IMF Publication

Amendment of the Instrument to Establish the SCA-1/Deferred Charges Administered Account - Extension of Termination Date

INTERNATIONAL MONETARY FUND

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Amendment of the Instrument to Establish the SCA-1/Deferred Charges Administered Account—Extension of Termination Date

Prepared by the Finance and Legal Departments

Approved by Andrew Tweedie and Sean Hagan

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1. The Argentine and Brazilian authorities have requested an amendment of the Instrument that governs the SCA-1/Deferred Charges Administered Account (the "Account"), adopted by the Executive Board pursuant to Decision No. 13973-(07/80), September 14, 2007, (Attachment) (the "Instrument") to extend the termination date of the Account.

2. The Account became effective on March 14, 2008, as an interim vehicle to temporarily hold refunds of (i) SCA-1 balances and (ii) deferred charges adjustments that had been made in respect of Liberia's overdue charges, pending instructions from members as to the disposition of these resources.[1]

3. Presently, the Account only holds balances from two members, Argentina and Brazil, for a total amount of SDR 74.6 million, of which the authorities intend to use SDR 22.1 million to fund their committed contributions for the financing of Fund debt relief to Liberia.[2] The Account is due to be terminated on March 13, 2011, and any remaining balances would be returned to members at that time (Paragraph 12 of the Instrument).

4. The Argentine and Brazilian authorities have requested an extension of the Account in order to complete procedures that would allow them to contribute the committed resources for the financing of Fund debt relief to Liberia. Following completion of these procedures, it is expected that the committed resources would be disbursed to replenish the PRG-HIPC Trust, which had financed the debt relief for Liberia at the completion point

[1] See IMF Managing Director Dominique Strauss-Kahn Announces Financing Milestone on Debt Relief for Liberia (11/12/2007).

[2] Argentina and Brazil pledged SDR 5.2 million and SDR 16.9 million in March 14, 2008 NPV terms, respectively, to finance debt relief to Liberia.

with its other resources to make up for the shortfall in actual Liberia debt relief contributions by members relative to their commitments.[3,4] Staff supports the request from the Argentine and Brazilian authorities.

5. Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:[5]

Paragraph 12 of the Instrument for an SCA-1/Deferred Charges Administered Account adopted pursuant to Decision No. 13973-(07/80), September 14, 2007, shall be amended to read as follows:

> "The Account shall be terminated (a) on March 13, 2012, or (b) as promptly as practicable following the receipt of instructions from every Participant regarding the distribution of its resources in the Account, whichever is earlier. In the event of termination pursuant to (a) above, each Participant with resources remaining in the Account at the time of termination shall have paid in full to it the amount of such resources."

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[3] See *Liberia—Enhanced Initiative for Heavily Indebted Poor Countries - Completion Point Document and Multilateral Debt Relief Initiative* and Decisions No. 14664 (10/62) and 14681-(10/66), adopted on June 23 and 30, 2010, respectively.

[4] The financing of HIPC debt relief for the protracted arrears countries (including Liberia) was not included in original funding of the HIPC Initiative. The financing framework for Liberia's HIPC (and beyond HIPC) debt relief required the commitment of members to provide the additional resources needed, including from a partial distribution of SCA-1 balances and the refund of deferred charges proceeds. By the time Liberia reached the completion point, not all members who had committed resources had completed their internal procedures for their contributions. To fund the debt relief to Liberia at its completion point, the Fund could rely on the other resources in the PRG-HIPC Trust if the amount needed for debt relief to Liberia is greater than resources available in the Liberia Administered Account.

[5] Amendment of the Instrument requires the consent of participants with remaining balances in the Account. Argentina and Brazil, the only two participants with resources in the Account, have consented to the proposed amendment.

ATTACHMENT

Instrument to Establish the SCA-1/Deferred Charges Administered Account

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish the SCA-1/Deferred Charges Administered Account in accordance with Article V, Section 2(b) (the "Account"), which shall be governed and administered by the Fund in accordance with the terms and conditions of this Instrument.

1. The purpose of the Account is to serve as an interim vehicle for the holding and administration of any SCA-1 balances and proceeds of deferred charges adjustments that Participants may wish to transfer to the Account in light of Decision No. 13973-(07/80), pending instruction from each Participant as to the disposition of its share of such resources.

2. The SDR shall be the unit of account. Resources provided to the Account shall be in any freely usable currency or such other media as may be agreed by the Fund and the Participant. Transfers may be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.

3. Upon the instruction of a Participant, the Fund shall transfer all or part of the resources in the Account that are attributable to the Participant, including the participant's pro rata share of any investment returns, to the Liberia Administered Account, or as otherwise specified by the Participant.

4. The resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director. Investments pursuant to this paragraph may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund, (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member, and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currency is involved, with the consent of the issuers of such currencies.

5. The assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations or losses incurred in the administration of the Account; nor shall the assets of the Account be used to discharge or meet any liabilities, obligations or losses incurred in connection with any such other accounts of, or administered by, the Fund.

6. The Fund shall maintain separate financial records and prepare financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Financial Reporting Standards.

7. The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions of the Account. The audit shall relate to the financial year of the Fund.

8. The Fund shall report on the assets and property and on the operations and transactions of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the audit report of the external audit firm on the Account.

9. Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis,* the same rules and procedures as apply to operations of the General Resources Account of the Fund.

10. The Managing Director is authorized (a) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as he deems necessary to carry out the operations of the Account, and (b) to take all other measures he deems necessary to implement the provisions of this Instrument.

11. No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account. All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the Account.

12. The Account shall be terminated (a) three years from the effective date of the decision adopting this Instrument, or (b) as promptly as practicable following the receipt of instructions from every Participant regarding the distribution of its resources in the Account, whichever is earlier. In the event of termination pursuant to (a) above, each Participant with resources remaining in the Account at the time of termination shall have paid in full to it the amount of such resources.

13. The provisions of this Instrument may be amended by a decision of the Fund and with the concurrence of each Participant with resources remaining in the Account at the time of such decision.

14. Any questions arising under this Instrument between a Participant and the Fund shall be settled by mutual agreement between the Participant and the Fund.