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June 20, 2019

COMMITTEE ON RULES FOR THE 2018 REGULAR
ELECTION OF EXECUTIVE DIRECTORS

Meeting 18/1

2:30 p.m., June 26, 2018

A. Mozhin, Chair

Committee Members

J. Agung (ST)
N. Horsman (CO)
M. Kaizuka (JA)
J. Mojarrad (MD)
M. Panek (SZ)
S. Riach (UK)

Alternate Members

M. Raghani (AF)

H. Al-Atrash, Committee Secretary
O. Beshpalova, Board Operations Officer

Also Present

M. Claver-Carone (US)
A. De Lannoy (NE)
S. Gokarn (IN)
Z. Jin (CC)
A. Mozhin (RU)
T. Ostros (NO)

R. Alkhareif (SA)
O. Bayar (EC)
A. Castets (FF)
C. Collura (IT), Temporary
P. Fachada (BR)
S. Geadah (MI)
T. Gonzalez (CE), Temporary
K. Merk (GR)
G. Preston (AP), Temporary
E. Sishi (AE), Temporary
D. Vogel (AG), Temporary

Also Present

Legal Department: C. Blair, R. Leckow, A. Yiadom.

COMMITTEE ON RULES FOR THE 2018 REGULAR ELECTION OF EXECUTIVE DIRECTORS

DOCUMENT: EB/CREED/18/1

The Acting Chair (Mr. Mozhin) made the following statement:

I would like to welcome members to this first meeting of the Committee for the Regular Election of Executive Directors (CREED). I also thank members of the committee for accepting the responsibility of becoming members. Every committee is a piece of an additional headache, so I am grateful.

I presume that some who are present are familiar with the procedure because we create this committee every two years. Others may have not participated in this process, so let me explain what this committee is established for.

This committee is established every two years to consider the rules that will govern the regular elections of Executive Directors. These rules are essential for specifying the basis on which the election will be conducted. The operation of these rules is quite complex, but there is a good foundation of work that we can build on, and I hope we will be able to move forward quickly to formulate our proposals.

In terms of procedure, this committee will recommend proposed rules for the 2018 election of Executive Directors to the Executive Board for its approval, and the Board will then refer the rules to the Board of Governors for its approval. First, the rules have to be approved by the Board, but then more importantly, they will also need to be approved by the Board of Governors, which may take time.

I will ask the Secretary to explain how the election rules framework operates, some of the historical background, and the issues we need to consider this year. I will then open the floor to CREED members and then other Directors to discuss whether we can move forward on the basis suggested by the Secretary. If so, I will then ask the staff to prepare a formal paper outlining the proposed rules for the 2018 election. If there is strong agreement today to follow the pattern laid down for earlier elections, maybe we could circulate that paper for the Board's approval on a lapse-of-time (LOT) basis and keep the momentum going. Otherwise, we could meet again to discuss the paper before it is submitted to the Board for approval. We can

have either one meeting of this committee or more than one meeting, depending on the outcome of today's meeting.

The Secretary (Mr. Lin) made the following statement:

We have a significant amount of committee work every year on many different issues. This is an interesting and important issue at hand, so we have been working together with Mr. Leckow and the team from Legal Department (LEG) and have been careful about this work. Since this happens every other year, and we inevitably forget what happened two years before, I will refresh our memories on some of the issues.

As Mr. Mozhin noted, the work of this committee is important in preparing for the election of Executive Directors in October this year. (Slide 1) Since the Seventh Amendment of the Articles of Agreement came into effect in January 2016, all Executive Directors are now elected; and all rules for conducting the election must be specified and agreed upon for each election cycle.

Fortunately, as Mr. Mozhin noted, we have already conducted one election under the new rules in 2016, and it went smoothly. Therefore, the foundation is in place for us to handle the process very smoothly this year. I would like to cover three issues in my intervention.

The first issue is the timeline for the work of the CREED in the broader election process. The second issue concerns the important features of the election rules, which are quite complex. The third is the suggested path forward for drafting the rules for the committee to consider at this time.

I would like to provide an overview of the evolution of the size of the Board over the history of the Fund since 1946. (Slide 2) The Board started with 12 Executive Directors in 1946—some of whom were elected, and others who were appointed. Over time, the size of the Board increased, and eventually reached 24 in 1992. Starting in 2016, all Directors were elected. The election rules in place did allow for changes to accommodate, or increase, the size of the Board, but also provided a level of stability over time.

Turning to the next slide on the process and timeline (Slide 3), the only real process is for this committee to propose rules which will govern the election and to make a recommendation to the Board for approval. This year, we hope the committee's work could be done relatively quickly, hopefully by

next week. While this timeline seems tight, if the committee determines by the end of this meeting that we could largely follow the process and approach adopted in 2016, then the staff would be able to circulate proposals quite quickly, which could be approved on an LOT basis.

The second step is for the Board to approve the committee's recommendation on the rules. If there is broad agreement on the rules by the whole Board, this could also be completed on an LOT basis, hopefully by mid-July.

Third, the Board will then submit the proposed rules to the Board of Governors for a vote, which is required. The Board of Governors must approve the election rules with an 85 percent majority, which demonstrates the importance of this work. Given this high threshold, we propose to give Board of Governors four weeks to respond to the vote, between mid-July and mid-August, especially as the voting period will also coincide with the summer vacation period in some countries.

During this period, it will be helpful if Directors could inform their authorities in advance about this vote, so that Governors can be ready to respond quickly. We cannot conduct the election without the successful approval of the rules by the Board of Governors; so voting by the Board of Governors is a requirement.

After the rules are approved by the Board of Governors, we can initiate the fourth step, which is to open the nomination phase for candidates. We suggest allowing three weeks for this process—between Monday, August 20 and Monday, September 10. A three-week window is recommended to allow time for internal consultations among Directors' constituencies.

On the nomination process, it is not required for every member country to submit a nominee. Usually this process is carefully considered and coordinated within constituencies. Typically, and ideally, we would receive nominations for only as many candidates as there are Executive Directors to be elected—namely, 24—which we define as an uncontested election. This scenario will give member countries the greatest certainty that they will be represented by their preferred Executive Director. This is where the operation of the rules—the minimum and maximum voting limits—comes into play.

After nominations, we move to the final step, the voting by the Board of Governors. If the election is uncontested, we will only need one round of

voting. We could allot four weeks for the completion of this step—between Monday, September 10, and Friday, October 12.

If more than 24 candidates are nominated, the situation becomes more complex, and this is referred to as a contested election. Depending on how many additional nominees are provided by members, it may be necessary to run more than one or even two rounds of voting by Governors to eliminate some candidates. Fortunately, in recent years, additional rounds of voting have not been needed—basically there have been 24 candidates nominated for 24 Executive Director positions, thanks to careful consideration and attention by Directors and member countries.

During the voting phase, the final phase, every member country must submit a vote for an Executive Director—one name only. That is required. If a member country does not vote for a candidate during this process, it will lose its representation at the Board for the next two years. No Executive Director will represent a member country if that country does not vote. Therefore, to ensure that we receive a vote from every member country, we propose keeping voting open until 6:00 p.m. on Friday, October 12, which is the day of the Plenary Session of the Annual Meetings in Bali, Indonesia—and by this, we mean 6:00 p.m. local time in Bali. This way during the Annual Meetings in Bali, our team will work with Directors' offices and can also reach out directly to the Governors of those countries which may not have voted. We will chase after them. The way we have done so in the past is to go to every hotel and encourage them to vote.

Nevertheless, I ask Directors to work with their countries to submit their vote as soon as the process begins rather than wait until the Annual Meetings in Bali, which is risky. We should try to avoid any risk of a no vote by any member, which will be unpleasant for the country but also for the Fund. We will keep Directors informed every step of the way, but our team will also be in Bali so that we will be able to publish the election results on Saturday, October 13.

This timeline will still leave us about three weeks before the close of the voting period and the commencement of the new term of the Executive Board on November 1. If there is any need to run an additional round of voting by the Board of Governors to conclude the election, then we should be able to do so during this window. During this time, staff from the Secretary's Department (SEC) will also be prepared to help newly elected Directors transition to Washington, D.C., in time for the new Board to resume office on November 1.

I would also like to discuss why the work of this committee is important. The rules for the 2018 election will need to include the following aspects. (Slide 4) The first is the size of the Board, or the number of Directors to be elected. The Articles of Agreement provide for a Board of 20 elected Executive Directors; and this is a default position unless the Board of Governors agrees by an 85 percent of majority to increase or decrease the number of Directors. Since 1992, the Board of Governors has agreed in the rules for the election that the Executive Board should comprise 24 Executive Directors. The commitment by the membership to maintain the Board at this size was also included in the 2010 governance reforms. Therefore, consistent with this commitment, we assume that the rules for this year's election will maintain the Board at its current size of 24 chairs, and this is one of the elements that will be included in the rules this year.

Second, the rules also will set upper and lower limits on the size of each constituency's voting share—the so-called maximum or minimum limits. These limits were reviewed in great detail in preparation for the 2012 election, and I will provide more details on these rules.

The third element is that the rules also need to specify the terms of office of Executive Directors, which will be two years, in line with the requirement of the Articles of Agreement that regular elections are conducted on a two-year cycle. Of course, Directors can serve successive terms subject to agreement by his or her constituency.

Finally, the rules must also outline the administrative aspects of the conduct of the election, including the timeline for nomination and voting. These are the four areas that need to be included in the rules for this year.

I will now turn to the issue of maximum and minimum limits on the voting share that an Executive Director may hold in order to be elected. (Slide 5) This is perhaps the most complex area of the rules and is a key aspect of Fund governance. Member countries can only change constituency membership at the time of the regular election in October every two years. They cannot switch constituencies at any other time between two elections. Decisions about constituency membership are complex and may reflect many considerations, such as history, language, culture, political factors, and others.

The maximum and minimum voting power thresholds for elected Directors establish important constraints on how countries may align themselves. These thresholds have changed over time, particularly in the early

years of the Fund, but remained very stable for 20 years after the major expansion of the Fund's membership in 1992. However, it was necessary to review and adjust these thresholds in 2012 to prepare for an internal realignment of advanced European representation at the Board, in line with the commitment associated with the 2010 governance reforms. At that time, the European members committed to reduce their representation by two chairs in order to provide room for emerging market chairs.

Why are these limits needed? They are needed because they define an appropriate balance between two important principles. The first principle is to allow member countries the freedom to join their preferred constituency. The second principle is to avoid an excessive concentration of voting power in one particular constituency.

Over time, priority has tended to be given to the first principle, freedom of choice, or freedom of voluntary formation of constituencies, but the balance has moved back and forth. Therefore, each CREED needs to consider whether this balance should be maintained, meaning whether the minimum and maximum limits should remain as is or be changed.

These limits send important signals to member countries. Only a few countries have a sufficiently large voting power to be able to elect an Executive Director independently. The reality is that most member countries will need to form into groups to elect a preferred representative to the Board. Without a maximum limit, there is a risk that super-constituencies could form with a very high voting power, crowding out the voice of smaller members. However, if no minimum limit is set to define the baseline for a viable constituency, there is a risk that many candidates could be put forward by smaller members, requiring multiple rounds of voting in order to select 24 Executive Directors within the rule limit.

The question becomes how the maximum and minimum limits are applied in relation to the process. (Slide 6) There are some Directors in the current Board, and also in the previous Boards, who hold more or fewer votes than the current minimum threshold of 2 percent and the maximum threshold of 8 percent of the total voting power. This is possible because the rules for the election have traditionally provided for some limited flexibility in the application of these maximum and minimum rules.

Please note that the maximum threshold does not apply to single-member constituencies, while the minimum limit applies to all constituencies. This is an important distinction.

This reflects the thresholds' objective of encouraging formation of constituency groups, but there is another issue. In counting whether the voting shares of all the members of a constituency can be accommodated within the maximum limit, priority is given to those members in accordance with the size of the voting share. I will provide a concrete example.

In cases where the votes of a member country would bring the total voting share in their constituency above the maximum limit, the country is allowed to join. The bottom line is any country's voting power cannot be divided between two constituencies. That is why the maximum limit does not apply to a single country constituency, because its voting power cannot be divided into two or three parts. In another example, consider that there are three countries—country A with voting power of 6 percent; country B, with voting power of 3 percent, and country C, with voting power of 2 percent. All three countries are willing to form a constituency. The upper limit rule is 8 percent. What shall we do? The rule will be applied this way: we take the 6 percent, then the next is 3 percent, which becomes 9 percent, so their constituency would have 9 percent of the voting power compared to the 8 percent maximum—so flexibility is provided under the rules. However, the third country, Country C, cannot join the two countries in their constituency. because if it joins, the voting power will exceed the limit. There is a descending order, one can pick up a country which will put the voting power above 8 percent, but one cannot add too many.

Then who decides? The country does not have a choice. It is by descending order, 6 percent, then 3 percent; so the 2 percent country would have to choose another Executive Director to represent it at the Board. The third country would have to find a new home elsewhere. The same principle of indivisibility of a country's voting shares explains why under the Articles and the regulations the maximum limit can only apply to multi-country constituencies.

The next question is how the minimum limit is applied. In the current Board, there is one member with only 1.62 percent voting power, and another member with 1.59 percent voting power, compared to the minimum limit of 2 percent. How could that be possible? Just like the rule for maximum limits, there is flexibility. It is always desirable that the election is uncontested, with 24 nominations to 24 ED positions. The rules encourage this outcome by permitting the minimum limit to be waived in the case of an uncontested election. But if there are only 24 nominations and 24 positions, regardless of

whether a country's voting power is less than 2 percent, an Executive Director will be elected.

In 2012, the CREED needed to consider how to reset the thresholds so as to permit consolidation of advanced European representation within 24 ED positions. (Slide 7) This meant that some constituencies needed to become larger, so the 2012 CREED focused on setting a new maximum limit that was high enough—but not too high—to accommodate the European consolidation effort.

After careful consideration and many rounds of discussion among the committee, the CREED recommended increasing the maximum limit per multi-country constituency from the previous 5.5 percent to 8 percent of the total voting power. Currently we have a maximum limit of 8 percent, then a minimum limit of 2 percent, compared to the previous limit of 2.5 percent.

In setting these new limits, the CREED was strongly guided by the historical evolution of the maximum and minimum limits over time and also took into account indications expressed by the Belgian and Dutch chairs that they would consider merging in the 2012 election. At that time, each chair held about 5 percent of voting power, or about 10 percent combined. That was the consideration that underpinned the CREED's work at that time.

As shown in Slide 8, the maximum and minimum voting shares have fluctuated over time. In the earliest years of the Fund, when there were only a handful of elected Directors, the maximum and minimum were set quite close together. Over time, they diverged gradually, as the number of Executive Directors expanded and important governance changes were made.

Historically, the highest level of the maximum threshold was slightly over 7 percent in the mid-1970s. This was lowered over time as the Board continued to expand and settled into a stable pattern of a maximum of about 5.5 percent, and a 2.5 percent minimum in the early 1990s, when the Board expanded to its current size of 24 Executive Directors. These thresholds remained stable for the following 20 years, and the successful conclusion of elections every year within the limits suggests the membership found them appropriate and reasonable.

Looking backward, when we evaluated how the maximum limit has evolved over time in relation to the actual voting power, we found that the largest gap had been about 3.5 percent, but in recent years this gap has been much smaller. (Slide 9) In 2012, the committee considered this carefully and

decided that a new maximum limit of 8 percent would be appropriate, reflecting two considerations.

First, the historical benchmarks had evolved in an environment when the Board was expanding. The number of Executive Directors became larger. Whereas, the reconfiguration by the advanced European chairs envisaged in the 2010 reforms would occur in context of the fixed number of 24. This suggested that to accommodate the reconfiguration by the European chairs, the maximum limit would have to be raised a bit.

Second, as a practical matter, in 2012 the Belgian and Dutch chairs signaled the intention to consolidate. At that time, the two chairs were the two largest multi-country chairs, each holding close to 5 percent of total voting power. They calculated and discussed the details of the merger carefully to determine which countries would remain in the constituency and which would leave. The result was the new constituency called the Central European chair, now chaired by Ms. Erbenova. Increasing the maximum limit in principle implied that the minimum limit would need to come down a bit, so that is why the current limits of 8 percent and 2 percent were put in place.

Looking at this year's election, given that the Board constituencies remain quite stable, the staff would like to suggest that this committee consider continuing to apply these thresholds—8 percent and 2 percent—as we did in 2014 and 2016, given that we do not anticipate large changes with the Board.

In conclusion, I have some suggestions for the committee to consider. (Slide 10) The general framework established in 2012—which was also adopted in 2014 and slightly modified in 2016 to reflect the Seventh Amendment of the Articles of Agreement—appears to still provide a good basis for this year's work. We would therefore appreciate the committee's discussion and confirmation of whether this is the case. If so, we will proceed quickly on this basis.

Once that is decided, we could prepare a paper and send it to the Board on an LOT basis. However, if there are still issues that must be discussed, we will be happy to schedule a follow-up meeting quickly to finalize.

Mr. Mojarrad made the following statement:

I participated in the 2016 election. Everything from the Secretary's presentation was familiar. The rules and procedures appear to be the same,

and in 2016, since we made the transition to all elected chairs, we had to change the rules; but nothing has really changed since then. Therefore, I agree that we should continue with the same rules.

With regard to the timeline, I remember that the period of four weeks for the Board of Governors to vote was a bit long; and for the nomination, three weeks was short, particularly since the Board recess begins on August 16. I wonder if the period for the Board of Governors could be reduced to three weeks and then allow the nomination period to start on July 16. If the nomination period could be more advanced before the Board recess, that could be more appropriate, but I am open to other views as well. Other than that, the rules are almost the same. The threshold should be the same. The size of the Board is not a problem.

Ms. Horsman asked the staff to clarify the implications of the requirement that every member country vote in the election in order to be represented in the Board. She asked whether an entire multi-country chair would not be represented if a single country did not vote.

Ms. Riach made the following statement:

I do not have strong views on the approach set out, which seems very tangible, although it does intuitively feel that the nomination aspect is the most difficult part of the process; so it would be helpful to give a bit more time for that.

I wanted to comment on gender diversity at the Board. I am speaking under the instructions of Ms. White in her role as chair of the Board Gender Diversity Committee. Given that the International Monetary and Financial Committee (IMFC) has recognized the importance of gender diversity on the Board, and given that we risk the current already-not-great situation getting even worse after these elections, it would be helpful if we were able to provide some guidance to Governors; so if we are sending out instructions to them on nominations, it may be helpful to send some material explaining the importance of gender diversity and perhaps give them some suggestions on how they might go about considering that in their process for nomination. The Gender Diversity Working Group would be happy to provide some material if that is helpful.

Mr. Panek fully supported following the approach established in 2016. He asked the staff to elaborate on what could go wrong with the process.

Mr. Agung agreed with the proposal to follow the approach established in 2016.

Mr. Raghani agreed with the proposal to follow the approach established in 2016.

Mr. Kaizuka supported the proposal and Mr. Mojarrad's suggestion for changes to the timeline.

Ms. Horsman reiterated that the proposed approach was reasonable. She supported Ms. Riach's suggestion to conduct outreach to encourage Governors to consider gender diversity on the Board.

The staff representative from the Legal Department (Mr. Leckow) noted that if a country did not vote for an Executive Director, it would not be represented in the Board. No Executive Director would represent that country at the Board or cast the number of votes allotted to that country, though the country would remain a member of the Fund. However, the rest of the constituency would continue to be represented on the Board.

The Acting Chair (Mr. Mozhin) noted that Mr. Mojarrad's suggestion to provide more time to the nomination process made sense given its complexity.

The Secretary (Mr. Lin) remarked that a balance had to be struck between allowing enough time for nominations and voting, given the requirement of an 85 percent voting power to approve the rules of the election. He noted that the staff would evaluate options.

Mr. Mojarrad remarked that the Board of Governors' voting period could be reduced to provide more time for the nomination process.

The staff representative from the Secretary's Department (Ms. Michaels), in response to questions and comments from Executive Directors, made the following statement:

That could be done, but I would remind the committee and Executive Directors that there is a very high approval threshold set for this vote on the rules of the election. The reason is that we are changing the number of Executive Directors from the default number of 20 to 24, which is why the requirement for the 85 percent super majority is set for this vote.

We can try to reduce that timeline for the Board of Governors' voting, but we will need Directors' help to encourage the membership to respond to that vote. We would appreciate if Directors could make sure that their members are waiting for the vote and are ready to respond, so that we do not risk a failure of that vote because we did not give ourselves enough time. Then we could add a little time to the nominations window, as requested.

Certainly, we would like to keep a long window open for actual balloting for Executive Director candidates, because we know that people will be moving. Bali is far away, so we have to allow for some down time in that window. If we could shorten the window for the Board of Governors' vote on the rules itself, that would allow a little more leeway for the nominations period.

The Acting Chair (Mr. Mozhin) made the following statement:

This Board can also help in that respect, because the quicker we approve these rules, the more room there will be for other actors to play.

There was an important proposal by Ms. Riach that was also echoed by Ms. Horsman on the objective of more gender diversity in the Board. My question is how this can be accommodated in this process. Could we think about having a sentence in the proposed decision that will be then sent to Governors? This could be a recommendation. This has never been done before. If that is not possible, then I do not see what other vehicle could be used to deliver this signal, which I would be in favor of. What could be the legal vehicle to send this message to Governors?

The staff representative from the Legal Department (Mr. Leckow) cautioned against adding a recommendation to the decision itself, given that it was Governors' right to propose whoever they wanted for election. He remarked that a statement could be added to the report in some form that would highlight the work that was being done on diversity.

Ms. Riach noted that the IMFC had made the request, and consequently the guidance would not be coming from the Executive Board. She remarked that it would be helpful to provide Governors with guidance—perhaps in the form of a short note—on how they might ensure they were not biased against certain groups in the nomination process.

The staff representative from the Legal Department (Mr. Leckow) noted that the information could be conveyed in an annex or appendix to the report or in a separate document that was sent with the report.

Ms. Horsman noted that it would be helpful to remind Governors that they had essentially approved the work on gender diversity in the Board.

The Secretary (Mr. Lin), in response to questions and comments from Executive Directors, made the following statement:

It is good timing and a good way to support the effort, not in a decision, but in a public report.

Mr. Panek asked an interesting question: What could go wrong? Luckily, we did it right in recent years; but in the past, something did happen. For example, there were one or two occasions where a member did not vote, so the member was not represented in the Board for two years.

Three things could happen. First, 85 percent of the voting power required for the approval of the rules might not be obtained in a timely manner. If that is the case, then we need to stay in the timeline, which will squeeze the nomination and the final voting period, which would create a tricky situation.

Second, countries might switch to different constituencies without carefully thinking through what the implication could be for them. For example, in Tokyo, we approached the last country at 5:58 p.m. We finally got the signature because that country initially voted for another candidate far away from its continent. Of course, that is their choice. But we met with the Minister and Governor to explain what that entailed. They had not understood the implications, and so they switched back their vote.

The third issue is the timing. The deadline is 6:00 p.m, local time. But in the 2012 meetings in Tokyo, there were a number of countries that did not have the time to vote until 5:00 p.m. or 5:30 p.m. The last one voted at 5:58 p.m. We chased after them in every hotel.

That is a risk, because after that episode, the Office of Internal Audit audited our process to make sure that all countries voted by the timeline. We explained that the voting took place before 6:00 p.m., but they asked why the timeline had been so tight.

This is the reason we are careful. These are not small issues. They are important for the member, but also for the Fund; so we will be working hard, and we also ask for Directors' support and help in the process.

The Acting Chair (Mr. Mozhin) remarked that there had been instances when more than 24 candidates had been nominated. He noted that during his time at the World Bank, a country had voted for his Executive Director and became a member of his constituency without prior warning.

Mr. Claver-Carone asked if the consequence for a country not voting for an Executive Director was similar to an Article VIII sanction on suspension of voting share.

The staff representative from the Legal Department (Mr. Leckow) remarked that if a country's voting rights were suspended, it lost the right to vote during the period of suspension. However, if a country did not vote for an Executive Director, it had not lost the right to vote, it just had not exercised that right, which meant that it would not be represented at the Board for those two years. While the practical consequence was similar to some degree, it was a different scenario from a legal perspective.

Mr. Bayar made the following statement:

We need to consult with our capital, but broadly speaking, the proposal seems fine. I have two questions.

First, what is the practical linkage with the World Bank Executive Director election process? Are we customarily affiliated with their timeline, because the Governors associate these two elections with each other, so I would like to know if the staff has consulted with the Bank.

The second question is about the Board of Governors' approval of the election of 24 Executive Directors versus 20. In the past, we had some unofficial qualitative criteria by some members for them to approve these 24 chairs. Is the Secretary aware of any such considerations that we might need to know in advance?

Mr. Meyer made the following statement:

Our chair broadly aligns with the proposal to stick to the 2016 process. I have two points.

First, with regard to the timeline, we might be able to gain a few days on step 1 and step 2. That could provide some breathing room.

Second, on the issue of gender, I would like to express some reluctance and encourage us not to interfere with the formal process. Consequently, giving guidance on gender would not be appropriate for that process. Reminding the outside world about the efforts we have made so far is fine; but in terms of the process, I would not include anything on gender, which is an informal process, and not a formal process like this.

The Acting Chair (Mr. Mozhin) asked Mr. Meyer if the process Mr. Leckow had described would be satisfactory.

Mr. Meyer remarked that the election of Executive Directors was a very formal and legalistic process, and that he would not interfere with this process with an informal process on gender diversity.

The staff representative from the Legal Department (Mr. Leckow) noted that the staff would carefully consider the options.

Mr. Jin asked the staff to clarify the meaning of the presentation's reference to future consolidation in the context of maximum and minimum limits on voting power for constituencies.

Ms. Preston made the following statement:

I have two points for clarification and one question. With regard to the Board's size, I understand that it was agreed that the size would be 24 Directors under the 2010 reforms. I was looking at the minutes of the 2016 regular election, and it referred to the 2010 reform decision to have 24 Directors being reviewed every 8 years. Is that something that is under consideration for this year, or is this process part of that review to maintain the 24 Directors?

The second question was with regard to the thresholds for minimum and maximum voting powers within a constituency. In practice, does this mean that members with a voting power above 8 percent in and of themselves cannot accept any other members?

Finally, at the risk of being unpopular with European colleagues, I noted the Secretary's remarks that the minimum and maximum limits were most recently adjusted in 2012 for the internal realignment of advanced European representation. We would be keen for an update on the finalization of these outstanding 2010 reforms and are interested in whether the 2018 regular election of the Executive Directors could provide the mechanism for this commitment to be finalized?

Mr. Panek asked what would happen in the doomsday scenario if no votes were made by the October 31 deadline. He also remarked that the procedure for sending the votes of Governors was not sophisticated and that some votes were sent by fax. He urged the staff to ensure that there was a rigorous verification process for those votes.

The Secretary (Mr. Lin), in response to further questions and comments from Executive Directors, made the following additional statement:

On the World Bank election, we have been working with them, although it is not precisely the same timeline. For example, they have already started the process, so are a bit ahead of us. They have 25 chairs, and in some cases their Governor is the same as the Governor for the Fund, but in other cases there are different Governors. There may be a different process involved in that respect. We are following up quite closely with the World Bank, but not precisely.

With regard to Mr. Jin's question on consolidation, in the context of 2010 quota government reforms, the European membership committed to reduce two of the advanced European chairs to create room for two additional emerging market shares. At that time, Belgium and the Netherlands discussed merging their chairs.

At that time, each chair held close to 5 percent voting power. If the two chairs merged without any change to the membership of the constituencies, they would have 10 percent voting power. In 2012, the committee spent a long time discussing what should be the maximum limit to accommodate their consolidation. There was also information about which countries would stay or leave the constituency so that the committee had a good understanding. The recommendation was that 8 percent would be big enough to accommodate the consolidation, yet not too excessive in terms of the voting power concentrated in one constituency.

The staff representative from the Legal Department (Mr. Leckow), in response to further questions and comments from Executive Directors, made the following additional statement:

In dealing with some of the doomsday scenarios, the rules do reflect more than 70 years of practice in the Fund, and they have been designed to eliminate some of the problems that have been experienced in the past. But with respect to the question as to what happens if the Board of Governors cannot adopt the rules because they do not have the sufficient majority, the Fund had to confront the situation in 2010 where agreement could not be reached to achieve the 85 percent majority to get the rules adopted; and some time elapsed before that could be done with the result that the election could not be completed for the new Board to take office on November 1.

In these circumstances, the Legal Department had to opine on what to do, and we pointed to Article XII, Section 3(f) of the Articles that says that Executive Directors will remain in office until their successors are elected. If we are in this circumstance, essentially out of a doctrine of institutional necessity, the Board remains in office until a new Board is elected, though it is recognized that the Fund has to do everything it can to try to have the new rules adopted so that a new election can be conducted, because where the Board stays in office without a new election, it does raise questions of legitimacy. The basic rule is Directors stay in office until they are replaced.

The Acting Chair (Mr. Mozhin) asked how long the delay lasted in 2010.

The Secretary (Mr. Lin) responded that the delay lasted two to three weeks.

The staff representative from the Legal Department (Mr. Leckow) noted that in 2010 the new Board was in office for a shorter period given that the deadlines for the next election did not change. He further clarified his response to Mr. Claver-Carone and noted that, in the event that a country did not vote for an Executive Director, its votes were still counted in determining the total voting power of the institution of the Board; whereas if a country's ability to vote was suspended, its voting power was taken out of the calculation of the total voting power of the Fund.

The Secretary (Mr. Lin), in response to further questions and comments from Executive Directors, made the following additional statement:

With regard to Mr. Panek's question about the voting system, in the past we have used fax. We have used email. We verify it by the signature and by the fax number from the Minister's or Governor's office. We also check with the Executive Director's office.

We will now use a new secure electronic voting system through IMF Connect, and we will provide details in the following days. But in essence, the communication will go directly to the people who are authorized to use IMF Connect in capitals, so it will be much more secure and faster.

With regard to the hypothetical situation of what would happen if a country votes for a candidate, and is still within the limits, but that Director or constituency may not be willing to accept that vote, I do not believe the Director can choose whom to serve. So long as the country voted for A, then the country will belong to constituency A so long as it is within the maximum limit. It is important not to get into a fight, because if that happens, the country will have to find a new home, and that will take time.

Finally, we are happy to share the presentation and speaking notes with Directors after the meeting.

The Acting Chair (Mr. Mozhin) asked the staff to follow up on Ms. Preston's question.

The staff representative from the Legal Department (Mr. Leckow) responded that the eight-year period ran from the entry into force of the amendment, which took place in 2016, not 2010.

The Acting Chair (Mr. Mozhin) remarked that his sense was that there was broad agreement to continue with the process established in 2016; but that there were a number of specific issues that SEC and LEG would need to address. He expressed hope that a clarified proposal could be circulated for LOT approval, which would allow the process to move smoothly and quickly to the next stage.

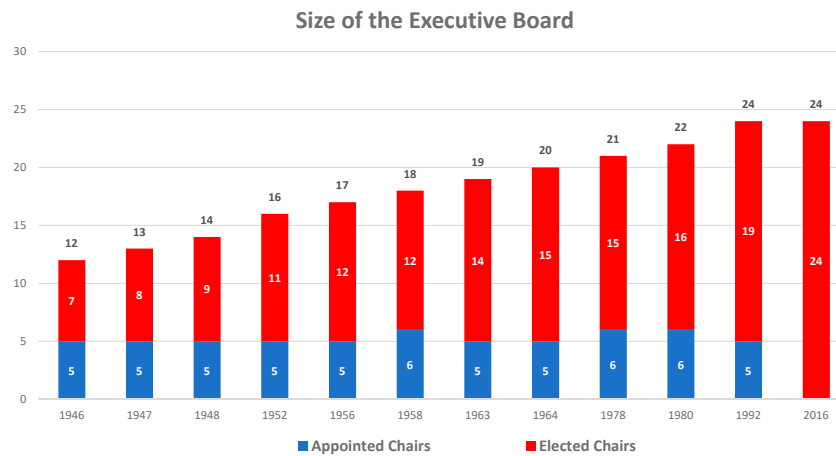
APPROVAL: June 20, 2019

JIANHAI LIN
Secretary

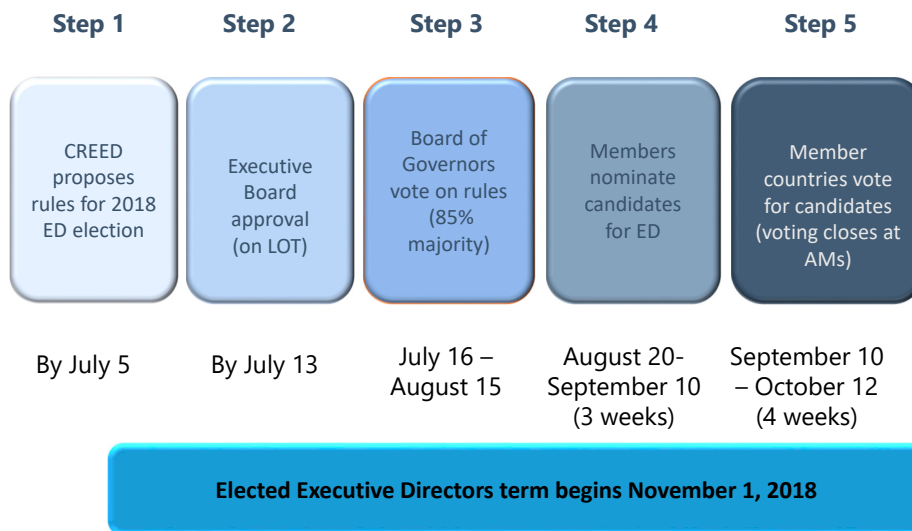


Key Issues and Timeline

Background



Process and Timeline



3

Components of the Rules for the 2018 Election

- **Size of the Executive Board:**
Following the 7th Amendment, the Articles provide for an all-elected Executive Board of 20 Executive Directors. Rules for each election will specify the number of Executive Directors to be elected above 20 chairs
- **Size of constituency voting power:**
Maximum and minimum voting shares for elected EDs
- **Term of Elected EDs**
From November 1, 2018 until October 31, 2020
- **Conduct of the Election**
Timeline and procedures for submitting nominations of candidates and ballots for EDs

4

Max/Min Limits on ED Voting Shares

- **Purpose of the maximum and minimum limits:** Balance between voluntary constituency formation and avoiding excessive concentration of voting power.
- **Maximum and minimum limits operate together** to guide efficient constituency formation.
 - Maximum limit requires member countries whose votes for a candidate would exceed the limit to find another constituency
 - Minimum limit provides incentives for small members to form constituencies

5

Application of the Max/Min Limits

- **Maximum threshold** does not apply to single-member constituencies
- **Minimum threshold** applies to all constituencies
- **Maximum threshold is always flexible and minimum threshold is waived if the election is uncontested, i.e. the number of nominated candidates is equal to the number of chairs to be elected.**
 - **Maximum threshold:** Applied flexibly to accommodate the member whose voting share would take the constituency from below to above the limit
 - **Minimum threshold:** Waived in an uncontested election

6

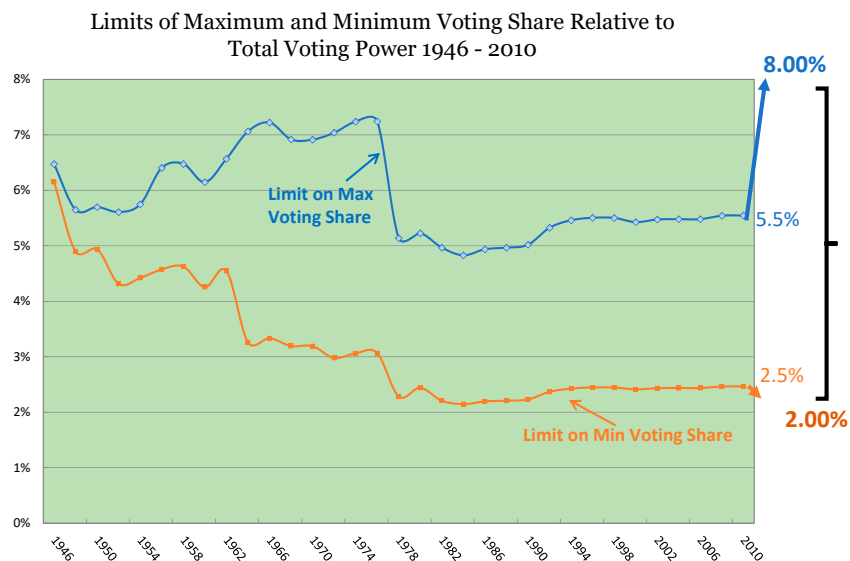
2012 Revision of Max/Min Limits

Objective: Define new maximum and minimum limits to support consolidation of advanced European chairs under 2010 governance reform objectives

- **Maximum threshold increased from 5.5 percent to 8 percent** of the total voting power
- **Minimum threshold lowered from 2.5 percent to 2 percent** of the total voting power

7

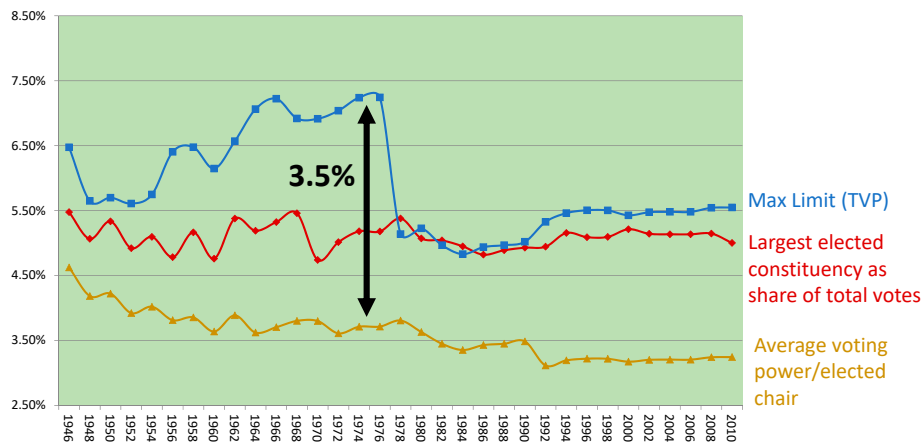
Evolution of the Maximum and Minimum Limits



8

Repositioning the Maximum Limit in 2012

Evolution of Maximum Voting Share Relative to Constituency Voting Shares



9

Proposed Approach for 2018

The CREED may wish to follow the blueprint established for 2016 election of EDs:

- **Assume size of the Board remains 24 elected Executive Directors**, consistent with commitment under 2010 governance reforms.
- **Current settings for 8%max/2%min thresholds** appear appropriate, and allow scope for some further consolidation to meet the 2010 targets.
- **Timeline for conduct of 2018 election should provide sufficient time to permit all member countries to participate.**
 - 3 week nomination period (must receive nominations of 24 candidates)
 - 4 week balloting period (all members must participate)

10

End