (d) of all of these.

Broadly speaking, higher reserves and reserve growth tend to relieve balance of payments difficulties and thus to promote expansion of demand, which may be inflationary, or may avoid contraction, to promote the elimination of restrictions and discrimination in international transactions, and to reduce the need for exchange rate devaluation; lower reserves and reserve growth tend to have the opposite effects. The effects of reserve creation in relation to objective (d) above, which has much in common with the other objectives, are considered separately in the following section.

If world demand were likely to be inadequate, payments and trade restrictions widespread, devaluations unduly frequent and revaluations too rare, it could safely be said that reserves and reserve growth were too low; if demand were likely to be excessive, payments and trade restrictions negligible (so as to offer no scope for reduction), devaluations too long delayed and revaluations too frequent, it could safely be said that reserves and reserve growth were excessive. Unfortunately it frequently happens that these indicators point in different directions. It is, therefore, necessary to take a view as to what extent in a concrete situation additions to reserves are likely to evoke the various kinds of policy reactions and thus to affect the attainment of the various objectives set forth above. In considering this question account has to be taken of the targets of individual countries as to reserves and reserve accumulation.

In the 1950's and early 1960's there was little doubt as to the adequacy of global reserves. These were years of great expansion in production and international trade and great progress in the liberalization of international transactions and the realization of the purposes of the Fund. If there was any decline in world reserve ease over the period it was from a level that was ample or even excessive, and the consensus of informed opinion was that there was no global inadequacy of reserves.

After about 1964, the signals supplied by the basic criteria of reserve adequacy became conflicting. Judged by the criterion of world demand conditions alone the period from 1965 to the present could scarcely be considered one of reserve inadequacy. World output and international trade expanded rapidly in these years; domestic prices rose rather fast, though international prices were stable; and demand pressures intensified, particularly in North America.

The same holds true to a lesser extent of the criterion of exchange stability. While the exchange rate devaluations which occurred during these years were possibly speeded up by the tightening of the reserve situation, they cannot be said either to have been undertaken prematurely or to have been excessive in amount, though it might have been otherwise had there not been widespread resort to international credit and the associated generation of reserves.

The main indications of reserve inadequacy in these years lie in the increased reliance on restrictions on international transactions and the increased recourse to international financial assistance, bilateral and multilateral, for the purpose of meeting payments deficits and sustaining reserves. Liberalization of trade has continued but its momentum has slackened. Temporary balance of payments restrictions have been imposed on trade and tourism in several major countries. Aid-tying and national preference in the granting of government contracts have been maintained or intensified in many countries. Above all, measures to restrict, attract, or occasionally repel
capital flows have been applied or intensified for payments reasons in many countries, large and small. At the same time, there has been a substantially increased use of Fund resources and of other forms of balance of payments assistance, provided notably by the spreading network of swap arrangements and other types of credit arrangements between monetary authorities. These developments, while partly attributable to the persistence of payments disequilibria that could and should be corrected, have almost certainly been exacerbated by a growing shortage of, and increasing desire to obtain, reserves.

When attempting to balance these considerations, I share the view expressed in the 1966 Annual Report and cited in this year's Report, that in view of the great reluctance of countries to subordinate their demand management policies to balance of payments objectives "any shortage of international liquidity is more likely to manifest itself, at least initially, in the form of intensification of restrictions on trade and capital movements, or in increased pressure on exchange rates, than in that of generalized deflationary symptoms in the world economy." Needless to say, this judgment reflects no lack of concern with inflationary conditions. As this year's Annual Report points out: "The removal of inflationary pressures will require the firm determination of member countries to adopt and maintain the fiscal and monetary policies that are necessary to this end."

These considerations suggest that more weight should be laid on the evidence for current inadequacy of reserves and reserve growth provided by the prevalence and growth of restrictions on international transactions and by the increasing resort to arrangements for balance of payments financing than on the evidence for adequate or excessive reserves provided by the current demand situation.

3. Reserves and the Adjustment Process

As has already been indicated at page 253 above, one of the purposes which reserve supplementation is to serve, in accordance with Section 1 (a) of Article XXIV, is to assist in the correction of payments maladjustments and reduction in payments disequilibria without resort to measures destructive of national or international prosperity. In other words, the effect of reserve creation on the adjustment process has to be taken into account on the occasion of all decisions to allocate special drawing rights.

In addition, among the special considerations that are to be taken into account on the occasion of the first decision to allocate special drawing rights are "the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future."

The relevance of these special considerations to the desirability of a decision to begin allocations of special drawing rights arises in two main ways. In the first place, both the degree of disequilibrium in the world and the future of the adjustment process might be affected more markedly by the prospect of future allocations of special drawing rights set up by the initial activation of the new facility than by subsequent particular decisions to allocate. This would be true, for example, if it were felt that important deficit countries were likely to be induced by such activation to avoid taking desirable action to correct their deficits.

A second type of relationship between the degree of disequilibrium and prospect for adjustment, on the one hand, and the initiation of allocations, on the other, arises from the fact that insofar as deficits are financed by certain forms of international credit they tend to add to world reserves. For example, a drawing by a Fund member in the credit tranches normally gives rise to an addition to world reserves in the form

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of a reserve position in the Fund held by the member whose currency is drawn. Again, large countries, in addition to their ability to draw on the Fund, often have access to swap arrangements or similar forms of bilateral credit, the use of which again gives rise to reserves. Reserve centers in particular not only enjoy a substantial access to such credit, but may also be able to finance their deficits to some extent through other countries holding additional amounts of their currencies.

The persistence of particular chronic disequilibria or, more generally, the persistence of adverse tendencies in the willingness of deficit countries to adjust, to the extent that it gave rise to the prospect of substantial continued creation of reserves from international credit operations, might provide a reason not only for reducing allocations of special drawing rights but also for postponing the initiation of such allocations.

Some of the most important effects of reserve supplementation on the adjustment process have already been discussed at pages 253 to 255 above. Prima facie, the tendency would be to relieve deficit countries of some of the pressure on their reserves and thus to lessen their need to resort to restrictions on international transactions, deflationary or disinflationary demand policies, and exchange devaluations; and to encourage surplus countries to play a greater part in the adjustment process by expansionary policies and the removal of restrictions. In the abstract, one would expect the effect on deficit countries to be stronger than that on surplus countries, so that the sum of imbalances to be financed might be somewhat increased by reserve creation.

In this connection, it should be borne in mind that the purposes of the Fund call for the correction of payments maladjustments "without resorting to measures destructive of national or international prosperity." Reserve supplementation has to be judged by its effect on the quality as well as on the speed of the adjustment process.

In present circumstances, moreover, it appears unlikely that reserve creation would have any significant effect in increasing the imbalances of those countries which in the past have had the biggest deficits. The United States and the United Kingdom are under such strong pressure to correct their deficits that any relief of this pressure afforded by a general expansion of reserves is likely to be negligible. In the case of the United Kingdom, in particular, the need to repay a large amount of indebtedness in a rather short period of time is likely to compel it to adopt policies that may even exceed the requirements of long-term adjustment. In the United States, the need to contain inflationary pressures would of itself be expected to induce the authorities to pursue demand management policies tending to strengthen the current account of the balance of payments.

In these circumstances, the supplementation of reserves would be most unlikely, on balance, to exercise any adverse effect upon the adjustment process, and indeed if nothing were done to supplement reserves the stabilization efforts now being made by deficit countries might well be frustrated by the defensive measures of others.

I turn, now, to recent trends in payments disequilibria and adjustment policies, and their bearing on the need to supplement reserves and on the desirability of initiating allocations.

From this standpoint, a definite improvement is to be seen, though much remains to be done. Admittedly, international cost and price relationships and current account balances leave much to be desired from the standpoint of a sustainable international equilibrium. Moreover, in some of the principal countries with actually or potentially persistent deficits, such as the United States, the United Kingdom, and France, there has been at some stage a reluctance to apply demand management policies and other
allocation policies with sufficient vigor and flexibility in the light of the balance of payments situation.

More recently, however, strong measures have been taken by these countries in the fields of fiscal, monetary, and exchange rate policy. In spite of the unexpectedly slow response of its economy to corrective measures, the basic position and prospects of the United Kingdom have been greatly improved by the November 1967 devaluation, the application of strong budgetary measures, and latterly the adoption of a more stringent monetary policy. In the United States, also, the measures of fiscal and monetary restraint that have been taken have already led to a slowing down in the rate of growth of output and can reasonably be expected to take effect on the upward trend in prices. In France the first steps have been taken to reverse the expansionary policy previously pursued, and the recent devaluation must be considered an important and timely step in the direction of a better international adjustment. In all these cases, there are signs of the emergence of a better balance in international payments.

There are, of course, a number of instances in the world of the persistence of payments surpluses. These, however, constitute no argument against decisions to allocate special drawing rights or against the initial activation of the new facility, since reserve creation would, if anything, tend to strengthen the incentive surplus countries to adjust.

A remarkable feature of the balance of payments situation of recent years has been the extent to which abnormalities in current balances of payments have been offset by capital flows, on long term and, save in exchange crises, on short term also. In the United States, in particular, a massive influx on capital account has brought the balance of payments on an official settlements basis into surplus in 1968 and so far in 1969. In consequence the balance of payments situation of the United States has not in recent years given rise to an expansion of world reserves. Rather the supply of dollars to official holders in the outside world has been declining.

Admittedly, the pattern of capital flows that has contributed to over-all payments balance between major countries may not last. In the longer run, the underlying disequilibria, unless corrected, must be expected to find a reflection in over-all payments imbalances. It must be emphasized, however, that, at the present time, it is very difficult to gauge what might be a sustainable pattern of international capital flows and what, therefore, might be the precise magnitude of the underlying payments disequilibria in payments balances. As is pointed out in this year's Annual Report, the big shifts that have occurred in current and capital account balances in recent years, under varying cyclical conditions, make it difficult to derive much guidance on this matter from past experience.

As regards the future of the adjustment process, prediction is, of course, very difficult. As is pointed out above (pages 256–57), countries hitherto in persistent deficit have strong domestic reasons for wishing to emerge from this situation and have adopted policies directed to this end. There is, moreover, a somewhat more widespread appreciation of the desirability of correcting, by means of timely exchange rate adjustments, disequilibria that are unlikely to be removed by other methods of adjustment. So far as short-term adjustment is concerned, there has been a marked development in international cooperation in countering disequilibrating flows, and encouraging equilibrating flows of short-term funds. Finally, in the Fund and elsewhere, international machinery for keeping payments situations under review and suggesting appropriate methods of adjustment of incipient disequilibria as they emerge, is in more continuous and effective operation than at any previous time.
The conclusions which suggest themselves with respect to the relation between reserve creation and the adjustment process as discussed in this section are: that a decision to begin the allocation of special drawing rights at this time would be consistent with Section 1(b) of Article XXIV relating to the special considerations with regard to balance of payments equilibrium and the adjustment process; that supplementation of world reserves in an appropriate amount would in present circumstances be likely to contribute to the working of a sound adjustment process; and that considerations with respect to the adjustment process have an important bearing on the amount of special drawing rights that it is appropriate to allocate at this time.

4. Prospective Need for Reserve Supplementation

In order to reach a conclusion on whether there is likely to be a need to supplement reserves by the allocation of special drawing rights over the next several years and in order to assess the probable extent of that need, it is necessary to estimate the probable development of reserves over these years in the absence of allocation, and also to take a view as to the reserve development that would be desirable in the interest of the world economy.

As regards the prospective growth of reserves, other than special drawing rights, over the next three to five years, from 1970 onwards, perhaps $500 million per annum might be allowed for the accrual of official gold holdings, reserve creation through the General Account of the Fund (other than that arising from transactions with the reserve centers), and various minor sources of reserve creation. As for the accrual of U.S. dollars to official holders and developments with respect to credits between monetary authorities in such a form as to create reserves, a range of assumptions is possible. One assumption would imply maintenance of payments balance by the United States, no creation of reserves in the form of U.S. dollars, attainment of a substantial surplus by the United Kingdom, and net repayment over a five-year period of some $5 billion of international credits (including Fund purchases) extended in recent years. On this assumption, reserves instead of rising by $0.5 billion per annum might fall by $0.5 billion per annum.

Another assumption would allow for the possibility that the next three to five years might on the average show a deficit for U.S. payments (on the official settlements basis), and that, while there would not be a repetition of the large expansion of reserve credits that occurred in recent years, there would be no substantial net reduction in the total amount of such credits outstanding. On this assumption there would be no reserve destruction, and a possible rise in official holdings of U.S. dollars of some $0.5 billion to $1 billion, making an over-all reserve increase of $1 billion to $1.5 billion per annum.

For two reasons it appears to be advisable to adopt for present purposes the latter of the two assumptions (i.e., the assumption that results in an estimate of future reserve growth amounting to $1 billion to $1.5 billion per annum). In the first place, to do so would better correspond to the need for a cautious approach to the first activation of the Special Drawing Account. Secondly, as regards possible reserve destruction, any creation of offsetting amounts of special drawing rights may be delayed until there is clear evidence of such destruction.

It has been suggested above that symptoms of reserve inadequacy had begun to appear before the end of the period from 1964 through 1968. During the first half of the present year, owing to the mopping up of official holdings of dollars by the payments surplus of the United States, reserves have declined, not merely in relation to trade, but (by $1 billion) in absolute terms. An increase of $1 billion to $1.5 billion
per annum in global reserves from the above-mentioned sources over the next several years, even if it should materialize, would not suffice to remove the danger of undue competition for reserves. Some countries need to raise the level of their reserves by amounts which, in the aggregate, are substantial; most of the others wish to see a continuation of the increases which in any case barely keep pace with the growth of their trade, and few indeed are prepared to see their reserves decline to any significant extent.

While it is clear that some supplementation of reserves is required, the problem is to estimate how much. Given the distribution of reserves, reserve ease can be thought of as dependent on two factors: the level of reserves in relation to imports (or other suitable indication of normal reserve needs) and the rate of reserve growth. The latter factor is closely related to the excess of balance of payments surpluses over deficits in the world. As is pointed out in this year's Annual Report, the fact that reserve ease may have been less than adequate in 1968 does not rule out the possibility that, if reserves were to increase in the future at a rate corresponding to a normal growth in the need for reserves, this of itself might go far toward raising reserve ease to a satisfactory level.

There are a great many different ways, none of them very satisfactory, of setting about the measurement of this normal growth in the need for reserves. An approach based on the rate of growth of world trade, using for this purpose the growth of imports over the 1952-68 period, could lead to an estimate that the long-term trend in required reserves would increase at a rate of 7 per cent per annum. Another approach might be to extrapolate an unweighted average of the ratios of reserve increases to imports over a past period on the grounds that for most countries, apart from the larger ones, actual reserve increases would not diverge from desired reserve increases in any systematic way accounted for by the constraint imposed by global reserve availabilities. The extrapolation of an unweighted average for 60 countries of the ratios of annual reserve increases to the level of imports over the 1954-68 period would yield a proportionate rate of reserve increase of 5 per cent per annum. Another possibility would be to estimate the exponential trend in the growth of balance of payments disequilibria (deficits plus surpluses) though this is subject to considerable variation in the short run. An extrapolation of this trend calculation over the 1954-68 period would yield a rate of growth of required reserves of over 4 per cent per annum.

These and other calculations of the trend growth of reserve needs, each of which, of course, is highly tentative in character, provide a set of estimates for annual increases in reserve needs over the next three to five years that fall within a range of approximately $3.5 billion to approximately $6 billion a year. Most estimates lie between $4 billion and $5 billion a year.

These estimates of the trend growth in the need for reserves, together with the estimate previously given of a potential growth of $1 billion to $1.5 billion in reserves other than special drawing rights, suggest a central, most probable, estimate of the need to supplement the reserves of Fund members by allocation of special drawing rights over the next three to five years of approximately $3 billion to $3.5 billion per annum.

Consultations have established that there is broad support among participants for the conclusion that there is a global need to supplement reserves, and for the allocation of special drawing rights in accordance with the proposal set forth in the concluding section of this Report.
5. Proposed Basic Period and Amounts of Allocation

In Section 2 of Article XXIV it is envisaged that decisions of the Fund to allocate special drawing rights shall normally be for basic periods of five years' duration but that the Fund may provide that the duration of a basic period shall be other than five years.

There are good reasons for giving preference, in normal circumstances, to a basic period of as much as five years. At the present time, however, estimation of the relevant magnitudes for a period up to five years ahead would be particularly difficult. The projection of future reserve needs is difficult because of uncertainty as to whether the past trend in the ratio of reserve needs to international transactions will continue or, on the contrary, be reversed; the projection of the supply of reserves in traditional forms is difficult because of uncertainty as to the medium-term balance of payments prospects of the reserve centers; and both projections are difficult because of the lack of experience with medium-term forecasting in this relatively novel field.

These difficulties provide a sufficient argument for making the basic period for the first decision to allocate shorter than five years. Consultations with participants have indicated that there is broad support for a first basic period of three years.

Section 2 (a) of Article XXIV prescribes that the first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. It is proposed that the decision specify January 1, 1970, rather than the date of the decision of the Board of Governors, as the beginning of the first basic period and the date of the first allocation of special drawing rights. This will enable members of the Fund, which have not yet been able to become participants but which deposit their instruments of participation with the Fund before the end of 1969, to receive all allocations made during the first basic period.

In accordance with the estimates of need set forth in the preceding section, I would propose that the Fund aim to allocate special drawing rights equivalent to approximately $9.5 billion over the three years 1970-72, of which approximately $3.5 billion would be allocated at the beginning of 1970, $3 billion at the beginning of 1971, and $3 billion at the beginning of 1972.

6. Allocations as Percentages of Quota

In accordance with Section 2 of Article XXIV, the rates at which special drawing rights are to be allocated to participants must be expressed as percentages of quota on the date of each decision to allocate, but the Fund may provide that the basis for allocations shall be quotas on dates other than the dates of decisions to allocate.

It has been recognized from the outset that to express allocations as fixed percentages of quotas as of the date of the decision to allocate might lead to the allocation of an amount that diverged in some degree from the amount deemed to be appropriate, under Article XXIV, Section 1 (a), to meet the long-term need to supplement reserve assets. This might happen, for example, if participants entitled to receive allocations were to "opt out" under Section 2 (e), or if the Fund were to decide under Section 2 (d) that a country becoming a participant after the date of the decision should receive allocations during the remainder of that period. It was also recognized that changes in quotas of participants might occur in the course of a basic period and that if allocation were made on the basis of quotas on the date of the decision participants might receive
Allocation of Special Drawing Rights

allocations in proportions that did not correspond precisely to their relative quotas at the time.

It was thought that these disadvantages might be outweighed by a form of decision under which participants would know, at the time of the decision to allocate, the amounts of special drawing rights that each would receive in the course of the period. Two circumstances, however, render it desirable, during the first basic period, that the percentages should be adjusted at each allocation in such a way as to attain the desired total of allocations and that the basis for allocations should not be the quotas at the date of the decision to allocate but rather the quotas at the dates of the allocations themselves.

In the first place, it is possible that a significant number of members that intend to become participants in the Special Drawing Account will not have been able to deposit their instruments of participation before the date of the decision to allocate. Such of these members as become participants before the first allocation will be eligible to share in that allocation, and it would be desirable that such of them as become participants between allocations should be able to share in allocations after they become participants. For this reason, any fixed percentage rates of allocation determined at the time of the decision (even if they were based on quotas at the time of the decision) would have to be calculated on the basis of guesses as to the dates by which members would have become participants.

Again it is probable that, as a result of the fifth quinquennial general review of quotas, increases in the quotas of members involving significant changes in relative quotas will have occurred before the date of the second annual allocation. It appears desirable that these changes in relative quotas, resulting from special increases given to members whose quotas are unduly low in the light of the relevant economic criteria, should be reflected in allocations of special drawing rights in 1971 and 1972. This result cannot be attained if allocations are based on quotas at the date of a decision to allocate for the 1970-72 period, which will necessarily be taken in 1969.

For these reasons I consider that allocations at the beginning of 1970, 1971, and 1972, respectively, should be based on the quotas of participants on the day before the dates of the allocations, and that the percentages of quotas to be allocated should be such, to the nearest one tenth of one percentage point, as to result in the allocation to participants of amounts which, for those participants that were members of the Fund on December 31, 1960, would total $3.5 billion for the first allocation, $3 billion for the second allocation, and $3 billion for the third allocation.1 This result is attained by the formulation at point 4 of the proposal set forth in the concluding section of this Report.

Percentages are set forth in the proposal in conformity with the provisions of Article XXIV, Section 2(b). They are equal, to the nearest one tenth of one percentage point, to the following ratios: for the first allocation, $3.5 billion divided by the total quotas of the relevant participants on the day before that allocation; for the second allocation, $3 billion divided by the total quotas of the relevant participants on the day before that allocation; for the third allocation, $3 billion divided by the total of quotas of the relevant participants on the day before that allocation. The rates of 17.5 and 15 per cent referred to in point 4 of the proposal are those that would apply if the quotas of the relevant participants on the relevant dates of allocation were close to $20 billion. The figure of $20 billion has been selected as a round number in the vicinity of the total of present quotas which, when multiplied by the rates men-

1 If new members joined the Fund and became participants, total allocations might increase beyond these amounts (see Article XXIV, Section 2(d)).
tioned, would yield exactly the target levels of allocation, i.e., $3.5 billion and $3 billion, respectively. The manner in which the percentages would be higher or lower according as the total of the quotas of the relevant participants on the relevant dates were lower or higher, respectively, than $20 billion is shown in the illustrative tables in the Appendix. It will be observed that, whatever the level of quotas, the amounts allocated remain always very close to $3.5 billion for the first allocation and $3 billion for the second or third allocations.

PART III
Proposal for the Allocation of Special Drawings Rights

I hereby propose that the Fund allocate special drawing rights to the participants in the Special Drawing Account, in accordance with the Articles of Agreement, as follows:

1. Allocations shall be made during a basic period of three years which shall begin on January 1, 1970.
3. Allocations shall be on the basis of quotas on the day before the dates of the allocations.
4. The rate for the first allocation shall be 17.5 per cent and the rate for the second and third allocations shall be 15 per cent, provided that these rates shall be adjusted, to the nearest one tenth of one percentage point, by multiplying them by the ratio of $20 billion to the total of quotas on the day before allocation of those participants which were members of the Fund on December 31, 1969.

I further propose that in accordance with the foregoing the Board of Governors adopt the following draft resolution:

Draft Resolution *

Allocation of Special Drawing Rights for the First Basic Period

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XXIV, Section 4, of the Articles of Agreement of the International Monetary Fund; and

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied himself that the proposal will be consistent with the provisions of Article XXIV, Section 1 (a), and that, after consultation, he has ascertained that there is broad support among participants for the proposal;

WHEREAS the Managing Director, on the occasion of this proposal for the first allocation, has satisfied himself that the provisions of Article XXIV, Section 1 (b),

* Adopted as Resolution No. 24-12 by the Board of Governors of the Fund on October 3, 1969.
have been met and that there is broad support among participants to begin allocations; and

WHEREAS the Executive Directors have concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles and considerations governing the allocation of special drawing rights set forth in Article XXIV, Section 1, hereby resolves that:

1. The Fund shall make allocations to participants in the Special Drawing Account, in accordance with the Articles of Agreement, during a basic period of three years which shall begin on January 1, 1970.


3. Allocations shall be on the basis of quotas on the day before the dates of the allocations.

4. The rate for the first allocation shall be 17.5 per cent and the rate for the second and third allocations shall be 15 per cent, provided that these rates shall be adjusted, to the nearest one tenth of one percentage point, by multiplying them by the ratio of $20 billion to the total of quotas on the day before allocation of those participants which were members of the Fund on December 31, 1969.

APPENDIX

Illustrative Tables Relating Percentage Rates of Allocation to Hypothetical Quota Totals

The attached tables show the percentage rates of allocation which are specified in Part III of the Report (paragraph 4) in relation to hypothetical totals of quotas of participants that were Fund members on December 31, 1969. Although only certain ranges of hypothetical quota totals are shown, the tables must be understood to extend in principle to quota totals which are higher than the highest value actually shown as well as to totals which are lower than the lowest value actually shown. This extension can be made by following the arithmetical procedure on which the data in these two tables are calculated.1

Table 1 shows percentage rates for the allocation which is proposed to take place on January 1, 1970. Each figure in the center column indicates the percentage rate of allocation that would apply in accordance with paragraph 4 of the proposal if the total of quotas of participants on the date before allocation fell within the range shown in the left-hand column. The right-hand column indicates the total amounts of special drawing rights that would be allocated by applying this percentage rate if the

1 The values given in these two tables are calculated as follows: first, percentage rates of allocation are listed in descending order in the center column, declining from line to line by one tenth of one percentage point; next, the target allocations of special drawing rights, equivalent to $3.5 billion in Table 1 and $3.0 billion in Table 2, are divided, first, by the percentage rate in the center column plus five hundredths of one percentage point and, second, by this percentage rate minus five hundredths of one percentage point to yield the range shown in the left-hand column; finally, the lower and upper values of that range are multiplied by the percentage rate shown in the center column to yield the lower and upper values of the range of allocation of special drawing rights in the right-hand column.
total participants’ quotas were equal, respectively, to the lower or upper limit of the
range shown in the left-hand column.

Table 2 shows the corresponding data for the proposed second and third alloca-
tions (on January 1, 1971 and January 1, 1972). Table 2 is extended to higher
hypothetical quota totals than Table 1 in order to make allowance for quota increases
that may become effective before January 1, 1972.

<table>
<thead>
<tr>
<th>Quotas of Participants</th>
<th>Applicable Per Cent of Quota</th>
<th>Range of SDR Allocation 1970</th>
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<tbody>
<tr>
<td>(billion U.S. dollars)</td>
<td>(per cent)</td>
<td>(billion U.S. dollars)</td>
</tr>
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1 Rounded to two decimal places.
### Table 2

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<tr>
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<th>Range of SDR Allocation 1971, 1972 (billion U.S. dollars)</th>
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... ...

| 24.90–25.11                                  | 12.0                                    | 2.987–3.013                                              |
| 25.11–25.32                                  | 11.9                                    | 2.987–3.013                                              |
| 25.32–25.53                                  | 11.8                                    | 2.987–3.013                                              |
| 25.53–25.75                                  | 11.7                                    | 2.987–3.013                                              |
| 25.75–25.97                                  | 11.6                                    | 2.987–3.013                                              |
| 25.97–26.20                                  | 11.5                                    | 2.987–3.013                                              |
| 26.20–26.43                                  | 11.4                                    | 2.987–3.013                                              |
| 26.43–26.67                                  | 11.3                                    | 2.987–3.013                                              |
| 26.91–27.15                                  | 11.1                                    | 2.987–3.013                                              |
| 27.15–27.40                                  | 11.0                                    | 2.986–3.014                                              |
| 27.40–27.65                                  | 10.9                                    | 2.986–3.014                                              |
| 27.65–27.91                                  | 10.8                                    | 2.986–3.014                                              |
| 27.91–28.17                                  | 10.7                                    | 2.986–3.014                                              |
| 28.17–28.44                                  | 10.6                                    | 2.986–3.014                                              |
| 28.44–28.71                                  | 10.5                                    | 2.986–3.014                                              |
| 29.27–29.56                                  | 10.2                                    | 2.986–3.015                                              |
| 29.85–30.15                                  | 10.0                                    | 2.985–3.015                                              |
| 30.15–30.46                                  | 9.9                                     | 2.985–3.015                                              |
| 30.46–30.77                                  | 9.8                                     | 2.985–3.015                                              |
| 31.09–31.41                                  | 9.6                                     | 2.984–3.016                                              |
| 31.41–31.75                                  | 9.5                                     | 2.984–3.016                                              |
| 31.75–32.09                                  | 9.4                                     | 2.984–3.016                                              |

1 Rounded to two decimal places.
Increases in Quotas of Members — Fifth General Review

On October 3, 1969, at the Twenty-Fourth Annual Meeting, in Washington, the Board of Governors adopted a resolution requesting the Executive Board to consider the adjustment of the quotas of members and to make a proposal on this subject by December 31, 1969. In accordance with this resolution, the Executive Board sent a report to the Board of Governors on December 24, 1969, with a draft resolution recommending increases in quotas. The Board of Governors adopted the resolution (Resolution No. 25-3) on February 9, 1970. The resulting increases in quotas became effective from October 30, 1970.

Report of the Executive Directors to the Board of Governors
(December 24, 1969)

1. At its 1969 Annual Meeting in Washington, the Board of Governors adopted the following Resolution: t

WHEREAS the Executive Directors have been considering the question of an appropriate adjustment of the quotas of Fund members; and

WHEREAS the Executive Directors have been considering this question in relation to the allocation of special drawing rights; and

WHEREAS the Board of Governors has adopted a Resolution on the allocation of special drawing rights for a first basic period of three years beginning on January 1, 1970; and

WHEREAS the Fifth Quinquennial Review of Quotas is to begin not later than the end of 1969; and

WHEREAS Governors have expressed their views on the Fifth Quinquennial Review and the adjustment of quotas;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969.

2. Pursuant to the foregoing Resolution the Executive Directors have considered the adjustment of the quotas of members and recommend that the Board of Governors propose to members the increases in quotas set forth in the Annex to the proposed Resolution which is attached to this Report. The reasons for this recommendation are outlined in this Report.

3. Article III, Section 2, of the Articles of Agreement states in part that:

"The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members."

† Resolution No. 24-15.
The periodic general review of quotas which is required by this provision facilitates an adjustment of the size of the Fund to the growth of the world economy; it also offers an opportunity to adjust individual quotas to reflect changes in the position of members in the world economy.

4. The increase in Fund quotas which may be appropriate from time to time must be assessed chiefly on the basis of factors affecting the need for international liquidity in general and the need for conditional liquidity in particular. In connection with the Managing Director’s proposal on the allocation of special drawing rights for the first basic period, certain quantitative studies were undertaken that have a bearing on these questions. As was noted in the 1969 Annual Report of the Executive Directors, conditional and unconditional liquidity, although serving to some extent the same broad purpose, cannot be freely or fully substituted for each other. Decisions with respect to the creation of conditional liquidity should, therefore, be taken in the light of developments and decisions in the area of unconditional liquidity.

5. In the light of these considerations the Executive Directors propose increases in Fund quotas which, if all members were to avail themselves of the opportunity to increase their quotas to the maximum proposed to them, would bring Fund quotas to an approximate total of $28,900 million.

6. The individual quota adjustments that are recommended have been determined by the kind of considerations that have been applied by the Fund in the past. These considerations will be reviewed for the purpose of future adjustments. Changes in the economic and financial position of members have been taken into account in arriving at the proposed adjustments, as well as the maintenance of a balanced distribution of quotas within the whole membership of the Fund.

7. Under the proposed Resolution, a member will be able to consent to the increase in its quota at any time on or before November 15, 1971. Therefore, unless this period is extended by the Executive Directors, members will have until November 15, 1971 to take whatever action may be necessary under their laws to enable them to give their consent.

8. The increase in a member’s quota under the Resolution will take effect when the member has consented to the increase in quota and has paid the increase in subscription, provided that no increase will take place before October 30, 1970. In other words, the increase in a member’s quota will take effect on the latest of the following three dates:
   (a) the date on which the Fund receives the member’s consent to the increase in quota,
   (b) the date of the payment of the increase in subscription,
   (c) October 30, 1970.

9. Under the Resolution, a member may pay the increase in its subscription at any time before it is due. If a member pays before the increase in its quota takes effect, the increase in subscription will be kept in a separate suspense account of the Fund. A member is required to pay its increase in subscription not later than 30 days after the later of (a) the date of its consent to its quota increase and (b) October 30, 1970.

10. The increased quotas recommended in the attached Resolution are the maximum amounts to which quotas could be increased under the Resolution. Any member consenting to an increase under the Resolution may consent to a smaller increase in its quota than the amount shown against its name but the quota consented to should be a whole number in millions of U.S. dollars. At any time not later than November 15, 1971, or any later date to which the Executive Directors extend the period for consent, a member may consent to further increases up to the amount shown in the attached Resolution if it has not yet consented to the full increase.
11. Under the proposed Resolution, any member consenting in one step to the full increase in its quota as shown against its name in the Annex may consent to the increase by installments. Any member consenting to an increase by installments must pay an initial installment of the increase in subscription, and an installment in each period of 12 months thereafter. Each installment will be not less than one fifth of the full increase, but members may accelerate payment under this installment schedule. Each installment of the increase in quota would correspond to the amount of gold and currency paid by the member as an increase in subscription.

12. The maximum quotas recommended in the attached Resolution take account of the special adjustment of their present quotas that a few members could still obtain under the Fund's Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). Therefore, the policy on the special adjustment of quotas under that Decision together with the related Executive Board Decision (No. 1529-(63/33), June 14, 1963) will be regarded as having been superseded by the terms of the attached Resolution in those cases in which increases under Decision No. 1477 have not yet been approved by the Board of Governors.

13. Under Article III, Section 4 (a), each member increasing its quota must pay an increase in its subscription equal to the increase in quota, of which 25 per cent must be in gold and the balance in the member's currency. Payment of both portions of the increase in subscription must be made before the increase in a member’s quota can become effective, even if, under a Membership Resolution, the member has not yet been required to pay its original subscription.

14. Article III, Section 4 (a), provides in part that "If, . . . on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold." The date for the calculation referred to in the provision is the date on which the member consents to the increase even if the increase will not become effective until later. The Executive Directors have again considered whether the Fund should exercise its discretion under the provision to reduce the portion of the increases in subscriptions payable in gold. The Executive Directors have concluded that on this occasion it would be desirable to exercise this discretion and that any member that would qualify should be permitted to pay in gold only that proportion of 25 per cent of the increase in quota which the member’s monetary reserves bear to the increased quota to which the member has consented and the balance of the increase in quota in currency. If a member wishes to pay in currency more than 75 per cent of the increase in its subscription in accordance with this paragraph, the Fund will calculate the member’s monetary reserves as of the date of each consent to an increase in quota, whether it be to an increase to the maximum amount, or to an increase less than the maximum amount, or to increases by successive amounts (see paragraph 10), or to increases by installments (see paragraph 11).

15. In connection with paragraph 14, the Executive Directors have felt that, as a condition of the exercise of the power to reduce the gold payment, the Fund should require that any additional currency subscription beyond 75 per cent of the increase in quota be repurchased by the member unless the Fund's holdings of that currency are otherwise reduced. Repurchase must be made in five equal annual installments commencing one year after the date on which the quota increase becomes effective. When paying less than 25 per cent of its subscription in gold a member must undertake to repurchase in accordance with this paragraph. Members will be able to discharge these repurchases in the same reserve assets as may be used in other repurchases.
16. Many members will pay the increases in their gold subscriptions from their own gold holdings, but it is likely that in some cases members will purchase gold from other members. In order to mitigate the impact of these gold purchases, the Executive Directors believe that the Fund should take the action which is indicated in the following paragraphs and for which appropriate provision is made in the attached Resolution.

17. In connection with purchases of gold by members for the purpose of paying their increases in subscription under the proposed Resolution, it will be the policy of the Fund to sell gold under Article VII, Section 2 of the Articles of Agreement up to a maximum amount equivalent to US$700 million when the Fund needs to replenish its holdings of the currencies of members from which gold has been purchased by other members. As in the past, it may be expected that most members wishing to purchase gold for the purpose of paying their increases in subscription will buy that gold from the United States and that, therefore, to a very large extent the sale of gold by the Fund will be for the purpose of replenishing its holdings of U.S. dollars. To the extent that the Fund does not have a need to replenish its holdings of U.S. dollars, it will be suggested to members that they purchase the gold needed for the payment of their increases in subscription from members which agree to sell gold and the currencies of which the Fund needs to replenish.

18. Replenishment by the Fund of its holdings of the currency of a member in accordance with paragraph 17 above would normally take place on the same value date as the sale of gold by that member. Alternatively, this replenishment of a currency could take place on the occasion of sales of that currency to other members.

19. Under Article XII, Section 2 (b (ii), the power to take the action with respect to the payment of increases recommended in paragraphs 14 and 15 is reserved to the Board of Governors, and under Article III, Section 4 (c) exercise of the power requires a majority of eighty-five per cent of the total voting power. The same rules apply to the action recommended in paragraphs 16 and 17 for the purpose of mitigating the effects of providing gold for payment of the gold portion of increases in the subscriptions of other members. Appropriate provision has been made in the attached Resolution for the Board of Governors to take the necessary action to give effect to these recommendations.

20. The Executive Directors recommend the adoption of the attached Resolution. This Resolution is designed to enable the Board of Governors to vote at one time on all matters connected with the increases in quotas under the Resolution, including those referred to in paragraph 19, which, under the Articles of Agreement, as amended, are reserved to the Board of Governors. To be adopted, the Resolution will need to receive the affirmative vote of eighty-five per cent of the total voting power of members. To be valid, votes on the Resolution as a whole must be received at the seat of the Fund on or before February 9, 1970.

Resolution Submitted to the Board of Governors †

WHEREAS the Executive Directors have considered the adjustment of the quotas of members in accordance with the Resolution of the Board of Governors of the International Monetary Fund at its 1969 Annual Meeting:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969;

† Resolution No. 25-3, adopted by the Board of Governors effective February 9, 1970.
WHEREAS the Executive Directors have submitted to the Board of Governors a Report entitled "Increases in Quotas of Members—Fifth General Review"; and

WHEREAS the Executive Directors have recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the fifth general review of quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

Now, therefore, the Board of Governors, noting the said Report to the Executive Directors, hereby resolves that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that any member (a) may consent to an increase in its quota which is smaller than that shown in the said Annex and (b) may consent thereafter to further increases up to the said amount.

2. An increase in a member's quota under this Resolution shall become effective when the member has notified the Fund that it consents to the increase and has paid in full the increase in the quota, provided, however, that no increase in quota shall become effective before October 30, 1970. The increase in the quota of a member which has notified the Fund of its consent and has completed payment of the increase at any time prior to October 30, 1970, shall become effective on that date.

3. Notices in accordance with paragraph 2 shall be executed by a duly authorized official of the member.

4. Notices in accordance with paragraph 2 shall be received in the Fund not later than November 15, 1971, provided that the Executive Directors may extend this period as they may determine.

5. Subject to paragraph 6 (b), each member shall pay to the Fund the increase in its quota within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later. Twenty-five per cent of the increase shall be paid in gold and the balance in the member's currency, provided, however, that, if on the date when a member consents to any increase under paragraph 1 or paragraph 6 its monetary reserves are less than the new quota to which it has consented, the member may pay in gold that proportion of 25 per cent of the increase in quota which the member's monetary reserves on the date of consent bear to the quota to which the member has consented and the balance of the increase in quota shall be paid in currency. A member which, in accordance with this paragraph, pays more than 75 per cent of the increase in currency shall undertake to repurchase the currency paid in excess of 75 per cent of the increase. Unless the Fund's holdings resulting from such payment are otherwise reduced, repurchase shall be completed in five equal annual installments commencing one year after the date on which the increase becomes effective.

6. (a) In giving notice in accordance with paragraph 2, any member consenting to the increase in its quota to the full amount shown against its name in the Annex to this Resolution may consent to that increase as increases by installments.

(b) Notwithstanding paragraph 2, a member increasing its quota by installments shall pay not less than one fifth of the increase in gold and currency
in accordance with paragraph 5 within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later, and shall pay further installments of gold and currency of not less than one fifth of the increase in each twelve months after the first payment until the full amount has been paid. For the purpose of determining under paragraph 5 the gold and currency portions of an installment subsequent to the initial installment, a member shall be deemed to have consented to the increase in its quota equivalent to the installment 30 days before it pays the installment.

(c) Subject to paragraph 2, on the completion of the payment of each installment of the increase, the member’s quota shall be increased by an amount equal to the installment.

7. The Fund shall replenish its holdings of the currencies of members which sell gold to other members to enable the latter members to pay the increases in their quotas under this Resolution. Replenishment under this paragraph shall be by the sale of gold in accordance with the provisions of Article VII, Section 2 and shall not exceed an amount equivalent to US$700 million.

ANNEX TO RESOLUTION

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<thead>
<tr>
<th>Proposed Maximum Quota</th>
<th>Proposed Maximum Quota</th>
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<tbody>
<tr>
<td>(In millions of U.S. dollars)</td>
<td>(In millions of U.S. dollars)</td>
</tr>
<tr>
<td>Afghanistan 37</td>
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<td>Algeria 130</td>
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<td>Argentina 440</td>
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<td>Austria 270</td>
<td>Equatorial Guinea 8</td>
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<td>Belgium 650</td>
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<td>Botswana 5</td>
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<td>Gambia, The 7</td>
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<td>Germany, Federal Republic of 1,600</td>
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<td>Colombia 157</td>
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<td>Congo (Brazzaville) 13</td>
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<td>Congo, Democratic Republic of 113</td>
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<td>Denmark 260</td>
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ANNEX TO RESOLUTION (concluded)

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<th>Proposed Maximum Quota (In millions of U.S. dollars)</th>
<th>Proposed Maximum Quota (In millions of U.S. dollars)</th>
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<td>51. Ivory Coast 52</td>
<td>84. Philippines 155</td>
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<tr>
<td>52. Jamaica 53</td>
<td>85. Portugal 117</td>
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<td>90. Singapore 62</td>
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<td>59. Lebanon 56</td>
<td>92. South Africa 320</td>
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<td>60. Lesotho 5</td>
<td>93. Southern Yemen 29</td>
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<td>61. Liberia 29</td>
<td>94. Spain 395</td>
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<td>62. Libya 67</td>
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<td>64. Malagasy Republic 26</td>
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<td>67. Mali 22</td>
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<td>69. Mauritania 13</td>
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<td>83. Peru 123</td>
<td>116. Yemen Arab Republic 10</td>
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</table>

† Added by Board of Governors' Resolution No. 25-4, June 15, 1970.
‡ Added by Board of Governors' Resolution No. 26-1, December 8, 1970.
Mechanism of Exchange Rate Adjustment

During 1969 the Executive Directors, in informal sessions, held intensive discussions of the role of exchange rates in the adjustment of international payments. In their Annual Report for that year they devoted a section to the Mechanism of Exchange Rate Adjustment and indicated that they intended to continue their study of the subject, and at the 1969 Annual Meeting in Washington many Governors commented on this question. During the ensuing year the Executive Directors carried their work forward and produced the following report, which Mr. S. Schmeller, as Chairman of the Executive Board, sent to all members and Governors just prior to the Twenty-Fifth Annual Meeting in Copenhagen in September 1970.

Part I of the report contains descriptive and analytical material on which were based the views of the Executive Directors with respect to the policy aspects of the subject; these views are set forth in Part II.

The report related to Item 5 on the agenda of the Board of Governors for the 1970 Annual Meeting. No action was taken on the report, however.

The Role of Exchange Rates in the Adjustment of International Payments
(September 1970)

A Report by the Executive Directors

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PART I
REVIEW AND ANALYSIS

A. THE PRESENT SYSTEM

Chapter 1. Exchange Rates in the Bretton Woods System

a. The exchange rate in its international aspect

The rate of exchange has a key role in the modern national economy. Yet an exchange rate, as the price of one currency in terms of another currency, is not subject to the effective control of a single country. A national authority can, by its own action, alter the rates of exchange between its own currency and all other currencies at any moment of time; but individually these exchange rates will also be subject to the influence of other national authorities.\(^1\)

This multinational character of exchange rates was unobtrusive as long as exchange rates were held within narrow limits in relation to a constant parity, or

\(^1\)In this report, the term "exchange rate" refers to the exchange rate of a given currency against any other currency; it is also used as a shorthand expression for the network of exchange rates between the given currency and all other currencies. The term "parity" or "par value" refers to the value of the currency as expressed in terms of gold or the U.S. dollar of fixed gold weight. The par value of a currency under the Fund Articles is defined on p. 280 below.
responded freely to market forces in exceptional cases in which the fixed parity had to be abandoned. This was broadly the position under the gold standard maintained by the leading countries during the half century before 1914. The maintenance of exchange rates at particular levels might itself involve a variety of problems for national economies, but these problems were not generally regarded as amenable to the deliberate adjustment of exchange rates. Over the past half century, as governments have taken more responsibility for the performance of their national economies, they have become more concerned with the appropriateness of the exchange rates of their currencies. In certain circumstances, the adjustment of exchange rates can play a helpful supporting role in the management of a national economy. But this same adjustment will cause reciprocal and inverse changes in exchange rates of other currencies, and may thereby cause new problems in the management of other national economies. Thus, the pursuit of exchange rate policies by national authorities necessitates a mechanism of international coordination to ensure that the several policies are mutually compatible. The fulfillment of national needs demands the protection of international safeguards.

The problems that arise when national authorities pursue active policies to influence exchange rates and other key instruments affecting their external finances without a framework of international coordination were illustrated in the 1920’s and 1930’s. National actions on exchange policies, taken without due regard to their repercussions on other countries, frequently caused mutual conflict and disturbance. Initial misalignment of exchange rates of major currencies contributed to a breakdown of exchange stability; subsequently, the absence of an agreed code of behavior contributed both to troublesome instability in exchange rates and to the spread of defensive restrictions on trade and payments. International trade suffered, and national economies turned inward.

The determination of national governments to provide the framework in which legitimate national economic goals could be pursued in international harmony underlay the creation of the International Monetary Fund after World War II. The provisions of the Fund’s Articles of Agreement relating to the system of par values, and in particular to the adjustment of par values, are an integral part of the whole Bretton Woods structure, and they need to be considered in the context of the Fund’s purposes. The purposes of the Fund as stated in Article I are as follows:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund’s resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.
The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

The principles of exchange rate adjustment, as established in Article I and Article IV of the Fund Agreement, can be summarized in the following broad terms. Member countries have accepted a limitation on their immediate freedom of action over the exchange rate by undertaking certain international obligations, of which some are specific and others general in character. Members undertake to consult the Fund on all proposed adjustments in their parities, and accept the right of the Fund to concur or object to such proposals in all but certain specified cases; more generally, member countries are guided in their exchange rate policies by the purposes and procedures of the Fund. The international community in turn accepts the right of individual countries, subject to the international obligations just mentioned, to adjust their exchange rates to fulfill legitimate domestic objectives, as well as agreed international objectives. A change in the parity of a member's currency may be made only on the proposal of the member; but members agree that they will not propose such a change except to correct a fundamental disequilibrium. The par values of currencies are expressed in terms of the common denominator of gold or of a United States dollar of a fixed gold content (see page 280).

The concept of fundamental disequilibrium is discussed in greater detail on pages 307-10. Together with the purposes of the Fund of promoting exchange stability, maintaining orderly exchange arrangements, and avoiding competitive exchange depreciation, the provisions on fundamental disequilibrium provide safeguards against unjustified adjustment of exchange rates, such as would create undue difficulties for other countries. The concept of fundamental disequilibrium is also related to the Fund's other purposes. Thus, if a member country maintains balance in its external payments only by continued recourse to foreign exchange restrictions which hamper the growth of world trade, it could be judged to be in fundamental disequilibrium. Equally, the readiness of the Fund to make its resources temporarily available to members to assist them to correct payments imbalances in an acceptable way helps avoid the need for exchange rates to be adjusted to deal with disequilibria that are temporary or that can more appropriately be corrected by other measures; the availability of the Fund's resources also helps members avoid or minimize recourse to payments restrictions. As indicated in Article I(v), the purpose of the financial assistance provided by the Fund is to further the adjustment of international payments without resorting to measures destructive of national or international prosperity. This objective has been reflected in the development of the Fund's tranche policies, delineating the broad terms on which its resources are made available. The ability of the Fund to extend assistance in accordance with these policies has been enhanced by periodic increases in Fund quotas, and by provision of supplementary resources through members' lendings to the Fund, principally under the framework of the General Arrangements to Borrow.

The use made by member countries of exchange rate adjustment is also influenced in various ways by the availability of liquidity that can be used without policy conditionality. Important influences in this context have been the decisions by member countries of the Fund to establish and then to activate the Special Drawing Account in the Fund, as well as the arrangements made by some members, or their central banks, to extend mutual bilateral credits to other monetary authorities.

The stabilization of exchange rates around par values agreed with the Fund, changeable on the basis of agreed principles and in accordance with agreed procedures, has become known as "the par value system" or, more broadly, as "the Bretton Woods system"; the latter appellation emphasizes the interconnection between
Mechanism of Exchange Rate Adjustment

b. The exchange rate in its domestic aspect

For any particular economy, the exchange rate of the domestic currency sets the price of foreign exchange. As such, the exchange rate (or strictly, the network of exchange rates between the domestic currency and the various other currencies) performs certain basic functions of the price mechanism in influencing the allocation of resources and contributing to the balancing of supply and demand of the commodity in question—in this case, foreign exchange. But the role of the exchange rate is much wider than this. The price of foreign exchange has an important influence on basic financial magnitudes in a national economy. The exchange rate influences the allocation of expenditures as between domestic and foreign goods, and thereby the flow of aggregate domestic output, incomes, and spending. Especially where the foreign sector is large, the intended effect of exchange rate adjustments in promoting a desired switch in output and expenditure as between the domestic sector and the foreign sector may be accompanied by additional and undesired effects on aggregate spending and on the level of domestic prices and costs. The exchange rate also influences the supply of domestic money, as well as the demand for domestic money and for other assets through its effect on relative prices of domestic and foreign assets. In many countries, the authorities have looked on the exchange rate as a fixed point of reference which provides a useful discipline for the maintenance of financial stability domestically; this is discussed further on page 297.

For reasons of this kind, national authorities normally find it desirable wherever feasible to focus their economic policy on a stable exchange rate, to be adjusted only where this is necessary to avoid undesirable distortions in the domestic economy. Where such distortions occur, and threaten to persist, adjustment of the exchange rate may be called for. Such adjustment will normally need to be accompanied by carefully matched adjustments in other policies influencing the flow of domestic expenditures. This will be necessary to ensure that the positive function of exchange adjustment, of influencing the allocation of resources between the domestic and foreign sectors, is successfully implemented and is not associated with damaging side effects. There are therefore special domestic reasons for seeking stability in exchange rates so far as possible. Such considerations apply to all countries in some measure; they apply particularly strongly to countries connected by close trading relationships or special regional associations.

Insofar as payments imbalances result from seasonal or cyclical influences, adjustment of exchange rates is clearly inappropriate. Temporary imbalances of this kind, which do not represent fundamental disequilibria, do not call for measures specifically designed to correct the external imbalance (though certain corrective measures may of course be desirable on domestic grounds). Such temporary external imbalances can appropriately be financed through official reserves or official credits. Adjustment of exchange rates may also be inappropriate to deal with imbalances caused by capital movements that appear temporary in nature. In these cases, the national authorities have the choice between deterring the capital flows through various regulatory measures, and financing or accepting and perhaps neutralizing such flows, which may be feasible up to a certain point. Problems concerning capital movements are discussed in a number of sections in this report, in particular on pages 291-92 and 311-14.

The most frequent source of troublesome payments imbalance in modern conditions is an excess of domestic spending over available domestic resources. This draws in additional imports and may also divert domestic output from export markets. The
ensuing external deficit represents excess absorption by the domestic economy; restoration of balance, in whatever way, will necessitate the elimination of this excess absorption through a reduction in domestic spending in relation to domestic output. Since output cannot easily be increased in such conditions, balance must be restored by means of a reduction in domestic spending. Policy correctives such as fiscal or monetary restraints will help to restore balance both in the domestic economy and in external payments—the payments disequilibrium being a reflection of the disequilibrium between monetary demand and productive capacity in the domestic economy. If the correctives are applied at an early stage, they should usually be sufficient, in such conditions, to restore external equilibrium without unnecessary damage to the domestic or international economy.

However, not all troublesome payments disequilibria are of a kind that can appropriately be remedied by adjusting the flow of total domestic expenditure. The payments disequilibrium may have been caused by an excess (or a deficiency) of domestic spending, but delay in corrective action may have led to a disparity in domestic and international prices, creating a new and more enduring source of disequilibrium. In such cases, even after domestic expenditures are adjusted in real terms,

Chart 1. Movements in Parities of Currencies of Selected Industrial Countries, January 1947 to June 1970

(January 1947 = 100)

1 The rates indicated are the par values agreed with the Fund except in the following cases: Swiss franc (nonmember currency); Japanese yen, to May 1953; Italian lira, to March 1960; French franc, January 1948—December 1960; Canadian dollar, see footnote 2.

2 Fluctuating rate, September 30, 1950 to May 1, 1962; and June 1, 1970—.

3 Fluctuating rate, September 29 to October 24, 1959.
domestic costs may remain out of line and external equilibrium will not be restored. In these conditions, adjustments in domestic financial policy need to be accompanied or followed by a change in relative prices to give additional stimulus for a switch in domestic output toward (or away from) exports and substitutes for imports, and for a switch in domestic expenditures toward (or away from) domestic goods as against foreign trade goods. The external orientation of the economy may need to be accentuated, or reduced. Adjustment of the exchange rate affects this change in relative prices in a nondiscriminatory way. Exchange rate adjustment may also be required to deal with payments disequilibria caused by particularly unfavorable (or particularly favorable) developments in foreign markets, or in domestic productivity.

In cases of the kind discussed in the previous paragraph, adjustments in domestic expenditure alone cannot remove external imbalance without worsening the domestic imbalance. At the same time, adjustment in the exchange rate will usually need to be flanked by adjustments in domestic policies if external balance is to be restored together with internal financial balance. A devaluation will need accompanying measures to restrain domestic demand, except where a large deficiency of demand currently exists, in order to provide the necessary room in the internal economy for the

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**Chart 2. Movements in Parities of Currencies of Industrial Countries, January 1959 to June 1970**

*(January 1959 = 100)*

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1 See footnote 7 of Chart 1.
2 January 1959 to June 1970.
3 Fluctuating rate from January 1959 to May 1, 1962.
4 Fluctuating rate from September 29 to October 24, 1999.
5 Fluctuating rate June 1, 1970—.
desired switch of resources from domestic to external use to take place without endangering domestic financial stability. Adjustment in the exchange rate permits such a switch in the allocation of resources, but does not by itself assure it. A revaluation will need accompanying measures to expand domestic demand, except where demand is currently excessive, to assure the desired switch of resources from external to domestic use. Exchange rate adjustment is sometimes an aid to necessary internal adjustment; but if used as a substitute for internal adjustment, it is unlikely to be consistent with the maintenance of internal financial stability.

Chapter 2. The Working of the System

a. Market convertibility in modern conditions

Convertibility of currencies at stable exchange rates may take a number of technical forms. The regime that has emerged since World War II is described in this chapter. Its practical characteristics, inevitably, were foreseen only in part by the Fund’s founders.

Article IV, Section 1 (a) of the Fund Articles states: “The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.” Obligations in connection with par values and exchange stability include the following main provisions:

Article IV, Section 3. Foreign exchange dealings based on parity

The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

(i) in the case of spot exchange transactions, by more than one percent; and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Article IV, Section 4. Obligations regarding exchange stability

(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

The undertaking to maintain dealings in foreign exchange within the permitted margins from parity is implemented by countries other than the United States through official intervention in exchange markets, or through official dealings in foreign currency at fixed buying and selling rates where exchange markets are narrow or do not exist. In either case, official operations are confined or mainly confined to transactions in terms of one foreign currency. This is referred to informally as the intervention currency, to which the domestic currency is “pegged.” The U.S. dollar is the main intervention currency; the pound sterling, the French franc, and the Belgian franc are intermediary or regional intervention currencies, and are themselves pegged to the U.S. dollar. Rates against currencies other than the intervention currency are maintained within the permitted margins by market arbitrage or by the possibility of such arbitrage. The United States, as the center country in the network of exchange rate relationships, generally allows the market value of the U.S. dollar in terms of other
currencies to result from initiatives taken by the authorities of the other country concerned. The United States initiates certain official operations in a foreign exchange, but maintains the external value of its currency by standing ready to buy and sell gold for its own currency at a fixed rate. In addition, the United States accepts the obligations of Article VIII including the obligation relating to the convertibility of balances of its currency.\(^2\)

b. **Margins on spot rates**

Article IV, Section 3 regulates the extent to which exchange transactions between the currencies of members taking place within their territories may deviate from parity. For spot exchange transactions (i.e., transactions for prompt settlement) the maximum permitted deviation or margin is 1 per cent on either side of parity. The range of fluctuation from one margin to the other is referred to informally as the band of fluctuation. In practice, as noted above, Fund members maintain exchange margins in terms of an intervention currency. It follows that the exchange rate between the currencies of any two countries which each set their margins against the same intervention currency can diverge from parity by the sum of the margins maintained by the two countries. A decision of the Fund taken in 1959 permits margins for spot transactions to a maximum of 2 per cent where this results from the maintenance of margins of not more than 1 per cent against a convertible currency.\(^3\)

The margins currently maintained against the intervention currency fall within a range of 0.7-0.9 per cent in the case of member countries in which rates move from day to day in exchange markets (Table 1); and deviations between third currencies have been far smaller than the theoretical maximum (Chart 3, page 284). Table 1 shows the margins around parity against the U.S. dollar maintained by 16 developed countries since the beginning of 1959, expressed in terms of currency units and percentages of par. These margins, or intervention limits, are made known by each country, and in the case of member countries of the European Monetary Agreement, the margins are officially notified under that Agreement. For 15 of the 16 countries in the table, the intervention currency is the U.S. dollar, so that the margins shown are those maintained vis-à-vis the intervention currency; the exception is Portugal, for which sterling is the intervention currency, against which Portugal maintains margins of below 1 per cent, but resultant margins against the U.S. dollar slightly above 1 per cent. The table shows a slight tendency, since 1959, for exchange margins around parity against the intervention currency to be moved closer toward the 1 per cent maximum allowed under Article IV, Section 3. (The margins maintained by Switzerland, which is not a member of the Fund, are about 1½ per cent on either side of the gold parity, implying a band width of 3½ per cent; however, the Swiss authorities have maintained the Swiss franc consistently above par and fluctuations since 1959 have in practice been confined within a band of about 1½ per cent.)

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\(^2\) Article VIII, Section 4 (a) states:

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

(i) that the balances to be bought have been recently acquired as a result of current transactions; or

(ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

\(^3\) E.B. Decision No. 904-(59/32), adopted July 24, 1959.
Table 1. Exchange Rate Margins Against the U.S. Dollar.

(Margins above (+) and below (-); in

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<td>BF 50.</td>
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<td>*France</td>
<td>F 493.707</td>
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<td>*Germany</td>
<td>DM 4.2</td>
<td>±0.714 (±0.00)</td>
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<td>*Italy</td>
<td>Lit 625</td>
<td>±0.720 (±1.45)</td>
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<td>*Netherlands</td>
<td>fl. 3.8</td>
<td>±0.785 (±3.03)</td>
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<td>*Norway</td>
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<td>¥ 300</td>
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<td>Selected Other Developed Countries</td>
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<td>Ptas 60</td>
<td>±0.750 (±0.45)</td>
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<td>*Portugal</td>
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<tr>
<td>Finland</td>
<td>Fmk 350</td>
<td>±0.750 (±2.4)</td>
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* Officially notified margins under the European Monetary Agreement.
### Mechanism of Exchange Rate Adjustment

**January 1959 to June 30, 1970: 16 Developed Countries**

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#### Parity

- ASch 26
- BF 60
- Dkr 7.5
- Fr 5.55419
- DM 3.05
- Lit 625
- £ 1.16
- Nkr 7.4266
- Skr 5.1732
- SvF 4.373
- US$ 2.40

Fluctuating rate from June 1, 1970

- £ 300
- Ptas 74
- Esc 28.73
- Fmk 4.19687

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1 Shown as at January 1959 and for years in which changes were made.
2 Of national currency.
3 U.S. cents.
4 Canadian dollar parity 1.06108 per U.S. dollar from May 2, 1962.
Chart 3. Monthly Average Spot Rate: Deviations from Par

POUND STERLING

DEUTSCHE MARK

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Chart 3 (concluded). Monthly Average Spot Rate: Deviations from Par

**FRENCH FRANC**


1 Because of the fluctuation of the deutsche mark outside normal margins in the period September 29 to October 24, 1969, the average for September 1969 has been calculated from average daily rates for the period September 2 to September 23, 1969, and no calculations have been made for October 1969.
Chart 4. Movements in Reserves Compared with Movements in Spot Exchange Rates in Relation to Parities and Exchange Margins

United Kingdom

Spot Exchange Rate (in per cent of par)

Reserves

Germany

Spot Exchange Rate (in per cent of par)

Reserves

France

Spot Exchange Rate (in per cent of par)

Reserves

Note: Reserve movements are end-monthly, as shown in International Financial Statistics. Spot exchange rate movements, on the U.S. dollar, are monthly averages, derived from the Federal Reserve Bulletin, except in months of, and preceding, parity changes where end-monthly rates are derived from IFS.
Chart 4 (continued). Movements in Reserves Compared with Movements in Spot Exchange Rates in Relation to Parities and Exchange Margins

ITALY

Spot Exchange Rate
(in per cent of par)

Reserves

CANADA

Spot Exchange Rate
(in per cent of par)

Reserves

JAPAN

Spot Exchange Rate
(in per cent of par)

Reserves

Note: Reserve movements are end-monthly, as shown in International Financial Statistics. Spot exchange rate movements, on the U.S. dollar, are monthly averages for Canada, derived from the Federal Reserve Bulletin, and end-monthly rates for Italy and Japan derived from IFS.

1 Fluctuating rate from June 1, 1970—.
Chart 4 (concluded). Movements in Reserves Compared with Movements in Spot Exchange Rates in Relation to Parities and Exchange Margins

Note: Reserve movements are end-monthly, as shown in International Financial Statistics. Spot exchange rate movements, on the U.S. dollar, are monthly averages for the Netherlands and Sweden, derived from the Federal Reserve Bulletin, and end-monthly rates for Belgium, derived from IPS.
The movement of market rates within these margins is illustrated in the accompanying charts, which plot movements in average monthly exchange rates on the U.S. dollar alongside monthly movements in reserves (Chart 4, page 286). The charts reflect the fact that intervention by monetary authorities in most countries has not been confined to fulfilling the announced commitment to maintain exchange rates within the declared margins. Thus reserve movements occurring while the rates are well within the margins have been far larger than could be accounted for by transactions outside the exchange markets. In a number of cases, exchange rates have become slightly more responsive to market pressures in recent years, i.e., the exchange authorities have allowed market pressures to be absorbed somewhat more by movements in the exchange rate before (or while) themselves absorbing the pressures by official intervention, entailing flows from or to official reserves. At the same time, the exchange authorities seek to avoid unduly sharp day-to-day movements in the rates. The charts show that for most of the currencies, the exchange rate in recent years has moved fairly extensively within the margins, with reserve losses being associated with a rate falling toward its lower limit and reserve gains associated with appreciation of the rate toward the ceiling.

Practices differ a good deal more for countries whose currencies are less used in international transactions. For the most part, developing countries and other primary producing countries have established set rates at which foreign currency is bought and sold. Where periodic adjustments are made in the administratively set rates, these adjustments may have some of the effects of a movement in market-determined rates in the same range. The countries that peg their currencies to sterling, to the French franc and other regional intervention currencies in almost all cases maintain fixed buying and selling rates for these currencies; it follows that fluctuations against other currencies correspond with the fluctuations of the regional intervention currency.

As indicated earlier in this chapter, market movements in currencies other than the U.S. dollar are regulated, directly or indirectly, by market intervention between the domestic currency and the U.S. dollar. It follows that the U.S. dollar fluctuates in value in terms of other currencies within the regular margins set against the dollar by other countries, i.e., in practice by about one half the theoretical range in which currencies fixed in relation to the dollar can fluctuate against each other.

c. Forward rates

The Fund Articles contain another obligation governing rates for exchange transactions within members' territories. Members have undertaken that rates for exchange transactions other than spot transactions shall not differ from parity by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable. These other exchange transactions include transactions in forward exchange (i.e., transactions for settlement at some future date such as one month or three months hence). The Fund has never adopted a policy with regard to rates for forward exchange transactions. The exchange authorities of countries with convertible currencies have not maintained these rates within a specified or constant range, though a number of these authorities have intervened in these markets on an ad hoc basis to moderate market pressures or to exert an indirect influence on spot transactions; such intervention in the forward markets has at times taken place on a substantial scale and for considerable periods.

For the currencies of the main industrial countries, forward exchange rates on maturities of three months or less, which account for the greater part of forward

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4 Article IV, Section 3 (ii), cited on p. 280.
exchange transactions, have mostly remained within 1 per cent of parity against the U.S. dollar (Chart 5, above), and within a smaller margin of the spot rate. However, considerably wider deviations from parity on these forward rates have prevailed at times when important changes in parities were in prospect and when the authorities refrained from systematic support of their currencies in forward markets. Thus, in 1968-69 deviations from par on three months rates against the U.S. dollar ranged up to 3 per cent for sterling and up to 7 3/4 per cent for French francs; forward margins on cross rates, e.g., between the deutsche mark and the French franc and the pound sterling, were substantially larger than the rate against the dollar. These margins reflected the prevailing speculation on prospective changes in parities.

In circumstances in which speculative forces of this kind are active, a good deal of trade financing previously undertaken through spot transactions has been switched to forward markets, insofar as this has been permitted under exchange control. In more settled periods, the proportion of trade transactions at forward rates has been modest. Firm and comprehensive figures are not available; incomplete information suggests that in some countries the proportion of trade invoiced in foreign currency that has been settled at forward exchange rates has been as low as 10 per cent in

The flat percentage margin between the three months forward rate and the parity or the spot rate referred to here should be distinguished from the margin expressed in terms of its annual interest equivalent (of about 4 times the flat percentage margin in the case of three-month forward maturities and about 12 times the flat margin on a one-month maturity, etc.), which is relevant in the context of interest arbitrage.
Mechanism of Exchange Rate Adjustment

quiet times; in other countries, the comparable proportion has been around 25 per cent for a number of years.

d. Capital transactions

At the time that the Fund Articles were drawn up almost three decades ago, a prevailing concern among countries was to ensure the removal of restrictions on international payments and transfers in connection with current transactions. This is reflected in Article I (iv), which lists among the purposes of the Fund, "the establishment of a multilateral system of payments in respect of current transactions between members and . . . the elimination of foreign exchange restrictions which hamper the growth of world trade." The emphasis on current transactions is also reflected in the obligation concerning convertibility of foreign-held balances under Article VIII, Section 4. Members of the Fund are specifically authorized to exercise such controls as are necessary to regulate international capital movements, provided these do not unduly delay or otherwise restrict payments for current transactions; in addition, the Articles limit the ability of members to use the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls on capital movements to prevent such use of the Fund's resources.

In practice, the intended distinction in the treatment of payments for current transactions and for capital transactions has been only partially observed. This has reflected a recognition that international capital flows of a number of kinds have an important positive role to play in the development of the world's productive resources. Perhaps equally important, the form in which major countries have established convertibility of their currencies—through the mechanism of exchange markets—has not been susceptible to a close distinction between current and capital transactions in exchange regulations. In a number of these countries, to be sure, such a distinction has been made in exchange regulations applying to domestic residents. In some countries, access to foreign exchange on the official market has been reserved for payments in connection with current transactions; as a result, parallel markets have usually emerged in foreign exchange available to domestic residents for foreign investment. In some other cases, access to the official foreign exchange market has not been available for settlements of capital transactions (and certain current transactions) by nonresidents as well as residents, resulting in a separate exchange rate for capital transactions. But in general, the countries that have attained formal convertibility (see Section e) have taken the view that the increasing integration between the major economies imposes practical limits on the extent to which restrictions can be placed on capital flows without risking restriction or distortion of trade and other current payments.

Admittedly, controls on certain capital flows (principally outflows of domestic funds) have not only been retained in a number of countries, but in some countries have been newly imposed, or reimposed. For the most part, however, such newly imposed controls have been intended as temporary in duration. The views taken on the feasibility and desirability of capital controls have been influenced by changing circumstances. The rapid growth in the size of international markets in short-term funds in the late 1960's, mainly in the form of "Euro" markets in bank deposits denominated in foreign currency, induced a number of major countries to impose or extend regulatory measures to influence flows of short-term capital between these markets and their domestic currency. At the same time, comprehensive and effectively

6 See p. 275.
7 See p. 281, footnote 2.
restrictive controls on international capital movements were widely considered neither feasible nor, at least in their entirety, desirable.

Thus, effective controls on international capital movements have been considered, on the whole, as less practicable, and at least until recently, also as less desirable, than was envisaged by the founders of the Fund. At the same time, partly in association with the increasing integration of the world economy, the actual and potential movements have become very large—far larger than expected in 1958 on the eve of the general move by European countries to external convertibility. As a result of both these broad developments, international capital movements have played a larger role in exchange markets and in the working of the international monetary system than was originally envisaged. The emergence of large and effectively integrated capital markets in conditions of currency convertibility has created a huge and progressively increasing pool of liquid funds which may be switched between currencies for precautionary or speculative reasons at times of particular uncertainty. This has contributed to the strains to which the system has been subjected, as discussed in Chapter 3.

e. Observance of par value obligations

The basic exchange rate regime under the par value system may be described in general terms as a stable exchange rate fluctuating within defined and narrow limits around the par value, with access to the exchange market freely permitted for transactions in connection with current payments and transfers. As of June 30, 1970, 34 of the Fund's 116 member countries had accepted the obligations of Article VIII, Sections 2, 3, and 4. In four of these countries the obligation to maintain exchange rates within the required margins of parity was not currently being observed. The remaining 30 countries, accounting for about 71 per cent of world trade, maintain an effective par value. Among the other Fund member countries, which continue to have recourse to Article XIV, some 27 countries maintain effective par values and refrain from imposing substantial restrictions on current payments and transfers; while a further 17 maintain stable rates and avoid restrictions on current transactions without as yet having declared a par value. Together, therefore, a total of 74 member countries are effectively, though not always formally, adhering to the basic features of the par value system. They account for some 78 per cent of world trade. The remaining Fund member countries either maintain significant restrictions on current payments or, in some cases additionally, have failed to maintain effective par values.

The Fund and its member countries have recognized that conformity with the full requirements of the par value system must in some cases be a gradual process, proceeding in line with members' capabilities. Where the circumstances of particular members have not permitted observance of these requirements, the Fund has tolerated and even encouraged the adoption of certain temporary expedients. Broadly, the countries for which exceptions have been tolerated or encouraged have made important progress in the major sphere of reducing dependence on payments restrictions, and in moving toward a multilateral system of payments by reducing discrimination and recourse to multiple exchange rates. These countries have thereby improved their prospects of eventual observance of par value obligations. Steady progress has also been made in the move to Article VIII status by member countries as a whole.

f. Attitude toward fluctuating rates

A number of instances have arisen in which member countries have felt unable to avoid recourse to a fluctuating exchange rate. The Fund is not empowered by its
Articles to approve a regime of a unitary fluctuating rate, but it can give temporary approval to a fluctuating rate when it is a multiple currency practice. The Fund has recognized the demands of the situations in which fluctuating rates, whether of the one kind or the other, have been adopted. This has occurred in a variety of circumstances; a broad distinction may be made between the circumstances that have led to initial appreciations of currencies beyond the permitted margins, and the markedly different circumstances that have led to initial depreciations beyond the permitted margins. The first, and much the less frequent, of such circumstances has occurred where countries whose external financial positions have been particularly strong have felt their domestic financial stability to be threatened by speculative inflows of capital and perhaps also by general inflationary impulses from the world economy; and where such countries have not felt able, for a variety of reasons, to decide on a new par value to which their currency should be appreciated. Speculative inflows of capital of this kind have also in some cases had unsettling effects on the countries that were the source of the capital flows, and on the international monetary system at large. In certain cases, the country receiving the speculative inflow has sought to curb the flow by ceasing systematic official intervention in support of its par value. Practices of this kind were adopted by Canada in 1950, being maintained in that case for over 11 years; and by Germany in 1969, being maintained in that case for under one month. In both cases, the Fund recognized the exigencies of the situation and urged the national authorities to re-establish an effective par value as soon as feasible. On May 31, 1970, the Government of Canada announced that as a result of additions to its over-all foreign exchange position at a pace it considered unmanageable, it had decided for the time being not to maintain the exchange rate of the Canadian dollar within the prescribed margins around parity; the Fund took note of this action and welcomed the intention of the Canadian authorities to remain in close consultation with the Fund with a view to the resumption of an effective par value at the earliest possible date. The problems involved in cases in which countries feel overwhelming pressure on their par value and do not feel able at that time to propose a new par value are discussed further on pages 313–14.

The more frequent cause of the maintenance of a fluctuating rate has been that the national authority concerned has felt unable to establish or sustain stability in its domestic finances. Domestic financial stability is a necessary basis for exchange stability, even if it is not always a sufficient basis. The Fund has always sought to encourage the pursuit of sound financial policies. In several member countries, however, the requisite degree of domestic financial stability has not been attained, and a considerable degree of inflation has remained rooted in the economy. In such circumstances, the Fund has recognized that a member's attempt to maintain a stable exchange rate would in practice involve increasing recourse to trade and payments restrictions, which would in turn tend to isolate the economy from the international economy in a damaging way, and thereby tend to exacerbate the distortions caused by inflation itself. If an open economy is to be maintained or restored in such conditions, and the competitiveness of the economy is to be safeguarded, it may well be necessary to have recourse to a flexible exchange rate.

Experience in a number of countries has suggested that a fluctuating (and in practice depreciating) exchange rate has been successful in these conditions in preventing or correcting the inward turn in the economy that severe inflation otherwise tends to involve. Less developed countries that have resorted to a fluctuating rate have in most cases reduced their dependence on exchange and trade restrictions substantially. In Latin America, the introduction of a new and more flexible exchange system has often been accompanied by the elimination of all exchange restrictions. However,
the reduction in trade restrictions has been much less widespread, due in part to the maintenance of trade restrictions for protective reasons.

The success of these countries in reducing restrictions, although based in the first instance on replacing direct controls by price limitations, has been given a more assured basis where the better incentives provided by a realistic exchange rate have stimulated export growth on the scale needed to provide for growing import needs. The record of export growth is generally satisfactory among those Fund members with fluctuating rates that have either effectively stabilized their internal costs, or that have permitted the exchange rate to move broadly in line with the rise in domestic prices and costs relative to those abroad.

Fund members that have had resort to systems of fluctuating rates have in a number of cases continued to experience an unusual degree of inflation; in general, however, the degree of inflation was much larger before greater exchange flexibility was introduced. In some cases, this reflects the fact that a fluctuating rate was introduced as part of a general program of stabilization or was subsequently buttressed by such a program.

Toleration of a fluctuating rate in circumstances of this kind has in no case been based on a preference on the part of the Fund for a flexible exchange rate regime in conditions of internal financial stability. The aim has been in the first instance to minimize the use of trade and payments restrictions and in due time to provide the conditions for the adoption, or readoption, of an effective par value, and the achievement of full financial stability. While the Fund has tolerated or encouraged the maintenance by a number of member countries of a fluctuating rate as an interim step toward eventual stabilization, the Fund has regarded such arrangements as exceptional in character and suitable only for particular circumstances. They are designed to limit the damage caused by domestic financial instability. The exceptional nature of these arrangements has been well understood, and their existence has not undermined the par value system as a whole. Clearly, the deliberate adoption of a fluctuating rate by Fund members that played a major role in trade and payments, and were not suffering from problems of acute domestic instability, would carry different implications.

Chapter 3. Achievements and Problems of the System

In this chapter, an attempt is made to outline in broad terms the main achievements of the existing exchange rate regime, and the main problems it has encountered. On the basis of this discussion, pages 302-304 will then seek to identify the general scope that may exist for improving the system or its working, while safeguarding its essential achievements. Chapters 5 and 6 will discuss in more detail the advantages and disadvantages of proposals under which a limited degree of additional flexibility might be attained.

a. The system and its implementation

The existing arrangements for exchange rate regulation, as described in earlier sections, encompass three main elements. These are: a broad set of basic principles; a set of institutional arrangements in harmony with these principles; and the way in which these institutional arrangements are used in practice. "The existing system" thus encompasses principles, procedures, and policies. Modifications in the operation of the system could, within certain limits, be consistent with maintaining the essential features of the system, and such modifications in certain directions might further the implementation of the basic principles of the system. Expressed in these general terms, this proposition is hardly controversial. But to give flesh to this proposition, two
Mechanism of Exchange Rate Adjustment

difficult and inevitably contentious issues have to be considered. The first such issue is how far the desirable and undesirable features of past experience are to be attributed to the basic principles of the par value system, or to their implementation, or to extraneous features of the international economy. The second issue is how far modifications in institutional arrangements and in policies can go while remaining consistent with the basic principles of the system. The starting point of the analysis that follows must necessarily be the system as it has worked in practice: the discussion should help to bring out the factors to which the achievements and limitations of that experience are to be attributed.

b. Achievements

The quarter century during which the Bretton Woods system has been in operation has been a period of unparalleled economic growth; albeit accompanied by continuing domestic inflation.\(^8\) Plainly this record has been the result of a complex of factors. Of central importance has been the determination of governments to take responsibility for the economic performance of their country. In order to discharge that responsibility, as was foreseen by the founders of the Fund, the national authorities have had to combine active domestic policies with active international collaboration. The Bretton Woods structure has been the cornerstone of this collaboration, and in this important general sense, its role in contributing to the achievements of the world economy in this period is undoubted. The contribution of the particular exchange rate arrangements that have been adopted and of the exchange rate policies that have been pursued is obviously much more difficult to identify. A more direct attribution may be made in connection with specific aspects of the par value system, which are discussed below.

(1) Absence of Competitive Depreciation

A major concern of the Fund Agreement, as reflected in Article I (iii),\(^9\) has been to avoid competitive exchange depreciation. In the 1930’s, conditions of widespread unemployment and deficiency of global demand were especially conducive to the aggressive use of exchange rate policy. Since World War II, the uninterrupted expansion of the world economy and the general tendency for demand in the major economies to be excessive rather than deficient would in themselves have reduced the risk of competitive depreciation, since countries no longer feel primarily dependent on additional exports or reductions in imports as a source of employment.

However, these conditions have not disposed entirely of the risk of competitive depreciation, which might still occur in cases where particularly high priority was put on major gains in a country’s international competitive position. The fact that competitive depreciation has been virtually absent from the international monetary scene since World War II must therefore be counted as a significant achievement of the arrangements for exchange adjustment under the par value system. The functioning of this system in the past 25 years has made a reality of the principle of international consultation on the adjustment of the exchange rate. As experience has grown, the role of international opinion in influencing national decisions on exchange adjustments has increased. The principle that the determination of the rate of exchange for each

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\(^8\) In the period 1948-69, consumer prices in industrial countries, weighted by these countries’ share in exports to other industrial countries, showed an annual increase averaging 3 per cent. In the same period, prices in world trade, as measured by the indices of export prices of industrial countries weighted in the same way, showed an annual increase averaging \(\frac{3}{4}\) per cent.

\(^9\) Cited on p. 275.
SPECIAL REPORTS

currency is a matter of international concern has become embedded in working arrangements and in habits of thought among the authorities concerned with exchange rate questions. This process, which could only result from the accumulation of practical experience, reinforces in an important way the safeguards provided in the Articles of Agreement against competitive depreciation.

(2) EXCHANGE STABILITY

The related objectives of promoting exchange stability and maintaining orderly exchange arrangements among members have also been achieved in substantial degree. For the greater part of the period, and with the exceptions noted below, exchange rates of the major convertible currencies have been stable within the narrow margins around parity; the number of currencies achieving convertibility on this basis has gradually increased, so as to cover the predominant portion of world trade, as noted on page 292; and the system of exchange market intervention in support of par value obligations has worked smoothly. The arrangements under which countries other than the United States regulate their currency against the U.S. dollar, or against another currency that is in turn pegged on the dollar, while the United States itself pursues a generally passive policy in exchange markets, have provided a way of avoiding conflict between the actions of exchange authorities of different countries, without necessitating the elaboration of a set of rules or understandings on policies of exchange support. The relative narrowness of margins around parity has also contributed to this end, confining fluctuations around par to amounts that have no significant impact on competitiveness in international trade.

The maintenance of stable exchange rates for substantial periods of time has probably contributed to the very rapid growth of international trade; and has almost certainly added to the international flow of capital. A full assessment of these effects would, however, need to take two qualifying considerations into account. First, the maintenance of stability in exchange rates has on certain occasions involved costs as well as benefits for the national and international community. This effect comes most conspicuously into view at times of intense speculation, during which the continued willingness of the exchange authorities to deal in foreign exchange against domestic currency at a rate that appears likely to be changed by a substantial step, induces speculative movements of capital and speculative acceleration of merchandise transactions of certain kinds. A more continuing cost arises from distortions in domestic economic policy that have occasionally been induced by undue delay in making needed adjustments in exchange rates. Such distortions include restrictions on trade and payments, inappropriate levels of aggregate demand in the economy, and perpetuation of imbalance between the domestic and foreign trade sectors of the economy.

Secondly, trade and capital flows of other kinds may have been adversely affected by the comparative sharpness in the occasional adjustments in exchange rates of major currencies that have taken place, and also by the effects of market speculation on the possibility of such adjustments. The most prolonged period of speculation began with anticipation of the devaluation of sterling in fall 1967, and ended with the revaluation of the deutsche mark in fall 1969. In this two-year period, speculation was sufficiently strong on two occasions to necessitate a partial closing of exchange markets for a few days, and on other occasions involved difficult conditions and extremely high margins in markets for forward exchange (see Chart 5, page 290). The length of this period of

10 World exports in the period 1951–69 increased by an annual average of 6.8 per cent in value and 6.2 per cent in volume; in the period 1958–69, the average annual increase was 8.0 per cent in value and 7.5 per cent in volume.
Mechanism of Exchange Rate Adjustment

speculative disturbance was clearly attributable to the delays in making needed parity adjustment, rather than to the system of parity adjustment; and in the absence of these delays, the size of the adjustments might possibly have been smaller. Some general considerations influencing the timing of adjustments in parities are discussed on pages 298–99. Adjustment in parities by a single step, even in the absence of undue delay, tends to involve some uncertainty and disturbance to traders. However, the significant question is whether a different method of adjusting exchange rates, e.g., through more continuous movements, would cause greater or less uncertainty and unsettlement.

(3) A FULCRUM FOR DOMESTIC STABILITY

In many countries the authorities have regarded a stable par value as a valuable aid in maintaining domestic economic stability. The existence of a fixed point of reference in the economy’s external relationships has been found a useful discipline. In some countries, adjustments in domestic financial policies, prompted by the discipline of a fixed exchange rate, have been capable of maintaining external balance without entailing significant conflict with the requirements of policy from a domestic standpoint. In a second group of countries, which have not succeeded in dispensing with eventual exchange adjustment, the norm of fixity in the exchange rate has nonetheless been considered as an aid to equilibrium, both in the domestic economy and externally. In such countries also, the need to defend a fixed exchange rate against depreciation may promote political willingness to impose unpopular domestic restraints; and where the attempt to defend the parity is ultimately unsuccessful, the psychological shock of a devaluation may promote broad support for the adoption of the necessary associated measures to curtail domestic demand. It is feared in these countries that a comparable adjustment, achieved in a more continuous way without the trauma implicit in the act of exchange adjustment as a last resort, would exert less pressure for domestic corrective measures, both as preventive measures to forestall the need for exchange adjustment, and as accompanying measures to assure the success of such adjustment when it becomes unavoidable. The effects that more continuous movements in exchange rates might have on maintenance of domestic financial discipline are referred to from other standpoints on pages 299–301. On the other hand, as indicated on page 300, in some countries that have been more successful than others in curbing inflation, maintenance of a fixed exchange rate has increased the difficulty of preserving domestic financial stability.

(4) REGIONAL RELATIONSHIPS AND EFFECTS ON THIRD COUNTRIES

Stable exchange rates may be particularly valued by countries with small or very open economies. This is the position of many developing countries and more developed primary producing countries, as well as of a number of smaller industrial countries. Such countries may in some cases maintain a fixed currency relationship with one or more other countries with which they have close regional associations or particular financial or economic links. In certain regional groupings, such as the European Economic Community and the Central American Common Market, particular importance is placed on maintenance of fixed relationships in exchange rates among members of the group.

In countries with relatively open economies and large foreign sectors, changes in domestic expenditure are transmitted to the trade balance to a proportionately greater degree than can be expected in more self-sufficient economies. This may reduce the need for exchange adjustment in response to disturbances in the domestic economy, though it may increase the need for exchange adjustment in response to changes in

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world market conditions. At the same time, exchange adjustment by other countries, and particularly by countries that are important trading or financial partners, may involve difficult choices for the smaller partner countries. They have to decide whether to make an equivalent change, thereby maintaining the exchange relationship with their major trading partner but effecting a change against the rest of the world; or to maintain their parity in terms of gold and the U.S. dollar, thereby breaking the previous currency link.

Exchange adjustments by the United Kingdom and France have posed problems such as these for other countries in the sterling area and in the franc area. The sterling area countries have shown divergent responses, while the franc area countries have mostly aligned their rates with the French franc; thus, all the 14 African countries that maintain close financial links with France through an Operations Account at the French Treasury reduced their exchange rates in line with the adjustment of the French franc in August 1969. More frequent movements in the exchange rate of sterling and the French franc would in themselves have caused greater problems for these countries, which include many developing countries. However, the total impact would have to take into account any lessening in the size of individual exchange adjustments and any effects on the cumulative size of the exchange rate changes; also to be taken into account would be any effects on the capacity of the industrial economies concerned to expand their markets and their supply of external capital and aid.

The arrangements under which the main trading countries peg their exchange rates on the U.S. dollar have enabled these countries to retain full initiative over their exchange rates against the dollar. Countries pegging their rates on the U.S. dollar have been affected by adjustments in exchange rates by other countries in an indirect way. The adjustments have had beneficial effects on third countries to the extent that they have contributed to the growth of the economies, markets, and capacity to provide capital and external aid of the adjusting country; they may have had adverse effects on competitiveness of other countries. For the most part, this latter influence is confined to relationships among industrial countries, which compete mainly among themselves. For primary producing countries, the effect of exchange adjustments by countries other than their reserve center is likely to depend in most cases mainly on the more general effect of such adjustments in strengthening the economy of the country adjusting its exchange rate; though parallel exchange adjustments by primary producing countries that peg their currency on that of the adjusting country may have significant effects on competitiveness of other primary producing countries. This subject is discussed further in Chapter 6, Section d.

c. Problems

The main problems encountered in the operation of the par value system—which, like the achievements associated with that system, may not always be attributable or fully attributable to the system itself—may be grouped under three main heads.

(1) Delays in Adjustment

It is generally agreed that adjustments in par values have in a number of cases been unduly delayed. This has been given particular attention in the case of the relatively small number of par value adjustments of major currencies. These delays have sometimes tended to aggravate problems of domestic economic management, and have sometimes also aggravated the external disequilibrium. This latter effect has in turn tended to foster the use of trade and payments restrictions (discussed under (2) below) and has necessitated an ultimate exchange adjustment of larger size than might
Mechanism of Exchange Rate Adjustment

have been necessary if the adjustment had been made earlier. Delays in parity adjustment have also led to the building up of large speculative positions. Insofar as exchange adjustments are made only when the likelihood of a substantial movement in the exchange rate in a given direction becomes strong, market speculation, and anticipatory transactions of a variety of kinds, plays a generally disequilibrating rather than equilibrating role. That is to say, market speculation in such circumstances must be expected to augment movements in official reserves rather than to reduce reserve movements. At the same time, successful speculation will tend to carry substantial individual rewards. Monetary authorities are naturally not anxious to validate speculation of this kind by acting in the way that speculators had anticipated, partly because this could give new stimulus to similar speculation on a future occasion. Considerations of this kind may intrude into the process of decision making on exchange rates and may add a further impetus to delay in adjustment.

How far problems such as these should be considered as weaknesses of the system, or as weaknesses in its operation, or as necessary costs that in the long run are outweighed by compensating advantages of the exchange rate regime in which these delays occur, are difficult questions involving a number of interrelationships. Delay in parity adjustment reflects to some extent a general disposition among policy makers to regard exchange adjustment as a last resort (or at least as a later resort). It reflects a decision at a given moment of time to try other methods of adjustment first, or to await more definitive evidence that adjustment is required. In the latter case, it will be necessary either to finance the existing disequilibrium through the use of reserves or borrowings, or to suppress the disequilibrium through measures such as temporary trade and payments restrictions or acceptance of a degree of domestic deflation or inflation that is not considered sustainable for a longer period. In some cases, abstention from exchange adjustment at a relatively early stage of the emergence of disequilibrium has been followed by correction of the disequilibrium by other measures, or by automatic forces, so that "delay" in parity adjustment has permitted avoidance of parity adjustment; in other cases, where exchange adjustment has taken place, a longer delay might conceivably have avoided the need for such adjustment, e.g., where other equilibrating forces were in train.

If preservation of exchange stability in cases such as these is to be given high priority, then this will inevitably involve risks of postponing exchange adjustment in cases where such adjustment subsequently turns out to have been necessary. Room undoubtedly exists for countries to improve their methods of diagnosis and of implementing the decisions that follow from such diagnosis. But the incidence of damaging delays in exchange adjustment is likely to be associated in some measure with the way in which the par value system is operated. The damage resulting from undue delay in exchange adjustment may be considered in part as an unnecessary cost, which could be avoided by better policies, but in part also as a cost that is associated with possible benefits, viz., the avoidance of premature adjustments. Considerations relating to the timing of exchange adjustment in various circumstances are discussed further on pages 308-10 and 311-13.

(2) DEVIATIONS FROM BASIC OBJECTIVES

A second problem arising from the way that the par value system has been operated in the past is partly related to the first problem, by making the general cost of delayed exchange adjustment high in relation to the general benefit from the avoidance of premature adjustment. When exchange adjustment has been delayed or avoided, this has frequently been at the expense of suppressing or financing a continuing disequilibrium, rather than inducing corrective measures to remove the
disequilibrium. As a result, the necessity for ultimate exchange adjustment has been increased rather than avoided, and undesirable distortions have been built into the national and international economy. In a number of cases, financial authorities have shown themselves more willing, or more able, to defend their exchange parity through recourse to restrictions on international payments than through the appropriate adjustment of domestic financial policies.

In cases where a continued deficit reflects the persistence of inflation, and where external resources to finance the deficit are readily available through the use of reserves or unconditional borrowing facilities, the pressure to correct the inflation lying at the root of the payments disequilibrium may for a time be smaller than if the real cost of the inflation were exposed and transmitted to the domestic public at large through a depreciated exchange rate. In other cases, where countries have been more successful in curbing inflation than the world economy at large, so that their currencies have become undervalued, domestic financial stability itself has been weakened by defense of an exchange parity.

Where exchange adjustment is avoided by recourse to restrictions on trade and current payments, or by harmful distortions in domestic economies, this will involve the sacrifice of certain goals of the Bretton Woods system. Actions of this kind are not of course inherent in the system; rather, they represent its misapplication. Treatment of maladjustments in payments balances through measures destructive of national or international prosperity is at variance with the purposes of the Fund.\(^\text{11}\) The proper role of exchange adjustment in contributing to the achievement of the several objectives of economic policy has gained increasing recognition in recent years. Insofar as countries give primacy to domestic objectives, the maintenance or restoration of balance of payments equilibrium is likely to involve the necessity of direct action on the balance of payments. In these circumstances, abstention from exchange adjustment may be more likely to lead to direct action on the external account in other forms, of a discriminatory and restrictive nature, than to induce the adoption of desirable measures of domestic adjustment. Imposition of restrictions on trade and payments even for temporary periods may often cause more disturbance to the smooth flow of international trade than would follow from moderate adjustments in exchange rates.

(3) LIKELIHOOD OF FREQUENT DISEQUILIBRIA

It is sometimes suggested that certain developments in modern economies have increased the likelihood that disequilibria between major economies may arise fairly frequently, or even continuously; and that the appropriate treatment for such disequilibria is adjustment of exchange rates in amounts that may be kept to modest proportions provided the adjustments are promptly and smoothly effected. The main developments cited as contributing to more frequent and perhaps continuous disequilibria are:

(a) differing degrees of resistance to inflation among competing countries; such differences may reflect the prevailing ability of some countries to achieve certain major economic objectives with a lower rate of inflation than has been found possible in other countries; or they may reflect differing policy choices among countries with regard to these objectives, in the limited range within which such choices may exist;

(b) the increasing integration of international money and capital markets, which reduces the ability of individual countries to follow independent monetary policies, in the absence of effective controls on international capital movements;

\(^{11}\) Viz., Article I (v), cited on p. 275.
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(c) the increasing integration in the world economy since World War II caused by reductions in tariffs and in transport costs, and by widespread diffusion of very rapid technological change; the latter development has contributed to exceptionally rapid growth of productivity in certain countries, which has in turn involved important differences in rates of growth of productivity among national economies.

While a number of these developments have had beneficial effects, they have tended to increase the difficulties of managing national economies on the basis of a constant exchange rate. Whether and how far these difficulties could be eased by allowing exchange rates to move in a more continuous fashion, or to fluctuate by slightly greater amounts around a given parity, is more difficult to determine. A slight widening of the margins around par, as discussed in Chapter 6, may be expected to provide somewhat greater scope for conditions in national money markets to diverge, at least temporarily, from conditions in international markets. More continuous movements of exchange rates over time might in certain conditions help to modify the disturbances caused by a rate of inflation above or below the international average. Countries with extremely high rates of inflation have found that virtually continuous adjustments in exchange rates may be needed to maintain competitiveness and an open economy (see Chapter 2, Section f). Whether more continuous movements in exchange rates would also be appropriate to cope with relatively small differences in inflation prevailing in major economies is more problematical. Persistent differences in this direction would create problems of anticipatory capital movements. It is difficult, as emerges in Chapter 5, to judge how these speculative flows would compare in size to similar movements under present arrangements for adjustment at normally less frequent intervals but by individually larger amounts. It is equally difficult to judge the effect on maintenance of domestic financial discipline of depreciation of exchange rates of deficit countries at an earlier stage. On the one hand, earlier recourse to exchange adjustment would minimize the cushioning provided by drawing on additional resources from abroad and would thus transmit the effects of excess demand more immediately into the domestic economy of the deficit country; inflation would become domestically more painful, and might therefore be more strongly resisted. On the other hand, the external constraint on inflation provided by the need to defend a given parity would weaken, and this might weaken the political and psychological resistances to inflation in the way indicated on page 297.

d. Some observations on the balance between devaluations and revaluations

The exchange adjustments that have taken place under existing arrangements have for the most part, by number, been downward adjustments. It has been suggested that additional emphasis may need to be given, in the arrangements for exchange adjustment or in their implementation, to maintaining a more even balance between devaluations and revaluations. This question needs to be viewed in the context of a number of relevant considerations.

The balance between devaluations and revaluations will have an important impact on countries that keep their own parities unchanged. Insofar as the payments positions of such countries are relatively strong, the impact on their balance of payments of a predominance of devaluations may be equilibrating rather than disturbing, tending to prevent or to curb the emergence of excessive surpluses. Thus, the predominance of devaluations in the second half of the 1940's was an appropriate counterbalance to the excessive payments strength of the United States in this period. Where, however, the countries keeping their parities unchanged are no longer in the strongest payments positions, a predominance of devaluations will involve a worsening of their competitive positions that could itself become a cause of balance of payments difficulties. In the
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long run, maintenance of a fixed parity of any currency will be possible without frictions only if (a) the position of such a currency remains strong, compared with the position of other currencies, or if (b) devaluations of other currencies are offset at least to some extent by revaluations of currencies in a stronger position than the currency whose parity is unchanged. Generally, and over a period of time, a predominance of exchange rate adjustments in one direction, taking account of the size of the adjustments and the relative importance of the currencies concerned, will tend to increase their number, since it will require such adjustments to be made by countries that are originally in a balanced payments position to a greater extent than if movements in both directions were reasonably matched.

By far the greater part of adjustments in par values continues to comprise devaluations. However, among the limited number of adjustments in par values of major currencies, the balance has become more even in recent years. Thus, in the par value adjustments undertaken among industrial countries in the 1960's, weighted by the relative size of these countries' exports, revaluations came close to offsetting devaluations (Table 2). Before the advent of the Bretton Woods system, by contrast, explicit revaluation of a currency was extremely rare.

Table 2. The Balance Between Revaluations and Devaluations Among Industrial Countries, 1960-69

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in Par Value</th>
<th>Country Share in Exports of Industrial Countries</th>
<th>Weighted Change in Par Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>Germany +5.0</td>
<td>15.2</td>
<td>+0.76</td>
</tr>
<tr>
<td></td>
<td>Netherlands +5.0</td>
<td>5.2</td>
<td>+0.26</td>
</tr>
<tr>
<td>1962</td>
<td>Canada -11.8²</td>
<td>7.3</td>
<td>-0.86</td>
</tr>
<tr>
<td>1967</td>
<td>United Kingdom -14.3</td>
<td>10.4</td>
<td>-1.49</td>
</tr>
<tr>
<td></td>
<td>Denmark -7.9</td>
<td>1.8</td>
<td>-0.14</td>
</tr>
<tr>
<td>1959</td>
<td>France -11.1</td>
<td>8.3</td>
<td>-0.92</td>
</tr>
<tr>
<td></td>
<td>Germany +9.3</td>
<td>16.1</td>
<td>+1.50</td>
</tr>
</tbody>
</table>

Net weighted change in par values of industrial countries, 1960-69 -0.89


¹ In year of parity changes.
² Par value adopted in May 1962, compared with level of floating exchange rate in January 1960.

Whereas external pressures continue to be stronger in deficit countries than in surplus countries (since reserve accumulation is not subject to limit in the same way as exhaustion of reserves or of borrowing facilities), these external pressures are no
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longer generally—as was the case in the 1930's—accompanied by internal pressures for currency depreciation as a support for employment and domestic income. Now that domestic concern tends more often to be with inflationary pressure and excess demand, exchange adjustment will more often contribute to domestic stabilization in the countries whose external payments positions permit an appreciation of their currency, rather than in the countries whose external positions require a depreciation. It would not, however, be in the interests of the international community if currency revaluation were to be used as a countercyclical device by countries that were not in a position to absorb the effects on their external payments. Revaluation in such circumstances could, for example, increase the pressure on these countries to maintain restrictions on trade and payments.

The appropriate balance between devaluations and revaluations in the system as a whole will depend at any time on the pattern of payments imbalances and on the circumstances of member countries. Payments disequilibria in either direction need to be dealt with in a timely way.

B. PROPOSALS FOR CHANGES

General criterion

The considerations discussed in earlier chapters help to identify the general scope that may exist for improving the mechanism of exchange rate adjustment as it has operated hitherto while retaining its basic achievements. This general criterion narrows the range of possible improvements to various methods of achieving a limited increase in potential flexibility through modification in institutional arrangements or in policy attitudes consistent with the underlying philosophy of the Bretton Woods system.

The basic achievements of the par value system and of its operation hitherto, as discussed on pages 294-97, may be summarized under the following three heads.

(1) Acceptance of the principle that the determination of the rate of exchange for each currency is a matter of international concern; and implementation of that principle in the formulation of policy actions by the relevant authorities.

(2) Attainment of a high degree of stability in exchange rates of major currencies, with a limited number of exceptions in cases where continued exchange stability was clearly not consistent with the circumstances of member countries; this general degree of exchange stability permitting countries that are in a position to do so to focus their policies of domestic and external financial management on their par value as a fixed point of reference.

(3) Maintenance of generally orderly exchange arrangements, and avoidance of competitive exchange depreciation.

The main areas in which improvements in the operation of the par value system may be sought, as discussed on pages 298-301, may in turn be summarized under two heads.

(1) Reducing delays in needed adjustment of par values, while minimizing the risk of encouraging premature or unnecessary adjustments; a particularly important consideration in this context would be to minimize recourse to restrictions on trade and current payments.

(2) Effecting needed adjustment in exchange rates more smoothly, and with smaller attendant movements of speculative funds in a disequilibrating direction.

In addition, there has been discussion of what would be, over time, an appropriate relationship between downward and upward adjustments in parities.
The central issue is to determine the extent to which progress along these lines might be secured while maintaining the basic achievements of the par value system summarized above. The following chapter explains why three radical proposals for alteration of the mechanism of exchange rate adjustment have been found unacceptable. Chapters 5 and 6 deal with possible adaptations of the functioning and procedures of the par value system.

Chapter 4. Regimes Inconsistent with the Par Value System

a. Freely floating exchange rates

The essential advantage claimed for a system of freely floating exchange rates is that it leaves decision making on the appropriate pattern of exchange rates to automatic forces of the market. It could thereby, in theory, do away with the need for countries to hold official reserves for the purpose of influencing the exchange rate or the balance of payments, and could also in theory remove the need for other official policies directed to the balance of payments. An essential drawback of such a system is that national authorities could not be expected in modern conditions to adopt a policy of neutrality with respect to movements in an economic variable of such importance to the domestic economy as the rate of exchange, with its effects on prices, incomes, employment, and the structure of industry as between domestic and foreign sectors. For this reason, assurance of market equilibrium in the over-all balance of payments, through such variation in the exchange rate as is necessary to attain it, would not remove the possible sources of concern that national authorities may legitimately feel about their external finances. Speculative capital movements would at times tend to exaggerate rather than to offset underlying payments disequilibria, and at such times, fluctuations in rates would be substantial in the absence of official intervention. The fluctuations in exchange rates that occurred, and the absence of any limits on the scope for potential fluctuations, would involve damaging uncertainties for international trade.

For the reasons indicated in the previous paragraph, the determination of exchange rates would in practice not be left entirely to market forces. In place of a system of freely floating rates, there would emerge a system of fluctuating rates, influenced by official intervention. National authorities would continue to formulate and to implement policies directed to their country's balance of payments; yet the absence of par values and of the associated international procedures for adjusting exchange rates would leave a vacuum in the necessary provisions for international coordination of exchange rate policies. Countries would need to find a new set of safeguards, comparable to the safeguards that have been built up under the par value system, against arbitrary actions and conflicts between national policies in the determination of exchange rates. Yet construction of international safeguards adequate to ensure that intervention by national authorities in exchange markets was mutually compatible and acceptable would either lead quickly back to a regime of par values, or would involve international supervision and control of national exchange rate actions, and perhaps also of other aspects of national policies, to a degree that seems unlikely to be acceptable to national authorities.

A general system of fluctuating rates would have special consequences for small countries and countries with particular regional associations. Such countries would in many cases seek to maintain a fixed currency link with certain other countries, and this would involve the establishment or strengthening of regional currency areas.
b. Substantially wider margins

Proposals for a substantial widening of the permitted margins of fluctuation around parity—to, say, 5 per cent compared with the present maximum of 1 per cent against an intervention currency—aim at achieving in many respects the same objectives as those of freely fluctuating rates. The system is, however, subject to the constraint of an internationally agreed parity; accordingly, the basic feature of the present system, international agreement on exchange rates, is preserved in principle, although the significance of the par value inevitably tends to decline as margins become wider. The main operational difference between substantially wider margins and freely fluctuating rates would be in the existence of limits to the fluctuation of the rate, at which the exchange authorities would be committed to intervene.

The main advantages claimed for a system of substantially wider margins are (a) encouragement of market equilibration, and discouragement of disequilibrating speculation, lessening the need for reserve movements and providing greater scope for independent monetary policies, through influences of the kind discussed in Chapter 6 in the context of a slight widening of margins; (b) attainment of a smoother transition between changes in par value; and (c) achievement of some equilibrating effects on current account transactions, permitting a more gradual adjustment to incipient long-term disequilibria. However, if the substantial widening of margins were to increase the likelihood of parity changes of a given amount taking place, the equilibration noted under (a) above could in certain conditions be replaced by disequilibrating influences (see also page 317).

Perhaps the most serious problem that would be posed by a substantial widening of margins would be the risk that countries would find their competitive positions subjected to sudden and inappropriate changes as a result of temporary market developments or of administrative actions of other countries through official intervention in exchange markets. While the permitted margin for deviations in exchange rates around parity remains relatively narrow, the safeguard against such a risk resides in the international procedures by which these parities are adjusted. If the permitted margins were widened to a point at which movements in rates within the margins could be expected to affect international competitiveness in a significant degree, the safeguard provided by the procedure of parity adjustment would no longer be adequate. Special problems would also arise for countries with particular regional relationships; these problems would be similar in kind to those discussed in Chapter 6, Sections c and d, but greater in degree.

A widening of the margins by substantial amounts would also provide more leeway for continuous fluctuation in exchange rates than would be desired by many countries on domestic grounds. Such countries could of course abstain from taking advantage of the new facility to the full extent, since the provisions on exchange margins have always been permissive, authorizing maximum deviations rather than requiring national authorities to allow deviations to the indicated amount. However, even countries that made no change in their own arrangements would be affected indirectly by an increase in fluctuation in their exchange rates against the currencies of countries that did take advantage of the permissible wider margin, especially where trade with these latter countries comprised a substantial share of external trade and national product of the country making no change in its exchange arrangements.

The principle that the rate of exchange of each currency is a matter of international concern, which is an essential safeguard provided by the par value system, would therefore not be compatible with a widening of permitted fluctuations around par that reached substantial proportions, at least in the absence of an elaboration of a
new set of rules relating to official intervention in exchange markets. A substantial widening of scope for fluctuation around par values might also be considered inconsistent with another basic characteristic of the par value system, the stability of exchange rates at realistic levels.

On these grounds, neither fluctuating exchange rates nor a substantial widening of margins can recommend themselves as advantageous for the Fund membership at large.

This is not necessarily to preclude the possibility that, in exceptional circumstances, a fluctuating rate or a substantial widening of margins might be helpful to a country with special problems, and that such an expedient might be found internationally acceptable for a temporary period. If the international community were prepared to grant a special dispensation in such a case, this might need to be supported by the application of special conditions, to take the place of the safeguards residing in the basic provisions which were no longer being observed.

c. Automatic adjustment of parities

The proposals for new institutional arrangements to effect parity changes automatically and at fixed intervals in accordance with the movement of selected indicators include a number of variants, which in some cases allow a measure of discretion in the application of the relevant formula. Under one family of proposals, the parity of a currency would be determined by a mathematical formula based on an average of spot market rates over a predetermined previous period; the formula would be applied so as to result in parity changes at frequent intervals—quarterly, monthly, or even weekly—and would limit the maximum cumulative movement in parity to a modest annual amount, such as 2 or 3 per cent in one direction. Under other proposals, parities would be determined by a formula based on movements in reserves over some recent period (and perhaps also in relation to certain trend or target movements in reserves for the country concerned). A third series of proposals envisage a formula based on a composite indicator including data on reserve movements, spot market rates, and perhaps also forward rates. Variants of each of these three families of proposals would introduce an element of discretion (itself of varying degree) on the extent to which the chosen formula were followed in adjustment of parities; thus, the indicators of reserve movements and of market rates might be regarded as “presumptive criteria,” which would be followed in the absence of good reasons to the contrary. In certain proposals, such discretion would be exercised at least in part by an international authority such as the Fund. Virtually all the main proposals allow for the possibility of a larger adjustment in parity, which could override the automatic or discretionary indicator, but this provision is intended to be confined to exceptional or emergency use.

By basing the criteria of parity adjustment in the normal case on some objective quantitative indicator of the balance of payments, rather than on a general judgment of whether an exchange adjustment is necessary in connection with a fundamental disequilibrium in the economy (see Chapter 5, Section a), proponents of such schemes look for three main benefits. Firstly, movement in parities in a more continuous way is expected to be less disruptive, and less exposed to disequilibrating speculation, than less frequent adjustments by larger amounts. Secondly, more continuous movement in parities in response to financial indicators is expected to make adjustment of exchange rates more readily accepted by the public and less sensitive to political considerations. Thirdly, the possibility for exchange rates to move more freely, provided by the first two influences, is expected to reduce the pressure for suppression of disequilibria through restrictions on trade or payments or through distortion of domestic policies; it is also expected to reduce the pressure and need for undue reliance.
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on financing of payments imbalances. However, it is recognized that substantial needs for official financing may remain.

Against these possible benefits, the automatic or near automatic linkage of exchange rate adjustment to balance of payments indicators would involve overriding disadvantages. The need for adjustment of the exchange rate cannot be judged from the position of the balance of payments alone, without reference to the condition of the domestic economy (see also page 308). Movements in market exchange rates and in reserves at any time are influenced by cyclical factors and other temporary phenomena which have no enduring effect on competitiveness and call for no adjustment in the exchange rate. If the parity is made to respond automatically to market forces of this kind, this will involve continuous movement in parities in cases where absolute stability might otherwise be achieved, and is likely in some cases to involve movements in an inappropriate direction. Moreover, the removal of political and psychological constraints on adjustment of exchange rates will not be advantageous in cases where such constraints have strengthened the hands of the domestic authorities in securing acceptance of necessary domestic adjustments that would otherwise be resisted. Finally, national authorities might choose to avoid what they regarded as an inappropriate movement in their exchange rate. In that event they might either suppress the payments disequilibrium through restrictions on external trade or payments; or they might prefer to adjust the exchange rate, independently of the formula or indicators, by an amount sufficient, with any necessary accompanying domestic measures, to correct the disequilibrium at once.

On these grounds, a regime under which parities would be adjusted automatically at fixed intervals on the basis of some predetermined formula would not be consistent with the basic principles of the par value system and does not recommend itself as advantageous.

At the same time, certain objectives sought by proponents of these schemes may possibly be achieved by more limited changes in the institutional arrangements or in the implementation of the par value provisions. Proposals to this effect are discussed in the following chapter; another limited adaptation in the application of the par value system, a slight widening of margins around par, is discussed in Chapter 6.

Chapter 5. Changes in Par Values: Criteria and Procedures

This chapter considers the effects and feasibility of possible measures through which changes in par values, in upward and downward directions, might be made more timely and less disruptive. Section a discusses the criteria of par value adjustment under existing arrangements, and the extent to which changes in par values might be made more promptly, and perhaps also in smaller steps, under these arrangements. Section b discusses possible new arrangements under which prompt and perhaps also more frequent adjustment of parities might be facilitated, and the impact of different arrangements and different practices of adjustment of par values on the problem of disequilibrating capital movements. Section c discusses the pressures which may arise in exceptional circumstances for the nonobservance of par value obligations for a temporary period before resuming observance of them at the existing parity or at a new parity.

a. The concept of fundamental disequilibrium and use of the existing arrangements

The Articles of the Fund provide that "A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium." The

12 Article IV, Section 5 (a).
Articles also provide that the Fund shall concur in a proposed change made in conformity with the stipulated procedures "if it is satisfied that the change is necessary to correct a fundamental disequilibrium. . . ." The term "fundamental disequilibrium" is not defined in the Articles, and the Fund has never attempted to formulate a definition. The concept is a profound and subtle one, which lies at the heart of the Bretton Woods system, and has been tested by experience with that system.

A basic feature of the concept of fundamental disequilibrium is that although its ultimate focus is on the balance of payments it is related to a general condition of the member’s economy and does not require that an imbalance must have developed in the balance of payments. This, in turn, reflects the underlying philosophy of the Bretton Woods system that while attainment of balance in international payments must be a focal point of concern for the international financial community, it is not to be regarded as an objective in isolation from other objectives of the international monetary system. These objectives include the expansion and balanced growth of international trade on the basis of a liberal and nondiscriminatory regime of trade and payments, to contribute to the promotion of high levels of employment and real income and to the development of the productive resources of all the Fund’s members as primary objectives of economic policy. In this conception, attainment of payments balance through the use of measures destructive of national or international prosperity would clearly not comprise a durable payments equilibrium.

Thus, the criterion of fundamental disequilibrium is wider than the occurrence of a disequilibrium in the actual balance of payments, as measured by movement in reserves and the probable accompanying movement of the market rate of exchange within the band around parity. For example, the concept of fundamental disequilibrium could include a balance of payments position that would have shown a deficit but for restrictions on trade and payments; or a situation of equilibrium (or surplus) in the balance of payments that would turn into a deficit but for an unacceptably low rate of economic activity in the country; or a situation of equilibrium (or deficit) in the balance of payments that would turn into a surplus but for exports of capital at a rate that the country concerned did not wish to continue, or but for the country’s acquiescence in an unacceptably high rate of inflation. Where a disequilibrium in the balance of payments is suppressed by measures that are clearly harmful to the international community, such as restrictions that are inconsistent with the objectives of the Fund, or of other international economic organizations to which the member country adheres, the existence of a fundamental disequilibrium is generally apparent. Where, on the other hand, the suppressed disequilibrium reflects the particular policy preferences of the national authorities (as in the last examples cited above) the condition of fundamental disequilibrium is essentially related to these national policies.

The concept of fundamental disequilibrium also encompasses a time dimension of which short-term balance of payments statistics may not be a good reflection. Indeed, the provisions on the use of the Fund’s resources, permitting a member to finance a deficit for a temporary period in lieu of changing the parity of its currency in a way that might otherwise be necessary, imply a concept that is applicable over a certain

13 Article IV, Section 5 (f), states: "The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change."

14 Article I, cited on pp. 275-76.
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period of time. Other examples may be noted. A country that has been in severe
deficit for a number of years and has reached a low level of reserves, such as the
United Kingdom in 1969 or France after 1958, may be experiencing a balance of
payments surplus and reserve increases (and perhaps an exchange rate close to its
upper limit) without any presumption that its currency should be revalued. Conversely,
reserve losses and a balance of payments deficit, coming after a period of sustained
surplus, as experienced for example by the United States in the 1950's, do not
necessarily provide a case for devaluation. Moreover, it would be clearly inappropriate
to adjust parities in response to balance of payments disequilibria of a seasonal or
short-term cyclical nature.

The concept of fundamental disequilibrium does not itself specify at what stage
of a disequilibrium the exchange rate should be adjusted, as compared with recourse
to other measures of adjustment through domestic policies. Nor does the concept
specify the proportionate role that an exchange adjustment shall play in correcting a
fundamental disequilibrium, in association with other corrective measures. The concept
does imply that where other measures can be taken to restore payments balance
without damage to national or international prosperity, these should be preferred to
exchange adjustment. Whether and how far such other measures can be taken without
damage will depend on the size and nature of the imbalance in relation to prevailing
economic conditions. Thus, where the domestic measures that would contribute to
external balance would also help to preserve or restore internal balance, domestic
measures will be needed in any case; and unless the external disequilibrium is exception-
ally large, a member may be well advised to apply such domestic correctives before
proposing a change in par value, in particular if there can be reasonable hope that the
domestic correctives will make exchange rate adjustment unnecessary.

A different situation, however, exists where the requirements of internal and
external stabilization point in opposite directions for domestic policy (e.g., where an
external surplus coincides with excessive strain on domestic resources). There is then
no such presumption in favor of domestic measures directed to restoring external
equilibrium, since such measures, at least if unaccompanied by exchange adjustment,
will intensify the domestic disequilibrium. In a situation of the kind described in the
previous paragraph, with no conflict between requirements of domestic and external
stabilization, the existence of a fundamental disequilibrium is unlikely to be clear cut
in its earlier stages. Where conflict of this kind does exist, with internal and external
considerations pulling in opposite directions as regards domestic stabilization measures,
this conflict itself, if of a persistent character, may indicate a fundamental dis-
equilibrium. In this kind of situation, therefore, a fundamental disequilibrium is likely
to be more immediately apparent, even when it is not substantial in size. It should be
emphasized that even where no conflict exists between the requirements of internal
and external equilibrium as regards the direction of domestic stabilization measures,
the extent of such measures as are appropriate on domestic grounds may be inadequate
to remove the external disequilibrium, and this inadequacy will be a sign of funda-
mental disequilibrium.

Under conditions of generally buoyant demand such as have prevailed since
World War II, in which countries are likely to be faced more frequently with infla-
tionary conditions than with inadequate demand, conflict between the requirements of
external and internal equilibrium is more likely to occur for countries with persistent
or excessive external surpluses than for countries with persistent deficits. In a number
of past instances, surplus countries have faced conflicts of this kind, and in a smaller
number of instances, these conflicts have eventually been resolved, at least for a time,
by resort to revaluation—viz., the revaluation of 5 per cent by Germany in 1961, the consequential revaluation by the same amount by the Netherlands at that time, and the revaluation by 9.3 per cent by Germany in 1969.

The exchange adjustment in these instances was not made at an early stage of the emergence of symptoms of fundamental disequilibrium. This delay in resort to exchange adjustment was attributable to a variety of influences, including the general view taken at the time of the appropriate role of exchange rate adjustment. The delay was not attributable to any prohibitive characteristic of the existing provisions for exchange adjustment in the Fund Articles. The procedures of Article IV and the concept of fundamental disequilibrium permit an adjustment of exchange rates necessary to correct a fundamental disequilibrium to be undertaken promptly, and prompt reaction to a fundamental disequilibrium would also normally reduce the size of the appropriate change in parity. Further, to the extent that such a policy conflict recurred (e.g., because the country concerned had a persistently lower rate of inflation than its trading partners), further changes in parity might be necessary to correct the associated fundamental disequilibria and this also would be consistent with the Articles. Each such change would need to be based on the presence (or proven imminence) of a fundamental disequilibrium.

Thus, under the provisions of the existing system and in appropriate circumstances, changes in parity could be envisaged that were smaller in size and that were undertaken at an earlier stage of a payments disequilibrium than has generally been the case in the past. Some adaptation might, however, be required in the general attitude toward the implementation of these provisions. In the past, adjustment of parities has often been considered appropriate only when evidence of fundamental disequilibrium has become overwhelming. If it were desired to increase the likelihood that necessary exchange adjustment would be prompt and to reduce the risks of delay, such adjustment might be implemented as soon as evidence of fundamental disequilibrium had become substantial, rather than overwhelming.

As has been pointed out earlier in this report (pages 298–99), a reduction in the chances of undue delay in adjustment of exchange rates may carry an attendant risk of inducing premature or unnecessary exchange adjustment, and perhaps also of weakening the pressure for desirable domestic correctives. Both these risks could be reduced if greater readiness on the part of members to adjust exchange rates at an early stage of an emerging disequilibrium were confined to cases in which the application of domestic correctives capable of substantially reducing or eliminating the external disequilibrium were inappropriate or unattainable. Where internal and external requirements pointed in the same direction, primary reliance would still ordinarily be placed on domestic measures: indeed, the possible need for exchange adjustment could often not be established in these cases until domestic measures necessary for domestic equilibrium had been implemented.

Avoidance of large disequilibria in the external payments of individual countries is a matter of international as well as national concern. This is recognized in the procedures of the Fund for consulting with members on their economic policies and performance, and on the observance of their Fund obligations. Whilst changes in par values may be made only on the proposal of the member, reviews of this kind are focussed on the over-all outcomes of countries’ balance of payments policies and on observance of members’ obligations to avoid restrictions on trade and on current payments. In this way, the process of international consultation and review can play its part in inducing prompt action to deal with disequilibria through measures that may if necessary include exchange adjustment.
A general approach of this kind should be facilitated by recent improvements. During the second half of the 1960's the international monetary system was believed by some to be so fragile that there was a strong tendency on the part of the major countries to forestall the devaluation of any major currency lest it upset the stability of other currencies. This attitude contributed to a general willingness to extend balance of payments credits and to tolerate the application of trade and payments restrictions. It is to be hoped that this particular phase has come to an end with the adjustment of the parities of three major currencies, the establishment and activation of the special drawing rights facility, and the arrangements guarding against a drain of gold from monetary reserves and allowing for the possibility of some inflow of gold. With the help of these improvements and adaptations, it would seem that the risk that a parity change for one currency would spread instability in the system as a whole has been considerably alleviated.

b. Possible measures to facilitate prompt adjustment of parities.

It has been suggested that prompt and smooth adjustment of parities might be promoted by new facilities under which changes in parities up to a limited specified amount could be effected under special procedures. One such proposal would permit changes in parities up to amounts such as 3 per cent in any twelve-month period and up to a cumulative amount such as 10 per cent in any five-year period without the concurrence of the Fund; this would require amendment of the Articles of Agreement. The aspects of this proposal relating to the Fund's jurisdiction over exchange rates are considered in Part II of this report, in which reference is also made to other related proposals (Part II, pages 323 and 326).

The stated economic objective of proposals of this kind is to make it easier for members to adjust exchange rates in appropriate circumstances pari passu with the development of a fundamental disequilibrium, thereby avoiding unnecessary delays in exchange adjustment, the building up of large fundamental disequilibria, and the eventual recourse to sharp adjustments; the possible need for recurrent small adjustments may arise from a variety of influences, including differences in the degree of resistance to inflation among competing countries.

These proposals are based on the view that evidence that a fundamental disequilibrium is likely to be emerging might be available, even though it would not yet be possible to establish that a fundamental disequilibrium had already emerged; and that a smooth adjustment to such emerging disequilibrium may be desirable so as to minimize speculative disturbances.

On the other hand, it may be argued that undue risks would be involved in basing changes in exchange rates, even within confined limits, merely on anticipation.

One objective of proposals for smoother adjustment of parities, as well as of proposals for a slight widening of margins to be discussed in the next chapter, is to reduce exposure to anticipatory movements of capital. Speculative capital movements in anticipation of changes in parities, as discussed on page 299, may be disturbing in two ways: they will increase official reserve movements; and they may intrude into the process of decision making on exchange rates and on other aspects of economic policy. The considerable growth in the size of actual and potential movements of short-term capital and the problem this has posed for member countries, have been discussed earlier in this report (pages 291-92). An extensive review of the rapid growth of the market in Euro-currency deposits is contained in the 1970 Annual Report of the Executive Directors, pp. 90-96.
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in the exchange rate taking place at a given time, (b) the smaller the prospect of a
movement in the reverse direction, and (c) the larger the size of the expected move-
ment. Under the existing arrangements, in cases where exchange adjustments are
delayed, speculation will be increased by all three of these influences. A policy under
which adjustments in parities are made more promptly will normally permit the size
of the adjustment to be smaller, and will thereby tend to reduce influence (c). However,
once such a policy becomes known and anticipated by the market, this will tend to
increase the likelihood of a parity adjustment in given circumstances and will thereby
tend to intensify speculation under influence (a).

This counterpull reflects a more general conflict of considerations regarding the
most appropriate policy attitude to be adopted toward application of the provisions for
exchange rate adjustment under the Bretton Woods system. A policy attitude that
might make changes in par value relatively likely in the event of disequilibria will
help to prevent the maintenance of an unrealistic rate of exchange; but it will tend
to induce speculative capital movements of a destabilizing kind whenever there is a
disequilibrium that might give rise to a parity change under this policy attitude. By
contrast, an attitude under which par value changes are resisted as long as possible
will tend, in cases of moderate disequilibria in which exchange adjustment proves
ultimately avoidable, to encourage stabilizing movements of short-term capital, based
on confidence in the prevailing parity. A policy attitude of this kind may thereby
permit a country to sail through disequilibria of a moderate size with a minimum of
difficulty; but once having adopted this approach, a country might find it difficult to
make a parity change that was unavoidable until it was overdue.

Proposals that have the effect, under a variety of possible arrangements, of adjust-
ing parities in a more frequent or continuous way should reduce the incentive for
anticipatory capital movements insofar as they reduce the size of the prospective
adjustment. However, this objective will in some cases be attained, again, only at the
expense of increasing the likelihood of adjustment taking place. This would be espe-
cially so in the event that small adjustments in parities were announced in advance,
even if a degree of discretion on the implementation of the proposed adjustments were
retained. (Exposure to anticipatory speculation would tend to be smaller under schemes
providing for automatic adjustment of parities in response to market indicators, as
discussed in Chapter 4, Section c, but might still be serious in cases where a substantial
disequilibrium implied the prospect of a continuing movement in the rate in one
direction.) If a future movement in the exchange rate in a particular direction became
more predictable, but the size of the prospective adjustment became smaller, this would
make it more feasible to regulate and partly deter anticipatory movements of funds
through offsetting movements of interest rates. The need to establish an offsetting
interest differential might however involve a more continuing constraint on monetary
policy. The extent to which a prospective small movement in the exchange rate would
induce anticipatory movements of funds in the absence of the necessary action to effect
an offsetting movement in the interest rate differential is subject to a wide range
of estimation. Exposure to disequilibrating speculation might be slightly reduced by
some widening in the permitted margins of fluctuation around par, weakening the link
between the parity and the market rate.

It is difficult to make any general judgment on whether anticipatory capital move-
ments would be a greater problem under schemes for more continuous movements in
parities than under existing arrangements. Much would clearly depend on the way in
which existing arrangements were used, on the precise form that the new arrangements
were to take, and on the particular circumstances encountered. On the whole, schemes
providing for smaller and more frequent adjustments might reduce the likelihood of
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the most severe speculative pressures and make it more practicable to contain such pressures by directing monetary policy to the needs of the external balance; but they might increase the frequency and duration of smaller pressures, which could still be substantial, so that external considerations formed a more continuing constraint on monetary policy.

Schemes for more prompt and perhaps also more frequent or continuous adjustment of par values would not therefore remove the potential conflict between attainment of the flexibility needed for payments adjustment and avoidance of disruptive speculation. A slight widening in margins of fluctuation around par, discussed in the following chapter, might on occasion be of some help in this context, but this would be unlikely to be of major significance. A system of adjustable par values, whether adjustments are made frequently or infrequently, requires substantial resources of official financing through reserves and credit availabilities in order to provide adequate resources to deal with disruptive speculation.

So long as par values and the associated limits to the range of exchange rate variation at any particular time are maintained, therefore, adjustments in par values are likely to be exposed to some degree of anticipatory speculation. This exposure may itself be considered a necessary price for the associated benefits of exchange stability. In the general case, the constraint exerted by this exposure to speculation should be maintainable within tolerable bounds provided that adjustments in exchange rates are not excessively delayed.

c. Temporary deviations from par value obligations

As indicated in Chapter 2, Section f, a number of instances have arisen hitherto in which member countries have felt unable to avoid recourse to a fluctuating exchange rate. The Fund can presently give temporary approval to a fluctuating rate when it is a multiple currency practice. But the Fund is not empowered by its Articles to approve a regime of a unitary fluctuating rate. On past occasions in which exceptional pressures have induced individual countries to suspend the observance of their par value obligations and to move to a fluctuating rate, the Fund has recognized the exigencies of the situation or has merely taken note of such action. The Executive Directors have given preliminary consideration, as noted in Part II, pages 328-30, to whether it might be desirable to amend the Articles of Agreement so that the Fund would be able to approve departures from normal par value obligations on a temporary basis, and if so, under what circumstances and subject to what safeguards.

The various circumstances in which Fund members have had resort to fluctuating rates have been described in Chapter 2, Section f. The question whether new procedures might be applied in cases where members temporarily resort to a fluctuating rate has been considered particularly, though not exclusively, in the context of the nonobservance for a brief period of par value obligations under pressure of heavy capital movements in exceptional conditions.

In the normal case, it should be emphasized, pressures on a parity arising from capital inflows or outflows need to be dealt with in other ways than the nonobservance of parity obligations. Depending on the particular circumstances, the appropriate remedy may include the financing of the capital movement by use of reserves or official credits; deterrence of capital movements through domestic monetary or fiscal measures, which may give differential treatment to external funds, or deterrence through capital controls; and, in appropriate circumstances, adjustment of the parity to a new level through the regular procedures. The particular circumstances in which it may prove necessary to fend off the pressures by ceasing to maintain the parity
will be confined to cases in which a change in parity is called for, but cannot be implemented for political or administrative reasons; or to conditions of particular uncertainty in which a member feels that the need to change the parity, or the appropriate level of a new parity, cannot be assessed with reasonable assurance. In circumstances of either kind, continued attempts to defend a par value that no longer commands general acceptance may involve unacceptable disturbances and costs, both for the countries concerned and for the international community.

In such conditions, suspension of observance of the margin provisions for a temporary period, i.e., adoption of an effectively fluctuating rate as a transitional device pending a move to a new par value or the arrival of conditions in which the existing par value regains credibility, may be the only available means of shielding official reserves from the impact of mounting speculative flows. This will alleviate pressure not only on the country concerned but also on the countries that were the source or the destination of the speculative flows. It should be emphasized that the most effective way of avoiding these speculative problems is by taking preventive action, through implementation of the necessary measures of adjustment at the appropriate time. It may reasonably be expected that countries will seek to avoid prolonged uncertainty over their parities and the resultant domestic and international disturbances.

Circumstances in which it might be judged that a period of fluctuation was essential to establish the appropriate level for a new parity would be of an exceptional kind, in which extraordinary disturbance in underlying conditions appeared to make a period of market fluctuation a necessary guide to the rate which would secure an adequate measure of confidence. In the overwhelming majority of cases, however, the adjustment will be effected with fewer disruptions and in a more appropriate way by institution of a new parity under the regular procedures, supported by accompanying policy measures in the domestic sphere and where necessary also by loans or credits assuring the authorities of the means to defend the new parity.

Thus, in exceptional circumstances where a national authority believes that adjustment of its par value is desirable, but is politically unable to implement such adjustment, or is quite uncertain as to the appropriate size of the adjustment, domestic and external disturbances may be lessened by suspending the application of normal par value obligations for a temporary period, rather than continuing to defend an apparently outdated parity. Such a move to a transitional fluctuating rate may in certain circumstances lead to the establishment of a new parity, after the transition, at a more appropriate level than might otherwise have been attained. In order to minimize possible disturbances caused by a temporarily fluctuating rate, a number of important conditions need to be met: consultation with the Fund must be intensive and close, and the authorities must be prepared within a reasonable period to adopt an effective parity at a realistic level. Put another way, a transitional fluctuating rate may help make the best of a temporary absence of the conditions needed for a successful instantaneous parity adjustment; but a continued absence of such conditions would cause major problems for any exchange rate regime based on effective par values.

Chapter 6. Effects of a Slight Widening of Exchange Rate Margins

Article IV, Section 3 permits member countries to maintain margins on spot exchange transactions of a maximum of 1 per cent on either side of parity; a decision of the Fund taken in 1959 permits margins for spot transactions to a maximum of 2 per cent where this results from the maintenance of margins of not more than
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1 per cent against a convertible currency, which will normally be the member's inter-
vention currency. (See also Chapter 2, Section b.) Fluctuations within these margins
have important effects on transactions between money markets for purposes of
arbitrage or for precautionary or speculative purposes; they thereby tend to influence
the flow of capital, and more specifically the flow of short-term money market funds.
If the margins around par were to be widened by a substantial amount, the ensuing
scope for fluctuations in market rates, in addition to their effects on capital movements,
would also have significant effects on current payments. If, for example, the margins
could extend to 5 per cent vis-à-vis an intervention currency, this would entail a band
of 10 per cent for market fluctuations against that currency (and still larger possible
fluctuations in cross rates against other currencies). This would provide scope for
exchange adjustments within the band of a magnitude as large as or even greater than
adjustments that have taken place in the past in par values themselves.

For this reason, as indicated in Chapter 4, a widening of margins by substantial
amounts could not be considered as a technical adjustment within the framework of
the present par value system; it would partially replace, rather than reinforce, exchange
adjustment through the established procedure for adjustment of par values. At the
same time, it is not self-evident that the present limit of 1 per cent in the operational
margin is the maximum that can be tolerated without risk of replacing rather than
reinforcing the procedure for adjusting exchange rates through the par value mecha-

nism. Of course, if a slight widening of margins were combined with more frequent
recourse to adjustment of parities, the resulting increase in exchange rate flexibility
might have more general effects, and would need to be considered as a whole.

a. Effects of slightly wider margins without parity changes

Proposals to allow a slightly larger range of fluctuation in market exchange rates
around a given parity have a long history, reaching back to suggestions for a
widening of effective gold points under the gold standard of the nineteenth century.
The proposals have always been related primarily to the impact on short-term capital
movements. Two closely associated objectives have been uppermost: avoidance of
pressure on the central reserve, through the encouragement of equilibrating capital
movements (or discouragement of disequilibrating movements) in the sense of avoiding
or limiting movements in official reserves or credits; and provision of a larger freedom
of maneuver for domestic monetary policy to be adjusted to the demands of domestic
conditions. Slightly wider margins may be expected to contribute somewhat to these
objectives if two general conditions are met: that the exchange authorities permit
market rates to move fairly freely within the widened band; and that the prospect
of a change in parity of a given size is not increased beyond a certain point (see
Section b below).

For convenience of analysis, it is assumed in the first instance that parities remain
unchanged and that confidence in the existing parity is maintained. A second initial
assumption is that the exchange authorities permit market pressures to be fully
reflected in movements in market rates within the limits set by the margins, i.e., that
they intervene only at the band limits. The following hypothetical example assumes
that a given disturbance, or influence on the basic payments balance, occurs when the
market rate is at a discount of \(\frac{1}{2}\) per cent from par and has a tendency to push the
rate toward its lower limit.\(^{16}\) The market is assumed to retain confidence in the parity,

\(^{16}\) For most currencies, whose exchange rates are expressed in terms of the number of
domestic units in relation to one U.S. dollar, a depreciation in the currency involves a rise
in the operative figure expressed in domestic currency; thus, the lower exchange margin,
setting the limit for downward deviations from par, is at a higher number of domestic units

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and to judge that the weakness in the payments balance will be reversed or offset in
the foreseeable future. Some subsequent recovery in the market rate is therefore
expected. The extent of this recovery, if the rate had fallen to a lower limit of
2 per cent below par, would be by a maximum of 4 per cent, if the recovery were
strong enough to carry the rate to its upper limit. Under margins of 1 per cent, by
contrast, the scope for a recoil in the rate, from lower to upper margins, would be
2 per cent.

In these conditions, therefore, the initial fall in the rate would be more likely to
attract anticipatory purchases, based on expectations of a subsequent recoil in the rate,
under the wider margins than under the narrower margins. As a result of this, there
would be a greater chance that official support purchases at the lower margin might
be avoided or reduced in volume. Thus, under the 1 per cent margin, these purchases
would become necessary once the market rate had reached a discount of 1 per cent
from parity; under 2 per cent margins, it is possible that sufficient anticipatory pur-
cCHASES by market operators would produce balance between market demand and
supply before the rate had fallen to the lower margin of 2 per cent below par. This
general influence would in itself either (a) economize in the need for reserve move-
ments or other official financing, or (b) permit, without increasing the need for official
financing, a larger imbalance, e.g., as a result of a differential between monetary
conditions in domestic and world markets, that was either temporary or was expected
subsequently to be offset by other influences, the temporary imbalance being financed
by market equilibration. Movements of funds in response to differences in interest
rates would involve an increased exchange risk, and would thereby be deterred to
some extent. In this way, wider margins would create somewhat greater elbow room
for central banks and other monetary authorities.

The extent of the stabilizing influence on short-term capital flows that may be
expected from wider margins under the conditions thus far assumed—official inter-
vention only at the upper and lower limits, and confidence in the existing parity—
would not be likely to provide substantial and sustained insulation from interest rates
in the world market where the widening of margins was only slight. It should be
recalled that the prospective insulation provided by the widening of the margins is
dependent, in the above example, on the expectation of a subsequent recoil in the
market rate back toward parity, i.e., on a removal of the disequilibrium. This prospect
could itself be undermined by the maintenance of interest rates as a sustained differ-
ential from the world market level.

The effects of a more active policy of official intervention in the exchange market
than has been assumed so far would be broadly as follows. Because the stabilizing effect
of wider margins on capital movements depends essentially on a prospective recoil in
the spot rate—with a relatively sharp initial movement followed by the prospect of
an at least partial reversal—it is evident that such effects would not be secured if
official tactics were such as to prevent the initial rate movement from taking place.
Indeed, if importance is attached by an exchange authority to minimizing the degree
of day-to-day fluctuation or movement of rates within the band, to the extent of
checking an incipient market trend by heavy intervention, then a widening of the
band, with its increased scope for market movements, might in certain circumstances
increase rather than decrease official support purchases and sales. It could thereby
have a disequilibrating influence on movements of short-term capital. However, not
all tactics of official intervention within the band would have this perverse effect.

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b. Effects on transition to a new par value

This section considers the effects of slightly wider margins in conditions in which the earlier assumption of continued confidence in the existing parity does not hold. A slight widening of margins is then very unlikely to prevent disequilibrating speculation (unless the expectation of a parity change is so weak as to be offset by the increased scope for a possible recoil in the market rate in the event that the parity is not changed). The question is rather whether the wider margins would tend to reduce, or to increase, the volume of such adverse speculation.

A slight widening of margins could be expected generally to increase the risks involved in adverse speculation of this kind and thereby to reduce the potential profitability of such speculation. Market speculation will normally be related to the expected movement in the market exchange rate, rather than in the parity itself. A slight widening of margins will reduce the size of the movement in market rates that will necessarily be associated with a change in parity, as well as increasing the scope for movement in the market rate in the event that the parity is not changed. At a time when a parity change is expected, the market rate is usually close to the limit in the direction of the expected change (unless the rate is held at some other point by official intervention), as speculators anticipate such a change; subsequently, where the expected parity change takes place, the market rate is often close to the opposite limit, as speculators take their profits. Thus, the extent of the minimum movement in the spot rate to be anticipated as a result of a given parity change, which will be the relevant consideration for speculators along with the likelihood of the change, will normally be the expected parity change minus the size of the band. The margins around par in effect permit part of the exchange adjustment to be effected in advance of the parity change, and another part to be effected after the change has taken place. The size of the margins will determine what proportion of any given parity change can be effected through market movements in this way.

Increasing the size of the band in relation to that of the typical parity change should therefore be expected to reduce somewhat the extent to which prospective parity changes attract destabilizing speculation, by somewhat reducing the prospective profits of those speculating on such changes. This could give slightly greater freedom of maneuver to the monetary authorities in deciding on parity changes, and contribute to a slightly smoother process of exchange adjustment. It would in itself tend to curb the amount of adverse speculation, as noted above. If the slight widening of margins also somewhat increased the likelihood of a parity change of a given amount, this would be an offsetting influence, tending in itself to increase anticipatory speculation. On balance, taking the two influences together, speculation would be more likely to be reduced, the smaller the typical parity change in relation to the widening of margins, and the smaller any increase in the likelihood of a parity change of given size. Speculation would tend to be increased, the larger any increase in the likelihood of a parity change of given size, and the larger the typical parity change in relation to the widening of margins. The effect of slightly wider margins in smoothing the transition from one parity to another would be negligible if parity changes were expected to be as large as in the adjustments of 1949, of up to 30 per cent; the influence may begin to be of some significance for parity changes in the more recent 10–15 per cent range; it would be most important in a regime of parity adjustments by predominantly smaller amounts.

c. Effects on forward rates, on third countries, and on regional relationships

Increasing the scope for spot rates to move would tend to increase the proportion of transactions undertaken in the forward exchange market. This would be expected
for trade and other current account transactions, and also for certain capital transactions. Since forward rates may deviate from parity by more than the margin permissible for spot rates, a switch of this kind toward settlement of current transactions at forward rather than spot rates would mean that the average rate applying to current transactions could move by more than the movement in the spot rate itself. However, the widening in the spot margins would tend in itself to narrow the differential between the spot rate and the forward rate at times when a given change in parity was considered possible, since greater scope would exist for the spot rate to move part of the way toward the expected future spot rate. If controls were maintained on the access of traders to the forward exchange market, as is currently the case in some countries, this would prevent the insuring of exchange risks which is normally open to traders, and in conjunction with wider margins, would expose traders to additional such risks.

Countries that, in their particular circumstances, found the possible advantages of wider margins, assuming these to have become permissible under international procedures, of little relevance, or outweighed by the possible disadvantages, would continue to enjoy the present option to maintain margins against their intervention currency narrower than the permitted maximum. But the scope for fluctuations in the rate for their currency against the currencies of countries that had adopted wider margins would widen as a result of the actions of the latter countries. Margins on cross rates between any two currencies pegged on the same intervention currency, e.g., between the main European currencies which are pegged on the U.S. dollar, would increase to the extent of the sum of the widening of margins against the U.S. dollar undertaken for the two currencies, i.e., by twice the widening of the margin if the same widening is undertaken for both currencies. The theoretical scope for the mutual fluctuations, which would occur only between two currencies that change places at opposite extreme limits against the dollar, is rarely reached in practice, as noted on pages 281 and 289 and shown in Chart 3, page 284. For the industrial countries, fluctuations in exchange rates measured against the weighted average of movements in other currencies, have deviated significantly from their movement against the U.S. dollar alone only at times of parity changes.

A second, potentially more far-reaching problem concerning third currency relationships would arise if a regional group of countries desired to maintain greater stability in rates between their own currencies than in their rates vis-à-vis their intervention currency. It should be noted that even if it proved feasible to narrow the spot margins in intraregional relationships, intratrade might still be open to disturbance unless economic integration had proceeded so far as to preclude par value changes within the group, and the anticipation of such changes in the forward exchange market.

d. Effects on developing countries and other primary producing countries

For the most part, as indicated earlier in this report, developing countries and other primary producing countries have not attempted to make use of variations in exchange rates within the permitted margins to induce market equilibration of payments flows. The benefits that might be gained by allowing exchange rates to be determined through the interplay of market forces within the permitted margins have in most cases been judged to be small or insignificant. The view has evidently been taken that any such possible benefits are outweighed by the convenience, including administrative convenience, of maintaining foreign exchange dealings at fixed buying and selling rates. In circumstances where the volume of transactions between domestic and foreign currencies is small, and organized money markets are small or nonexistent, the potential effects of fluctuations around par will also tend to be small. These limi-
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A number of primary producing countries have on occasion changed their set buying and selling rates in relation to par with a view to influencing flows of short-term capital. In other cases, primary producing countries have maintained dual exchange rates, with a fixed rate—based on par where this is effective—for transactions related to trade and perhaps other current account payments, and with a fluctuating rate for capital transactions. In many such cases, deviations in the capital rate from par have been substantial; however, in certain instances, such deviations have remained relatively modest, and in these cases, fluctuations in the capital rate have fulfilled some of the functions that might be expected of a slight widening of margins around par in the case of a unified rate. A slight widening of margins would provide flexibility over a broader area than a fluctuating capital rate, but the extent of flexibility for capital transactions would generally be smaller than provided by a fluctuating capital rate.

To a considerable extent, however, primary producing countries have had resort to other means of absorbing sudden strains on their payments balances. These means have included, besides the use of official reserves, resort to official borrowing and commercial credits; accumulation of payments arrears; introduction of trade or payments restrictions; and departures from an effective par value through resort to a fluctuating rate or a regime of multiple rates. While it is clearly desirable to avoid expedients such as the last three kinds, the size of the strains involved—together with the country's circumstances—in many cases make it unlikely that a more active use of the facility for variations of the rate within the existing margins, or an active use of slightly widened margins, would elicit sufficient equilibrating movements of capital to avoid the necessity for resort to other measures.

Fluctuations in exchange rates around par cannot therefore be expected to have significant benefits in inducing equilibrating movements of capital in primary producing countries in cases where domestic money markets are narrow, where capital movements are effectively controlled, or where pressures on the balance of payments are so large and continuing that they have to be absorbed by larger continuing departures from par or the official rate. It may be recalled that it is the prospect of inducing equilibrating or deterring disequilibrating movements of capital, in certain conditions, that is a principal prospective benefit of a slight widening of margins. Many primary producing countries might therefore not avail themselves of any new facility permitting a slight widening of margins. It should be emphasized that this judgment is inevitably of a very general nature, which is not intended to cover the particular circumstances of all countries in this group.

The remainder of this section considers the possible effects on primary producing countries of a slight widening of exchange margins undertaken by other countries. The position of primary producing countries that themselves pegged their currencies to the U.S. dollar would not be affected directly by the facility for a slight widening of margins, as long as the United States maintained its present position in exchange arrangements and its generally passive exchange rate policy. For primary producing countries that peg to currencies other than the U.S. dollar, in particular to sterling and the French franc, any increase in fluctuation between their intervention currency and other currencies would be transmitted to their own currencies.

Because the currencies of primary producing countries in almost all cases are held at a fixed relationship to the intervention currency—whether the U.S. dollar, sterling,
the French franc, or other intervention currencies—the cross rates between currencies of these primary producing countries and the currencies of other primary producing countries move in the same way as cross rates between the respective intervention currencies themselves. Thus, cross rates between an African currency pegged on sterling and another African currency pegged on the French franc follow the movements in the sterling-French franc rate, in relation to par (see Chart 3, page 284, and page 318). Equally, cross rates between the currencies of countries in the overseas sterling area or the franc area on the one hand, and the currencies of primary producing countries pegged to the U.S. dollar on the other hand, move parallel to the movement of the dollar rate of sterling or the French franc.

Thus, a widening in margins of a currency that served as an intervention currency for a given country would increase the scope for movements in market rates of the given currency against currencies not pegged to the same intervention currency. Demand for forward exchange cover could be expected to increase, and this might necessitate the establishment of additional facilities for forward cover in the currency of the primary producing country concerned. Perhaps more important, occasions could arise in which movements in the regional intervention currency against the U.S. dollar impacted to the primary producing country an undesired deterrent to exports and stimulus to imports, and other occasions could arise when there was an inappropriate impetus in the opposite direction. This would be a magnification, by a factor equal to the widening of margins, of the influence which presently exists to the extent of 0.7–0.8 per cent of the parity vis-à-vis the U.S. dollar, corresponding to the margin maintained against the U.S. dollar by the European currency.

The relatively small movements in rates against currencies outside the regional area under present margins have not generally been a subject of concern, even though at times such movements may have been inappropriate from the standpoint of the payments position of a primary producing country in the regional area. The fixed link between the center currency and the other regional currencies may be seen as part of the general association in a currency area, of which the advantages and drawbacks can only be assessed as a whole. The significance of problems such as these would depend to a substantial degree on the relative importance, for the primary producing country concerned, of trade and payments relationships within the regional area on the one hand, and outside the area on the other hand. In general, the smaller the proportion of trade and payments taking place with countries outside the area, and the smaller the proportion of trade invoiced in outside currencies, the less significant will be the effects of fluctuations vis-à-vis the currencies outside the area. Conversely, where a substantial proportion of trade and payments takes place with countries outside the area, or is invoiced in outside currencies, the fluctuations vis-à-vis the currencies of these countries outside the regional area will be of greater significance.

For primary producing countries generally, a widening of margins by slight amounts by industrial countries other than the country whose currency was used as the intervention currency would not be likely to have significant direct effects. It may be recalled in this context that no significant effects are expected from such a move on the competitiveness of the industrial countries directly concerned. The indirect effects, in line with the considerations mentioned on pages 297–98, would depend mainly on such effects as the slight widening of margins might have on the economic growth, productivity, imports and capacity to supply development aid or investment capital in the country making the adjustment. An industrial country that decided to widen its exchange margins would presumably do so in order to achieve certain objectives, such as avoidance of certain disruptions to its payments balance that might otherwise occur, attainment of somewhat greater autonomy for domestic

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monetary policies, or a smoothing in the impact of a change in its par value. Insofar as the widening of margins succeeded in achieving objectives such as these, this might well be of benefit to other countries, which could be adversely affected by attempts of the given country to deal with payments constraints through imposition of trade or payments restrictions or through measures that had adverse effects on economic growth and on the size of its market for imports. Other countries would also benefit, from the standpoint of reducing disruptions, from any smoothing in the impact of changes in par values of major currencies through less abrupt changes in market rates made possible by wider margins.

These favorable indirect effects are likely in many or most cases to be of minor significance and they could not always be counted on. At the same time, the direct and essentially negative effects of wider margins in some industrial countries on primary producing countries are also likely to be of relatively small significance in many cases; the main exceptions might be in the sphere of administrative inconvenience. But whilst slightly wider margins in certain industrial countries might not have very sizable effects on primary producing countries as a group, the wide range of possible effects, and their importance for particular countries, emphasize the need for the interests of these countries to be taken fully into consideration in any changes that might be made in the margin provisions and in the way in which such changes were applied.

PART II

IMPLICATIONS FOR POLICY

1. Introduction

Part I of this report has discussed in some detail the role of exchange rates in the adjustment of international payments in accordance with agreed objectives of economic policy. In the present Part, the Executive Directors turn to an assessment of the policy implications of this analysis for the Fund and its member countries. This assessment is based on a wide ranging study undertaken by the Fund in the past 18 months, in which the operation of the existing system has been extensively reviewed. Consideration has also been given to a wide variety of proposals for modifying the manner or the extent of exchange rate adjustment, either under existing procedures or under new procedures. Detailed attention has not, however, been given to the possible forms that any amendments of the Articles of Agreement might take, if on further investigation they came to be judged necessary and desirable.

The breadth and complexity of the issues involved in determining the desirable role and mechanism of exchange rate adjustment have been illustrated in the discussion in Part I. It is evident from this analytical review that any particular regime of exchange rate adjustment combines both advantages and disadvantages when compared with other possible arrangements. Judgment on the advisability of instituting any change in existing arrangements or in their implementation, therefore involves a weighing of the balance between potential benefits and potential costs.

While it is desirable to keep under review the instruments and procedures which might help the evolution of timely and effective national or international policies, it is also clear that technical or organizational arrangements can never serve as substitutes for correct policy decisions. These arrangements are no more than the
tools for the policy makers and in the final analysis the outcome will depend on whether, when, and how well these tools are used.

Their study of the exchange rate mechanism has convinced the Executive Directors that the basic principles of the Bretton Woods system are sound and should be maintained and strengthened. These principles are conducive to the implementation of effective policies, both nationally and internationally. The par value system, based on stable, but adjustable, par values at realistic levels, remains the most appropriate general regime to govern exchange rates in a world of managed national economies. The risks for both the international and national economies that would be involved in any general departure from this regime would not be justified by such special benefits as could be foreseen from such a departure. The Fund's Annual Report for 1969 emphasized that any changes that might be made should preserve the essential characteristics of the par value system, which remain as beneficial for the world as they were when written into the Fund's Articles of Agreement 25 years ago: that the stability of exchange rates at realistic levels is a key contribution to the balanced expansion of international trade, and that the determination of the rate of exchange for each currency is a matter of international concern (p. 32).

2. Basic principles of the par value system

(1) The par value system provides a framework for the maintenance of stability and order in exchange rates which is an essential condition for the expansion and balanced growth of international trade. Stability, as was recognized at Bretton Woods and as the Fund has stressed, does not mean rigidity. The Fund observed in this connection in its 1969 Annual Report:

If exchange rates that are no longer appropriate are nevertheless maintained, they contribute to the persistence of payments disequilibria, the encouragement of speculation, and crises in the exchange markets. Moreover, undue rigidity of exchange rates may lead to the very developments that the par value system is intended to avoid, including restrictions on current transactions, the imposition or intensification of capital controls, and the sluggish growth of development aid (p. 31).

(2) It is a basic principle of the par value system that changes in parities must be related to the correction of a fundamental disequilibrium. Under the Articles, this principle is applied through the following provisions: "A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium," and "The Fund shall concur in a proposed change ... if it is satisfied that the change is necessary to correct a fundamental disequilibrium" (Article IV, Section 5 (a) and (f)). However, the Executive Directors have discussed, without reaching an agreed conclusion, proposals for a modified application of this principle, which would facilitate a speedier response to an emerging or imminent fundamental disequilibrium.

The term "fundamental disequilibrium" is not defined in the Articles and the Fund has never attempted to formulate a definition. It has become clear in the Fund's practice that the criterion of fundamental disequilibrium is not confined to the occurrence of an overt disequilibrium in the balance of payments. The criterion can relate also to the performance of the domestic economy, to the purposes of the Fund, and to the policies and policy preferences of its members. The concept of fundamental disequilibrium is discussed more extensively in Part I on page 276 and pages 307-10. Because of the important role that this concept plays in the par value system, the Fund will continue to study the statistical and other elements to be taken into account.
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in the exercise of judgment with respect to the presence and magnitude of fundamental disequilibria.

(3) It is another basic principle of the par value system that a change in the par value of a member's currency may be made only on the proposal of the member. The importance that was attached to Article IV, Section 5(b) in which this principle is enunciated is evident from the fact that it is one of the three provisions in the Articles that can be amended only with the agreement of all members.² It is the view of the Executive Directors that this provision continues to be appropriate. This does not, of course, preclude the expression of views by the Fund at any time under established procedures.

(4) It is a further basic principle of the par value system that changes in parities are matters of international concern which therefore should be governed by agreed international procedures. Under the Articles all changes in parities must be preceded by consultation with the Fund. In addition, under Article IV, Section 5(c), changes in parities require the concurrence of the Fund except that the Fund may not object when "the proposed change, together with all previous changes, whether increases or decreases, does not exceed ten per cent of the initial par value. . . ."³ Many members have made one or more changes in par value which in total have exceeded ten per cent of their initial par values; these members can therefore no longer avail themselves of the leeway provided under this provision. The Executive Directors have discussed proposals under which this leeway would be restored for all members, or abrogated for all. They have also discussed a proposal for the introduction of other provisions under which a special procedure might be applied to changes in par value up to a specified magnitude in certain conditions. This proposal is set out on page 326 below.

3. Alternative regimes

The same considerations which have led the Executive Directors to reaffirm the basic features of the Bretton Woods system also lead them to reject three alternative exchange rate regimes that have been suggested, viz.,

(i) a regime of fluctuating exchange rates,

(ii) a regime based on parities agreed with the Fund but allowing substantially wider margins,

(iii) a regime under which parities would be adjusted at fixed intervals on the basis of some predetermined formula which would be applied automatically.

In rejecting these alternative exchange rate regimes, the Executive Directors do not fail to recognize that any one of these regimes could in some respects and on certain assumptions perform more satisfactorily than the present par value system. Thus if a regime of fluctuating exchange rates were operated without official intervention in the exchange markets, this would necessarily keep these markets in short-run equilibrium and would hence preclude the heavy drains on the official reserves of some countries (and the large increases in the official reserves of other countries) that have often plagued monetary authorities in recent years. A system of parities with far wider margins than those observed at present could, at least in some circumstances, achieve a similar effect on exchange markets as would freely fluctuating rates, while preserving, though to an inadequate extent, the concept of international agreement in connection

² Article XVII (b).
³ Furthermore, the requirement of Fund concurrence is unnecessary "... if the change does not affect the international transactions of members of the Fund" (Article IV, Section 5(e)). No change has been recognized under this provision in the history of the Fund.

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with exchange rates. Finally, the formula approach to parity changes would in its nature avoid delays in parity changes, though it might well involve delays in adjustment of parities by the necessary amount.

The benefits that have been noted would not be inconsequential, but they need to be considered in the context of the associated serious drawbacks of these regimes, and of the grave risks that would be entailed in an abandonment of the safeguards of the par value system. For the reasons indicated in Part I, the disadvantages that these alternative regimes would entail in terms of the purposes of the Fund and of the ability of member countries to achieve their objectives would clearly outweigh their potential advantages.

4. Proposals for adapting the par value system

The conclusion that the par value system is the most suitable general exchange rate regime for the members of the Fund carries with it a duty for the Fund and its members to make this system as effective as possible for achieving the purposes of the Fund. This implies, for the Fund, the need to review and where necessary to adjust its criteria, procedures and operational practices to ensure that they are as well suited as possible to this end. For the members of the Fund, this implies, first, pursuit of internal policies that will keep the growth in aggregate demand in line with the development of available resources; for while inflationary pressures are not the only sources of exchange rate difficulties, they have certainly been the most frequent sources in the past. Second, it implies a willingness, in instances where exchange rate changes are appropriate to restore equilibrium, to make such changes at a time and in a manner most likely to enhance their effectiveness. The latter consideration is of particular importance because in present conditions of international mobility of capital, expectations that parities may be changed can lead to large and disruptive movements of funds. The impact of such expectations has been increased because of the much larger role that international capital movements now play in the working of the international monetary system than was envisaged when the Bretton Woods system was established. The increased role of international capital movements, and the particular role now played by the markets in Euro-currency deposits, have been discussed in Part I, pages 291-92 and 311-14; an extensive review of developments in the Euro-currency markets is contained in the 1970 Annual Report of the Executive Directors, pages 90-96.

The extent to which adaptations in exchange arrangements and policies might be desirable in order to deal with the problem of speculative capital movements is likely to depend at least to some extent on the desire and ability of countries to impose effective controls, or to intensify existing controls, on international capital movements. It may be recalled that such controls are not inconsistent with the Fund Articles provided they do not restrict payments for current transactions. There seems to be general agreement that the imposition of such controls, whether on movements of capital into or out of countries, would always risk some impediment to current transactions or to capital movements of a beneficial nature, and in addition might involve difficulties in making such controls effective in some cases. Some members take the view that the potential benefits of such controls under present conditions outweigh these disadvantages; other members believe that the balance of advantage lies against the imposition of controls, at least as a general policy.

The specific areas in which the exchange rate policies of members and the procedures of the Fund have been reviewed from the standpoint of attaining the most

4 See in particular pp. 304-307.
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smooth and effective operation of the par value system are discussed below under three heads: (a) prompt adjustment of parities in appropriate cases; (b) a slight widening in the margins around parity; and (c) temporary deviations from par value obligations.

An aspect of particular importance in connection with any changes in arrangements that might be considered desirable is the extent to which they would involve amendment of the Articles of Agreement and whether the benefits to be derived from the new arrangements would justify amendment. Amendment of the Articles, except for the provisions mentioned in Article XVII (b), requires approval by the Board of Governors by the majority of votes cast and acceptance by three fifths of the members, having four fifths of total voting power.

a. Prompt adjustment of parities in appropriate cases

In conformity with the basic principles outlined above, and with the analysis in Part I, the occurrence of payments imbalances does not in itself justify adjustment of the parity. A disequilibrium in the balance of payments is not fundamental if it results from temporary (e.g., seasonal or short-term cyclical) factors and may be expected to disappear without either a change in parity or the impairment of national or international prosperity. Moreover, in the many cases in which the domestic correctives needed to contribute to payments equilibrium would also contribute to the improvement of domestic financial balance, the existence of a payments imbalance does not necessarily imply the existence of a fundamental disequilibrium. This is also true where the imbalance can be corrected by acceptable international measures outside the exchange rate field. In both types of cases the application of alternative correctives should have priority, and it may often be advisable to await their results before deciding on an adjustment of the parity.

Where disequilibria in external payments can be corrected satisfactorily without recourse to exchange rate adjustment, this would be the preferred solution. Exchange stability makes a particular contribution where it creates or reinforces support for the maintenance of domestic price stability. At the same time, a country that succeeds in maintaining stability in domestic prices, or at least in keeping price increases to a lesser pace than its trading partners, may find that stability threatened by the maintenance of an unchanged parity: in such circumstances, i.e., in the absence of satisfactory policies or corrective adjustments abroad, appreciation of the currency will help a country to protect its domestic price stability.

In cases where exchange rates should be adjusted either upward or downward, delay in effecting such adjustment will clearly aggravate the underlying disequilibrium. Prompt response to such disequilibria is therefore desirable. The procedures of Article IV and the concept of fundamental disequilibrium permit an adjustment of a par value that is necessary to correct a fundamental disequilibrium, even though that disequilibrium may require for its correction a change in parity that would be smaller than members have with few exceptions proposed in the past. Also, to the extent that a fundamental disequilibrium recurred, e.g., because of a persistent divergence in relevant trends of the domestic and international economies, a change in parity may have to be repeated in order to correct recurring fundamental disequilibria and this also would come within the purview of the present Articles of Agreement. However, it would not be consistent with the Articles to make changes in par values that were so small that they were judged to be incompatible with the concept of correction of a fundamental disequilibrium, or so frequent that they were judged to undermine the maintenance of exchange stability. No a priori rules can be adopted by which
to make effective judgments of this kind; the circumstances of each case must be taken into account.

Distinctions based on the size of par value changes are contained in those provisions of Article IV, Section 5 (c) which separate proposals by members for changes in parities into three groups for the purpose of regulating the nature and the speed of the response by the Fund to such proposals. These classes are determined by the cumulative size (without regard to sign) of all changes, including the proposed change, compared to the member's initial par value. If this cumulative change is 10 per cent of the initial par value or less, the Fund is not entitled to object; if the cumulative change is larger, the Fund may concur or object; it then has 72 hours to declare its attitude if the cumulative change does not exceed 20 per cent of the original par value but may take a longer period—which is not defined—if the cumulative change is in excess of 20 per cent of the initial par value. The Executive Directors have found that, where in accordance with normal practice close contact has been maintained between the Fund and a member, a period of 72 hours normally is sufficient for responding to a member's proposal for a change in par value.

As stated above, in certain cases prompter and smaller adjustments in members' parities would help to avoid the building up of large fundamental disequilibria and the eventual recourse to sharp adjustments. It has been explained that the provisions of the Articles empower the Fund to concur in members' proposals for prompter and smaller changes in parities, whenever these are necessary to correct a fundamental disequilibrium. However, the suggestion has been made that, in order to facilitate small and gradual changes in parity as disequilibria develop and to avoid unnecessary delays in adjustment that may occur for various reasons, the Articles of Agreement might be amended to allow members to make changes in their parities without the concurrence of the Fund as long as such changes did not exceed, say, 3 per cent in any twelve-month period or a cumulative amount of, say, 10 per cent in any five-year period. Under this proposal, the Fund could be empowered to question improper use of this special facility. Different views exist as to whether an amendment of this nature, or variants of it, would facilitate the application of the basic principles of the par value system and would be compatible with the purposes of the Fund; further study of these questions is therefore appropriate.

The basic principle that a change in par value may be made only on the proposal of the member does not prevent the Managing Director, when he feels it necessary to do so, from exploring with a member questions relating to that member's parity, in a manner compatible with the sensitivity of the subject. In the course of its general functions, the Fund pays attention to the appropriateness of the rate of any member's currency. Moreover, in accordance with the Fund's policy on the use of its resources, the Fund normally considers the appropriateness of the exchange rate of the currency of any member that envisages making a transaction in the higher credit tranches.

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5 It will be recalled that some members still have available to them a certain leeway to make changes in par values without the concurrence of the Fund under Article IV, Section 5 (c) (i). Proposals for possible changes in this provision were mentioned on page 323 above.

6 "Requests for transactions beyond [the first credit tranche] 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 viability of the member's currency at a realistic rate of exchange" (Annual Report, 1962, p. 31).
The counterpart to a policy of prompt changes in parities when changes are needed is the defense of any parity that is appropriate to a country's underlying situation, even though it may at a particular time be buffeted by strong movements in reserves. Where the reserve movement is a heavy inflow, the problem will be to deal with the inflow without provoking undesirable effects on the domestic economy. Pressures on a parity may be still greater where the country is faced by a large outflow of reserves. In either case, and depending on circumstances that may differ from country to country, it may or may not be desirable and possible to alleviate the situation by recourse to controls on capital movements. The country whose currency is under downward pressure will in any event have to be able to use adequate reserves to defend the rate. In terms of national policies, this requires the persistent pursuit by countries of balance of payments and reserve policies that will result over time in adequate reserves. Internationally, it requires an appropriate policy on reserve creation that makes it possible for countries to realize reasonable reserve aims. The facility for special drawing rights is intended to provide the means of meeting this requirement. Where movements of funds are very large, however, reserves that are adequate for normal purposes may not suffice. To supplement them, the countries that are most subject to large short-term capital flows have instituted a network of swap credit facilities among themselves. All members of the Fund, moreover, can have recourse to the Fund's resources in the credit tranches. The fact that such use is conditional has the advantage from the international point of view that access to the higher credit tranches involves inter alia an international judgment as to the appropriateness of the exchange rate in defense of which balance of payments assistance is being sought. The general increase in Fund quotas that is now under way pursuant to the fifth general review of quotas will enlarge substantially members' access to international liquidity of this character.

b. A slight widening in the margins around parity

For the reasons developed on pages 305—306 of Part I, a substantial widening of the permitted margins for market rates would risk the erosion of the safeguard that internationally agreed parities provide against changes in a country's competitive position as a result of actions by other countries. The same objection would not apply to the introduction of a possibility for members to adopt slightly wider margins, if they wanted to do so, under which fluctuations in market rates continued to be confined to magnitudes that could be expected to have only a minor effect on countries' competitive positions. It would be difficult to determine how far one could go beyond the present margins before the potential disadvantages of a widening of margins would outbalance any potential benefits from such widening, and the Executive Directors have not reached a common view on this question. The answer to this question could depend inter alia on whether Fund approval would be required before an individual member could apply wider margins.7

As discussed in Chapter 6 of Part I, a slight widening of margins could have three possible advantages. First, by increasing the scope for movements in exchange rates around par, it would somewhat reduce the sensitivity of short-term capital movements to divergences in conditions in national money markets, and would thereby allow somewhat greater independence for national monetary policies. Second, the increased scope for market movements around par could, in certain circumstances, reduce pressure on official reserves, by encouraging anticipatory movements of private funds in a stabilizing direction. Thirdly, the moderate increase in scope for market

7 The size of the margin mentioned in the course of the Executive Directors' discussions was 2 per cent, or at most 3 per cent, against an intervention currency.
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rates to move in response to market pressures would slightly reduce the prospective profitability of speculation on possible parity changes, and could be of some help in smoothing the transition from one parity to another; this influence would be significant only where the typical size of parity changes was relatively small. Against these possible advantages, a slight widening in margins could also involve certain disadvantages both for the member adopting them and for other countries. Since all provisions for the widening of margins under discussion would leave each member the option not to adopt margins wider than those applied at present, any members or groups of members that considered such margins disadvantageous to themselves could refrain from adopting them for their own currencies. Members that did not themselves adopt wider margins might be unfavorably affected by the effects of the adoption of such margins by other members; the increased scope for fluctuation of market rates, which could often be considered advantageous in its effect on capital movements, might have unwelcome effects especially on trade and current payments, though these effects would not be expected to be substantial with a widening of margins that remained relatively slight. In addition, a widening of margins, even by slight proportions, could introduce undesired disturbances in the economic and financial relations among certain groupings of members and might create special difficulties for many primary producing countries.

It may be recalled that the present arrangements, under which member countries are permitted margins of up to one per cent against their intervention currency and cumulated margins against other currencies of up to 2 per cent, are validated under the Fund's jurisdiction to give temporary approval of multiple currency practices, in accordance with an Executive Board Decision of 1959 (see Part I, page 281). It would not be possible for the Fund, however, to approve a further widening of margins that would involve margins against the member's intervention currency in excess of one per cent. The Executive Directors have considered the 1959 Decision in connection with the question whether it would be desirable to amend the margin provisions so as to allow a slight widening in the effective permissible margins. Further study is needed to determine whether any such amendment, if it were to be judged desirable, should take the form of a provision establishing new margins, or permitting the Fund to establish appropriate margins for all currencies or in individual cases. A related question that would need to be considered concerns the safeguards and conditions that the Fund might impose.

c. Temporary deviations from par value obligations

While the Executive Directors have reaffirmed their belief, for the reasons indicated earlier in this report, that adherence to the principles of the par value system continues to be strongly in the interests of individual member countries and of the international community at large, they recall that occasions have arisen in the past in which exceptional pressures induced individual countries to suspend the observance of their par value obligations and to move to a fluctuating rate. Under the Articles, the Fund is not authorized to approve such action where the resulting rate is a unitary rate; however, the Fund can recognize the exigencies of the situation which brought about such action, or it can merely take note of it. The question has been raised whether it might be desirable to amend the Articles of Agreement so that the Fund would have the authority to approve such departures from normal par value obligations, and if so, under what circumstances and subject to what safeguards.

8 Where the member adopts multiple rates for its currency, the Fund has the authority to approve a fluctuating rate under its jurisdiction with respect to multiple currency practices.
This question involves a variety of considerations. From a general standpoint, the granting of legal authority for the Fund to approve departures from the basic par value regime might involve the danger of making such departures appear less serious a breach in the basic regime than is the case while these departures remain clearly outside the legal regime of the Fund. Under the Articles, the Fund has found it possible to exercise its influence in connection with actions taken by members outside the Articles and to indicate in advance the circumstances in which it would refrain from taking action open to it under various provisions against a member in breach of its par value obligations. On the other hand, the granting of legal authority to approve departures might enable the Fund more effectively to deal with such cases, by making such approval contingent on the observance of specific conditions by members that had suspended the implementation of their par value obligations. The explicit provision of authority for the Fund to give approval to departures from the normal par value regime would enable members in these circumstances to remain within the law and could help ensure that such departures took place under safeguards to protect the interests of the international community and to encourage the establishment of an effective par value as soon as possible.

In regard to this question, the Executive Directors are agreed that any departure by a member country from its par value obligations would necessitate, from the standpoint of the international community, the institution of adequate safeguards to take the place of the safeguards of the par value system which the member was no longer observing. The appropriate safeguards to be applied could vary from case to case. They would need to be effective for the international community and at the same time of such a character that the national authority most directly concerned

In this connection, reference may be made in particular to Annual Report, 1951, from which the following passages are quoted:

But there may be occasional and exceptional cases where a country concludes that it cannot maintain any par value for a limited period of time, or where it is exceedingly reluctant to take the risks of a decision respecting a par value, particularly when important uncertainties are considered to exist... (p. 39).

What should be the Fund's attitude toward these exceptional cases which, from time to time, have been presented to the Fund and may be again presented in the future?...

The circumstances that have led the member to conclude that it is unable both to maintain the par value and immediately select a new one can be examined; and if the Fund finds that the arguments of the member are persuasive it may say so, although it cannot give its approval to the action. The Fund would have to emphasize that the withdrawal of support from the par value, or the delay in the proposal of a new par value that could be supported, would have to be temporary, and that it would be essential for the member to remain in close consultation with the Fund respecting exchange arrangements during the interim period and looking toward the early establishment of a par value agreed with the Fund. No other steps would be required so long as the Fund considered the member's case to be persuasive, but at any time that the Fund concluded that the justification for the action of the member was no longer sustainable, it would be the duty of the Fund so to state and to decide whether any action under the Fund Agreement would be necessary or desirable (p. 40).

Exceptions to it can be justified only under special circumstances and for temporary periods. The economic and financial judgment of the Fund in such cases must be tempered by recognition of its responsibilities in the wider field of international relations (p. 41).

The statement in Annual Report, 1951, was repeated in Annual Report, 1962 (pp. 58-62), and further support for its approach is evident in the section of the latter report dealing with "Postwar Experiences with Fluctuating Rates" (pp. 62-67).
would be able to observe them in the exceptional circumstances that would be likely to be prevailing at the time. They would include in all cases close consultation between the Fund and the member with respect to its exchange arrangements, and normally also with respect to the other aspects of its economic and financial policies which will have a bearing on those arrangements. Such safeguards should, moreover, provide assurances against the imposition or intensification of restrictions on trade and current payments, and preferably should provide for a reduction in any such restrictions. They should reflect the Fund's emphasis on the temporary character of any departure from the par value obligations and should include periodic and intensive reviews by the Fund with a view to the establishment by the member concerned of an effective par value under the normal regime of the Articles.

The Executive Directors have not come to a final view on the various issues raised by temporary deviations from the par value regime and intend to give them further consideration.

In a number of Annual Reports, in particular those of 1951, 1962 and 1969, the Executive Directors addressed themselves to a review of certain of the exchange rate provisions of the Articles. This is the first occasion on which the Fund has undertaken a comprehensive review of the mechanism of exchange rate adjustment. This report indicates that, in the view of the Executive Directors, the par value system retains its validity. The functioning of this system will be the subject of a continuing review in the period ahead. In this context the Executive Directors intend to give particular attention to the issues that remain open in this report, including their legal aspects.
Functioning of International Monetary System

By the time the Governors assembled in Washington for their Twenty-Sixth Annual Meeting, which began on September 27, 1971, a succession of events had seriously disrupted the international monetary system as it had been functioning under the Articles of Agreement of the Fund. Nearly all Governors expressed their concern about the situation, and on October 1, 1971, the Board of Governors adopted the following resolution.

International Monetary System
(October 1, 1971)

Resolution No. 26-9 of the Board of Governors

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 well-being 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.
PART FIVE

Publications
Publications of the Fund, 1966–71

The following is a list of the reports, documents, books, periodicals, pamphlets, and leaflets that the Fund made available to the general public in the years 1966–71. A complete listing of the Fund’s publications from 1946 through 1971 can be found in Catalogue of Publications, 1946–71, published by the Fund in 1972. For publications issued after 1971, see the listings in Annual Report of the Executive Directors.


Report of the Executive Directors to the Board of Governors on the Fund’s activities, policies, organization, and administration, and on the world economy, prepared pursuant to Article XII, Section 7 (a), of the Articles of Agreement and Section 10 of the By-Laws.


General review of exchange controls and restrictions in the world, plus descriptions of the exchange systems and related measures of all Fund members and most other countries, prepared pursuant to Article XIV, Section 4, of the Articles of Agreement.

Articles of Agreement of the International Monetary Fund. Adopted at the International Monetary and Financial Conference, Bretton Woods, New Hampshire, July 22, 1944. Entered into force December 27, 1945. Text as modified by the Proposed Amendment recommended by the Executive Directors April 16, 1968 and approved by the Board of Governors May 31, 1968 . . . (Cover title: Articles of Agreement of the International Monetary Fund as Modified by the Proposed Amendment.) [1968]. ix + 102 pp. Published also in French and Spanish.

Changes in, additions to, and deletions from the text of the original Articles as a result of the amendments that became effective July 28, 1969.


A statement of the concepts and definitions employed in the Fund’s Balance of Payments Yearbook (see below).

Balance of Payments: Its Meaning and Uses, by Poul Høst-Madsen. 1967. iv + 24 pp. Published also in French, German, and Spanish. (Pamphlet Series No. 9.)
FUND PUBLICATIONS, 1966-71

Balance of Payments Yearbook.


Published in both loose-leaf and bound editions.

Statistics in a standard form for countries that report information to the Fund on their payments transactions. Loose-leaf sections issued monthly. Provisional statements published as early as possible for each country and replaced later by tables giving final figures with regional details and explanatory notes. An analytic presentation also published for most countries.


Statistics and related materials for 17 countries in Europe: Austria, Belgium, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Yugoslavia.


Report on the Fund's review and development of the facility introduced in 1963.

The Cuban Insurance Cases and the Articles of the Fund, by Joseph Gold. 1966. vii + 53 pp. Published also in French and Spanish. (Pamphlet Series No. 8.)

Direction of Trade: A Supplement to International Financial Statistics. Monthly, with annual issue covering five consecutive years. Published jointly by the International Monetary Fund and International Bank for Reconstruction and Development.

Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund: A Report by the Executive Directors to the Board of Governors Proposing Amendment of the Articles of Agreement. (Cover title: Proposed Amendment of Articles of Agreement; New Facility Based on Special Drawing Rights; Changes in Fund Rules and Practices; A Report by the Executive Directors to the Board of Governors.) 1968. vi + 80 pp. Published also in French and Spanish.

Finance and Development. Quarterly. Published jointly by the International Monetary Fund and the International Bank for Reconstruction and Development. Published also in French, Spanish, and (beginning Sept. 1970) German. Annual issue of selected articles published in Portuguese in cooperation with the United Nations Information Center in Rio de Janeiro.

Primary purpose: to explain to the nontechnical reader the purposes and work of the Fund and the World Bank Group, and to discuss the wider economic and financial problems related to their work.
Fund Publications, 1966–71


Issued in accordance with Article XII, Section 7 (a), of the Articles of Agreement.

The Financial Structure of the Fund, by Rudolf Kroc. 1965. 2nd ed., 1967. iv + 41 pp. Published also in French and Spanish. (Pamphlet Series No. 5.)

The Fund and Non-Member States: Some Legal Effects, by Joseph Gold. 1966. vii + 55 pp. Published also in French and Spanish. (Pamphlet Series No. 7.)

The Fund’s Concepts of Convertibility, by Joseph Gold. 1971. vi + 63 pp. Published also in French and Spanish. (Pamphlet Series No. 14.)


A digest of economic news extracted from the world’s press and other published sources, and texts of all press releases issued by the Fund, selected speeches of the Managing Director and the Deputy Managing Director, and other information about the Fund.


Data for most countries of the world on exchange rates, international reserves, money and banking, international trade, prices, production, government finance, interest rates, and other items, along with area and world aggregates and data on Fund operations. Comparable figures for earlier years and quarters in annual supplement.

The International Monetary Fund and Africa. [1970] and [1971]. 27 pp. Published also in French.

The International Monetary Fund and Latin America. [1971]. 33 pp. Published also in Spanish.


A history of the first twenty years of the Fund and of the events leading up to its establishment.


Papers and Proceedings of a Seminar on Questions Relating to International Reserve Needs and Availability, convened by the Fund at its headquarters in Wash-
Interpretation by the Fund, by Joseph Gold. 1968. vii + 68 pp. Published also in French and Spanish. (Pamphlet Series No. 11.)


A summary explanation in nontechnical language of the SDR mechanism.

The Problem of Stabilization of Prices of Primary Products.

A Joint Staff Study (Part I). 1969. viii + 171 pp. Published also in French and Spanish.

Prepared jointly by the staffs of the International Bank for Reconstruction and Development and the International Monetary Fund in response to parallel resolutions adopted by the Boards of Governors of the Bank and the Fund on September 29, 1967. Submitted to the respective Boards of Governors on September 12, 1968 but not formally published until 1969, when reports by each institution were also published (see below).


A report by the Executive Directors to the Board of Governors of the Fund, together with a decision of the Executive Directors, and a second report by the staff of the Fund on its study of the problem; published in response to a resolution adopted by the Board of Governors on October 4, 1968. (The Bank also published a Part II of this study, entitled Stabilization of Prices of Primary Products. Part II: Report of the Executive Directors of the International Bank for Reconstruction and Development with a List of Staff Papers and a Report by the Bank Staff. 1969. 16 pp.)

The Reform of the Fund, by Joseph Gold. 1969. viii + 75 pp. Published also in French and Spanish. (Pamphlet Series No. 12.)

A Report to the Board of Governors of the International Monetary Fund Containing the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period. (Cover title: Allocation of Special Drawing Rights for the First Basic Period: Proposal by the Managing Director, International Monetary Fund.) 1969. vii + 24 pp. Published also in French and Spanish.

The Role of Exchange Rates in the Adjustment of International Payments: A Report by the Executive Directors. Part I: Review and Analysis; Part II: Implications for Policy. 1970. v + 78 pp. Published also in French and Spanish.


The selected documents published were (1) Board of Governors Resolution on Allocation of Special Drawing Rights for the First Basic Period (4th and 5th issues); (2) Agreement Between the United Nations and the International Monetary Fund (4th, 5th, and 6th issues); and (3) United Nations Convention on the Privileges and Immunities of the Specialized Agencies, and Annex V, and List of Countries Which Have Accepted the Convention with Respect to the Fund (4th, 5th, and 6th issues).

Some Reflections on the Nature of Special Drawings Rights, by J. J. Polak. 1971. iv + 28 pp. Published also in French and Spanish. (Pamphlet Series No. 16.)


Special Drawing Rights: The Role of Language. 1971. v + 25 pp. Published also in French and Spanish. (Pamphlet Series No. 15.)

Staff Papers. Three numbers constitute a volume. Summaries in French and Spanish included in each issue.

Studies on monetary and financial problems prepared by members of the Fund staff and, at intervals, a bibliography on the Fund.


A description by the General Counsel of the Fund of the relation of the stand-by arrangement to the law and policies governing use of the Fund's financial resources, together with a set of hypothetical stand-by documents.


Addresses by the Chairman of the Board of Governors and by the Managing Director; messages on behalf of the host Government; statements by the delegates; resolutions adopted during the meeting and by mail or cable vote since the preceding meeting; reports of committees and other documents relating to the agenda, the conduct of the meetings, and elections of Executive Directors; and lists of delegates and observers.

June 6, 1966 in
Second Allocation of SDRs
January 1, 1971
Fund Quotas Increased
February 23, 1966
SDR Outline Approved
September 29, 1967
First Amendment of Articles
July 28, 1969
Dollar Convertibility Suspended
August 15, 1971
Pound Sterling Devalued
November 18, 1967
Decision to Allocate SDRs
October 3, 1969
Two-Tier Gold Market Emerges
March 16-17, 1968
Exchange Rate Mechanism
September 13, 1968
French Franc
Allied States
Revaluation of
Sterling