U.S. Treasury Department
Revised Draft

Preliminary Draft Outline
of a
Proposal for a United and Associated Nations
Stabilization Fund

Preamble (to be drafted later)

I. Purposes of the Fund

1. To stabilize the foreign exchange rates of the currencies of the United Nations and nations associated with them.

2. C/ To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of [member] cooperating countries. 10

3. E/ ~~To~~ help create conditions under which the smooth flow of foreign trade and of productive capital among the [member] cooperating countries will be fostered. /F

4. G/ ~~To~~ facilitate the effective utilization of the blocked foreign balances accumulating in some countries as a consequence of the war situation; H

5. To reduce the use of such foreign exchange restrictions, bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices as retard the growth of world trade and the international flow of productive capital.

II. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least $5 billion.

   The quota for each member country shall be determined by an agreed upon formula. The formula shall give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, its national income, etc.

3. Each member country shall provide the Fund with 100 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. Each member country shall pay 25 percent of its quota in gold, 25 percent in local currency, and 50 percent in its own (i.e., government) securities. However, any country having less than $300 million in gold need provide only 15 percent of its quota in gold, and any country having less than $100 million in gold need provide only 10 percent of its quota in gold, the contributions of local currency being increased correspondingly. A country may, at its option, substitute gold for its currency and securities or it may substitute its currency for its securities.

5. The quotas shall be adjusted three years after the establishment of the Fund, and at intervals of five years thereafter, in accordance with the agreed upon formula.

6. Any changes in the formula by which the quotas of member countries are determined shall be made only with the approval of a four-fifths vote of the Board.

III. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries.

   All member countries agree that all of the local currency holdings of the Fund shall be free from any restrictions as to their use. This provision does not apply to blocked foreign balances acquired by the Fund in accordance with the provisions of III-9, below.

2. The rates at which the Fund will buy and sell one member's currency for another and the rates in local currency at which it will buy and sell gold shall be established as follows:

   based upon

   a. For any country which becomes a member prior to the date on which the Fund's operations begin, the rate initially used by the Fund shall be the value of the currency in terms of U. S. dollars which prevailed in the seventh month prior to the establishment of the Fund. The rate selected shall be the average of the daily cable rates for the month.

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b. For any country which has been occupied by the enemy, the Fund shall use the exchange value fixed by the Government of the liberated country within one month after such liberation. Until the rate is fixed by such a country, the Fund shall undertake no operations in that currency.

c. For any country which becomes a member subsequent to the date on which the Fund's operations begin, the exchange value of its currency shall be determined in accordance with provisions III-2(a) and (b) above, except that another exchange value may be established in the manner provided in III-2 (d) below for a change in the exchange value of the currency of a member country.

d. Changes in the exchange value of the currency of a member country shall be permitted considered only when essential to the correction of a fundamental disequilibrium and shall be permitted only with the approval of three-fourths of the member votes, provided that the representative of the member country whose currency is being altered in value concurs. An exception to the above shall be countries which established their rates in accordance with the special provisions for countries occupied by the enemy. In the case of such countries, the rate of exchange may be altered, within three years from the date on which the Fund's operations began, with the approval of the majority of the Fund, provided that the country whose rate of exchange is being altered concurs.

e. The Fund shall have the privilege of determining a buying and a selling rate for each currency and for gold. The percentage spread between the buying and selling rates, however, of any currency, shall be fixed by the Fund and in no case shall be more than 4 percent of parity.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at the <u>accepted</u> rate of exchange, currency of any member country which the Fund holds, provided that:

   a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments predominantly on current account.

b. The Fund's holdings of the currency and securities of any member country shall not exceed during the first year of the operation of the Fund, 150 percent of the quota of that country; it shall not exceed during the first two years 200 percent of such quota; and thereafter it shall not exceed 250 percent of such quota; except upon approval by the Fund, and provided that at least one of the following two conditions is met:

   i. In the jud opinion of the Fund satisfactory measures are being or will be taken by the country whose currency is being acquired by the Fund, to correct the disequilibrium in the country's balance of payments, or

   ii. It is believed that the balance of payments of the country whose currency is being acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

   Provided, however, that, when the Fund's holdings of the currency of any member country or countries fall below 20 percent of their respective quotas, the sale shall also require the approval of the Board representatives of these countries or alternatively four-fifths of all member votes.

   The Fund shall fix a special charge to be paid by the member country on the Fund's holdings of its currency in excess of the limits prescribed above.

c. When the Fund's holdings of local currency and securities exceed the quota for a country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors. This provision does not apply to currencies acquired under III-9 below.

d. When the Fund's holdings of the currency and securities of any member country exceed its quota and when in the judgment of the Fund a member country is exhausting its permissible quota more rapidly than is warranted or is using its permissible quota in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts, the Fund may place such conditions upon additional sales of foreign exchange in that country as it deems to be in the general interest of the Fund.

e. A charge at the rate of 1 percent per annum, payable in gold, shall be levied against any member country on the amount of its currency held by the Fund in excess of 150 percent of the quota of that country.

In case the Fund finds it necessary to borrow additional currency to meet the demands of its members, an additional charge shall be made by the Fund on all such excess holdings sufficient to cover the cost of the borrowing.

Blocked foreign balances acquired by the Fund (in accordance with III-9 below) shall not be included in the computed balance of local currency used as a basis for these charges.

f. When the Fund's holdings of the local currency and securities of a member country exceed 150 percent of the quota of that country, the Fund shall, upon request of the member country, resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency for the purpose of meeting an adverse balance of payments on current account is recognized only to the extent of its permissible quota, subject to the limitation in III-3 above and III-7 below.

5. The Fund may sell foreign exchange to a member country, under conditions prescribed by the Fund, to facilitate a transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation, provided the Fund's holdings of the currency and securities of the member country do not exceed 150 percent of the quota of that country. When the Fund's holdings of the local currency and securities of a member country exceed 150 percent of the quota of that country, the Fund may, in exceptional circumstances, sell foreign exchange to the member country for the above purposes with the approval of three-fourths of the member votes.

6. When the purchases and sales of currencies by the Fund to finance the balance of payments of a member country have resulted in an excess of sales of its currency to the extent of 80 percent of its quota, or when the Fund's hold-

ings of the currency and securities of a member country become excessively small in relation to prospective acquisitions and needs for that currency, the Fund shall render a report to that country. The report shall embody an analysis of the causes of the depletion of the Fund's holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The Board member of the country in question shall be a member of the Fund committee appointed to draft the report. This report shall be sent to all member countries and, if deemed desirable, made public. Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of the currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand for and supply of the currency.

   The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

   The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it

will offer to sell to the Fund, for its local currency or for foreign currencies which the member country needs, one-half of the foreign exchange resources and gold it acquires in excess of the approximate amount it possessed immediately after joining the Fund. For the purpose of this provision, including computations, only free and liquid foreign exchange resources and gold shall be considered. The Fund may accept or reject the offer.

To help achieve this objective each member country agrees to discourage the excessive accumulation of foreign exchange resources and gold by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately held foreign exchange resources and gold appears unwarranted.

9. To buy from the governments of member countries, blocked foreign balances held in other countries, provided all the following conditions are met:

   a. The blocked balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

   b. The country selling the blocked balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

   c. The country in which the blocked balances are held agrees to the transfer to the Fund of the balances described in (b) above, and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

   d. A charge of 1 percent on the amount of blocked balances sold to the Fund, payable in gold, shall be levied against the country selling its blocked balances and against the country in which the balances are held. In addition a charge of 1 percent, payable in gold, shall be levied annually against each country on the amount of such balances remaining to be repurchased by it.

e. If the country selling blocked balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.

f. Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling blocked balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

g. The Fund has the privilege of disposing of any of its holdings of blocked balances as free funds after the 23 year period is passed, or sooner under the following conditions:

i. its holdings of the free funds of the country in which the balances are held fall below 15 percent of its quota; or

ii. the approval is obtained of the country in which the balances are held.

h. The country in which the blocked balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually repurchased by the country which sold the balances to the Fund.

i. The Fund agrees not to sell the blocked balances acquired under the above authority, except with the permission or at the request of the country in which the balances are being held. The Fund may invest these balances in the ordinary or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.

j. The Fund shall determine from time to time what shall be the maximum proportion of the blocked balances it will purchase under this provision.

Blocked balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not acquire more than $10 million of the currency of any one non-member country nor hold such currencies beyond 60 days after date of purchase except with the approval of four-fifths of the member votes.

11. To borrow the currency of any member country provided the additional amount is needed by the Fund and provided the Board representative of that country approves.

12. To sell member country obligations owned by the Fund provided that the Board representatives of the country issuing the securities and of the country in which the securities are to be sold approve, except that the approval of the representative of the issuing country shall not be necessary if the obligations are to be sold in its own market.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in government securities and prime commercial paper of the country of that currency provided that both the Board representative of the country in which the investment is being made and of the country whose currency is being invested approve. If an investment is to be made with gold, three-fourths of the member votes must approve.

14. To lend to any member country its local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by four-fifths of the member votes.

15. To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed 1/10 percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses, and only with the approval of four-fifths of the member votes.

To make a service charge on all exchange and gold transactions.

16. The Fund shall deal only with or through

a. The treasuries, stabilization funds, or central banks acting as fiscal agents of member governments;

b. Any international banks owned predominatly by member governments.

The Fund may, nevertheless, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

IV. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 1/7 grains of fine gold (equivalent to $10 U.S.). Any change in the gold content of the Unitas shall be made only with the approval of 85 percent of the member votes. The accounts of the Fund shall be kept and published in terms of Unitas.1/

2. The value of the currency of each member country shall be fixed by the Fund in terms of Unitas and may not be altered by any member country without the approval of three-fourths of the member votes.

3. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Whenever the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or Unitas value of the Fund's holdings. The same provisions shall also apply to the government securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under III-9 (blocked balances).

V. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall

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1/ When such change is made the gain or loss sustained by the Fund on its holdings of gold shall be distributed equitably among the members of the Fund.

appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be re-appointed.

In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each 100,000 Unitas ($1 million) of its quota.

Notwithstanding the approved formula for distributing voting power, no country shall be entitled to cast more than one-fifth of the aggregate votes regardless of its quota. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an ex officio member of the Board and shall be Chief of the operating staff of the Fund. The operating staff shall be selected in accordance with regulations established by the Board of Directors.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an ex officio member of the Executive Committee.

   The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Board of Directors may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. The Board may not delegate any authority the exercise of which requires the approval of more than one-half of the member votes.

   Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

6. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

   Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

   A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. The Fund shall have five years in which to liquidate its obligation to such a country. When any country is dropped or withdraws from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

   a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate quotas of the Fund.

   b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in gold at the discretion of the Fund.

VI. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

   To cooperate with the Fund and with other member countries in effectuating the policies of the Fund, and not to undertake exchange dealings with member or non-member countries that will undermine stability of exchange rates established by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions (except upon capital transfers) without the approval of the Fund.

   The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions over foreign exchange transactions, and each member country shall give consideration to such representations.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken such as:

a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the Government of that country and the Fund;

b. To make available to the Fund or to the Government of any member country such information, as the Fund considers necessary, on property in the form of deposits, securities and investments of the nationals of the member country imposing the restrictions.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. To count as a part of its legal gold reserves (whether against note issues or central bank deposits):

a. 50 percent of its quota, provided that the Fund's holdings of the currency and securities of that member country are not in excess of the quota, or

b. 50 percent of its quota less 25 percent of the amount by which the Fund's holdings of the local currency and securities of that country exceed its quota, whenever the Fund's holdings of a local currency exceed the quota of the country.

6. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

7. To furnish the Fund with all information it needs for its operations and to furnish such reports as the Fund may require in the form and at the times requested by the Fund.