TREASURY DEPARTMENT
Division of Monetary Research

Suggested Changes in the Tentative Draft Proposal for
an International Stabilization Fund

(To replace present provisions bearing the same number. Where the change is merely an addition, the new portion is underlined)

II-3 (a) A country shall pay in gold not less than an amount determined as follows. If its official gold and free foreign exchange holdings are:

(i) In excess of four times its quota, it shall pay in gold 50 percent of its quota.
(ii) More than three but less than four times its quota, it shall pay in gold 40 percent of its quota plus 10 percent of its holdings in excess of three times its quota.
(iii) More than twice but less than three times its quota it shall pay in gold 30 percent of its quota plus 10 percent of its holdings in excess of three times its quota.
(iv) More than its quota but less than twice its quota, it shall pay in gold 20 percent of its quota plus 10 percent of its holdings in excess of its quota.
(v) Less than its quota, it shall pay in gold 20 percent of its holdings.

Alternative

II-3 (a) A country shall pay in gold an amount not less than 15 percent of its quota or official holdings of gold and free foreign exchange, whichever is lower, plus 7-1/2 percent of its holdings in excess of its quota; provided, however, that no country shall pay more than 50 percent of its quota in gold.

Alternative

II-3 (a) A country shall pay in gold 50 percent of its quota; provided, however, that

(i) A country whose official gold and free foreign exchange holdings are less than four times its quota may reduce its payment in gold by one-eighth of the amount by which its holdings fall short of four times its quota;
(ii) A country substantial parts of whose home areas have been wholly or partly occupied by the enemy may reduce its payment in gold by one-fifth.

III-1. The monetary unit of the Fund shall be the unitas (~~UN~~) equal in value to 137-1/7 grains of fine gold (equivalent to $10). No change in the gold value of the unitas shall be made except as follows:

(a) With the approval of 80 percent of the member votes; or
(b) With the approval of a majority of the member votes, including the representatives of all member countries holding 10 percent or more of the aggregate quotas.

When a change in the gold value of the unitas is made, the gain or loss sustained by the Fund on its gold holdings shall be distributed equitably among the members of the Fund.

III-3. No change in the value of the currencies of member countries shall be permitted to alter the value in unitas of the assets of the Fund. Whenever the currency of a member country has depreciated to a significant extent, notwithstanding the approval of the Fund, that country must deliver to the Fund when requested an amount of its local currency, etc.

IV-3. The Fund shall not come into operation until agreement has been reached on the exchange rates for currencies of countries representing a majority of the aggregate quotas. No country shall be committed to membership until it is satisfied with the pattern of initial exchange rates that have been fixed at the time the operations of the Fund are to begin.

IV-5. A change in an established exchange rate may be made only upon the request of the member country and only after approval by the Fund and the representative of the country concerned.

a. The Executive Committee, acting for the Fund, shall authorize a change in an exchange rate only when essential to the correction of a fundamental disequilibrium. In considering the advisability of a requested change in an exchange rate, the Executive Committee shall take account of changes in relative costs of production, changes in the balance of payments position of the country, its reserve position and other relevant factors, and the probable effects of the requested change in the exchange rate.

b. In order to assure the prompt consideration of a requested change in an exchange rate, the Executive Committee shall notify a member country, within two business days after the filing of the request by its representative with the Managing Director, that the requested change has been accepted, rejected, or held for further consideration.

c. The Executive Committee may not hold for further consideration a request for an alteration in exchange rates not in excess of 10 percent of the established rate in any 12-month period, and the Executive Committee may act on such a request by a majority of its votes.

d. Because of the extreme uncertainties of the appropriateness of the initial rates determined during and immediately after the war, a member country may change the established rate of exchange for its currency up to 10 percent of the initially established rate, provided that the member country shall notify the Fund of its intention and shall consult with the Fund on the advisability of its action.

V-1. The Fund shall have the power to buy, sell and hold gold, currencies, 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.

The Fund shall purchase for local currency or needed foreign exchange any member currency, <u>for which it is authorized to sell foreign exchange under V-2, 3, acquired by other member countries</u> in settlement of a balance of payments on current account where such currency cannot be disposed of within the range established by the Fund.

V-2. The Fund may sell to the Government of any member country (or Central Bank or Stabilization Fund acting as its agent) at the accepted rate of exchange, currency of any member country which the Fund holds, provided that

a. The foreign exchange demanded from the Fund is <u>intended</u> to meet an adverse balance of payments predominantly on current account with any member country. (Cf. V-3, for capital transfers.)

b. The Fund's total holdings of the currency and securities of any member country shall not exceed the quota of such country by more than 25 percent during the first year of operation of the Fund, by more than 50 percent during the second year, by more than 75 percent during the third year, and thereafter shall not exceed such quota by more than 100 percent (except as otherwise provided below). The total holdings thus permitted are termed the permissible quota of a country. When the Fund's holdings of local currency and securities are equal to the permissible quota of a country, the Fund may sell foreign exchange for such additional local currency only with the specific approval of the Board of Directors (cf. VI-3-a, below), and provided that at least one of the following two conditions is met:

V-2-d When a member country is exhausting its permissible quota more rapidly than provided in V-2-b above, or persists in 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 shall render a report to the member country indicating the effects of its excessive use of the Fund's resources. The Fund may also give notice of not less than six months that it will not continue to sell foreign exchange for the local currency of the member country. Thereafter, the Fund may place such conditions upon additional sales of foreign exchange for the local currency of that member country as it deems to be in the general interest.

V-6. In order to promote the most effective use of the available and accumulating supply of gold and foreign exchange resources, 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 gold it acquires in excess of its official holdings at the time it became a member of the Fund; but no country need sell gold under this provision unless its official gold holdings (i.e., Treasury, Central Bank, Stabilization Fund, etc.) are in excess of 25 percent of its quota.

Each member country shall report to the Fund its official foreign exchange holdings at the time it becomes a member of the Fund and periodically thereafter. The Fund at its option may require any member country to sell to the Fund one-half of the foreign exchange it acquires in excess of its official holdings at the time it became a member of the Fund; but no country need sell foreign exchange under this provision unless its official foreign exchange holdings are in excess of 25 percent of its quota.

V-8. The Fund may buy for local currency or needed foreign exchange, blocked balances reported to and verified by the Fund, provided:

a. The repurchase of such blocked foreign balances over an appropriate period is agreed to by the member country in which the balances are blocked, and guaranteed by the member country by whom they are sold.

b. Such balances shall be repurchased with gold or with member currencies at the rate of exchange at which they were purchased by the Fund.

c. A reasonable charge shall be levied on the transaction and interest shall be paid on the amount of such balances held by the Fund. The Fund may invest such balances in securities.

The Fund shall determine from time to time the maximum proportion of the blocked balances it will purchase, but blocked balances held by the Fund shall not exceed 10 percent of the aggregate quotas.

Blocked balances acquired under this provision shall not be included either in computing the amount of foreign exchange available to member countries under their quotas, or in computing charges on balances of local currencies in excess of the quotas.

VI-6. The Board of Directors shall select an Advisory Council of seven members. The Council shall advise with the Board and the officers on matters of general policy. The Council shall meet annually and on such other occasions as the Board may request.

The members of the Advisory Council shall be selected from men of outstanding ability on matters pertaining to international monetary policy. But not more than one member shall be selected from the same country. They shall serve for two years and the term of any member may be renewed. Members of the Council shall be paid their expenses and a remuneration to be fixed by the Board.

VII. Policies of Member Countries

Each member country shall determine for itself the appropriateness of the measures it takes to implement the purposes and the provisions of the Fund, except in such matters as relate to the purchase or sale of exchange by the Fund. However, the Fund may recommend to member countries such action as it regards as appropriate with respect to the purposes and provisions of the Fund, and each member country shall give consideration to such recommendations.

In accordance with these principles, each member country undertakes the following: