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Report of the Drafting Committee of
Committee 1 of Commission I on
Matters Referred to It at the
Meeting of Committee 1 on July 4.

The Drafting Subcommittee met on July 5 to consider the matters referred to it by the Full Committee.

The following members were present: Mr. Goldenweiser Chairman, Dr. Tsiang, Dr. Gudin, Mr. Mladek, Mr. Melville, Professor Robbins and Mr. Varvaressos.

The Committee considered Alternatives A, B and C relating to Section 2 of Article I in the Preliminary Draft Articles of Agreement (Document F-1) and also considered alternative language submitted by the Colombian, New Zealand, and French delegations bearing on this Section. The drafting committee recommends for the consideration of the full committee the following language:

Article I, Section 2

"To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and to the development of the sources of productive power in all member countries as primary objectives of economic policy."

In recommending this new formulation the drafting committee wishes to report that the representatives of the Indian delegation who were present during the discussion expressed themselves as regarding the language as an improvement from their point of view but as not completely meeting their wishes on the point.

The representative of the Australian delegation also agreed that the new language was an improvement but stated that its suitability from the point of view of his delegation was partly dependent upon the language to be adopted under Article III, paragraphs 2, sections (a) and (d) of the Joint Statement, which deal with the conditions under which a member is entitled to buy another member's currency from the Fund in exchange for its own currency.

The drafting committee therefore recommends that if the new wording it suggests is adopted by the Committee, the attention of Committee 2 shall be drawn to the position of the Australian delegation on this matter.

The drafting committee wishes also to report that the suggestion was made in its discussions that many of the difficulties encountered in the drafting of the language of Article I, Section 2 might be overcome if there were a suitable general preamble to the final document of the Conference, in which the basic economic objectives of all its work, both Fund and Bank, are clearly stated.

The drafting committee recommends the following language for Article I, Section 3:

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

In accordance with its instructions, the drafting committee deferred consideration of Article I, Section 4.

The drafting committee considered Alternatives A and B of Article I, Section 6 and recommends to the Committee the following language:

"In accordance with the above objectives, to shorten the periods and lessen the degree of disequilibrium in the international balances of payments of member countries."

The drafting committee calls the attention of the Committee to the words at the end of Article I, Alternative A, which read:

"The Fund shall be guided in all its decisions by the purposes set forth above."

The drafting committee recommends that the whole Committee approve the inclusion of this language at the end of Article I.

MEXICO'S PROPOSAL ON SILVER

Submitted for consideration by Commission III

WHEREAS it is undeniable that about half of the world's population prefers silver coins to any other kind of currency for every-day use and trade, as well as for hoarding;

WHEREAS the economically weaker silver-using nations of the world, upon becoming members of the proposed International Monetary Fund, would in fact agree, among other things, to collaborate with the stronger nations in the establishment of a world-wide free market for gold, and in the maintenance of a stable and fair price for that metal;

WHEREAS it is just and fair that, in due correspondence, the economically stronger countries should agree to extend their cooperation to the economically weaker ones, in order that silver may also have an ample market and a relatively stable and fair international price;

WHEREAS, to comply fully with the proposed agreement, the silver-using peoples would need proportionately larger, and therefore more burdensome, monetary reserves, since besides their normally heavy investments in silver coins, they would also have to maintain a gold reserve proportionately as large as that of any gold-using nation;

WHEREAS it is not fair that the economically weaker peoples should carry the whole weight of their silver stocks, as well as the heavy losses caused by the wide fluctuations of their international value, and carry besides their proportionate share of the gold stocks;

WHEREAS it has been fully demonstrated by the far-sighted policy of the United States during the past decade, that it is not only possible but equally feasible, without the slightest danger to the monetary equilibrium even of a single nation, to maintain stable the relative international prices of gold and silver, and to stabilize both prices in terms of a single currency;

WHEREAS it should be relatively easier and less costly for the United and Associated Nations to establish a fair and reasonable international price for silver than to fix one for gold, inasmuch as the present value of the visible stocks of gold is around thirty billion dollars, while that of silver is only a fifth or a sixth of that amount;

WHEREAS one of the main purposes of this Conference should evidently be, not to select gold or anything else as a metallic standard which would lead the world back into the rigidity of an arbitrary yardstick for national and international values, but rather to lay the foundations of a well-integrated world monetary system, wherein certain important currencies generally accepted in international trade, as well as gold and silver itself, can and should be used to great advantage, each to fulfill a different international function;

WHEREAS in the proposed agreement it is foreseen that the Monetary Fund may be forced to change the price of gold in terms of all the member countries' currencies, in order to provide additional means of international payments;

WHEREAS silver, because of its traditional monetary use by approximately half of the inhabitants of the world, can and should be used as a collateral monetary metal for

meeting

meeting such increases in credit requirements of member countries;

WHEREAS in principle there can be no better grounds for pegging the price of gold in terms of the United Nations' currencies, than those for preventing the wide fluctuations of the international price of silver, in relation to the same currencies;

WHEREAS the wide fluctuations in the international value of silver, besides placing a heavy risk on the shoulders of those countries least able to carry it, are the direct source of recurrent dislocation of the monetary system of silver-using countries; and

WHEREAS it is technically possible to achieve a minimum price for gold and a maximum price for silver in terms of all the currencies of member countries;

The Mexican Delegation presents for the consideration of this Conference the following tentative plan to link silver with gold for international monetary purposes:

I.- That the Monetary Fund should buy and sell from and to member countries gold and silver together and jointly, at the fixed rate in terms of member currencies and in a ratio of, say, one ounce of pure gold to ten ounces of fine silver.

II.- That member countries would agree to buy and sell from and to the Fund, and from and to one another, gold and silver together and jointly, at the same rate and in the same ratio as above.

III.- That the Fund should have power:

a.- To alter permanently, by a four-fifths majority vote, the proportions of gold and silver set forth above in I and II, only when a permanent and fundamental change in the average yearly rate of

-4-

production and consumption of both metals has taken place; and

- b.- To eliminate silver entirely but temporarily from its joint purchases and sales of gold and silver, and to permit member countries to do likewise, only when and just as long as, due to an increase in the price of silver, over and above an agreed ceiling, the price of one ounce of pure gold in the basic composite unit as defined under I and II above, should be less than the agreed minimum price of thirty-five U. S. dollars per ounce.

THE MEXICAN DELEGATION submits to this Conference the following

R E S O L U T I O N

- A.- That the Fund shall determine the feasibility of linking silver with gold for international monetary purposes, in accordance with the formula pre-inserted or any other formula;
- B.- That the Fund shall be authorized to carry out whatever policy it deems appropriate as regards the proper role and function of silver within the international monetary structure.

SECOND REPORT OF THE DRAFTING COMMITTEE
OF COMMITTEE I OF COMMISSION I
JULY 7, 1944

The Drafting Committee met on July 7, 1944 to consider the matters referred to it by the Full Committee on July 5 and 6, 1944.

The following members were present: Mr. Goldenweiser, Chairman, Dr. Taiang, Dr. Gudin, Mr. Mladek, Mr. Melville, Professor Robbins, Mr. Morozov, and Mr. Varvaressos, and Mr. Brown and Mr. Young from the Secretariat.

The Drafting Committee recommends the following language for Article II, Section 1 - Countries Eligible for Membership:

Article II, Section 1

"At the outset the members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership in the Fund.

"Subsequently membership in the Fund shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Fund."

The Drafting Committee recommends the following language for Article II, Section 4 - Adjustment of Quotas (page 3):

"The Fund shall at intervals of five years review and, if it deems it appropriate, adjust the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. A four fifths majority vote shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned."

The Drafting Committee recommends the following language for Article II, Section 5 - Initial Payments (page 4):

"Each member shall pay in gold as a minimum either (a) twenty-five percent of its quota, or (b) ten percent of its official holdings of gold and gold convertible exchange,^{1/} whichever is smaller, on _____ . In the case of any member occupied by the enemy whose holdings are not ascertainable as of _____, the Fund shall fix an appropriate alternative date. The data necessary to determine official holdings of gold and gold convertible exchange shall be

furnished

^{1/} The phrase "gold and gold convertible exchange" is subject to definition and to such change in terminology as may be agreed upon.

furnished by the members as provided in this Agreement. Each member shall pay the balance of its quota in its own currency."

The Drafting Committee recommends the following language for Article IX, Section 2 - Gold Purchases Based on Parity Prices (page 38):

"Monetary authorities or agents of member countries shall not buy or sell gold at prices which vary from the agreed parity of their currencies by more than a prescribed margin."

The Drafting Committee wishes to report that if any revisions are later included under Article IX, Section 1 - Purpose and Scope of Additional Undertakings (p. 38 of Document SA/1), which affect Section 2 of this Article, the Committee wishes to reconsider its recommendation.

The Drafting Committee recommends the following language for Article IX, Section 3, Paragraph (a) - Foreign Exchange Dealings Based on Par Values (p. 39 of Document SA/1):

"The Fund shall prescribe the margin by which the maximum and minimum rates for exchange transactions in member currencies may differ from parity. This margin, however, shall not exceed _____ percent of the parity."

This recommendation is made by the Drafting Committee in order to make clear that the purpose of the paragraph is to prescribe the spread within which transactions may be carried out and not to fix the level or parity of exchange rates which is dealt with in other provisions of the agreement. The discussions of the Drafting Committee, however, developed a difference of view as to whether it is intended that the buying and selling rates falling within the permissible spread should be agreed upon by the Fund and each member, or whether the member country should have full freedom in this respect. The Drafting Committee considered this to be a matter of substance and not falling within its competence, and referred the question to the Full Committee.

The Drafting Committee recommends the following language for Article IX, Section 3, Paragraph (b):

"Each member undertakes, through appropriate measures authorized under this agreement, not to permit within its jurisdiction an appreciation or depreciation of

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Summary
the exchange value of its own currency in terms of gold beyond the range prescribed under (a) above. In particular, a member whose monetary authorities in fact freely buy and sell gold or gold convertible exchange within the prescribed range, to settle international transactions, shall be deemed to be fulfilling this undertaking."

Some members of the Drafting Committee felt that it would be necessary to obtain clarification of the precise meaning of the word "freely" as used in this provision.

The Drafting Committee deferred consideration of Article IX, Section 3, Paragraph (c), in accordance with its instructions from the Full Committee.

The Drafting Committee considered again Article I, Section 4 of the agreement which deals with the promotion of exchange stability as one of the purposes of the Fund. The Drafting Committee wishes to inquire of the Full Committee whether the procedure for changing exchange rates has been agreed upon since it can not make a recommendation on this section until that is done.

A.C.V.
The Drafting Committee also considered Article II, Section 3 - Time and Place of Payment (p. 2 of Document SA/1), which was referred to it by the Committee on July 4, 1944. After considering the possibility that the language in this clause might enable a country to be a member of the Fund for a considerable time without furnishing its quota, the Drafting Committee decided that the language of the clause was not susceptible of such interpretation and was, therefore, satisfactory. The delegate from Czechoslovakia wishes the Drafting Committee to report that his agreement with the wording of this section is contingent upon the manner in which the Conference finally decides to deal with Alternative B to this provision, which provides for special arrangements for the payment of quotas by countries whose currency systems have been disorganized as a result of the war.

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COMMITTEE 4 OF COMMISSION I

REPORT OF THE SUBCOMMITTEE

TO CONSIDER ARTICLE IX, SECTION 7 -- AND OF THE ASTERISK COMMITTEE

JULY 7, 1944

At the fourth meeting of Committee 4 the Chairman of the subcommittee to consider article IX, section 7 read the document approved by his Committee.

Following the regular meeting of Committee 4 the Asterisk Committee met to consider articles XI and XII.

Copies of the articles referred to above as approved by their respective committees are enclosed.

Manuel B. Llosa
Chairman of Committee 4

Col. Charles Dyson
Secretary, Committee 4

7/7/44
Doc. #198

COMMISSION I

STATUS OF COMMITTEE ASSIGNMENTS

AS OF 6:00 P.M., JULY 7, 1944

Committee 1 - Purposes, Policies, and Quotas of the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
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Article I - Purposes and Policies of the Fund

Sec. 1 Joint Statement

Sec. 2 Drafting Committee's revision

Sec. 3 Drafting Committee's revision

Sec. 4 xx

Sec. 5 Alt. A

Sec. 6 Drafting Committee's revision

Additional paragraph (Alt. A, p. 1a) Alt. A

Alt. F, xx

Alt. G xx

Alt. H xx

Article II - Subscription to the Fund

Sec. 1-Countries Eligible for Membership xx

Sec. 2-Quotas xx

Sec. 3-Time and Place of Payment xx

Alt. B (p. 2a) and Alt. B & C (p. 4a) xx

Alt. C (p. 2b) and D (p. 4b) xx

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>(Article II)</u>				
Sec. 4-Adjustment of Quotas		xx		
Sec. 5-Initial Payments		xx		
Sec. 6-Payments when Quotas are Changed	Alt. A			
<u>Article IX - Obligations of Member Countries</u>				
Sec. 1-Purpose and scope of additional undertaking				xx
Sec. 2-Gold purchases based on parity prices		xx		
Sec. 3-Foreign Exchange dealings based on par values		xx		
Sec. 4-Exchange controls on Current Payments			Clarification of language requested from Commission I	xx

Committee 2 - Operations of the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article III - Transactions with the Fund</u>				
Sec. 1-Agencies Dealing with the Fund				xx
Sec. 2-Conditions upon which any Member May Purchase Currencies of Other Members				
par. (1)	Alt. A			
par. (2)				xx
par. (3)		xx		
par. (4)	Alt. A			
Final Sentence	Alt. A			
Sec. 2(a)-Conditions Governing Purchases for Capital Transfers	Alt. A			
Sec. 3-Declaring Members Ineligible to Use Resources of the Fund	Alt. A			
Alt. E (p.6d)				xx
Sec. 4-Limitations on Operations of Fund	Alt. A			
Sec. 5-Operations for Purpose of Preventing Currencies Becoming Scarce				
par.(1)		xx		
par.(2)	Alt. A as amended			

Article and Section	Language Accepted	Referred to Drafting or Other Sub- Committee	Referred to Commission I Without Decision	No Action or Decision Deferred
(Article III)				
Sec. 6-Multilateral International Clearing		par.(d) referred to drafting Committee		XX
Sec.7-Acquisition by Members of Currencies of Other Members for Gold	Alt. A			
Sec. 8-Other Acqui- sitions of Gold by the Fund				XX
Sec. 9-Transferabil- ity and Guarantee of Assets of the Fund			XX	
Sec. 10-Charges and Commissions				XX
Sec. 12-Considera- tion of Representa- tions of the Fund			XX	
<u>Article IV - Par Values of Member Currencies</u>				
Sec. 1-Par Values of the Currencies of Members	Alt. A			
Sec. 2				XX
Sec. 3				XX
Sec. 4				XX
Sec. 5-Uniform Changes in Par Value			XX	
Sec. 6-Protection of the Assets of the Fund	Revised Alt. A			
Sec. 7-Separate cur- rencies within a Member's Jurisdic- tion	Alt. A			

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article V - Capital Transactions</u>				
Sec. 1-Use of Resources of the Fund for Transfers of Capital	Alt. A, as amended			
Sec. 2-Limitations on Controls of Capital Movements	Alt. A, as amended			
<u>Article VI - Apportionment of Scarce Currencies</u>				
Sec. 1-General Scarcity				XX
Sec. 2-Scarcity of the Fund's holding				XX
<u>Article X - Transitional Arrangements</u>				
Sec. 1-Exchange restrictions and currency arrangements and practices retained				XX
Sec. 2-Withdrawal of exchange restrictions				XX
Sec. 3-Policy of the Fund during the transition period				XX
Sec. 4				XX
<u>Article XIII - Final Provisions</u>				
Sec. 5-Fixing initial par values				XX

Committee 3 - Organization and Management of
the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub- Committee</u>	<u>Referred to Commis- sion I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article III - Transactions with the Fund</u>				
Sec. 11-Furnishing Information				xx
<u>Article VII - Management of the Fund</u>				
Sec. 1-Board of Gov- ernors	Combination of Alt.A & Alt.B, as amended			
Sec. 2-Executive Directors			xx	
Sec. 3-Voting			xx	
Sec. 4-The General Manager			xx	
Sec. 5-Publication of Reports	Alt. A			
Sec. 6-Depositories par. (a)	Alt. A			
par. (b)			Alts. A & B referred to Commis- sion I	
Sec. 7-Form and Holdings of Currency	Alt. A			
Sec. 9-Location of Office				xx
Sec. 10-Distribu- tion of Net in- come of the Fund	Alt. A, amended			
Sec. 11-Miscellan- eous Powers item (4)				xx
item (5)	Alt. A			

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article VIII - Withdrawal from the Fund</u>				
Sec. 2-Suspension of Membership or Compulsory Withdrawal				xx
Sec. 3-Settlement of accounts with countries ceasing to be members				xx
Sec. 4-Liquidation of Fund				xx

Committee 4 - Form and Status of the Fund

Article VII - Management of the Fund

Sec. 8-Relationship to other international organizations	Alt. A			
Sec. 11-Miscellaneous powers. Introduction and items (1), (2), and (3).		Alt. A, as amended		

Article VIII - Withdrawal from the Fund

Sec. 1-Right of Members to Withdraw	Alt. A			
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Article IX - Obligations of Member Countries

Sec. 5-Immunity of Assets of the Fund	Alt. A			
Sec. 6-Immunity from Suit		Included in new Sec. 5		
Sec. 7-Restrictions on taxation of Fund, its employees and obligations				xx

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article XI - Amendments</u>		xx		
<u>Article XII - Interpretation of the Agreement</u>				
Sec. 1-Interpretation		xx		
Sec. 2-Definitions				xx
Sec. 3-Effect on Other International Commitments				xx
<u>Article XIII - Final Provisions</u>				
Sec. 1-Entry Into Effect				xx
Sec. 2-Effective date of Agreement				xx
Sec. 3-Calling the Initial Meeting of the Fund				xx
Sec. 4-Agenda of Initial Meeting				xx
<u>Article XIV - Execution of the Agreement</u>				xx

COMMISSION I

STATUS OF COMMITTEE ASSIGNMENTS

AS OF 6:00 P.M., JULY 9, 1944

Committee 1 - Purposes, Policies, and Quotas of the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
Article I - Purposes and Policies of the Fund				
Sec. 1	Joint Statement			
Sec. 2	Drafting Committee's revision			
Sec. 3	Drafting Committee's revision			
Sec. 4		xx		
Sec. 5	Alt. A			
Sec. 6	Drafting Committee's revision			
Additional paragraph (Alt. A, p. 1a)				
Alt. F,	Alt. A			xx
Alts. G, H			xx	
Alt. K				xx
Article II - Subscription to the Fund				
Sec. 1-Countries Eligible for Membership	Drafting Committee's revision			
Sec. 2-Quotas				xx*
Sec. 3-Time and Place of Payment	Alt. A			
Alt. B (p.2a) and Alt. B & C (p.4a)			xx	
Alt. C (p. 2b) and D (p.4b)				xx

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>(Article II)</u>				
Sec. 4-Adjustment of Quotas		Drafting Committee's Revision as amended		
Sec. 5-Initial Payments		Drafting Committee's Revision		
Sec. 6-Payments when Quotas are Changed	Alt.A			
<u>Article IX - Obligations of Member Countries</u>				
Sec. 1-Purpose and scope of additional undertaking				XX*
Sec. 2-Gold purchases based on parity prices			XX	
Sec. 3-Foreign Exchange dealings based on par values			XX	
Sec. 4-Exchange controls on Current Payments			XX	
Sec. 8				XX

7/9/44
Doc. #240 (202)

Committee 2 - Operations of the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferre</u>
<u>Article III - Transactions with the Fund</u>				
Sec. 1-Agencies Dealing with the Fund	Alt. A as amended			
Sec. 2-Conditions upon which any Member May Purchase Currencies of Other Members				
par. (1)	Alt. A			
par. (2)	Alt. A			
par. (3)	.	xx		
par. (4)	Alt. A			
Final Sentence	Alt. A			
Sec. 2(a)-Conditions Governing Purchases for Capital Transfers	Alt. A			
Sec. 3-Declaring Members Ineligible to Use Resources of the Fund	Alt. A			
Alt. E (p.6d)				xx
Sec. 4-Limitations on Operations of Fund	Alt. A			
Sec. 5-Operations for Purpose of Preventing Currencies Becoming Scarce				
par. (1)		Drafting Committee's revision		
par. (2)	Alt. A as amended			

7/9/44
Doc. #240 (202)

Article and Section	Language Accepted	Referred to Drafting or Other Sub-Committee	Referred to Commission I Without Decision	No Action or Decision Deferred
<u>(Article III)</u>				
Sec. 6- Multilateral International Clearing				XX
Sec. 7- Acquisition by Members of Currencies of Other Members for Gold	Alt. A.			
Sec. 8- Other Acquisitions of Gold by the Fund				XX*
Sec. 9- Transferability and Guarantee of Assets of the Fund				
Par. (a)	Alt. A			
Par. (b)				XX
Par. (c)	Alt. A			
Sec. 10- Charges and Commissions				XX*
Sec. 12- Consideration of Representations of the Fund			XX	
<u>Article IV- Par Values of Member Currencies</u>				
Sec. 1- Par Values of the Currencies of Members	Alt. A			
Sec. 2				XX
Sec. 3				XX
Sec. 4				XX
Sec. 5- Uniform Changes in Par Value			XX	
Sec. 6- Protection of the Assets of the Fund	Revised Alt. A			
Sec. 7- Separate currencies within a Member's Jurisdiction	Alt. A			

Article and Section	Language Accepted	Referred to Drafting or Other Sub- Committee	Referred to No Action Commission I or Without Decision Decision Deferred
<u>Article V - Capital Transactions</u>			
Sec. 1-Use of Resources of the Fund for Transfers of Capital	Alt. A, as amended		
Sec. 2-Limitations on Controls of Capital Movements	Alt. A, as amended		
<u>Article VI - Apportionment of Scarce Currencies</u>			
Sec. 1-General Scarcity	Substitute Alt. A		
Sec. 2-Scarcity of the Fund's holding	Substitute Alt. A		
Sec. 3-Administration of Restrictions on Scarce Currencies	Substitute Alt. A		
Sec. 4-Effect of Other International Agreements on Restrictions on Scarce Currencies	Substitute Alt. A		
<u>Article X - Transitional Arrangements</u>			
Sec. 1-Exchange re- strictions and cur- rency arrangements and practices re- tained			
Sec. 2-Withdrawal of exchange restric- tions			XX *
Sec. 3-Policy of the Fund during the transition period			XX *
Sec. 4			XX *
<u>Article XIII - Final Provisions</u>			
Sec. 5-Fixing ini- tial par values			XX *

Committee 3 - Organization and Management of
the Fund

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub- Committee</u>	<u>Referred to Commis- sion I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article III - Transac- tions with the Fund</u>				
Sec. 11-Furnishing Information			Alts. C and D	
<u>Article VII - Management of the Fund</u>				
Sec. 1-Board of Gov- ernors	Combination of Alt. A & Alt. B, as amended			
Sec. 2-Executive Directors	Drafting Committee's Revision (in part)		In part	
Sec. 3-Voting	Drafting Committee's Revision			
Sec. 4-The General Manager	Drafting Committee's Revision			
Sec. 5-Publication of Reports	Alt. A			
Sec. 6-Depositories par. (a)	Alt. A			
par. (b)			Alts. A, B, & D referred to Commis- sion I	
Sec. 7-Form and Holdings of Currency	Alt. A			
Sec. 9-Location of Office				XX
Sec. 10-Distribu- tion of Net In- come of the Fund	Alt. A, amended			
Sec. 11-Miscellan- eous Powers item (4)	Alt. B			
item (5)	Alt. B			

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article VIII - With drawal from the Fund</u>				
Sec. 2-Suspension of Membership or Compulsory Withdrawal				xx
Sec. 3-Settlement of accounts with countries ceasing to be members		xx		
Sec. 4-Liquidation of Fund		xx		

Committee 4 - Form and Status of the Fund

Article VII - Management of the Fund

Sec. 8-Relationship to other international organizations Alt. A

Sec. 11-Miscellaneous powers. Introduction and items (1), (2), and (3). Alt. B

Article VIII - Withdrawal from the Fund

Sec. 1-Right of Members to Withdraw Alt. A

Article IX - Obligations of Member Countries

Sec. 5-Immunity of Assets of the Fund Alt. A

Sec. 6-Immunity from Suit Included in new Sec. 5

Sec. 7-Restrictions on taxation of Fund, its employees and obligations Alt. B

<u>Article and Section</u>	<u>Language Accepted</u>	<u>Referred to Drafting or Other Sub-Committee</u>	<u>Referred to Commission I Without Decision</u>	<u>No Action or Decision Deferred</u>
<u>Article XI - Amendments</u>	Alt.C, as amended			
<u>Article XII - Interpretation of the Agreement</u>				
Sec. 1-Interpretation	Alt.C			
Sec. 2-Definitions				XX *
Sec. 3-Effect on Other International Commitments	Alt. A			
<u>Article XIII - Final Provisions</u>				
Sec. 1-Entry Into Effect				XX *
Sec. 2-Effective Date of Agreement				XX *
Sec. 3-Calling the Initial Meeting of the Fund				XX *
Sec. 4-Agenda of Initial Meeting				XX *
<u>Article XIV - Execution of the Agreement</u>				XX *

* - Indicate that materia not yet available to Committees.

Second Report of Committee 4 of Commission I

Dr. Wilhelm Keilhau, Reporter.

The second meeting of Committee 4 was held on July 5. The Committee adopted the same rules of procedure as had already been introduced for the other committees.

The Committee discussed the articles dealing with immunity and taxation exemptions of the Fund, its Governors and staff. One of the delegations suggested that the Governors and staff of the Fund should enjoy "diplomatic status," but it was pointed out that if the Governors and functionaries of the Fund were given diplomatic status, they would, in reality, be placed in a better position than persons belonging to any country's diplomatic service. The fact is that the diplomats and the diplomatic staffs are responsible to their governments which have every power to act against them if they commit any trespasses, whilst the Governors and the staff of the Fund will be responsible to an international body with no power of jurisdiction. The suggestion was withdrawn.

The discussions revealed that a number of complicated legal questions were connected with the substance of Article IX, Section 7 (page 43a), and it was resolved to refer these questions to a special subcommittee to be appointed by the Chair. As members of that subcommittee were chosen the delegates from Cuba, Norway, Union of Soviet Socialist Republics, United Kingdom and the United States of America, with the delegate of the United States as Chairman. As members of the "asterisk" committee were chosen the same delegates with the addition of the delegates from China, Ecuador and Poland. Consequently, these two committees were able to join in a final meeting.

The work of the subcommittees as well as that of the whole Committee encountered one difficulty of a particularly theoretical character, as it proved to be rather difficult to find legal expressions which meant quite the same thing in the legal systems of the Anglo-Saxon powers as they mean in the legal systems of most other countries. Accordingly, the discussions, and, in particular, those of the subcommittee on Article IX, Section 7, had to concentrate on a number of legal points, but I daresay that we at last succeeded in finding formulations which were deemed satisfactory by the representatives of all nations participating. The final drafts of the two subcommittees were placed before the fifth meeting of the Committee, held on Saturday, the 8th of July, and adopted. At the end of that meeting the Committee had dealt with all provisos contained in the material which, until then, had been made available. The Committee has even done more. The fact is that most questions concerning form and status of the Fund will be identical with the same questions in relation to the Bank, and I should think that the solutions found and elaborated by the Committee for the Fund may be applied to the Bank with very slight and unimportant alterations.

If I am not mistaken, I have to report only one disagreement on substance. It refers to Article VIII, Section 1. The Australian delegation will bring before the Commission Alternative B (Document 32, page 34), to the effect that "a member country may withdraw from the

- 2 -

Fund by giving notice in writing, and the right of withdrawal shall not be prejudiced by membership of the Fund being made a condition of membership of any other international body." The other delegates who partook in the discussion, declared that the proposal could not be accepted, because the Fund was not in a position to dictate to other international bodies what policy such bodies might find it appropriate to adopt. Against this observation, the Australian delegation remarked that their proposal would act as a recommendation from the Fund to other international bodies, and that it would be up to these bodies to attach the right importance to such recommendation. The Australian delegation firmly wished the inclusion of the proviso because the whole system of the Fund was such that an immediate and unconditional withdrawal was left as the only means of securing the sovereignty rights of member countries in case of serious conflicts with the Fund.

As the various proposals of Committee 4 have been distributed to all members of Commission I, I do not find it appropriate in this short report to comment upon them in any detail. I should only like to draw the attention of the members to the nature of the problem which we have tried to solve by the provisos in Article XII, Section 1, (a), (b), and (c) (Document #198, to substitute for Page 46a). This problem consisted in keeping disputes concerning the interpretation of the Agreement between the Fund and any member country, within the setup of the Fund itself, but, at the same time, to secure for the member in question privileges of fair treatment. I think that members, when they read our proposals, will acknowledge that we have succeeded in finding a workable solution. If a conflict should end in the withdrawal of the member country, or disputes between member countries and the Fund should arise after its possible liquidation, we have drafted rules of arbitration. We have found it necessary that the Convention itself prescribe the composition of the tribunal of arbitration. We propose that each party should appoint one member and that the umpire, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice.

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SECOND REPORT OF COMMITTEE 2 ON OPERATIONS OF THE FUNDTO COMMISSION I

July 9, 1944

Professor Robert M O S S E:Revision of First Report

Upon request by Mr. Rasminsky (Canada), I want to revise one of my statements on page 2 of my report of July 5, 10:30 a.m., to Commission I (Doc. #128). I substitute the word "willingness" for the word "consent." I did not imply that a specific consent in the legal sense of the word was required from the capital importing country; I merely meant that capital transfers in the case of Section 2a (page 6a) will practically be impossible if the prospective capital importing country should be unwilling to accept these imports of capital. I was thinking in terms of actuality and not in terms of legality.

* * *

In its meetings Wednesday through Saturday, Committee 2 made considerable progress, covering Article III, sections 5 to 12, Article IV, Article V and Article VI. Unfortunately, it ducked around a few hurdles; with, however, the firm intention to come back and take them later.

ARTICLE III - TRANSACTIONS WITH THE FUND

(The references are always to Doc. SA/1. The numbers of the sections are those appearing in Alternative A.)

Section 2. Conditions upon Which any Member may Purchase Currencies of other Members, (3) (page 6a) - Carry-over provisions.

You remember, Gentlemen, that this Commission sent back to Committee 2, Article III, 2 (3), which can be referred to as the carry-over question. Committee 2 in turn sent this problem to an ad hoc Subcommittee, composed of Australian, Brazilian, Canadian, Chinese, French, Mexican, Dutch, British, Soviet and United States representatives.

I am advised that this ad hoc Subcommittee has made good progress but its report has not yet been placed before Committee 2.

Silver (page 6d)

The Committee has received an Alternative E to be inserted as an additional section after Article III, section 2 (page 6d). This alternative deals with the rights of silver hoarding countries to obtain from the Fund additional foreign currency. This suggestion obtained support from a number of countries. There was also a strong statement in opposition. Further discussion was deferred when it was suggested that some modification of the waiver provision might afford a satisfactory compromise.

7/9/44

Doc. #234

Section 2(a) - Conditions Governing Purchases
For Capital Transfers (pages 6a and 6b)

Please refer to Report No. 1, Document CI/2/RP1.

Section 3 - Declaring Members Ineligible to
Use the Resources of the Fund (page 6b)

Please see Report No. 1, Document CI/2/RP1.

Section 4 - Limitation on the Operations of the Fund (page 7)

As I already said in Report No. 1, Alternative A (page 7) was approved. I want, however, to elaborate somewhat on my remarks, from an operative standpoint. A member country is expected to call upon the resources of the Fund when its balance of payments with one particular country becomes unfavorable. In the case of two countries having free exchange markets, the signal will be a weakening of the currency of the country which has an unfavorable balance. With the old-fashioned system, the weakening would be stopped by gold exports when the gold point is reached. With our machinery, the interested country will draw foreign currency from a pool of reserves and there appears to be a kind of international Fund point. However, I don't think that there is any obligation for a member country to wait until the Fund point is reached to draw from the Fund. In the case of countries with exchange controls, the situation of the balance of payments will appear directly in the books of the central agency dealing with exchange.

There are, however, two limitations on that mechanism. On the one hand, a country can buy only the currency of another country and can not obtain an international medium of payment, therefore, some degree of supervision of the bi-lateral balances of payments is entrusted to the Fund. On the other hand, a country can only buy foreign currency from the Fund without being able to sell foreign currency to the Fund. This section on limitations was well christened indeed. If I am mistaken in this interpretation, I will be glad to be corrected.

Section 5 - Operations for the Purpose of Preventing
Currencies from Becoming Scarc (page 8)

On section 5, page 8, general agreement was reached on Alternative A as amended.

According to paragraph (1), the Fund may borrow the currency of a country either from the Government of that country, or from a private source or from a third country, but in the last two cases, the Government whose currency is being borrowed must approve of the transaction. Paragraph 2 should now read: "Buy that currency from that member with gold." The meaning implied is that a country is required to sell its currency for gold. It is also meant that the Fund may buy with gold the currency of one member only from that particular member.

- 3 -

Section 6. - Multilateral International Clearing. (pages 9a and 9b)

There was some discussion of this matter but it was agreed to defer further discussion pending clarification.

Section 7. - Acquisition by Members of the Currencies of Other Members for Gold. (page 10)

The Committee endorses without objection section 7, Alternative A, page 10. According to this section any member desiring to obtain the currency of another member for gold shall make the purchase from the Fund provided it can do so with equal advantage. Apparently this Article gives to the Fund almost a privilege; the idea is to channel gold to the Fund instead of allowing member countries to use their gold outside the Fund. Under this rule the Fund will be able, to a certain extent, to dispose of its holdings of national currencies and to acquire gold instead. The only difficulty is that the phrase "provided that it can do so with equal advantage" offers a rather easy possibility of circumvention.

Section 8. - Other Acquisitions of Gold by the Fund. (page 11)

The discussion of this question was deferred because Alternative A has not yet been submitted to the Committee.

Section 9. - Transferability and Guarantee of the Assets of the Fund. (page 12)

Section 9 was referred to the Asterisk Committee. After hearing the report of that Committee, Committee 2 agreed to accept paragraph (a) and paragraph (c) as they stand. But the Asterisk Committee reported that it had not been possible to agree on paragraph (b). After a long discussion, the Committee requested the American delegation to submit a memorandum explaining the implications of this paragraph in economic terms; the memorandum should also recommend technical measures to protect the Fund's interests. May I suggest that the Commission not undertake any discussion until Committee 2 has further considered the question.

Section 10. - Charges and Commissions. (page 13)

Deferred because material lacking.

Section 11. - Furnishing Information. (page 14)

Transferred to Committee 3 of Commission I.

Section 12. - Consideration of Representations of the Fund. (page 15)

This section is still being considered by the Asterisk Committee of Committee 2.

ARTICLE IV. PAR VALUES OF MEMBER COUNTRIES.

On Article IV in general very good progress was made.

Section 1. Par Values of the Currencies of Members (Page 16)

This section has been approved as per Alternative A. It states that the par values of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of gold convertible currency unit.

Sections 2 to 4. Changes in Par Value of Currencies (Page 17a)

There was a long controversy on the very familiar topic Rigidity vs. Stability about which we all have heard for nearly 20 years. Probably neither the adherents of flexibility, nor the adherents of stability have changed their minds during our discussion. But, most of them are almost willing to end this twenty-year war by a compromise. I was instructed to report to you that the Committee made substantial progress but it was decided to defer drawing the discussion to a conclusion until all delegates have had time to examine the proposal more carefully. In the course of the discussion strong views were expressed together with some reservations; but since the discussion has not been concluded, I thought it advisable to postpone reporting reservations and recorded views until final action is taken by the Committee.

Section 5. Uniform Changes in Par Values (Pages 18, 18a, 18b)

Committee 2 has reached no agreement and has instructed me to report that there is wide diversity of opinion.

The issue concerned the majority which would be required in order to decide on a uniform change in the gold value of member currencies. Some committee members wanted the decision to require the approval of each country having 10% or more of the quotas. Others insisted that the question should be decided by a majority vote based on voting power as determined by quotas. And many others would like to see the question decided by a majority of the countries, each country casting one vote.

As a matter of fact these different ideas are diversely combined in the various alternatives. One obvious underlying fact is that countries with a small quota favor having one vote by country. But there is also another underlying issue, namely, that the rules on voting determine the degree of flexibility. The more stringent the rule of the majority, the less the possibility of changes in the gold value.

7/9/44

Doc. #234

The question is a very intricate one and the only thing I can do is to offer, in a personal capacity, the suggestion that the question be dealt with by Committee 3 as a part of the general problem of voting. As a further suggestion, your reporter feels that there should be one or two general rules concerning the voting and these rules should be applied in all cases instead of having to decide for each problem what kind of majority is required.

Section 6. Protection of the Assets of the Fund.
(page 19)

This Section 6 was generally agreed upon with a slight change in the wording (see minutes of meeting, July 7th, 2:30). This Section states that the Fund may have neither losses nor profits out of its holding foreign currencies, in case of change in the value of the currency. This principle is usually referred to as a "gold clause".

Section 7. Separate Currencies Within a Member's Jurisdiction. (page 20.)

Alternative A, page 20, was accepted, with the suggestion to our legal friends to consider the word "however". Section 7 merely states that in case of various currencies in the different territories of one member, this member has the option to decide whether the change relates to the metropolitan currency alone or to one or more specified subordinate currencies.

With this Section, we close Article IV.

ARTICLE V. CAPITAL TRANSACTIONS

Section 1. Use of Resources of the Fund for Transfer of Capital. (page 21.)

After a very informative discussion, there was a general agreement on this Section (see Minutes of meeting, July 7th, 2:30). According to this Section, as amended, a member may not make net use of the resources of the Fund to meet a large out-flow of capital. But the use of the Fund is permitted for capital transactions of a reasonable amount required for the ordinary course of business. A point well made by the Delegate from India and supported by the Delegate from the United Kingdom was that the movement of capital goods is not restricted in any way by this Article.

Section 2. Limitation on Controls of Capital Movements.
(page 22.)

Committee 2 agreed upon the following new draft: "Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise

such

7/9/44

Doc. #234

-6-

such controls in a manner which will restrict payments for current transactions or which will unduly delay the transfer of funds....." and so on, as per Alternative A.

This Article is certainly a very important one because it recognizes the right of any member country to organize or to maintain an exchange control for capital movements. Furthermore, as per Section 1, page 21, the Fund is authorized to request a member to set up such controls. Although the general purpose of the Fund is to foster free exchanges, it is remarkable that the experts have found it advisable not only to make provisions allowing exchange control for capital movements, but also recommending it in some cases. It will certainly be difficult to draw a line between controlling movements of capital and controlling transactions for trade purposes.

ARTICLE VI. APPORTIONMENT OF SCARCE CURRENCIES. (page 23b)

There was general agreement on Section 1, Section 2, Section 3 and Section 4 of this Article. According to these sections, when a currency becomes scarce, the Fund shall formally declare the scarcity of that currency and shall henceforth apportion the supply of that currency with due regard to the relative needs of members, to the general international economic situation and to any other pertinent considerations. Those members whose currency has become scarce may temporarily limit the freedom of exchange operations. Although this Article was approved, some reservations were expressed concerning the way in which the scarce currency or currencies will be apportioned. It seems clear that Alternative A practically gives a blanket control to the Fund. Specifically, the question was raised as to which majority will be necessary to decide upon such matters.

7/9/44

Doc. #234

STATUS OF ASSIGNMENTS OF COMMITTEE 2 (COMMISSION I)

APPENDIX A

OPERATIONS OF THE FUND
AS OF 7:00 P.M., JULY 8, 1944
(REFERENCES MADE TO DOC.SA/1)

Article and Section (Sections as numbered in Alternative A)	Language Accepted	Referred to Drafting or Other Sub- Committee	Referred to Commission I Without Decision	No Action or Decision. Deferred	Other Action
ARTICLE III. TRANSACTIONS WITH THE FUND					
<u>Section 1. Agencies Dealing with the Fund,</u> <u>Alt. A, p. 5.</u>	III.1. Alt.A. as amended				
<u>Section 2. Conditions Upon Which Any Member</u> <u>May Purchase Currencies of Other</u> <u>Members, Alt. A, p. 6a</u>					
Introductory Sentence	III.2. Introd. Sentence. Alt. A				
Par. (1)	III.2.(1) Alt. A				
Par. (2)	III.2.(2) Alt. A				
Par. (3)		III.2.(3)			
Par. (4)	III.2.(4) Alt. A				
Final Sentence	III.2.Fin. Sent.Alt. A				

Appendix A

-2-

Article and Section (Sections as numbered in Alternative A)	Language Accepted	Referred to Drafting or Other Sub- Committee	Referred to Commission I Without Decision	No Action or Decision . Deferred	Other Action
ARTICLE III, Section 2 (Continued)					
Alt. E, p. 6d				III.2 Alt. E	
<u>Section 2(a). Conditions Governing Purchases for Capital Transfers, Alt. A, pp.6a,6b</u>	III.2a, Alt.A				
<u>Section 3. Declaring Members Ineligible to Use Resources of the Fund, Alt. A, p. 6b</u>	III.3. Alt. A				
<u>Section 4. Limitations on Operations of the Fund, Alt. A, p. 7</u>	III.4. Alt.A				
<u>Section 5. Operations for Purpose of Preventing Currencies Becoming Scar Alt. A, p. 8</u>					
Par. (1) and (2)	III.5(1)(2) Alt. A as amended				
<u>Section 6. Multilateral International Clearing, Alt. A and B, pp. 9, 9a</u>				III.6 Alt.A,B	

Appendix A

-3-

Article and Section (Sections as Numbered in Alternative A)	Language Accepted	Referred to Drafting or Other Sub- Committee	Referred to Commission I Without Decision	No Action or Decision Deferred	Other Action
ARTICLE III. (Continued)					
<u>Section 7. Acquisition by Members of the Currencies of Other Members for Gold, Alt. A, p. 10</u>	III.7. Alt. A				
<u>Section 8. Other Acquisitions of Gold by the Fund, pp. 11,11a,11b,11c</u>				III.8 Material Lacking	
<u>Section 9. Transferability and Guarantee of Assets of the Fund, Alt. A</u>					
Par. (a)	III.9(a). Alt. A				
Par. (b)				III.9(b). Alt. A	
Par. (c)	III.9(c) Alt. A				
<u>Section 10. Charges and Commissions, Alt. A. and B, p. 13</u>				III.10. Alt.A,B Material Lacking	
<u>Section 11. Furnishing Information, Alt. A and B, pp.14,14a, 14b</u>					Trans- ferred to Com, 3 of Com. I
<u>Section 12. Consideration of Representations of the Fund, Alt. A and B, p. 15</u>		III.12. Alt. A & Alt. B			

Article and Section (Sections as Numbered in Alternative A)	Language Accepted	Referred to Drafting or Other Sub- committee	Referred to Commission I Without Decision	No Action or Decision. Deferred	Other Action
ARTICLE IV. PAR VALUES OF MEMBER CURRENCIES					
<u>Section 1. Par Values of the Currencies of Members, Alt. A, p. 16</u> Alt. B, p. 16a	IV.1. Alt.A				Trans- ferred to Article XIII, p.49, Doc.SA/1
<u>Section 2,3,4. Changes in Par Values, Alt. A, B, pp. 17a,17aa, 17b</u>				IV.2,3,4	
<u>Section 5. Uniform Changes in Par Value, Alt. A, B, C, pp. 18,18a,18b</u>			IV.5		
<u>Section 6. Protection of the Assets of the Fund, Revised Alt.A, p. 19</u>	IV.6. Rev. Alt.A				
<u>Section 7. Separate Currencies Within a Member's Jurisdiction, Alt.A, p.20</u>	IV.7. Alt.A				

Appendix A

-5-

Article and Section Sections as Numbered in Alternative A	Language Accepted	Referred to Drafting or Other Sub- committee	Referred to Commission I Without Decision	No Action or Decision. Deferred	Other Action
ARTICLE V. CAPITAL TRANSACTIONS					
<u>Section 1. Use of Resources of the Fund for Transfers of Capital, Alt. A, p. 21</u>	V.1. Alt.A As Amended				
<u>Section 2. Limitations on Controls of Capital Movements, Alt. A, p. 22</u>	V.2. Alt.A As Amended				
ARTICLE VI. APPORTIONMENT OF SCARCE CURRENCIES					
<u>Section 1. General Scarcity, Alt.A,p.23a</u>	VI.1.Alt.A				
<u>Section 2. Scarcity of the Fund's Holding, Alt. A, p. 23b</u>	VI.2.Alt.A				
ARTICLE X. TRANSITIONAL ARRANGEMENTS					
ARTICLE XIII. FINAL PROVISIONS					
<u>Section 5. Fixing Initial Par Values</u>				X Material Lacking	
				XIII.5 Material Lacking	

TEXT OF SECTIONS AS APPROVED BY COMMITTEE 2 OF COMMISSION IArticle III, Section 1, Alternative A amended (p. 5)

Each member country shall deal with the Fund only through its Treasury, Central Bank, Stabilization Fund or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

Article III, Section 2 (Introductory clause), Alternative A (p. 6a)

Conditions upon which any Member may purchase currencies of other Members. A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

Article III, Section 2(1) Alternative A (p. 6a)

The member initiating the purchase represents that the currency requested is presently needed for making payments in that currency which are consistent with the provisions of this Agreement;

Article III, Section 2(4) Alternative A (p. 6a)

The Fund has not previously declared under Section 3 of this Article that the member initiating the purchase is ineligible to use the resources of the Fund.

Article III, Section 2 (Final Sentence), Alternative A (p. 6a)

The Fund may, in its discretion, and on terms which safeguard its interests, waive any of these conditions. In special circumstances, where the Fund considers it necessary, it may require collateral security as a condition of such waiver.

Article III, Section 2a, Alternative A (p. 6a and 6b)

If the Fund's holdings of the currency of a member have remained below 75 percent of its quota for a period not less than six months such member shall be entitled, notwithstanding the provisions of Article V, Section 1, to buy the currency of another member from the Fund for its own currency for any purpose, including capital transfers, provided, however, that purchases for capital transfers may not have the effect of raising the Fund's holdings of the currency of such member above 75 percent of its quota, or reducing the Fund's holdings of the currency purchased below 75 percent of the quota of the member whose currency is purchased.

Article III, Section 3, Alternative A (p. 6b)

Declaring Members Ineligible to Use the Resources of the Fund. Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and stating a suitable

7/9/44

Doc. 234

time for reply. After presenting such a report to a member the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the stated time, or the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

Article III, Section 4, Alternative A (p. 7)

Limitation on the operations of the Fund.

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

Article III, Section 5 (Introductory clause), Alternative A (p. 8)

Operations for the Purpose of Preventing Currencies from Becoming Scarce.

The Fund may, if it deems such action appropriate to prevent the currency of any member from becoming scarce, take either or both of the following steps:

Article III, Section 5(1), Alternative A As Amended (p. 8)

Propose to the member that, on terms and conditions agreed between them, it lend such currency to the Fund or, with the approval of the member, that the Fund borrow such currency from some other source either within or outside the territory of the member; but no member shall be under any obligation to make such loans to the Fund or to approve the Fund's borrowing its currency from any other source.

Article III, Section 5(2), Alternative A As Amended (p. 8)

Buy that currency from that member with gold.

Article III, Section 7, Alternative A (p. 10)

Acquisition by Members of the Currencies of Other Members for Gold.

Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire the currency by the sale of gold to the Fund. Nothing in this Section shall be deemed to preclude any member from selling in any market the new production of gold from mines located within territory subject to its jurisdiction.

7/9/44

Doc. 234

Article III, Section 9, (a) Alternative A (p.12)

All assets of the Fund shall, to the extent necessary to carry out the operations prescribed by this Agreement, be free from restrictions, regulations and controls of any nature imposed by members.

Article III, Section 9, (c) Alternative A (p. 12)

All assets of the Fund shall be guaranteed by each member against loss resulting from failure or default on the part of the depository designated by such member.

Article IV, Section 1, Alternative A (p. 16)Par Values of the Currencies of Members.

The par value of the currency of each member shall be expressed in terms of gold, as a common denominator, or in terms of a gold-convertible currency unit of the weight and fineness in effect on July 1, 1944. All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

Article IV, Section 6, Alternative A as Amended, (p.19)Protection of the Assets of the Fund.

No change in the foreign exchange value of the currency of any member shall alter the gold value of the assets of the Fund. Whenever (i) the par value of a currency of a member is reduced, or (ii) the foreign exchange value of the currency of any member has depreciated within its jurisdiction to a significant extent in the opinion of the Fund, the member shall compensate the Fund by paying to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of the currency of such member held by the Fund. Whenever the par value of the currency of any member has been increased the Fund shall compensate such member by returning, within a reasonable time, an amount in the currency of such member equal to the increase in the gold value of the currency of such member held by the Fund.

The provisions of this Section shall apply to the case in which a uniform proportional change is made in the par values of the currency of all members, unless at the time when such a change is proposed to be made the fund shall declare them to be inapplicable.

Article IV, Section 7, Alternative A (p. 20)Separate Currencies within a Member's jurisdiction.

A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the currencies of all territories under its jurisdiction. It shall however be open to a member to declare that its proposal relates either to the metropolitan currency alone, or to one or more specified subordinate currencies alone, or to the metropolitan currency and one or more specified subordinate currencies.

Article V, Section 1, Alternative A As Amended (p. 21)

Use of the Resources of the Fund for Transfers of Capital.
A member may not make net use of the resources of the Fund to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If after receiving such request, a member fails to exercise appropriate controls the Fund may declare such member ineligible to use the resources of the Fund.

This Section is not intended to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business. Capital movements which are met out of a member's own resources of gold and foreign exchange are not affected by this section, but members undertake that such capital movements will be in accord with the purposes of the Fund.

Article V, Section 2, Alternative A as Amended (p. 22)

Limitation on Controls of Capital Movements.
Members may exercise such controls as are necessary to regulate international capital movements but no member may exercise such controls in a manner which will restrict payments for current transactions or which will unduly delay the transfer of funds in settlement of commitments, except as provided in VI, 2 and in X.

Article VI, Section 1, Substitute Alternative A (pp. 23b and 23c)#Section 1. General Scarcity

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. In the preparation of such report there shall participate a representative of the member the currency of which is involved.

#Section 2. Scarcity of the Fund's Holdings

If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund whether or not it has acted under Section 1 above, shall formally declare such currency scarce and shall thenceforth apportion the existing and accruing supply of the scarce currency with due regard to the relative needs of members and the general international economic situation and any other pertinent considerations. The Fund shall also issue a report concerning its action. The formal declaration shall operate as an authorization to a member, after consultation between such member and the Fund, temporarily to limit the freedom of exchange operations in the affected currency. Subject to the provisions of Article IX, Section 2 (J.S.), the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply of it held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit. This authorization shall cease to be in effect whenever the Fund formally declares the currency in question no longer scarce.

7/9/44

Doc. 234

#Section 3. Administration of Restrictions on Scarce Currencies.

Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of this Article shall give sympathetic consideration to any representations which may be made by such other member regarding the administration of such restrictions.

#Section 4. Effect of Other International Agreements on Restrictions on Scarce Currencies.

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

7/9/44

Doc. 234

Report Submitted to Commission III by the Agenda Committee
Appointed to Receive and Consider Proposals Submitted
for Consideration in Commission III.

(To be presented at meeting of Commission III, July 10)

Bretton Woods, July 10, 1944

Mr. Chairman:

At the first meeting of Commission III held at 5:00 p.m. on July 3, 1944, an Agenda Committee was appointed to receive and consider topics submitted as appropriate for consideration in Commission III. During the week ten proposals were received by the Agenda Committee.

After studying these proposals, it appeared to the members of the Agenda Committee that the proposals related to three general fields of interest. One of the proposals related to the use of silver for international monetary purposes. Several proposals related to the general subject of looted property and assets controlled by the enemy. A number of other proposals related to economic and financial policies and the publication and interchange of information. Accordingly, it is the recommendation of the Agenda Committee that there be established in Commission III three "ad hoc" committees to consider these general fields of interest and to make recommendations to the full Commission for action to be taken at this Conference with respect to their respective fields.

Committee 1 would be charged with making recommendations concerning "The Use of Silver for International Monetary Purposes;" Committee 2 would make recommendations concerning action to be taken by this Conference relating to "Enemy Assets, Looted Property, and Related Matters;" and Committee 3 would be charged with proposing recommendations to be made by this Commission relating to "Economic and Financial Policies, Exchange of Information, and Other Means of Financial Cooperation".

It was felt by the members of the Agenda Committee that all of the proposals received by it should be placed before the members of this Commission for such discussion as might be desired in the light of the recommendations of the Agenda Committee. Accordingly, I will read the full text of the proposals, indicating in each case the Committee to which the proposal, in the opinion of the Agenda Committee, should be assigned. It is suggested, Mr. Chairman, that after the reading of each proposal the Delegation which submitted it be permitted to make supporting or clarifying remarks, should it care to do so, and any other Delegation wishing to comment upon the proposal be afforded an opportunity to do so.

1. Proposal on silver submitted by Mexican Delegation:

WHEREAS

WHEREAS it is undeniable that about half of the world's population prefers silver coins to any other kind of currency for everyday use and trade, as well as for hoarding;

WHEREAS the economically weaker silver-using nations of the world, upon becoming members of the proposed International Monetary Fund, would in fact agree, among other things, to collaborate with the stronger nations in the establishment of a world-wide free market for gold, and in the maintenance of a stable and fair price for that metal;

WHEREAS it is just and fair that, in due correspondence, the economically stronger countries should agree to extend their cooperation to the economically weaker ones, in order that silver may also have an ample market and a relatively stable and fair international price;

WHEREAS, to comply fully with the proposed agreement, the silver-using peoples would need proportionately larger, and therefore more burdensome, monetary reserves, since besides their normally heavy investments in silver coins, they would also have to maintain a gold reserve proportionately as large as that of any gold-using nation;

WHEREAS it is not fair that the economically weaker peoples should carry the whole weight of their silver stocks, as well as the heavy losses caused by the wide fluctuations of their international value, and carry besides their proportionate share of the gold stocks;

WHEREAS it has been fully demonstrated by the far-sighted policy of the United States during the past decade, that it is not only possible but equally feasible, without the slightest danger to the monetary equilibrium even of a single nation, to maintain stable the relative international prices of gold and silver, and to stabilize both prices in terms of a single currency;

WHEREAS it should be relatively easier and less costly for the United and Associated Nations to establish a fair and reasonable international price for silver than to fix one for gold, inasmuch as the present value of the visible stocks of gold is around thirty billion dollars, while that of silver is only a fifth or a sixth of that amount;

WHEREAS one of the main purposes of this Conference should evidently be, not to select gold or anything else as a metallic standard which would lead the world back into the rigidity of an arbitrary yardstick for national and international values, but rather to lay the foundations of a well-integrated world monetary system, wherein certain important currencies generally accepted in international trade, as well as gold and silver itself, can and should be used to great advantage, each to fulfill a different international function;

WHEREAS

WHEREAS in the proposed agreement it is foreseen that the Monetary Fund may be forced to change the price of gold in terms of all the member countries' currencies, in order to provide additional means of international payments;

WHEREAS silver, because of its traditional monetary use by approximately half of the inhabitants of the world, can and should be used as a collateral monetary metal for meeting such increases in credit requirements of member countries;

WHEREAS in principle there can be no better grounds for pegging the price of gold in terms of the United Nations' currencies, than those for preventing the wide fluctuations of the international price of silver, in relation to the same currencies;

WHEREAS the wide fluctuations in the international value of silver, besides placing a heavy risk on the shoulders of those countries least able to carry it, are the direct source of recurrent dislocation of the monetary system of silver-using countries; and

WHEREAS it is technically possible to achieve a minimum price of gold and a maximum price for silver in terms of all the currencies of member countries;

The Mexican Delegation presents for the consideration of this Conference the following tentative plan to link silver with gold for international monetary purposes:

- I. That the Monetary Fund should buy and sell from and to member countries gold and silver together and jointly, at the fixed rate in terms of member currencies and in a ratio of, say, one ounce of pure gold to ten ounces of fine silver.
- II. That member countries would agree to buy and sell from and to the Fund, and from and to one another, gold and silver together and jointly, at the same rate and in the same ratio as above.
- III. That the Fund should have power:
 - a. To alter permanently, by a four-fifths majority vote, the proportions of gold and silver set forth above in I and II, only when a permanent and fundamental change in the average yearly rate of production and consumption of both metals has taken place; and

b. To

- b. To eliminate silver entirely but temporarily from its joint purchases and sales of gold and silver, and to permit member countries to do likewise, only when and just as long as, due to an increase in the price of silver, over and above an agreed ceiling, the price of one ounce of pure gold in the basic composite unit as defined under I and II above, should be less than the agreed minimum price of thirty-five U.S. dollars per ounce.

THE MEXICAN DELEGATION submits to this Conference the following RESOLUTION:

- A. That the Fund shall determine the feasibility of linking silver with gold for international monetary purposes, in accordance with the formula preinserted or any other formula;
- B. That the Fund shall be authorized to carry out whatever policy it deems appropriate as regards the proper role and function of silver within the international monetary structure.

The Agenda Committee recommends that this proposal be referred to Committee 1 on the use of Silver for International Monetary Purposes.

2. Proposal on enemy assets, submitted by the Polish Delegation:

- I. That the members of the United Nations Monetary Fund approach at the earliest possible time the neutral countries with a view to securing their cooperation in blocking all the assets of Axis governments and nationals located in neutral territory;
- II. That the blocked assets referred to above be liquidated by an appropriate United Nations agency and the proceeds used in settling the claims of the countries which are victims of Axis aggression;
- III. That the neutral countries which will collaborate in the above-mentioned measures become eligible for membership in the Fund and in the Bank.

The Agenda Committee recommends that this proposal be referred to Committee 2 on Enemy Assets, Looted Property, and Related Matters.

3. Proposal

3. Proposal on enemy assets and looted property submitted by the French Delegation:

That Commission III consider and make recommendations concerning steps to be taken to prevent the enemy from successfully secreting funds in neutral territories or in United Nations territories under assumed names.

The measures to be recommended should apply to beneficiaries of property looted by the enemy, whether such beneficiaries be enemy nationals, or their associates of whatever nationality. They should be directed in particular against Axis leaders and their collaborators in occupied countries, war criminals and associates, who might attempt, by retaining control of such funds, to perpetuate their influence, power and ability to plan future aggrandizement and domination in the post-war period.

The Agenda Committee recommends that this proposal be referred to Committee 2 on Enemy Assets, Looted Property, and Related Matters.

4. Proposal concerning the liquidation of the Bank for International Settlements, submitted by the Norwegian Delegation:

BE IT RESOLVED that the United Nations Monetary and Financial Conference recommends the liquidation of the Bank for International Settlement at Basel. It is suggested that the liquidation shall begin at the earliest possible date, and that the Governments of the United Nations now at war with Germany, appoint a Commission of Investigation, in order to examine the management and transactions of the bank during the present war.

The Agenda Committee recommends that this proposal be referred to Committee 2 on Enemy Assets, Looted Property, and Related Matters.

5. Proposal for an international agreement on maintenance of high levels of employment submitted by the Australian Delegation.

WHEREAS the raising of standards of living throughout the world must be the primary aim of economic policy and the most essential conditions for this and for the achievement of the objectives set out in Article I of the International Monetary Fund are the promotion and maintenance of high levels of employment; and

WHEREAS

WHEREAS the operations of the International Monetary Fund and other forms of international economic cooperation will have the best prospects of success if member countries by domestic measures maintain high levels of employment and consumption and by so doing enable the accumulation of persistent credit (and debit) balances on international account to be avoided;

This Conference RESOLVES that Governments which are to be invited to accept an International Monetary Agreement should be invited to accept concurrently an international agreement in which the signatories will pledge themselves to their own people and to one another to maintain high levels of employment in their respective countries, and to exchange information on measures necessary to prevent the growth of unemployment and its spread to other countries.

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

6. Proposal remanded to Commission III from Commission I concerning the settlement of abnormal indebtedness arising out of the war, submitted to Commission I as Alternative G by the Delegation from India:

To promote and facilitate the settlement of abnormal indebtedness arising out of the war.

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

7. Proposal concerning the use of members' gold contribution to the Fund as coverage for note issuance, submitted by the Norwegian Delegation:

Member States whose note issue, according to their monetary legislation, bears some relation to the holdings of gold and/or gold convertible exchange of their central bank or some other institution, are advised to allow their gold contribution to the Fund to be regarded as part of the gold coverage of the note issue.

Member States possessing rules limiting their note issue, are advised to regard notes held by the Fund as additional fiduciary money, which should not be included in the amount of notes bearing any required relation to prescribed legal coverage.

The

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

8. Proposal concerning a political prerequisite for admission of Germany and Japan to membership of the Fund or Bank, submitted by the Norwegian Delegation:

BE IT RESOLVED that the United Nations Monetary and Financial Conference is of the opinion that neither Germany nor Japan should be admitted to membership of the United and Associated Nations Monetary Fund or Bank for Reconstruction and Development until the country in question has been admitted to the planned Political World Organization.

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

9. Proposal for a conference on commercial policy submitted by the Delegation from Peru:

WHEREAS the International Monetary Fund is devised to maintain orderly exchange arrangements and to lend help to member countries by supplying their needs of foreign exchange of a temporary nature not due to fundamental disequilibrium in their international balance of payments;

WHEREAS the Fund is not meant to deal with basic economic factors which affect the rate of employment and production in the world at large;

WHEREAS the Bank will, as its name implies, act only in the fields of Reconstruction and Development;

WHEREAS the successful operation of these two institutions is dependent on the smooth development of economic phenomena free from crises of a disruptive nature; and,

WHEREAS this condition requires the relaxation of artificial trade barriers to attain greater freedom of commerce; the provision of adequate markets for staple products on which so many national economies depend; and the attainment and maintenance of a high degree of employment and production which will raise the standards of life and conditions of labour everywhere, which must be one of the primary objects of economic policy;

RESOLVED that for the successful attainment of the objects to be pursued by the International Monetary Fund and the Bank for Reconstruction and Development a Conference of the United and Associated Nations on Commercial Policy be called to make recommendations for the achievement of greater freedom of commerce and for the orderly

marketing

marketing of staple products; and that, in the sense of this Conference, the nations here assembled should pursue policies to promote the fuller employment of the nations' resources both of men and materials.

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

10. Proposal on status of earmarked gold submitted by the Mexican Delegation:

WHEREAS the practices for earmarking gold might not coincide in all particulars in different countries;

WHEREAS earmarked gold is part of the monetary reserve of such countries and therefore should be free from all restrictions as to its use, transfer, and transportation; and

WHEREAS, in order to avoid unnecessary movements of gold and thereby reduce to a minimum the cost and risks involved, it would be convenient to adopt a common international policy with respect to such gold;

RESOLVED that the countries represented at this Conference agree to extend to earmarked gold the same treatment and immunities they may agree to give to the gold and other assets of the International Monetary Fund.

The Agenda Committee recommends that this proposal be referred to Committee 3 on Recommendations on Economic and Financial Policy, the Exchange of Information, and Other Means of Financial Cooperation.

Mr. Chairman, all of the proposals received to date by the Agenda Committee have now been placed before Commission III together with recommendations of the Agenda Committee - namely: that there be established in this Commission three "ad hoc" committees to consider these proposals and to make recommendations to the full Commission concerning action to be taken at this Conference with respect to the general subject assigned to each committee.

Respectfully yours,

(Signed) Ludwik Grosfeld (Poland)
Ludwik Grosfeld, Chairman

(Signed) Hugo Garcia (Uruguay)
Hugo Garcia

(Signed) J. W. Beyen (Netherlands)
J. W. Beyen

(Signed) George Blowers (Ethiopia)
George Blowers

(Signed) Fernando Mardones (Chile)
Fernando Mardones

To the Honorable Eduardo Suarez
Chairman of Commission III

REPORT OF THE REPORTING DELEGATE
OF COMMITTEE 1 OF COMMISSION I
ON THE PURPOSES, POLICIES, AND
QUOTAS OF THE FUND

July 9, 1944

Mr. Chairman:

Since I had the honor to present to your Commission my first report on July 5th, your Committee I on Purposes, Policies, and Quotas of the Fund held three meetings, on July 5th at 4:00 p.m.; on July 6th at 10:00 a.m.; and on July 8th at 9:30 a.m.

I consider it advisable, for the convenience of the members of this Commission, to report on the progress of the Committee's work by following the order of the Committee's assignments as stated in Document No. 51, and by referring to the Articles and sections of Document SA/1.

At the end of this report I shall submit to the Commission the actual text of the provisions recommended by Committee 1 to your Commission for acceptance, and a summary record of the disposition thus far made by the Committee of other matters submitted to it.

Article I, Alternative A

Section 1 (p. 1a)

The purpose of section 1 of Alternative A was to substitute for the words of Section 1 of Article I of the Joint Statement "through a permanent institution which provides ***", the words "by providing permanent machinery ***".

The Committee has shown a preference for the original wording of the Joint Statement although it recognizes that the institution mentioned in the Joint Statement may be the Fund itself, and that the Fund would provide permanent machinery for consultations on international monetary problems.

Section 2 (p. 1a)

As I have reported on page 2 of my first report to your Commission, an Alternative C, Section 2 of Article I, (page 1c) presented by the Indian Delegation raised a question of principle regarding the purposes of the Fund.

The question was referred to the Drafting Committee, which was also asked to examine three other alternatives to the same Section 2 of Article I presented by the Colombian, French, and New Zealand Delegations.

After considerable discussion on all issues involved in these alternatives, both in the Drafting Committee and in Committee 1, the full Committee accepted a proposal by the Drafting Committee to

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7/9/44

Doc. 238

add to Section 2 of Article I of Alternative A, page 1a, after the words "of high levels of employment," the words "and to the development of the sources of productive power in all member countries***", and to delete the words "and real income". The Committee was guided in its decision by the general principle that the declaration of the purposes and policies of the Fund must be in agreement with the real objectives and powers of the Fund as stated in the provisions contained in its constitutional document and with the means put at its disposal.

The Committee thought that the direct purpose which the Fund can and must pursue by using the powers and means at its disposal is to facilitate the expansion and balanced growth of international trade and that the promotion of high levels of employment and the development of the productive resources of the country may be and, it is hoped that it will be, an indirect result of the activities of the Fund.

The Committee reached this decision because it felt obligated to limit its considerations to the one particular plan of post-war collaboration of the United and Associated Nations which is now under discussion, namely, the Fund.

In view of the fact, however, that the united effort of our countries will not be limited to the constitution of the Fund alone, and that another very important plan of economic collaboration, that of the Bank for Reconstruction and Development, is under discussion, the Committee considers it necessary that a general preamble to the final document of the Conference be prepared in which all basic economic objectives of the work of the Conference regarding both the Fund and the Bank are clearly stated.

The Indian Delegation, which presented Alternative C, and other delegations, declared that while they considered the amendment of Section 2 of Article I, as proposed above by the Committee, an improvement, they reserved the right to raise the question later if their point of view did not find adequate expression in the general preamble mentioned above.

Section 3 (p. 1a)

Some doubts had been expressed by members of the Committee with regard to the exact meaning of the words "thus giving them time" which appear in Alternative A as well as in the Joint Statement. In order to disperse such doubts, the Committee, at the proposal of the Drafting Committee, decided to propose the substitution of these words by the following: "thus providing them with opportunity ***".

Section 4 (p. 1a)

As I had the opportunity to explain in my first report, the Committee examined Alternatives B, D, and E, relating to Section 4 of Article I. These alternatives are to be found on pages 1b and 1c of Document SA/1.

It

7/9/44

Doc. 238

It has been already reported that the Committee thought that the alternatives mentioned above were closely connected with Article IV of the Joint Statement, the examination of which has been assigned to Committee 2 of your Commission. Committee 1 accordingly decided to refer the subject to the Drafting Committee on the understanding that it would not make its report until the provisions of Article IV have been agreed upon.

The Drafting Committee and the full Committee are now in a position to take up this subject since they have the text of Alternative A of Article IV (pages 17a and 17aa of Document SA/1) which has been discussed in Committee 2 of your Commission.

Section 5 (p. 1a)

Section 5 of Alternative A of Article I has been adopted without any change.

Section 6 (p. 1a)

The Committee has examined the report of the Drafting Committee on Alternatives A and B of this section (pages 1a and 1b of Document SA/1) and has accepted the proposal of the Drafting Committee to add at the beginning of Section 6 of Alternative A the following words: "In accordance with the above objectives ***".

The Committee has also accepted the recommendation of the Drafting Committee to include at the end of Article I the words "The Fund shall be guided in all its decisions by the purposes set forth above," which are at the end of Alternative A of Article I, page 1a.

The Committee has also examined a new Alternative H (page 1d of Document SA/1) which is similar to Alternative G (page 1c) which the Committee had already discussed and which it has already reported to your Commission. During the discussion of this new alternative, members of the Committee expressed their views about the advisability of including in the Agreement a clause referring to the balances accumulated during the war, along the same lines as that already reported to your Commission (page 3 of my first report).

Following the same procedure as that adopted with reference to Alternative G, the Committee agreed to refer Alternative H to your Commission.

The only section, therefore, of Article I of the plan which is still in the Drafting Committee is Section 4, mentioned above.

The Committee then proceeded to the examination of the sections of Article II, assigned to it.

Article II, Alternative A, Section 1 (p. a)

Countries Eligible for Membership

Upon the advice of the Drafting Committee, the Committee has decided to recommend the acceptance of Section 1 of Alternative A, Article II.

7/9/44

In

Doc. 238

In view, however, of the fact that some members expressed doubts about the legal accuracy of the wording, the Committee, following the advice of the Drafting Committee recommends that the first paragraph of this section should begin with the words, "At the outset," and that the second paragraph should begin with the word "Subsequently"

The precise wording of this section, as of all other sections adopted by the Committee, is given in an appendix attached to this report.

Section 2 (p. a)

Quotas.

This section has not been discussed by the Committee because the document referred to on page 1 of the first report to the Commission was not yet available.

Section 3 (p. 2)

Time and Place of Payment.

The Committee has accepted the opinion of the Drafting Committee that the language in this clause was not susceptible of misinterpretation as some members suggested and that it was, therefore, satisfactory. The Committee recommends, therefore, the adoption of this section without amendment.

In this connection, the Committee discussed Alternative B, (page 2a), which is proposed as an addition to Section 3 of Alternative A. The proposer of this amendment explained to the Committee that in some of the countries occupied by the enemy the currency system has been completely disorganized and that special arrangements will have to be made by the Fund in the case of such countries with regard to the initial payment of their quotas.

It was, therefore, proposed that the Fund should be free to provide for such special arrangements if, in its own discretion, it considers them necessary, and provided that the Fund does not suffer any loss as a result of such arrangements.

The discussion of this specific proposal led to the discussion of the general question of how far a number of provisions in the agreement should apply to liberated countries, and the Committee agreed to recommend to your Commission the appointment of an ad hoc Committee to consider these problems.

In accordance with the procedure determined by the Steering Committee, the Chairman of Committee I, who has been empowered to appoint such ad hoc committees as may be necessary, has appointed an ad hoc committee to consider the problems of liberated countries. This committee, so appointed, has already started the examination of the subject.

Alternative A,

7/9/44

Doc. 238

Alternative A, Article II, Section 4 (p. 3)

Adjustment of Quotas

This section was referred to the Drafting Committee, which has proposed the substitution of the word "shall" for the word "may"; the addition after the words "of five years" of the words "review and, if it deems it appropriate, propose an adjustment of"; and the deletion of the word "adjust".

The full Committee accepted these proposals. The new wording of this section, as proposed, is given at the end of this report.

Section 5 (p. 4)

Initial Payments.

The Drafting Committee has recommended and the full Committee has agreed to adopt Section 5 with a slight alteration in wording designed to prevent any possible misconstruction. Consequently, it is proposed that the beginning of Section 5 should read as follows: "Each member shall pay in gold as a minimum either (a) twenty-five percent of its quota, or (b) ten percent of its official holdings of gold and gold convertible exchange, whichever is the smaller, on _____."

After the addition of the words as a minimum, it becomes clear that any member is entitled to pay a higher percentage of its quota in gold if it so wishes.

Section 6 (p. 4)

Payments when quotas are changed.

The Committee has decided to recommend the adoption of paragraphs (a) and (b) of this section without alteration.

The Committee has discussed Alternatives B and C (page 4a) which are proposed as additions to Alternative A, Section 6 (page 6). As both alterations refer to liberated countries, the Committee decided to charge the ad hoc committee, mentioned above, with their examination.

In addition to Articles I and II which have been already dealt with in this report, Article IX, Sections 1, 2, 3, and 4 have been assigned to your Committee I.

The Committee had discussed the subjects with which these sections deal and has referred the greater part of them to the Drafting Committee.

The present stage of the Committee's work with regard to this Article may be reported as follows:

Article IX - Obligations of Member Countries.

Alternative A, Section 1 - Purposes and Scope of Additional Undertakings. (p. 38)

The wording of this section is to be inserted later. Consequently, consideration has been deferred.

7/9/44

Section 2 -

Section 2 - Gold Purchases Based on Parity Prices (p. 38).

In discussing this section, the Committee felt that the words "from or to the monetary authorities of another member," might convey the impression that member countries were free to buy or sell gold from or to other sources at any price. It was agreed that this was not the intention of the proposers of Alternative A, Section 2. The Committee, therefore, decided to refer this section to the Drafting Committee. After the Drafting Committee had presented its first report, it became evident that this subject was closely connected with subjects relating to the operation of the Fund, which have been assigned to Committee 2 of Commission I. The Committee thought, therefore, that it would be advisable to send this section back to the Drafting Committee with instructions to consult with Committee 2 and report on the matter.

The same decision has been taken for the same reasons with regard to Alternative A, Section 3 - Foreign Exchange Dealings Based on Par Values, Paragraph (a), page 39. This paragraph (a) is, therefore, still in the Drafting Committee.

Section 3, Paragraph (b), Alternative A (p. 39)

The Committee agreed in principle with this paragraph (b), but decided to refer it to the Drafting Committee for reconsideration. Some information regarding the recommendation on this paragraph which the Drafting Committee will make, is given at the end of this report.

Section 3, Paragraph (c), Alternative C (p. 39)

It has been suggested that the last line in this paragraph, reading: "not be enforceable in the territory of any member", be substituted by the following: "be an offense in the territory of any member." This proposal has been referred to the Drafting Committee.

Section 4 - Exchange Controls on Current Payments (p. 40)

During the discussions of this section, it has been recognized that a distinction must be made between exchange control and exchange restrictions. However, as the discussion developed some uncertainty as to the character of restrictions which member countries obligate themselves to eliminate under this section, the Committee decided to request Commission I to clarify the matter and to postpone further consideration of it until Committee 2 had also discussed the question.

The full text of provisions recommended by Committee I is attached to this report as an appendix.

K. VARVARESSOS

Reporting Delegate

7/9/44

Doc. #238

APPENDIX

I

TEXT OF PROVISIONS RECOMMENDED BY COMMITTEE I
(July 9, 1944)Article I. Purposes and Policies of the Fund

The purposes of the International Monetary Fund are:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation on international monetary problems.
2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and to the development of the sources of productive power in all member countries as primary objectives of economic policy. (Subject to revision)
3. To give confidence to member countries by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
4. Still in the Drafting Committee.
5. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
6. In accordance with the above objectives, to shorten the periods and lessen the degree of disequilibrium in the international balances of payments of member countries.

The Fund shall be guided in all its decisions by the purposes set forth above.

Article II. Subscription to the FundSection 1. Countries Eligible for Membership

At the outset the members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership in the Fund.

Subsequently membership in the Fund shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Fund.

Section 2. Quotas

Not yet taken up by the Committee.

7/9/44

Section 3.

Doc.#238

(Appendix)

-2-

Section 3. Time and Place of Payment

Each member shall provide the Fund at the appropriate depository with the full amount of its quota on or before the date fixed for exchange transactions in its currency to begin. Any member whose quota is increased shall provide the full amount of the increase within thirty days of the date on which the member approves the increase in its quota.

Section 4. Adjustment of Quotas

The Fund shall at intervals of five years review and, if it deems it appropriate, propose an adjustment of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. A four-fifths majority vote shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned.

Section 5. Initial Payments

Each member shall pay in gold as a minimum either (a) twenty-five percent of its quota, or (b) ten percent of its official holdings of gold and gold convertible exchange,^{1/} whichever is smaller, on _____. In the case of any member occupied by the enemy whose holdings are not ascertainable as of _____, the Fund shall fix an appropriate alternative date. The data necessary to determine official holdings of gold and gold convertible exchange shall be furnished by the members as provided in this Agreement. Each member shall pay the balance of its quota in its own currency.

Section 6. Payments When Quotas are Changed.

(a) Each member whose quota is increased shall pay twenty-five percent of the increase in gold. Each member shall pay the balance of any increase in its own currency. If, however, on the date the member approves an increase, its holdings of gold and gold-convertible exchange are less than its new quota, the Fund may reduce the portion of the increase to be paid in gold.

(b) Each member whose quota is reduced shall receive from the Fund within thirty days of the reduction an amount in its own currency or gold equal to the reduction. In making this payment, the Fund shall pay to such member only the amount of gold necessary to prevent reducing the holdings of the Fund of that currency below seventy-five percent of such new quota of the member.

Article

^{1/} The phrase "gold and gold convertible exchange" is subject to definition and to such change in terminology as may be agreed upon.

7/9/44

Doc.#238

Article IX. Obligations of Member Countries

Section 1. Purpose and Scope of Additional Undertakings

Consideration deferred.

Section 2. Gold Purchases Based on Parity Prices

In Drafting Committee.

Section 3. Foreign Exchange Dealings Based on Par Values

(a) In Drafting Committee.

(b) Each member undertakes, through appropriate measures authorized under this agreement, not to permit within its jurisdiction an appreciation or depreciation of the exchange value of its own currency in terms of gold beyond the range prescribed under (a) above. In particular, a member whose monetary authorities in fact freely buy and sell gold or gold convertible exchange within the prescribed range, to settle international transactions, shall be deemed to be fulfilling this undertaking. **

* This language will be recommended by the Drafting Committee to Committee 1 at its next meeting, but has not been passed upon by the full Committee.

(c) The Drafting Committee will report to the full Committee at its next meeting that this paragraph contains matters of legal substance and is, therefore, not within the competence of a drafting committee.

Section 4. Exchange Controls on Current Payments

Referred to Commission I.

II

DISPOSITION BY COMMITTEE 1 OF ADDITIONAL PROVISIONS
SUBMITTED FOR INCLUSION IN THE ARTICLES ASSIGNED TO IT

ARTICLE I

Purposes of the Fund

Alternative F

Correlation of international exchange policy and international investment policy.

Consideration deferred.

7/9/44

Doc.#238

Alternatives G and H

Liquidation of wartime indebtedness.

Referred to Commission I,

Alternatives I and J

Alternative wording of Section 2 of article I rejected by Drafting Committee in favor of recommended text given above.

Alternative K

Facilitation of multilateral clearing.

Not reached by Committee prior to adjournment on July 8, 1944.

ARTICLE II
Subscription to the Fund

Alternative B - Page 2a

Special arrangements for time and place of payment of quotas by occupied countries.

Referred to ad hoc committee of Commission I.

Alternative B and C - Page 4a

Initial subscription payable in gold by countries suffering damage by enemy occupation.

Referred to ad hoc committee of Commission I.

Alternative C - Page 2b, and Alternative D - Page 4b

Inclusion of silver in quota subscriptions.

Not reached by the Committee prior to adjournment July 8.

ARTICLE IX
Obligation of Member Countries

Section 8, Alternative A

Cooperation of members in enforcing permissible exchange restrictions.

Not reached by the Committee at the time of adjournment, July 8.

7/9/44

Doc. #238

Submitted to Commission I.

Report of Committee 3 on Organization and Management
of the Fund.

Committee 3 held altogether six regular meetings. The working assignment of the Committee was somewhat changed and this report takes into account these changes. The Committee established several sub-committees. One ad hoc Committee of Commission I discussed on July 8th problems connected with the election of the Executive Directors.

The following scheme may introduce this report by presenting the skeleton of the fundamental organization of the Fund as ensuing from the provisions of the Draft agreed upon in Committee 3 up to now.

Board of Governors: Jurisdiction: All powers except those assigned by the Constitution to other agencies or expressly delegated to the Executive Directors.

Members and Alternates: Appointed by the government of each member country; serve subject to the pleasure of their respective governments.

Meetings: At least annually and in addition if provided for by the Board or convened by the Executive Directors. They should also be convened whenever requested by members having one quarter of the aggregate votes or by five member countries.

Voting: If not otherwise provided for by a majority of the aggregate votes cast. Specific forms of voting (by telephone, cable, etc.) may be arranged if provided for by the regulations of the Board.

Quorum: Half of the member countries representing not less than two-thirds of the total voting power.

Chairman of the Board of Governors:

Jurisdiction: Not specifically indicated in the Constitution.

Selection: Selected by the Board of Governors for a period determined by this Board. Eligible are either members of the Board of Governors or the Managing Director.

7/9/44

Doc. 239

Executive Directors:

Jurisdiction: Expressly delegated by the Board of Governors within the limits contained in the Constitution and functions directly assigned by the Constitution. Responsible for the conduct of the general operations of the Fund.

Selection of Members: (x) shall be appointed by the (x) members having the largest quotas. (x) shall be elected biennially in accordance with separate provisions. Executive Directors need not be Governors.

Alternates: May participate in meetings, but shall not vote if regular member present.

Meetings: Executive Directors are in continuous session at the principal office.

Voting: If not otherwise provided for, majority of the aggregate votes cast. Each Executive Director casts the number of votes which actually counted towards his appointment or election.

Quorum: Majority of the Directors representing not less than one-half of the voting power of all Directors.

Managing Director (Automatically Chairman of the Executive Directors):

Jurisdiction: Chief of the operating staff. Conducts business under the direction of the Executive Directors. Responsible for internal organization. Has no vote except a deciding vote in case of an equal division.

Selection: Selected by the Executive Directors. Shall not be Governor or Executive Director. Serves according to contract; however, shall cease to hold office when the Executive Directors so decide.

Special Committees: May be established by the Board of Governors or by the Executive Directors. Members need not be limited to Governors or Executive Directors.

Staff:

Appointed and dismissed by Managing Director. Must not be influenced by any member in the discharge of duties. In appointing staff due regard has to be paid to selecting personnel on as wide a geographical basis as is possible.

7/9/44

Doc. 239

This report follows the text of the Draft and of other documents duly distributed.

Board of Governors. - Joint Statement VII, 1 (pages 24 and 24a of the Draft).

The Committee jointly considered Alternatives A and B. By unanimous consent the text of Alternative A was accepted with the following modifications:

Section 1 (a): In the introductory sentence the passage "The administration of the Fund shall be vested..." is to be replaced by "All powers of the Fund shall be vested ..." Furthermore, the last sentence of this paragraph shall read: The Board shall select a Chairman from its members. The Managing Director, however, may be eligible to this office as well.

(b): To the 7 items enumerated, indicating the subject matters which cannot be delegated, an 8th item is to be added, namely: (8) Decisions concerning the distribution of the net income of the Fund.

(c): The second sentence of this paragraph has to be changed to read: "Meetings of the Board shall be convened by the Executive Directors whenever requested by members having one quarter of the aggregate votes or by five member countries."

Executive Directors - Joint Statement VII, 1, 2 and 3.

The final consideration of the Committee was based on a Document, without number, entitled "Final Alternative Submitted by the Special Subcommittee Appointed to Consider All Proposals Relative to the Executive Directors". This Document is the result of the work of a Subcommittee appointed to discuss all matters concerning the Executive Directors, the Managing Director and the Staff. Committee 3 expressed consent to the text of this Document with the exception of the following provisions:

2. Formation of the Executive Directors.

There was general agreement that a certain number of member countries with the largest quotas should appoint Executive Directors and their Alternates. The other Executive Directors are to be selected by the rest of the member countries, according to a specific procedure to be discussed. Such a specific procedure is included in Schedule B of Document 152 (pages 26b and 26c of the Draft). Two Alternatives were presented to modify the procedure as suggested in Schedule B. One of them (Alternative D) is contained in Document No. 179 (page 26e of the Draft). The other (Alternative E) is contained in Document 214 (page 26f of the Draft). However, the Committee did not take action on paragraph 2 of the "Final Alternative", because several members expressed doubts whether a fruitful discussion could take place before the quota participation of the member countries is known. It should be noted that the Chairman of Commission I on July 8th established an Ad Hoc Committee of this Commission to discuss controversial points pertaining to the election of the Executive Directors.

3. Alternate

7/9/44

Doc. #239

3. Alternate Directors.

The "Final Alternative" provides that every Executive Director may appoint an Alternate. An Alternative was presented to this provision which is contained as Alternative C in Document 178 (page 26d of the Draft). According to this Alternative C the Alternates for every Executive Director shall be elected. Alternative C formulates expressly (what is implied in the Final Alternative) that an Executive Director and his Alternate need not belong to the same country. Because no agreement could be reached on the point whether Alternates of elected Executive Directors should be elected as well, or whether they should be appointed by the respective Executive Director, the Committee submits this item to Commission I for decision.

8. Managing Director.

The Committee consented unanimously to the provisions included in the "Final Alternative". Thus Section 4 of Article VII (pages 27 and 27a of the Draft) need not be considered.

Election of the Executive Directors.

The Committee did not take action on Schedule B of the combined Alternatives contained in Document 152 on the balloting for the elective Executive Directors (pages 26b and 26c of the Draft) because this election procedure is substantially connected with the other problems related to the Executive Directors on which action was deferred.

Voting - Joint Statement VII, 2, 3 (pages 26 and 26a of the Draft)

Committee 3 considered voting only with reference to the Board of Governors, because voting by the Executive Directors is regulated in the pertinent section on Executive Directors. The discussion was based on Alternatives A and B, contained in the Draft.

The first paragraph of Alternative A was accepted in principle. Thus unless otherwise provided for each Governor should have a uniform and rigid number of votes in addition to his votes directly related to his quota participation. The Committee deferred action on the number of additional uniform votes.

The second paragraph of Alternative A contains specific provisions on votes required under Article III. It should be noted that the member, who presented Alternative A, interpreted this proposal by restricting the respective decisions under Article III, to two items: (a) to the decision of the Fund of suspending a member from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund (III, 2d of the Joint Statement) and (b) to the decisions of the Fund in exercising its discretion in determining whether and on what terms it shall waive the conditions mentioned under III, 2a to d of the Joint Statement.

The Committee expressed its desire that paragraph 2 should be more clearly drafted if adopted for the Final Draft.

However,

7/9/44

Doc. #239

However, as to the merit of this paragraph three opinions were advanced: one approving it, as contained in Alternative A; the other modifying it by replacing the unit of two hundred thousand United States dollars by two million United States dollars and the third outrightly opposing this deviation from the normal voting procedure. These three Alternatives are hereby submitted to Commission I for decision.

Paragraph 3, containing the provision that unless otherwise provided for, all matters in the Board of Governors shall be decided by a majority of the aggregate votes cast, was accepted.

The Committee included in this Section from Alternative B the modified provision according to which a quorum of the Board of Governors should consist of not less than two-thirds of the voting power provided it being exercised by at least one half of all Governors.

Publication of Reports - Joint Statement VII, 4 (page 28 of the Draft)

The Committee considered and accepted Alternative A as contained in Section 5 of the Draft. It should be noted that one of the members called attention to the fact that if in the first years following the war specified statements concerning the Fund's holdings of currencies of members would be published this might violate the interest of member countries. No objection was made that such specified data on currency holdings be confidentially communicated to member countries.

Depositories - Joint Statement - No Provision (pages 29, 29a and 29b of the Draft)

The Committee discussed the three Alternatives (A, B and D). Alternative C was dropped by unanimous consent.

Paragraph (a) of Alternative A was accepted. However, no agreement was reached on paragraph (b) about the selection of depositories where the Fund may hold assets other than local currency. It was agreed upon to refer the decision on this point to Commission I. One of the members found Alternative A acceptable with the modification that not four members having the largest quotas may be designated as depositories but five or more members. Thus four Alternatives go to Commission I, for decision. It should be noted that the first two sentences of Alternative B in reality compose an Amendment and not an Alternative, thus that they may be attached to either of the Alternatives.

Form of Holdings of Currency - Joint Statement - No Provision (p. 29 of the Draft)

Section 7 as contained in Alternative A has been accepted.

Distribution of Net Income - Joint Statement - No Provision (pages 32 and 32a of the Draft)

Alternative A as contained in the Draft (Additional Section - 10 - to Article VII) has been accepted with the

modification

7/9/44

Doc. #239

modification that decisions pertaining to the distribution of the net income have to be taken by the Board of Governors and that this power cannot be delegated to the Executive Directors. (On page 32a the first line "Alternative B continued" should read "Alternative A continued").

Miscellaneous Powers - Joint Statement - No Provision (page 33 of the Draft).

Items 4 and 5 of this Article which was intended to be included as Section 11 in Article VII of the Draft, were accepted as contained in the Draft. The Committee assumed that the rules and regulations mentioned in item 5 may relate both to member countries and to agencies of the Fund.

Items 1 to 3 were assigned to Committee 4 of Commission I for consideration.

Settlement of Accounts with Governments Ceasing to be Members - Joint Statement - VIII, 2 and 3 (pages 36, 36a, 36b and 36c of the Draft).

Alternatives A and B were presented as Section 3 of Article VIII of the Draft to the Committee. They are contained in Documents 124 and 130. The Committee referred this matter to a Subcommittee. The Subcommittee did not reach an agreement concerning Alternatives A and B and its report will be submitted to the Committee as a separate document. It was not available at the time of the writing of this paper.

Liquidation of the Fund - Joint Statement - No Provision (pages 37 37a, 37b and 37c of the Draft)

Alternatives A and C as contained in Documents 211 and 220 were presented to the Committee. The same Subcommittee, which is in charge of the Article on Settlement of Accounts With Governments Ceasing to be Members will report on this matter to the Committee. This report is not yet available.

Furnishing Information - Joint Statement - No Provision (pages 14c and 14d of the Draft)

Section 11 of Article III was considered by the Committee according to Alternative C (Document 182) and Alternative D (Document 203, page 14e of the Draft). The report of the Special Committee on Furnishing Information of the Pre-Conference Agenda Committee, June 28, 1944 (Document 129) was duly distributed. No agreement was reached on this point because the member country introducing Alternative D sharply opposed the extent of the minimum information as enumerated under items 1 to 12 in Alternative C. Committee 3 is hereby referring this item for decision to Commission I.

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The prevailing part of the assignment was disposed of by Committee 3. The Ad Hoc Committee of Commission I on the Election of the Executive Committee will proceed in its discussion.

ERVIN HEXNER,

Reporting Delegate

7/9/44

Doc. #239

REPORT OF SUB-COMMITTEE OF
COMMITTEE 3 OF COMMISSION I ON
LIQUIDATION AND WITHDRAWAL

The sub-committee wishes to report progress in its consideration of the matter of liquidation. In its meeting it decided to recommend to the Committee the approval of Article VIII, Section 4(a) of Alternative A, Document 211. The sub-committee wishes to recommend that paragraph (b) be amended to read: "If a decision to liquidate the Fund is carried, (i) the Fund shall forthwith cease to engage in any activities except those incident to an orderly liquidation of its assets and the settlement of its liabilities, and (ii) all the obligations of members under this agreement other than those specified in the following paragraphs of this Section and shall cease to have effect." The sub-committee was of the opinion that this clause might be inserted either at this place or in some other Section of the document relating to the obligations of the members, at the discretion of the final drafting committee. With this amendment the substance of paragraph (b) was recommended for the approval of the committee. Paragraph (c) was recommended for adoption as given in Alternative A.

The sub-committee regrets that it was unable to reach agreement on paragraph (d) of Article VIII, Section 4. Two drafts of this paragraph were under consideration while a third was added in the course of discussion. The sub-committee wishes to refer this back to the whole Committee for action.

It may be noted that some members of the sub-committee favored leaving the matter of liquidation to the discretion of the Board of Governors. The predominant sentiment, however, favored some more definite provision though it could not agree upon the exact provision to be suggested. A draft of a discretionary method of treatment is given in Alternative D. The sub-committee recommended approval of paragraph (e), but one member favored a five-year term for redemption of excess currency instead of the three-year term now provided.

In dealing with the question of withdrawal the Committee had before it two Alternatives. It was the opinion of some of the members that the Alternatives must be discussed as a whole since the principles involved are similar to the principles of liquidation and accordingly the sub-committee was unable to embody its deliberations in an approved draft for the consideration of Committee 3. Certain amendments to Alternative A were offered to perfect this draft without prejudice to consideration of Alternative B. It was suggested that Article VIII, Section 3(a) be amended

with

with the insertion after the first sentence of the following: "Failing such agreement settlement shall be made in accordance with the provisions of (c), (d) and (e)." A new draft, Alternative C, for the entire Section was submitted and this draft will be presented to the whole Committee.

Respectfully submitted,

Camille Gutt, Chairman

H. J. Bitterman, Secretary

7/9/44

Doc. #243

REPORT OF AD HOC COMMITTEE OF COMMISSION I
ON VOTING ARRANGEMENTS AND EXECUTIVE DIRECTORS,

The Committee met in room B at 4 p.m., July 8 and at 9 p.m., July 9 in room A; Dr. de Souza Costa presided at the sessions. Representatives of Brazil, Belgium, Netherlands, Cuba, France, the United Kingdom, the United States, the Union of Soviet Socialist Republics, and Czechoslovakia were present at the meetings.

The Committee considered at length the various points relating to paragraph 2 of the "Final Alternative Submitted by Special Sub-committee Appointed (by Committee 3, Commission I) to Consider all Proposals Relative to the Executive Directors." No agreement being reached, the Committee was adjourned pending the availability of further information regarding quotas.

7/10/44
Doc. #249

UNITED KINGDOM DELEGATION MEMORANDUM TO COMMISSION I

The following proposed comprehensive text on the capacities and immunities of the Fund is submitted with the following objects in view:-

(a) To facilitate discussion and ultimate drafting by gathering together related text now appearing on separate pages. It is designed to replace the following documents: Doc. 32 p. 33 Items 1, 2, 3*; Doc. 120 p. 41; Doc. 32 p. 43; Doc. 194 p. 43(e) and to fill up the gap left by the note on Doc. 120 p. 41 which simply refers to other matters to be specified later.

(b) To facilitate acceptance by expressing the principles as shortly and simply as possible and to avoid technical words having different meanings in different legislations. As stated in paragraph 11 it is understood that each member of Fund will translate these principles into suitable form to give effect to them under its own law.

(c) To take account of the experience of the past in connexion with the League of Nations and the I.L.O. and the recent agreements relating to UNRRA and the F.A.O. The different functions with which various public international organisations are entrusted render complete uniformity in this matter impracticable and it is undesirable to create precedents by conferring on any given international organisation privileges or immunities which it does not really require for the proper fulfilment of its functions. Nevertheless, subject to these limitations as much uniformity is desirable as is practicable.

In order to fulfil the functions with which it is entrusted, the following attributions, immunities and privileges shall be accorded to the Fund in the territory of each member:-

1. The Fund shall be accorded the attributions of full juridical personality and in particular:-

- (a) the power to contract:
- (b) the power to acquire and dispose of immovable and movable property:
- (c) the power to institute legal proceedings.

/2. The

* It is understood that points (4) and (5) of Doc. 32 p. 33 will be included in Article VII (Management).

2. The Fund shall enjoy immunity from legal process instituted against it except when it waives its immunity for the purpose of any proceedings or by the terms of any contract.
3. Property and assets of the Fund shall be immune from any form of attachment or seizure as the result of any juridical process.
4. Property and assets of the Fund shall be immune from requisition, confiscation, expropriation or any other form of seizure by executive action whether under legislation or otherwise.
5. The archives of the Fund shall be inviolable.
6. All Governors, Executive Directors, Officials and Employees of the Fund shall be exempt from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity.
7. The Governors, Executive Directors, Officials and Employees of the Fund not being local nationals shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded to the representatives, officials, and employees of comparable rank of other members.
8. The official correspondence of the Fund shall be accorded the same treatment as the official correspondence of other members.
9. The same treatment in respect of travelling facilities shall be granted to the Governors, Executive Directors, Officials and Employees of the Fund as is granted to representatives and officials and employees of comparable rank of other members.
10. The following immunities shall be granted in the matter of taxation:-
 - (a) No tax or duty of any kind shall be levied on the Fund in the territory of any member; this provision does not apply to indirect taxes or duties which may be regarded as a charge for services rendered.
 - (b) No duties shall be levied on gold imported or exported by the Fund or other goods so imported or exported for the purpose of carrying on its activities including goods required for the equipment of its offices.
 - (c) No tax shall be levied on salaries and emoluments paid by the Fund to Executive Directors, Officials or Employees of the Fund who are not local nationals.
 - (d) No taxation of any kind shall be levied on any obligation or security issued by the Fund (including any dividend or interest thereon) by whomsoever held -
 - (i) which discriminates against such obligation or security solely because of its origin; or
 - (ii) which is applied solely on the basis of the place or currency in which it is issued, made payable or paid or solely on the basis of the location

of

of any office or place of business maintained by the Fund.

11. It is understood that the above provisions of this section are expressed as principles and it is for each member to take such action as is necessary in its own territory for the purpose of expressing and making effective these principles in the terms of its own law. Each member shall inform the Fund of the detailed action which it has taken to grant the capacities, exemptions and immunities provided for in this section.

Minimum Percentage Charges Payable by a Country on Fund's Holdings
of its Currency in Excess of its Quota

SA/1/51
RESTRICTED

Marginal Charges

Amount of country's currency held by Fund as percentage of country's quota	Per cent per annum payable on excess currency during									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
101 - 125	3/8 [#]	1	1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5
126 - 150	1	1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5	5
151 - 175	1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5	5	5
176 - 200	2	2 1/2	3	3 1/2	4*	4 1/2	5	5	5	5
201 - 225	2 1/2	3	3 1/2	4*	4 1/2	5	5	5	5	5
226 - 250	3	3 1/2	4*	4 1/2	5	5	5	5	5	5
Additional amounts	Corresponding increases up to 5%									

No payment in first three months; 1/2% in next nine.

* At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

Note: No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

Table I in Explanation of Combined Alternatives A and B,
Article III, Section 10, p. 13 a (Doc. 277)

7/11/44
Doc. 285

Minimum Percentage Charges Payable by a Country on Fund's Holdings
of its Currency in Excess of its Quota

3A/1/51
RESTRICTED

Marginal Charges: assuming a member to draw the full amount permitted each year without waiver (after the Fund's holdings of its currency have reached 100% of its quota)

Amount of country's currency held by Fund as percentage of country's quota	Per cent per annum payable on excess currency during									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
101 - 125	[#] 3/8	1	1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5
126 - 150		1	1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5
151 - 175			1 1/2	2	2 1/2	3	3 1/2	4*	4 1/2	5
176 - 200				2	2 1/2	3	3 1/2	4*	4 1/2	5

No payment in first three months; 1/2% in next nine.

* At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

Note: No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

DRAFT RESOLUTION SUBMITTED TO COMMISSION III BY
CUBAN REPRESENTATIVES TO UNITED NATIONS
MONETARY AND FINANCIAL CONFERENCE

(Submitted as Alternative A to the motion filed with
Commission III by the Peruvian Delegation (No. 9 -
Page 7 - Doc. #235))

- - - - -

RESOLVED, that to implement the aims and
objects of the International Monetary
Fund and the Bank for Reconstruction
and Development a Conference of the
United and Associated Nations be convened
in order to consider the necessary measures
to insure higher standards of living and
full employment through greater freedom
and expansion of trade and the orderly
marketing of staple commodities.

MEXICAN DELEGATION

COMMISSION II

BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROPOSED AMENDMENT TO DRAFT

ARTICLE I

PURPOSES OF THE BANK

The purposes of the Bank shall be the following:

1. - To encourage permanently the economic development of member countries.
2. - To assist, during the first post-war years, in the reconstruction of member countries and in the transition from a war-time to a peace-time economy.
3. - To coordinate its financial operations with those of other international and national financial agencies.
4. - To cooperate with all the agencies which the United and Associated Nations have created or may create.

To achieve these purposes, the Bank shall facilitate the provision of long-term capital for productive purposes, either by guaranteeing and participating in loans made by private investors, or when private capital is not available on reasonable terms, by furnishing capital out of its own resources.

COMMISSION II - SCHEDULE OF WORK ASSIGNMENTS
TO COMMITTEES AND SUBCOMMITTEES OF BANK COMMISSION

CII/

<u>Com- mittee</u>	<u>Subcom. Ad Hoc</u>	<u>Work Assignment</u>	<u>Subject</u>	<u>Membership</u>	<u>Chairmen</u>	<u>Reporting Delegate</u>
1	1a	pp. 3,4,5	"Membership, etc."	(U.S., U.K., Norway, (Australia, India	Beyen <u>Secretary: Young</u>	Oreamuno
1	1b	pp. 4-9 inc. p. 11	"Subscriptions"	(U.S., U.K., Nether- (lands, USSR, France, (Canada, China	Beyen <u>Secretary: Sundelson</u>	Oreamuno
2	2a	pp. 14-18 inc., p.21	"Ratio of Capi- tal Employable"	(U.S., U.K., USSR, (China, France, (Netherlands, Bel- (gium, Poland, Cuba, (Brazil, Czecho- (slovakia, Canada	Montoulieu <u>Secretary: Bitterman</u>	Brigden
2	2b	pp.19,20,22, 24,25	"Flat rate of Commission"	(U.S., U.K., USSR, (China, France, Cuba (Netherlands, Norway, (Mexico, Belgium	Montoulieu <u>Secretary: Russell</u>	Brigden
3	3a	p.13,15c, 15d,34	"Relationship of Interna- tional Agencies"	(U.S., U.K., India, (Canada, China, (Colombia, S.Africa	Pumarejo <u>Secretary: Ezekiel</u>	deKock
3	3b	pp.29-36 inc.,38,40	"Management"	(U.S., U.K., USSR, (Cuba, Belgium, Norway (Netherlands, Brazil, (South Africa	Pumarejo <u>Secretary: Ezekiel</u>	deKock
3	3c	pp.42-44 ⁴⁶ inc.,47,48	"Suspension, Withdrawals"	(U.S., U.K., Belgium, (Czechoslovakia, (Mexico, Netherlands	Belgian Rep. <u>Secretary: Dyson</u>	deKock
4	4a	p.51-52 inc.	"Taxation"	(U.S., U.K., India, (Cuba, Poland	Deshmukh <u>Secretary: Edmiston</u>	Baranski

Doc.#298

<u>Com- mittee</u>	<u>Subcom. Ad Hoc</u>	<u>Work Assignment</u>	<u>Subject</u>	<u>Membership</u>	<u>Chairman</u>	<u>Reporting Delegate</u>
<u>Drafting Subcom- mittee of Agenda Committee</u>		<u>All Pages Remaining</u>	"Drafting"	(U.S., U.K., USSR, (China, Czecho- (slovakia, India, (Mexico	Acheson <u>Secretary: Smith</u>	---
Agenda Committee	---	---	"Agenda"	(U.K., U.S., USSR, (China, Brazil, (Canada, Cuba, (France, India, (Czechoslovakia	Keynes <u>Secretary: Upgren</u>	---

<u>Com- mittee</u>	<u>Subcom. Ad Hoc</u>	<u>Time of Meeting</u>	<u>Room</u>
1	1a	Wed., July 12, 9:30 a.m.	Hemicycle
1	1b	Wed., July 12, 2:30 p.m.	B
2	2a	Wed., July 12, 11:30 a.m.	B
2	2b	Wed., July 12, 4:30 p.m.	B
3	3a	Thurs., July 13	
3	3b	Thurs., July 13	
3	3c	Wed., July 12, 9:30 a.m.	B
4	4a	Wed., July 12, 2:30 p.m.	Hemicycle
Drafting Subcommittee of Agenda Committee		Wed., July 12, 8:30 p.m.	A

July 11, 1944

Ad hoc Committee of Commission I on Relations
with Non-Member Countries

The following text is submitted to Commission I by the Ad hoc Committee on Relations with Non-Member Countries.

The following material is suggested as a new section to be added to Article IX, Obligations of Member Countries:

Each Member Country agrees:

- (a) Not to undertake any transactions with a non-member country which would be contrary to the purposes and provisions of the Fund, and not to allow its agencies with the Fund to undertake such transactions,
- (b) Not to cooperate with non-member countries in practices which are against the purposes and provisions of the Fund,
- (c) To cooperate with the Fund in order to apply appropriate measures to prevent transactions with non-member countries which are contrary to the purposes and provisions of the Fund.

Third Report of Committee 3 to Commission I.

I.

Committee 3 submitted to Commission I for decision one item about Voting in the Board of Governors (Document 239, page 5, first paragraph). The difference of opinion in Committee 3 related to the second paragraph of Alternative A of Section 3 of Art. VII of the Draft (pages 26 of the Draft). This paragraph contains a specific provision on votes required under Article III. It should be noted that the member, who presented Alternative A, interpreted this proposal by restricting the respective decisions under Article III, to two items: (a) to the decision of the Fund of suspending a member from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund (III, 2d of the Joint Statement) and (b) to the decisions of the Fund in exercising its discretion in determining whether and on what terms it shall waive the conditions mentioned under III, 2a to d of the Joint Statement.

The Committee expressed its desire that paragraph 2 should be more clearly drafted if adopted for the Final Draft.

However, as to the merit of this paragraph three opinions were advanced: one approving it, as contained in Alternative A; the other modifying it by replacing the unit of two hundred thousand United States dollars by two million United States dollars and the third outrightly opposing this deviation from the normal voting procedure. Commission I did not take action on this item. That is why these three Alternatives are hereby submitted again to Commission I for decision.

II.

Committee 3 did not consider Section 9 of Art. VII Location of Office. Action will be taken probably by Commission I directly.

III.

Committee 3 considered Section 2 of Art. VII (Suspension of Membership or Compulsory Withdrawal, page 35 of the Draft). Alternative A was accepted with a suggestion to the Drafting Committee of the Commission to state clearly under what conditions a country would be suspended from using the Fund's resources or be compelled to withdraw from membership and the fair procedure therefor. It was the consensus of the Committee that these sanctions should be applied only when the country's action directly affects the operation of the Fund.

IV.

IV.

Committee 3 considered jointly Sections 3 and 4 of Art. VIII. (Settlement of Accounts with Countries Ceasing to be Members, and Liquidation of the Fund, pages 36, 36a, 36b, 36bb, 36c, 36d, 36e, 36f, 37, 37a, 37b, 37c of the Draft). Committee 3 based its discussion and its recommendations to Commission I on a Report submitted by a Subcommittee which worked under the chairmanship of Mr. Camille Gutt, and is included in Document 243. The result of the deliberations of Committee 3 is the following:

Liquidation of the Fund (Art. VIII, Sec. 4.)

Paragraph (a) as contained in Alternative A (page 37 of the Draft) was approved.

Paragraph (b) as contained in Alternative A was approved in the following version:

"If a decision to liquidate the Fund is carried, (i) the Fund shall forthwith cease to engage in any activities except those incident to an orderly liquidation of its assets and the settlement of its liabilities, and (ii) all the obligations of members under this agreement other than those specified in the following paragraphs of this Section and shall cease to have effect." (The dotted space indicates that there may be some other obligations remaining, which are not directly connected with the liquidation; these other obligations may be inserted here by the Drafting Committee.) The Committee was of the opinion that this clause might be inserted either at this place or in some other Section of the document relating to the obligations of the members, at the discretion of the final drafting committee.

Paragraph (c) was adopted without change.

Paragraph (d) was considered in the light of Alternatives A, B, and C. Alternative B is, among the three Alternatives, the broadest because it confers upon the Board of Governors the jurisdiction to decide how the assets of the Fund shall be distributed after the discharge of the liabilities in case the Board of Governors should choose to liquidate the Fund. Thus the first pertinent question submitted to Commission I is whether the principles concerning the distribution of assets should be included into the Constitution of the Fund, or whether they should be determined by the Board of Governors in the case that this agency chooses to liquidate the Fund.

The following considerations are based on the assumption that Commission I chooses to include into the

Constitution

Constitution the principles concerning the distribution of assets, thus they are based on Alternatives A and C (with reference to paragraph d).

According to Alternative A, in the words of the Chairman of the Subcommittee, the creditor countries (beginning with the largest creditor) will be paid first in their own currency, as far as it is held by the Fund, then in gold, as far as gold is held by the Fund. The balance (if any) is paid in the currency of the next largest creditor and then in that of the next largest creditors. Alternative C provides that each country shall have a prior claim up to its quota to its own currency held by the Fund and that the remaining assets (including gold and currencies) shall then be distributed proportionally to the remaining credit balances. In the opinion of the Chairman of the Subcommittee, in the process of a liquidation according to Alternative A, the largest creditor or creditors may absorb the whole of the gold and/or strong currencies, whilst according to Alternative C the gold and currencies will be divided proportionately. Committee 3 refers Alternatives A and C (with reference to paragraph d) to Commission I for decision provided that Commission I did not choose previously Alternative B.

Paragraph (e) was accepted in principle. However, one member favored a five-year term for redemption of its excess currency instead of the three-year period provided for in Amendment A. Thus, Committee 3 decided to refer the two Alternatives (redemption within three or five years) to Commission I for decision. This paragraph includes the provision that members who are under obligation to redeem their currency under this paragraph, unconditionally guarantee at all times the unrestricted use of such currency for the purchase of goods or for the payment of other sums due to it or to its nationals. It was suggested in the Committee that the Drafting Committee should consider how to shape this provision in the light of possible exchange and trade regulations and existing private contracts.

Settlement of Accounts with Governments Ceasing to be Members.

Committee 3 considered Alternatives A, B, and C (pages 36, 36a, 36b, 36c, 36d, 36e, and 36f) in the light of the Report of its Subcommittee (Document 243). It was suggested that Article VIII, Section 3 (a) be amended with the insertion after the first sentence of the following: "Failing such agreement settlement shall be made in accordance with the provisions of (c), (d) and (e)." However, no agreement was reached which of the three Alternatives should be recommended for adoption. The discussion focused on the same point as mentioned in this Report in connection with Art.VIII, 2(d) (Liquidation of the Fund). It was assumed that after decision is taken by Commission I on the provision contained in VIII, 2d of the Draft

(Liquidation

(Liquidation of the Fund) it will be feasible for the Drafting Committee to combine the three Alternatives. It has been suggested that the Drafting Committee clarify paragraph (f) as far as the exchange rate of currencies which have to be acquired is concerned, because the currency of the country which has left the Fund may deteriorate, and indemnification is provided for (last sentence of par.f, Alternative A) only in respect to the Fund.

If Commission I would find that the coordination of the provisions of the Section concerning "Settlement of Accounts with Governments Ceasing to be Members" would transcend the scope of its Drafting Committee, an Ad Hoc Committee could be charged with that task.

: : :

Committee 3 considers to have completed the work on its assignment.

Ervin Hexner

Reporting Delegate.

REPORT OF DRAFTING COMMITTEE OF COMMISSION II - ANNEX I

Outline of Articles and Sections
of Fund Agreement

(References are to pages of SA/1)

Introductory Article (New)

- I. Purposes (I-p.1)
- II. Membership (II, in part)
 1. Original members (p. 2)
 2. Other members (p. 2)
- III. Quotas and Subscriptions (II, remainder)
 1. Quotas (p. 2)
 2. Adjustment of quotas (p. 2)
 3. Subscriptions: time, place and form of payment (p. 2, p. 5)
 4. Payments when quotas are changed (p. 2, p. 5)
 5. Substitution of securities for currency (p. 29)
- IV. Par Values of Currencies (IV)
 1. Expression of par values (p. 16)
 2. Gold purchases based on parity (p. 38)
 - *3. Foreign exchange dealings based on par values (p. 39)
 4. Obligations regarding exchange stability (p. 17a)
 5. Changes in par values (p. 17a)
 6. Action by the Fund on proposed changes (p. 17aa)
 7. Effect of unauthorised changes (p. 17aa)
 - *8. Uniform changes in par values (p. 18)
 9. Maintenance of gold value of the Fund's assets (p. 19)
 10. Separate currencies within a member's territories (p. 20)

* Text not yet available.

- V. Transactions with the Fund (III, in part)
1. Agencies dealing with the Fund (p. 5)
 2. Limitation on the Fund's operations (p. 7)
 3. Conditions governing use of the Fund's resources (p. 6a)
 4. Waiver of conditions (p. 6a)
 5. Ineligibility to use the Fund's resources (p. 6b)
 6. Purchases of currencies from the Fund with gold (p. 10)
 - *7. Other acquisitions of gold by the Fund (p. 11)
 - *8. Charges and commissions (p. 13)
- VI. Capital Transfers (V; III)
1. Use of the Fund's resources for capital transfers (p. 21)
 2. Special provisions for capital transfers (p. 6a)
 3. Control of capital transfers (p. 22)
- VII. Scarce Currencies (VI; III, in part)
1. General scarcity of currency (p. 23b)
 2. Measures to maintain the Fund's holdings of scarce currencies (p. 6a)
 3. Scarcity of the Fund's holdings (p. 23b)
 4. Administration of restrictions (p. 23c)
 5. Effect of other international agreements or restrictions (p. 23c)
- VIII. General Obligations of Members (IX, in part; III, in part; VII, in part)
1. Introduction (p. 38)
 - *2. Exchange controls on current payments (p. 40)
 - *3. Multilateral clearing (p. 9)
 - *4. Acceptance of currency purchased from the Fund (p. 12)
 - *5. Furnishing of information (p. 14c)
 6. Consultation between members regarding existing international agreements (p. 48)
- IX. Status, Immunities and Privileges of the Fund (IX, in part; III, in part)
1. Purposes of Article (New)
 2. Status of the Fund (p. 33)

* Text not yet available.

3. Immunity from judicial process (p. 41)
4. Immunity from other action (p. 41)
5. Freedom of assets from restrictions (p. 12)
6. Exemption of officers and employees from suit (p. 41)
7. Immunity of officers and employees from restrictions (New)
8. Privilege for communications (New)
9. Privilege of officers and employees in respect of travel (New)
10. Immunities from taxation (p. 43a)
11. Application of Article (p. 43a)
- X. Relation with Other International Organizations (VII-8, p. 30)
- XI. Organization and Management (VII, in part)
 1. Structure of the Fund (New)
 2. Board of Governors (p. 24)
 3. Executive Directors (p. 26)
 4. Managing Director and staff (p. 26)
 - *5. Voting (p. 26)
 6. Distribution of net income (p. 32)
 7. Publication of reports (p. 28)
 8. Communication of views to members (p. 15)
- XII. Offices and Depositories (VII, in part; III, in part)
 - *1. Location of offices (p. 31)
 2. Depositories of the Fund (p. 29)
 3. Guarantee of the Fund's deposits (p. 12)
- *XIII. Transitional Period (X)
- XIV. Withdrawal from Membership (VIII, in part)
 1. Right of members to withdraw (p. 34)
 2. Compulsory withdrawal (p. 35)
 3. Settlement of accounts after withdrawal (p. 36)
- *XV. Liquidation of the Fund (VIII,-4, p. 37)
- XVI. Amendments (XI, p. 45)

* Text not yet available.

Doc. #327

XVII. Interpretation (XII-1, p. 46)

*XVIII. Definitions (XII-2, p. 47)

XIX. Final Provisions (XIII)

1. Signature (p. 51)
2. Entry into force (p. 51a)
3. Inauguration of the Fund (p. 51a)
- *4. Initial determination of par values (p. 51b)

* Text not yet available.

Doc. #32C

REPORT OF AD HOC COMMITTEE OF COMMISSION I
ON ARTICLE IX, Section 4
(EXCHANGE CONTROLS ON CURRENT PAYMENTS)

The Committee met on Wednesday, July 12 at 6:00 p.m. with the following represented: China, Chairman; Canada, Uruguay, French Delegation, Iran, United Kingdom and United States.

The Committee considered the proposed language for provisions which bring together under one Article of the Agreement the obligations which member countries assume with regard to the convertibility of their currencies as members of the Fund. The material which is now proposed to include as Article IX, Sections 4, 5 and 6 is presented in Document SA/1 as Article III, Section 6 (p. 9) and Article IX, Section 4 (p. 40).

The Committee considered Alternative D on Article IX, Section 4 which appears on page 40b of Document SA/1 and after full discussion it takes the view that the objectives which Alternative D is intended to safeguard are fully protected under the proposed language. In particular, it was brought out in discussion that the proposed provisions do not contain any language which commits a member country to pursue any given commercial policy and is confined strictly to the question of exchange restrictions on transactions on current account and to discriminatory and multiple currency practices. No specific reservations were made by any of the delegations present on the language of the proposed provisions.

A question was raised as to whether the obligations of a member under the proposed Article IX, Section 4 to buy balances of its currency held by another member with the currency of that member or with gold would cease when the member was no longer entitled to buy foreign exchange from the Fund under any of the provisions of the Agreement or only when it had exhausted its quota. The view of the Committee was that the language clearly intends that the obligation should cease when the member is no longer able to draw on the Fund under any of its provisions. One of the delegates felt that some clarification of the language would be desirable to make this perfectly clear.

A question was raised concerning the application of the provisions of the Agreement to discriminatory currency arrangements or multiple currency practices prevailing in member countries at the time the Agreement is signed and which are not wartime measures. The Committee agreed to add the sentence beginning "A member country in which such practices . . ." at the end of Article IX, Section 6.

Convertibility

IX.4. Each member shall buy balances of its currency held by another member with currency of that member or, at the option of the member buying, with gold, if the member selling represents either that the balances in question have been currently acquired or that their conversion is needed for making current payments which are consistent with the provisions of the Fund. This obligation shall not relate to transactions involving:

- (a) capital transfers; or
- (b) holdings of currency which have accumulated as a result of transactions effected before the removal by a member of restrictions on multilateral clearing maintained or imposed under X.1. below; or
- (c) the provision of a currency which has been declared scarce under VI above; or
- (d) holdings of currency acquired contrary to the exchange regulations of the member which is asked to buy such currency;

nor shall it apply to a member which has ceased to be entitled to buy currencies of other members from the Fund in exchange for its own currency.

IX.5. Subject to the provisions of Article VI and Article X, no member shall impose restrictions on the making of payments and transfers for current international transactions without the approval of the Fund.

IX.6. No member shall engage in any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement, or approved by the Fund. A member country in which such practices and arrangements are in effect at the time this Agreement is signed shall consult with the Fund as to their progressive removal, unless such practices and arrangements are covered by Article X.

REPORT OF SUBCOMMITTEE 1a
COMMITTEE 1 OF COMMISSION II

Membership: United States
United Kingdom
Norway
Australia
India

Chairman: Mr. Beyen (Netherlands)

Reporting
Delegate: Mr. Oreamuno (Costa Rica)

Secretary: Mr. Young

Assignment: Pages 3 and 45

Subject: Membership in Fund and Bank

The first meeting of the above committee was held on July 12, 1944, at 9:30 a.m. The Chairman, Mr. Beyen, was unable to attend and asked Mr. Goldenweiser (United States) to act as Chairman.

Present were: Mr. Melville (Australia), Mr. Tange (Australia), Sir Jeremy Raisman (India), Sir Theodore Gregory (India), Mr. Skaug (Norway), Mr. Snelling (UK), Mr. Goldenweiser (U.S.), and Dr. Hexner (Czechoslovakia).

The Committee considered Article II, Section 1, page 3, which requires members of the Bank to be also members of the Fund. The desirability of this was questioned and it was suggested that members of the Bank be required to assume only certain obligations under the Fund rather than full membership. Difficulties of such an arrangement were mentioned and it was said that if joint membership were not required, certain additions by way of obligations to be assumed by members of the Bank should be made in the Bank Agreement.

The reason for joint membership was said to be that stable conditions of exchange were essential to operations of the Bank. Inasmuch as most members of the Bank would probably be borrowers, these members should be required to join the Fund and be under obligation to pursue financial policies which would promote security for their obligations held by the Bank.

It was pointed out that some countries might not borrow and would have only an indirect interest in the Bank, namely, that general world development would react favorably upon them and their trade.

A principal objection to requiring joint membership was said to be that a country might get in a position where it would be compelled to belong to various international organizations. Linking membership in the two financial institutions, it was said, would mean that the actual power to withdraw from such institutions might become

meaningless,

-2-

meaningless, and that a country would find itself, perhaps against its will, involved in a whole gamut of international organizations. Opposed to this view was the opinion that it was unlikely that membership in these two institutions would be linked in a compulsory way to other organizations since the relationship of these two was of a peculiar nature.

After considerable discussion, these two viewpoints were not reconciled and while the consensus was that members of the Bank should be required to be members of the Fund, the dissenting view should be recorded.

The discussion then turned to the question of the status of members of the Bank when they ceased to be members of the Fund, Article VI, Section 4 (p. 45). The view was expressed that if a country had withdrawn from the Fund because it was not able to carry out the agreement, it should also leave the Bank. It was pointed out, however, that a country might sever its relations with the Fund and still be a desirable member of the Bank.

It was generally agreed that if a country ceased to be a member of the Fund, it should cease to be a member of the Bank, unless the Bank voted that its membership in the Bank be continued. In view of agreement on the above, the principal question discussed was whether approval by the Bank of the member's retention should be by vote according to countries or according to quotas, and, if according to countries, whether this should be by a majority or by a three-fourths vote as proposed in Alternative B.

The consensus was that Alternative B is satisfactory in principle. However, as to the nature of the voting necessary to retain membership of a country that ceases to be a member of the Fund, the general view was that such vote should be by a simple majority on the basis of voting according to quotas. Some members of the subcommittee, however, wished to consider the matter further, especially in its relation to other sections of the Agreement.

The meeting adjourned.

Actions at meeting July 12, 1944, 9:30 a.m.

Article II, Section 1, Alternative A, p. 3	Accepted
Article VI, Section 4, Alternative A, p. 45	Accepted
Article VI, Section 4, Alternative B, p. 45	Accepted with a revision of voting arrange- ment

Restricted

Report of Committee 2 to Commission I
Concerning the Meetings of July 11th and July 12th.

(Professor Robert Mossé)

(Note: All page references are made to Doc. 32)

ARTICLE III

Section 2 - Conditions under which any Member may
Purchase Currencies of Other Members (p. 6a).

The Committee accepted the recommendation of the ad hoc subcommittee that Section 2 (3) of Alternative A (p. 6a) be approved. The Committee also agreed to accept the recommendation of the ad hoc committee to revise the sentences following paragraph (4) of Section 2 as follows:

"The Fund may in its discretion, and on terms which safeguard its interests, waive any of these conditions, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. In making such waiver it shall take into consideration periodical or exceptional requirements of members."

and the recommendation of the Mexican Delegation that the following sentence be added:

"The Fund shall also take into account a member's willingness to pledge as collateral gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of such waiver the pledge of such collateral."

The Cuban Delegation suggested that the amendment of the Mexican Delegation should include after the word "securities"

"and warehouse receipts of staple commodities in international trade".

The Chairman of the Committee stated that according to his interpretation warehouse receipts of staple commodities might be considered as being "other acceptable assets" if the Fund should so decide in its discretion and the Committee agreed that the inclusion of the words suggested by the Cuban Delegation were therefore necessary.

The Czechoslovakian Delegation suggested the following alternative:

"The Fund may in its discretion and on terms which safeguard its interests, waive any of these conditions. In making such waiver it shall take into consideration periodic or exceptional requirements of members and also their records of avoiding large or continuous use of the Fund's resources."

In

In view of the fact that the Czechoslovak alternative was not accepted the Czechoslovakian Delegation reserved its position.

The Australian Delegation wished to record its reservation that the revision of the waiver provision was not an adequate substitute for Alternative B (p. 6b).

Section 6. Multilateral International Clearing. (p. 9)

Section 6 has been referred to another Committee of Commission I and is, therefore, removed from the agenda of Committee 2.

Section 9 (b). Transferability and Guarantee of the Assets of the Fund (page 12 of Document 32)

The American Delegation offered a memorandum (CI/2/MC, Doc. 281) and suggested that Section 9(b) be withdrawn. As a substitute it proposed the following text:

"Where the international transactions of a country are carried on in the currencies of other countries, the Fund may require that the increments in its holdings of member currencies, to the extent that such increments are attributable to transactions with other countries, shall be offered to the Fund in the repurchase of its own currency."

The U.S.S.R. Delegation made reserved its position on the ground that it did not have time to study the proposed amendment.

The American suggestion was approved by Committee 2, with the understanding that a subcommittee would revise the American proposal in the light of the discussion in the Committee and would submit a report to the Reporter.

Section 10. Charges and Commissions. (page 13)

There was very lively discussion on these questions with considerable divergence of views as to the nature and amount of these charges. Some delegations questioned the proposed charges asserting that they were too high, or that their scale was unsatisfactory.

On the principle of charging a commission or interest on the Fund's holdings of national currencies the delegates of New Zealand, Iran, and India emphasized that such charges were a penalty directed against the country which is unable to export goods, although it would be willing to do so; these delegates went so far as to say that the accumulation of holdings comes largely from the fact that creditor countries do not accept imports. It was said that among the purposes of the Fund should be the expansion of foreign trade in general and not merely the rise of exports of one or several countries.

The

The delegate of Brazil said that a country, although it has a favorable balance of payments, might purchase foreign currency; therefore there should be a deterrent to avoid this. This remark led to the suggestion that a distinction be made between a country, obliged to draw because of unfavorable balance of payments and a country drawing simply in order to build up balances in foreign currencies, despite an already existing favorable balance of payment.

To sum up, the question of charges and commissions referred back to your Commission, with the report that there are many different shades of opinions in this Committee.

Section 12. Consideration of Representations of the Fund.

The Asterisk Committee reported to Committee 2 the following text for this Section which was approved by this Committee:

"The Fund shall have at all times the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority, publish a report to that member with regard to its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member has not among the Executive Directors a Director appointed by it, the provisions of Article VII, Sec. _____ apply. The Fund shall not publish a report which would involve changes in the fundamental structure of the economic organization of members."

ARTICLE IV

The Committee agreed to approve Article IV, Sections 2, 3, and 4 of Alternative A (p. 17a) and Article IV, Sections 5 and 6 of Alternative D (p. 18c). The Australian Delegate asked that his reservation on Alternative C (p. 17c) be noted in the report to Commission I. The Canadian Delegate wished to record his observation that these sections, as approved, allow a member country to change its rate without the approval of the Fund, and yet remain a member in good standing. He thought that the provisions of the Joint Statement regarding changes in exchange rates had provided a happy compromise between exchange rigidity and exchange flexibility. The clause evidently represents a compromise between international agreement and control on the one hand and national autonomy on the other. The Fund will have, if not the arm of justice to inspire some respect, at least an argumentum ad crumenam; it is entitled to refuse the use of its resources to a member country which has altered the par values of its currency despite the objection of the Fund.

Section 5.

Section 5. Uniform Changes in Par Value (p. 18)

This question had been removed from the agenda of Committee 2 and referred to another Committee of Commission I.

ARTICLE XIII

Section 5. Fixing initial par values (Unnamed Alternative, pages 50 and 50a, Doc. 278, Alternative A, page 50b, Doc. 294, Alternative B, page 16a, Doc. 177 American amendment - (orally described as Alternative B)

Committee 2 has approved paragraphs (a), (b), (c), and (d) of the Unnamed Alternative (pages 50 and 50a) together with paragraphs (e), and (f) of the American Amendment but with the provision that this should not prejudice the question of liberated countries. The British Delegate explained that a "de facto" rate may be a rate of exchange which has been agreed upon among governments and further stated that it is up to each country to define what is meant by "de facto" rates.

The Indian Delegation pointed out that, as they were members of the Sterling Bloc, unless previous intimation was given by the United Kingdom of their decision regarding the fixing of the par value of sterling in terms of gold, India will not have sufficient time to notify the Fund of the par value of their currency. The Indian Delegation further pointed out that it should be appreciated by the Committee that a change in the de facto par value of sterling may necessitate a change in the par value of the rupee and therefore it was absolutely essential that India should have sufficient notice of the par value of sterling notified by the United Kingdom to the Fund.

The United Kingdom Delegate assured both India and all members of the Sterling Bloc that previous intimation of the par value of sterling will be given to members of the Sterling Bloc.

As to the question of liberated countries, there was substantial agreement that liberated countries might be allowed to establish provisional rates of exchange, and that after the establishment of such rates the Fund might allow them limited access to the resources of the Fund, provided it was clearly understood that such access was a privilege and not a right.

The Chair appointed a small committee to consider the possibility of some modification along these lines. This ad hoc committee will report to the Reporter who, in turn, will report to Commission I.

July 12, 1944

REPORT OF THE AD HOC COMMITTEE
OF COMMITTEE 3 ON EXECUTIVE DIRECTORS
AND VOTING ARRANGEMENTS
TO COMMISSION I.

The Committee met at 9:00 p.m. in Room B. Dr. de Souza Costa presided; and representatives of Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, Egypt, France, Netherlands, Poland, United Kingdom, U.S.S.R., and the United States were present.

The Committee approved Alternative G (SA/1/44; Doc. No. 237; page 26-G).

The Committee discussed at length the provisions and problems represented by Alternative J (SA/1/54; Doc. No. 310; page 26j) and Alternative E (SA/1/55; Doc. No. 315; page 25h). While several delegations expressed themselves as favorable to Alternative J in principle, though a few with minor reservations, and an almost equal number expressed complete reservation or reservation pending knowledge of quotas; and one additional delegation expressed the thought that after allocating membership on the executive directorate to "ex officio members, the remainder should be allotted equitably between economic and geographical areas."

A new proposal was introduced as a substitute for paragraph 2 of Alternative J cited above. This proposal is to be submitted as Alternative K, page 26M. It was discussed by the Committee with general sympathy; but the Committee took no action regarding it, and it was referred to Commission I for decision.

The Committee also discussed paragraphs (a) and (b) of Alternative A (SA/1; Doc. No. 32; page 26) relating to voting. No decision was reached, and the matter is before the Commission.

REPORT OF
AD HOC SUBCOMMITTEE A OF COMMITTEE 4 OF COMMISSION II

July 12 - 4:30 p.m.

A meeting of Ad Hoc Subcommittee A of Committee 4 of Commission II was held on July 12 at 4:30 p.m., at which representatives from the following countries attended: Cuba, Czechoslovakia, India, Poland, United Kingdom and United States. The Chairman was Sir Chintaman D. Deshmukh of India.

The following two subjects relating to Article VII had been referred to the subcommittee:

1. Section 4. Restrictions on Taxation of the Bank, its Employees and Obligations

It was reported to the subcommittee that similar provisions to Section 4 were being completed by the drafting committee of Commission I for the Fund, which contained some slight modifications from the draft of Article IX, Section 7, approved by Committee 4 of Commission I. Since these modified provisions will be available shortly, it was decided to defer consideration of Section 4 until the members of the subcommittee had an opportunity to review them.

2. Section 3. Suits against the Bank was discussed and approved with changes which are underlined:

"Suits may be brought against the Bank only in a court of competent jurisdiction in a member in which the Bank has an office, has appointed an Agent for the purpose of accepting service or notice of suit, or has issued or guaranteed securities, and only by litigants other than members and those acting for or deriving claims from members. The Bank and its assets of whatsoever nature shall, where-soever located and by whomsoever held, be exempt and immune from seizure, attachment and execution in advance of final judgment against the Bank."

REPORT OF SUBCOMMITTEES A AND B OF COMMITTEE 2,
ON THE OPERATIONS OF THE BANK, TO COMMISSION II

JULY 13, 1944

MR. BRIGDEN:

1. This Committee is concerned with Articles III and IV of the draft, but has so far dealt only with certain important subjects, through its two subcommittees, as follows:
2. Limitation on Loans and Guarantees (Art. III, S. 3)
This matter was discussed together with the subject of Article IV, Section 3. (See below)
3. Conditions of Loans and Guarantees, (Art. IV, 5, 6)
The Preamble. (Pages 15 and 15a) was amended to include agricultural enterprises. The third line of Alternative A (on page 15) was amended to read:

"business, industrial, and agricultural enterprises ..." It is understood that the words include public utilities and railroads, and that "agricultural cooperatives and credit institutions" (mentioned in Alternative B, page 15b), are not excluded.
4. Condition 1, Section 4 (1). The Committee added the following words: "either directly or through an institution having power to give such member's guarantee and acceptable to the bank." Alternative I (page 15e) was discussed but not accepted. This alternative would have empowered the Bank out of its own capital to lend to business enterprises without any guarantee. The Committee was of the opinion that enterprises of the type should not be assisted by the Bank.
5. Condition (2), Section 4. (2). Alternative B (page 15a) was approved. This is paragraph (b) of Part 1 on Page 15a, reading: "The Bank is satisfied.....for the borrower."
The Committee's opinion was that the adopted text better expressed the general intention.
It was considered that the text covered the proposal made on Page 16.
6. Condition 3. Section 4. (3) Alternative A was adopted with the change of one word in the second line: "project" becoming "proposal", and a verbal alteration later.
Alternative D (on Page 15C) was not accepted, it being considered that the word "proposal" (above) should cover either or both the purpose of a loan, and/or the merits of a project.
7. Conditions 4 and 5. Section 4 and (5).
The short draft in Alternative A on page 15 was discussed with alternatives on page 15(b). The second part of the

text

text on page 15 was considered to be impracticable for immediate reconstruction loans, but alternatives required redrafting.

Both (4) and (5) were referred to the Drafting Committee.

8. Other Conditions: Stabilization Loans.

Alternative B, Paragraph (2) on Page 15a proposed action "in exceptional circumstances" which would be outside the conditions of Alternative A. The proposal, together with Alternative C (on page 15b), was referred to the Drafting Committee for consideration as possibly within the purposes of the Bank.

An alternative addition to B (Part 2) on Page 15a, given at the foot of page 15b, was withdrawn. Alternative H (on page 15e) was referred also, for consideration by the Drafting Committee in conjunction with part 3 of Alternative B (page 15b).

9. Alternative E (on page 15c), proposing special conditions for countries which have suffered from hostilities, was also referred to the Drafting Committee. The general opinion was that any special conditions should be confined to amortization.

10. Alternatives F (on page 15c) proposed that the F.A.O. should be used for advice, but as these subjects are within the scope of Committee 3, the alternative was referred there.

Alternative C (on page 15a) being closely related, was referred similarly.

11. Details re Default, etc. Alternative J (page 15b) proposed a series of requirements as to guaranteed Bonds, etc., which were thought by its sponsors to be needed to protect the credit of the Bank, while others thought the details (however important) might be left to the Bank itself. The matter was postponed for further consideration by the Delegations.

12. Article III, Sections 5 and 6. Currencies for loans
Alternatives A on Pages 17 and 18 were accepted.

13. Article III, Section 3. Limitations on Loans and Guarantees. (Pages 14 and 21)

The proposals raise the general questions and policy, e.g., as to whether the Bank is to be liberally or conservatively inclined, and more specifically whether it should lend more than its capital and to what extent.

It is also related to the question of stabilization loans. The proposals were therefore referred to a special group from the Committee for general consideration and report.

Sub-Committee 2A then adjourned.

14. Committee

14. Committee 2B dealt with Article IV (in part), but it is not practicable within the time available to report adequately on the discussions.
15. Section 1 as on Page 19 was accepted with the substitution of the words "paid in" for "subscribed" in the draft: Para. (a).

In (c) the words "whole or in part" refers to the possibility of a large investor being willing to forego a guarantee.
16. Section 2: Loans from subscribed capital.

The draft (a) provides that loans from currency subscribed should require the approval of the subscribing country. It was explained that the reason was related to a possible shortage of the goods required in the subscribing country concerned, and not to any general desire to control the use of currency subscribed to the Bank. The alternative would be to control exports of the same goods which control it was desired to avoid.

The text was referred for re-drafting together with the substance of Alternatives B and C (pages 20 and 20A).
17. Section 3 (Page 21) Was not discussed.
18. Section 4 (Page 22) Payment provision for direct loans. A long discussion took place on this proposal to establish standard rates of interest and commission which went further than the subject of direct loans. The proposal concerning amortization was not discussed, and the whole matter was referred to a subcommittee.
19. The proposal for standard rates was related chiefly to reconstruction loans, in which it was argued, all should share equally, whatever might have been the credit status of particular countries. For development loans, and for the long term functions of the Bank, the merit of the proposal was less clear. But some countries with good credit status, which might need reconstruction loans, objected to a uniform commission charge (regarded as a kind of mutual insurance, and intended to create funds to meet guarantee liabilities).

Questions arose also as to effects on the credit of the Bank, and the attitude of potential bondholders especially in the USA while this was not all relevant to direct loans from the Bank's own capital, the same principle was involved generally. The USA spokesman said that the Bank should not be required to have uniform charges, although it probably would follow that principle in its own discretion, at least in the early post war period.
20. Section 7. Order of Meeting Obligations

Alternative A (on Page 25) was referred to a Drafting Committee, partly to separate the procedures required for loans and guarantees.

Alternative B (on page 25A) was also referred. It is related to the question of the detailed requirements proposed for Article III, Section 4(b) given as Alternative J on Page 15b.

J. B. Brigden,
Reporter

July 12th, 1944.
Doc. #336

Working Paper for Drafting Committee of

COMMISSION II

TEXT OF PROVISIONS RECOMMENDED
BY COMMITTEE 2A AND
COMMITTEE 2B

(July 12, 1944)

Article III.

Doc. #245 Section 4. Conditions on which Bank may Guarantee
or make loans.

Alt. A.
p. 15 The Bank may guarantee, participate in, or make loans to the government of any member, political sub-divisions thereof, and business, industrial, and agricultural enterprises therein, subject to the following conditions:

(1) The government of the member in which the project is located, fully guarantees the payment of interest on the loan and repayment of the principal, either directly or through an institution having power to give such member's guarantee and acceptable to the Bank.

Alt. B.
p. 15a (2) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to secure the funds under conditions which in the opinion of the Bank are reasonable for the borrower.

Alt. A.
p. 15 (3) A competent committee, after a careful study of the merits of the proposal, has submitted a written report concluding that the execution of the proposal would serve to increase the productivity of the member country in which it is located.

(This paragraph is referred to the drafting committee for revision in connection with Article I on Purposes.)

(4) ~~Referred to Subcommittee~~

p. 15 (5) In guaranteeing a loan made by other investors, the Bank receives compensation for its risk.

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Article III

Section 5. /Referred to Subcommittee of Committees 2a
and 2b/

Doc.#245 Section 6. Use of loans guaranteed, participated
Alt. A. in or made by the Bank.
p. 18

(a) The Bank shall impose no conditions as to the particular member in which the proceeds of a loan shall be spent.

(b) The Bank shall make arrangements to assure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency regardless of political or other non-economic influences or considerations.

(c) In addition to any other action which the Bank may take to implement the provisions of subsection (b) above with respect to loans it makes, it shall credit the account of the borrower with the amount of the loan and shall make payment from the account only to meet expenses as they are actually incurred.

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Art. III.
Secs. 5 & 6

Doc. # 337

Article IV

Operations

Doc. #245
Alt. A.
p. 19

Section 1. Methods of facilitating provision of loans.

The Bank may facilitate the provision of loans which satisfy the general conditions of Article III in any of the following ways:

- (a) By direct loans out of the Bank's own capital paid in under Article II, Section 4(a).
- (b) By direct loans out of funds raised by the Bank in the market of a member.
- (c) By guaranteeing in whole or in part loans made by private investors through the usual investment channels.

Section 2. Loans from subscribed capital.
/Referred to Subcommittee./

Section 3. Loans from borrowed funds and guarantees. /Referred to drafting committee of Commission II/

Section 4. Payment provisions for direct loans.
/Referred to Subcommittee/

Section 5. Participations. /Referred to drafting committee of Commission II/

Section 6. Guarantees. /Referred to Subcommittee/

Section 7. Order of meeting obligations. /Referred to Subcommittee/

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Doc. # 337

M E M O R A N D U M

July 12, 1944

Report of Ad hoc Committee 3-C
of Commission II

As requested, a meeting was held on July 12, at 9:30 a.m., attended by representatives from Belgium, Czechoslovakia, Mexico, Netherlands, United Kingdom and the United States. The consensus of opinion of the Committee on the material assigned to it is indicated below:

	<u>Page on Document in Bank Draft</u>	<u>Remarks</u>
Article VI, Section 1 Alternative A (Right of members to withdraw)	42 (245)	Accepted without any modification.
Article VI, Section 2 Alternative A (Suspension of Membership)	43 (245)	The words on line 3 of the first sentence following "a majority of the" were deleted and "governors, which shall include a majority of the aggregate votes" were substituted. The remainder of this section was accepted as written.
Article VI, Section 3 Alternative A (Final Assistance to be withheld)	44 (245)	Accepted without any modification.
Article VI, Section 6 Alternative A (Assessments to meet Losses)	47 (245)	Accepted without any modification.
Article VI, Section 7 Alternative A (Liquidation)	48, 48a (245)	The second paragraph was deleted in its entirety and "Bank may be voted into liquidation by a majority of the members which shall include a majority of the aggregate votes" substituted. With this modification the section was accepted by the Committee.

Although Article VI, Section 5, Alternative A, Document 245, page 46, was not assigned to this Committee, it was the consensus of opinion of the members that it should be reviewed at this meeting. The section was reviewed in conjunction with other assigned material and approved by the members of the Committee.

During the discussion of the material one of the delegates asked for an interpretation of the use of the word "contingently" in paragraph b(1) of this section, reading as follows:

"No amount shall be paid for shares prior to six months from the date upon which the country ceases to be a member nor thereafter so long as the country, its central bank or any of its agencies remain liable, directly, or contingently, to the Bank, except as to liability of the country resulting from its subscription for shares, and any amount so withheld may, at the option of the Bank, be applied on any mature obligation."

It was interpreted that the use of the word "contingently" covered all guarantees, warrantees and commitments of whatever nature existing at the time the member withdrew from the Bank. The Article was accepted by the Committee.

July 13, 1944

COMMISSION II

Report of Drafting Committee

At a meeting of the Drafting Committee held on the 12th of July at 8:30 p.m., the following disposition was made of the Committee's assignments:

Page 2, Art. 1, Alt. J. (Doc. #313)	Approved as amended. (See attached sheet.)
Page 9, Art. II, 7	Approved.
Page 10, Art. II, 8	Approved.
Page 12, Art. III, 1	Amended draft contained in minutes of July 11 meeting (Doc. #300) approved.
Page 23, Art. IV, 5	Approved.
Page 6, Art. II, 4	It was recommended by the Drafting Committee that the words "any of" contained in subsection (a), line 2, be deleted to achieve consistency with Art. IV, 5.
Page 26, Art. IV, 8	Approved as amended. (See attached sheet.)
Page 27, Art. IV, 9	Approved as amended. (See attached sheet.)
Page 28, Art. IV, 10	Approved as amended. (See attached sheet.) It will be noted that the last paragraph of this section was eliminated and a more general provision substituted. It was felt by the Drafting Committee that the paragraph as it stood selected for special attention one of the several purposes set forth in Art. I.
Page 37, Art. V, 9	Approved as amended to achieve consistency with Fund document. (See attached sheet.)
Page 39, Art. V, 11	Approved.
Page 41, Art. V, 13	Approved as amended to achieve consistency with Fund document. (See attached sheet.)
Page 46, Art. VI, 5	Although this section had been assigned to the Drafting Committee, it was found that it had been considered by <u>ad hoc</u>

Committee 3c.

Committee 3c. The Drafting Committee therefore felt that the Commission should have the benefit of Committee 3c's deliberations.

Page 49, Art. VI, 1)
Page 51, Art. VII, 2)
Page 53, Art. VIII)
Page 54, Art. IX, 1)
Page 56, Art. IX, 3)

These remaining sections of the Committee's assignment will be considered at a meeting at 11:30 this morning and presented to the Commission in a supplementary report.

It is recommended by the Drafting Committee that the Commission endorse the foregoing action.

DEAN ACHESON

First Report of Drafting Committee
of Commission I, July 13, 1944

Your Drafting Committee which consists of representatives of the following delegations: Canada (Chairman), China, French Committee of National Liberation, Mexico, Netherlands, Union of Soviet Socialist Republics, United Kingdom and United States of America, has met several times since it was appointed on July 10 and we are able to submit today a report covering all the Articles which had been cleared through the various committees of Commission I, including the special ad hoc committees, by yesterday noon and some which had been cleared through these committees later in the day.

Your Drafting Committee has been obliged to work under considerable pressure and we are aware that the documents submitted to you this morning require polishing and improvement. We therefore request the authority of the Commission to make such changes as appear to us desirable in matters of pure form, and to eliminate any internal inconsistencies or duplications which may become apparent on more leisurely examination, and to insert cross references where necessary.

We are placing two documents before you. The first, Document No. 320, is referred to as Annex I of our report and consists of an outline or Table of Contents of the Articles and Sections of the Fund Agreement. An examination of this document will enable members of the Commission to see the order in which we have seen fit to arrange the subject matter. At the end of each heading on this Table of Contents members will find references to various pages of Document SA/1, the so-called loose-leaf bible. The sections referred to are those which were approved by your committees, and by comparing these sections with the corresponding sections of our report, members of the Commission will be able to see what changes we have made in language.

Against certain sections of Annex I of our report, Document No. 320, members will find an asterisk. An asterisk indicates that the relevant section has either not yet been cleared through the appropriate committee, or that it was cleared too late for us to incorporate in this report. Your drafting committee takes the liberty of pointing out that it cannot make further progress in its work until the sections marked with an asterisk have been cleared.

The main body of our report has been distributed as Annex II, Document No. 321. It consists of our draft of the articles of agreement of the International Monetary Fund insofar as these have been agreed by your committees.

No further explanation would appear to be required in presenting these documents to the Commission, but the Drafting Committee, in submitting the text of Article IX, Section 10 (our numeration) dealing with immunities from taxation, desires to place on record certain assumptions regarding its interpretation of the intention underlying this article. These assumptions are as follows: (a) The Fund is not entitled to import goods free of customs duty without any restriction on their subsequent sale in the country to which they were imported. (b) The Fund enjoys no exemption from duties or taxes which form part of the price of goods sold. (c) The Fund enjoys no exemption from taxes or duties which are in fact no more than charges for services rendered.

The Drafting Committee desires further to place on record its understanding that the phrase "territory of members" or "territories of members", where it appears in Article IX on Status, Immunities and Privileges of the Fund (our numberation), is to be construed sufficiently widely to include the political sub-divisions of members and, where relevant, their taxing authorities.

The Drafting Committee wishes to add the following to Article XIX, Section 1 on page 28 of its report:

"(g) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (d) above may be delayed until _____ months after the date on which these territories have been liberated. If, however, it is not deposited before the expiration of this period by any such government, the signatures affixed in its behalf shall become void and the portion of its subscription paid under (f) above shall be returned to it.

"(h) Paragraphs (f) and (g) shall come into force with regard to each signatory government as from the date of its signature."

The Drafting Committee understands that, in the discussion of certain sections in the committees of the Commission, various delegations reserved their right, in cases where the consensus of the committee was contrary to the views they expressed, to make declarations to that effect before the Commission. Your Committee has not regarded it as part of its duty to make reference in its report to such reservations.

INTERNATIONAL MONETARY FUNDArticle XVI - AmendmentsAddition proposed by the U.K. Delegation.

Insert after (c) on page 26 of Document 321 the following:-

- (d) Notwithstanding the provisions of (a) (b) and (c) above, in any case where, in the opinion of the Executive Directors, it is essential, in order to secure the proper working of the Fund, that some amendment should be made urgently to the provisions of this Agreement other than those referred to in (b) above, the following provisions shall apply:-
- (i) The Executive Directors may by a unanimous vote adopt an amendment which shall enter immediately in force and remain in force unless and until it is repealed or modified under (ii) or (iii) below.
- (ii) The amendment made by the Executive Directors shall be submitted to the Board of Governors within ___ days of its being made and shall be repealed if it is not accepted with or without modification by 9/10ths of the aggregate voting power on the Board of Governors and 9/10ths of the number of Governors. The amendment as so adopted shall then be in force.
- (iii) The amendment as adopted by the Board of Governors shall at once be communicated by circular letter or other form of communication to all members and shall remain in force unless within ___ days not less than 1/10th of the number of members, or members possessing not less than 1/10th of the aggregate voting power in the Fund, signify their opposition to the amendment, in which case the amendment shall be repealed.

Delegation of El Salvador

July 11, 1944

Memorandum to: Assistant Secretary General, and
Technical Secretary General.

from: Office of the Secretary General

Mr. Victor Manuel Valdés, Delegate from
El Salvador, requested that the title given below
be submitted as a suggestion for the title of
the Bank under consideration by the Conference:

International Financial Institution for
Reconstruction and Development.

Initial Par Values

(Addition to Art. XIX, Section 4 of Doc. 321)

To be inserted as last sentence of the Section commencing with "Notwithstanding":

In cases where a now occupied country adopts a new monetary unit, the par value of the new currency shall be valid in relation to the Fund from the date of its enforcement, unless the Fund takes action under (b) above, in which case the procedure prescribed in (c) shall be applied.

Report of Ad Hoc Committee 3-b to Commission II

July 13, 1944

The committee met with all designated members present, plus representatives from Canada, China, and the French delegation. Mr. Miguel Lopez Pumarejo presided. It considered Sections 1 to 4 of Article V. After discussion of the points involved, Section 1 (Board of Governors), and Articles 1 to 1 of Section 3, Alt. A were approved, with verbal corrections to correspond to changes made in the corresponding sections of the Fund. Discussion of Section 2 and the rest of 3, voting and the Board of Directors, were deferred until the Fund language is completed. Action on Section 4 was deferred until the changes made in Ad Hoc Committee 3-a could be placed before the committee.

M.H. de Hock
Reporting Delegate

Report to Commission II on Actions by Ad Hoc Committee 3-1

July 13, 1944

The Committee met with all designated members present and with observers for the League of Nations, the International Labor Office, the United Nations Interim Commission on Food and Agriculture, and the United Nations Relief and Rehabilitation Administration present.

Actions were taken as follows:

Article III, Section 2, Alternative B (p. 13) was discarded. Instead the concluding phrase of Alternative A was amended to read "other international agencies participated in primarily by members of the Bank".

Article III, Section 4 (p. 15). The Committee was informed that the first paragraph of this section had already been amended in Committee 2-a to read "business, industrial and agricultural enterprises". It was agreed that it should be recorded in the minutes and reported to the Commission that the term "agricultural" should be interpreted to include agriculture, forestry, and fisheries, including cooperative and credit institutions.

Point 2 of Alternative F (p. 15c), and Article V, Section 6 (p. 34), were disposed of by deciding that the latter section should be modified to provide general language for consultation with specialized international organizations with reference to loans in their fields, and this was referred to a special drafting committee for phrasing.

Article III, Section 4, Alternative G, was referred back to a special sub-committee for further consideration with the representatives of the international organizations.

It was agreed, however, that it would not be appropriate to provide current banking, exchange, or financing facilities for international organizations within the scope of the proposed investment Ban. It felt, nevertheless, that it might be desirable that some international banking agency be established which would provide such service to international organizations, and that in the future consideration might be given to the possibility of establishing an international banking agency whose services could be used by such international organizations now existing or hereafter created.

Article V, Section 1, sub-section (b) was considered with reference to international organizations. The following changes were recommended:

Section 1 (b)(5) - To modify the language to read: "Making agreements to cooperate with other international organizations, other than agreements of a temporary or administrative character". The Committee also recommended that this change be called to the attention of Commission I with the suggestion that the same change be made in the corresponding section of the Fund.

Article V, Section 4, Alternatives A and B (p. 32). The Committee dropped Alternative B but recommends that the first paragraph of Alternative A be modified to read as follows: "There shall be an Advisory Council of not less than seven persons selected by the Bank from outstanding representatives of banking, business, labor and agricultural interests, who are citizens of members, and with as wide a representation of citizenships of members as possible. In those fields where specialized international organizations exist, the corresponding members of the Council shall be selected in agreement with such organizations. The Council shall advise with the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may require."

The succeeding paragraph is left unchanged.

This completed the Committee's assignment.

W. C. Naude,
Reporting Delegate.

COMMISSION II

Second Report of the Drafting Committee

The Committee met this morning at 11:30 to consider the remaining sections and reports as follows:

- (a) Pages 49 and 50, Art. VII, Sections 1 and 2,

These matters which concern obligations and immunities of the Bank will require provisions analagous to those made for the Fund. Consequently, the Committee took the latest version of the Fund document and adapted it to the Bank. These provisions are contained in the new Article VII, Sections 1, 2, 4, 5, 6, 7, 8 and 9 separately distributed.

The process of adopting the Fund provisions has not comprehended the question of how far obligations shall persist during suspension or after termination of membership. The Committee recommends that the ad hoc committees make appropriate provision for this in the particular sections that fall within their assignments.

- (b) Pages 51 and 52, Art. VII, Sections 3 and 4.

These matters which relate to suits against the Bank and restrictions on taxation of the Bank had been referred to ad hoc Committee 4. The Chairman of that Committee was present as a member of the Drafting Committee and requested the Drafting Committee to incorporate the recommendations of Committee 4 in its report. Consequently, these provisions appear as Sections 3 and 10 of Article VII separately distributed. Article VII is analagous to the corresponding provision for the Fund.

- (c) Page 53, Article VIII, Amendments.

The Committee decided to adopt the revised language of the Fund. This is contained in the new Article VIII separately distributed.

- (d) Page 54, Article IX, Section 1 - Interpretation.

The Committee decided to adopt the revised language of the Fund. This is contained in the new Article IX, Section 1, separately distributed.

- (e) Page 56, Article IX, Section 3 - Approval deemed given.

The Committee approved this section.

The Committee recommends that the Commission endorse the foregoing action.

Working Paper for Drafting Committee ofCOMMISSION II

Text of Provisions Recommended by
Ad Hoc Committee 3-c
 of Commission II
 (July 13, 1944)

Article VI

Doc. 245 Section 1. Right of Members to Withdraw
 Alt. A
 p. 42

Approved as written.

Alt. A Section 2. Suspension of Membership
 p. 43

A member country failing to meet any of its obligations to the Bank may be suspended from membership by decision of a majority of the governors, which shall include a majority of the aggregate votes. At the end of one year from the date of suspension, the country shall automatically cease to be a member of the Bank unless a majority of the member countries, voting in the same manner as for suspension, restores the country to good standing.

While under suspension, a country shall be denied all of the privileges of membership except the right of withdrawal, but shall be subject to all its obligations.

Alt. A Section 3. Financial Assistance to be Withheld
 p. 44

Approved as written.

Alt. A Section 5. Settlement of Accounts with Countries
 p. 46, Ceasing to be Members
 46a

(Referred to Drafting Committee in Commission II meeting of July 11, but approved as written by Committee 3-c.)

Alt. A Section 6. Assessments to Meet Losses
 p. 47

Approved as written.

Alt. A Section 7. Liquidation
 p. 48,
 48a

In an emergency, the Executive Committee by a majority vote, temporarily may suspend the operations of the Bank, pending an opportunity for further consideration and action by the Board.

The Bank may be voted into liquidation by a majority of the members which shall include a majority of the aggregate votes.

Upon

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Upon being voted into liquidation, the Bank shall forthwith cease engaging in any activities except those incident to the orderly liquidation, conservation and preservation of its assets and the settlement of its obligations.

The liability of all member countries for uncalled subscriptions to the capital stock of the Bank and their guarantees with respect to the depreciations of their own currencies shall continue until all claims of creditors including all contingent claims shall have been discharged.

Upon liquidation, all creditors holding direct claims shall be paid immediately if the Bank has sufficient assets, and if the assets are not sufficient, the Executive Committee shall pay such creditors as soon as possible out of payments to the Bank or calls on subscriptions, but before making any payments to holders of direct claims, the Committee shall make such arrangements as are necessary, in its judgment, to insure a distribution to holders of contingent claims ratably with creditors holding direct claims.

No distribution shall be made to a member country on account of its capital subscription until all claims of creditors, including all contingent claims, have been discharged or have been provided for by the Executive Committee having made arrangements sufficient, in its judgment, to accomplish that purpose.

(Detailed provisions relating to method of distribution to shareholders will be supplied later on basis of principles provided for liquidating the International Monetary Fund.)

Working Paper for Drafting Committee of Commission II

Text of Provisions Recommended by Ad Hoc
 Committee 3b of Commission II
 (July 13, 1944)

ARTICLE V

Management

Doc. 245

Alt. A.
 rev.
 (p. 29)

Section 1. Board of Governors

(a) All the powers of the Bank shall be vested in the Board of Governors consisting of one Governor and one Alternate appointed by each member country in such manner as it may determine. Governors and Alternates shall serve for five years, subject to the pleasure of the member appointing them, and may be re-appointed. No alternate may vote except in the absence of his principal. The Board shall select a Chairman from its members.

(b) The Board of Governors may delegate to the Executive Director authority to exercise any powers of the Board, except the power to:

- (1) Admit new members and determine the conditions of their admission;
- (2) Increase or decrease the capital stock;
- (3) Require a member to withdraw;
- (4) Decide appeals against interpretations of the Agreement by the Executive Directors given on application by a member;
- (5) Make agreements to cooperate with other international organizations, other than arrangements of a temporary or administrative character;
- (6) Decide to liquidate the Bank;
- (7) Determine the distribution of the net income of the Bank.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Executive Directors whenever requested by five members or by members having one-quarter of the aggregate votes.

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Doc. #372

Doc. 245

(p. 29a)

(d) In order to constitute a quorum for any meeting of the Board of Governors, there must be present a majority representing not less than one-half of the voting power of all the Governors.

(e) The Board may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interest of the Bank, may obtain a vote of the Governors on a specific question in lieu of calling a meeting of the Board.

(p. 29a)

(f) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(g) Governors and Alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending any meetings.

(h) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the President.

Section 3.

Doc. 245

Alt. A.
rev.

(p. 31a)
(p. 31b)

(i) The Executive Directors shall select a President who shall not be a Governor or an Executive Director. The President shall be Chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. He shall, however, be eligible for election as Chairman of the Board of Governors. The President shall cease to hold office when the Executive Directors so desire.

(j) The President shall be chief of the operating staff of the Bank and shall conduct, under the direction of the Executive Directors, the ordinary business of the Bank. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff.

(k) The President and the staff of the Bank, in the discharge of their offices owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any member of the staff in the discharge of his duty.

NONE OF THIS MATERIAL IS FOR PUBLICATION UNTIL OFFICIALLY RELEASED.

Doc. #372

(1) In appointing the staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

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Doc. #372

REPORT OF SPECIAL COMMITTEE OF COMMISSION I

July 14, 1944

The Special Committee of Commission I met on July 13-14, 1944 to consider items of the Fund Agreement on which recommendations had not been completed by other committees of the Commission. Present were: United States (Chairman), Belgium, Canada, China, Cuba, Czechoslovakia, French Delegation, Mexico, Netherlands, New Zealand, Union of Soviet Socialist Republics, and United Kingdom.

The recommendations of the Special Committee are:

1. Foreign Exchange Dealings Based on Par Values. (SA/1, Article IX, Section 3(a), p. 39; Drafting Committee Report: Article IV, Section 3)

(a) The Special Committee recommends that the substance of the following text be approved and referred to the Drafting Committee:

Section 3(a) The maximum and minimum rates for exchange transactions in member countries in the currencies of members shall not differ in the case of spot transactions by more than one percent, from the official par values, and in the case of other exchange transactions by more than a reasonable spread from the spot rates. The Fund shall be the judge of what constitutes a reasonable spread. No member shall use the resources of the Fund for the purpose of covering forward exchange transactions in the currency of any other member without the permission of the Fund.

(b) With regard to the language suggested in the Third Report of Committee 1 (Document 343, p. 3) on paragraph (c) of this section, the Committee recommends that the Drafting Committee be asked to reconcile the differences between this language and that of Alternative A to indicate that there is no intent of imposing criminal rather than civil penalties. The Drafting Committee is also requested to consider parallel stipulations for dealings with non-member countries.

2. Uniform Changes in Par Value. (SA/1, Article IV, Section 5, p. 18; Drafting Committee Report: Article IV, Section 8)

The Committee recommends the acceptance of Alternative A with an addition that any member not wishing to make a change in its par values may so notify the

Fund

Fund within 72 hours and be relieved of an obligation to alter its par value. The Mexican Delegate has indicated, however, that he will present his views on this item to the Commission.

3. Charges and Commissions. (SA/1, Article III, Section 10, p. 13; Drafting Committee Report: Article V, Section 8)

The Committee recommends the adoption of Combined Alternatives A and B as amended by Alternative C.

4. Multilateral International Clearing. (SA/1, Article III, Section 6, p. 9; Drafting Committee Report: Article VIII, Section 3)

The Committee recommends the adoption of the text of Article IX, Section 4, as reported to the Commission on July 13 by the Ad Hoc Committee on Exchange Controls in Current Payments (Document 329). The Committee interprets the last phrase of this Article as applying to all circumstances in which a member may be unable to use the facilities of the Fund. There was some discussion as to whether capital transfers of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking, or other business should be included in the convertible obligation. The majority of the Committee felt that the present text was proper.

5. Other Acquisitions of Gold by the Fund. (SA/1, Article III, Section 8, p. 11; Drafting Committee Report: Article V, Section 7)

Alternative A (page 10) was approved. Agreement in principle was reached on the substance of the following language and it was left to the drafting committee to prepare a text which would clearly set forth the principles governing the repurchase of currency from the Fund:

- (a) If, at the end of the Fund's financial year, a member's monetary reserves exceed its quota, and the Fund's holdings of its currency have increased during the year, the Fund shall require that it use a part of these reserves to repurchase its currency with gold or with convertible currency as appropriate, up to the point when its reserves have fallen by an amount not more than the amount by which, after this adjustment, the Fund's holdings of its currency have increased. Furthermore, if, after this adjustment (if called for) has been made, a member's monetary reserves have increased during the year, the Fund shall require it, whether or not the Fund's holdings of its currency have increased during the year,

to use half of this increase for a further re-purchase of its currency with gold or with convertible currency as appropriate; provided, always, that after these adjustments have been made its reserves do not stand below its quota nor the Fund's holdings of the currency below 75 percent of its quota.

(To replace part (b) of III, 9 and to be shifted to III-8)

- (b) If a member country increases its holdings of another member's currency, or acquires gold from another member otherwise than as a result of transactions with that member, the Fund at the request of the latter member may require the gold or the increase of currency to be offered to the Fund.

The Fund shall not require a member to re-purchase its currency with a convertible currency of which the Fund's holdings would be in excess of the Fund's holdings of the member's currency after the above adjustments.

The Delegate of the Union of Soviet Socialist Republics reserved his position on the principle involved in this section.

6. Furnishing of Information. (SA/1, Article III, Section 11, p. 14c; Drafting Committee Report: Article VIII, Section 5)

(a) The Committee recommends the approval of Alternative C (p. 14c) with the transposition of the portion beginning with the second sentence of the section and ending with the words "to avoid mere estimates so far as possible" to the end of the section.

(b) The Committee also recommends the adoption of the additional language recommended in Document 345, which reads as follows:

The Fund may arrange to obtain further information by agreement with members. It shall act as a central point for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

7. Transitional Arrangements. (SA/1, Article X; Drafting Committee Report: Article XIII)

The Committee recommends the adoption of Alternative A (pages 44a and 44b), with the addition of the following at the end of Section 2: "Nothing in this Agreement shall be deemed to prevent a member imposing any restrictions on payments or transfers to non-members unless the Fund finds that such restrictions have adversely affected the interests of members".

The Netherlands delegation wishes to record its understanding that the first paragraph of Section 1 does not prevent the use of the resources of the Fund for the financing of the imported commodities which might be considered as relief goods, but that the sole meaning of this clause is to prevent the use of the resources of the Fund in a quasi-permanent way for the financing of relief or of any other imports.

8. Voting. (SA/1, Article VII, Section 3, p. 26; Drafting Committee Report: Article XI, Section 5)

The first and last paragraphs of Alternative A (p. 26) have already been approved by other committees. The Special Committee recommends the adoption of the second paragraph of this Section with the change of the figure "200,000 United States dollars" to "400,000 United States dollars".

9. Liquidation. (SA/1, Article VIII, Section 4, p. 37; Drafting Committee Report, Article XV)

The Committee considered Alternatives A and C and approved a new formula relating to the distribution of the assets of the Fund. The principle of this formula was accepted and a new draft is to be prepared for submission.

10. Settlement of Accounts. (SA/1, Article VIII, Section 3, p. 36; Drafting Committee Report, Article XIV, Section 3)

The Committee recommends the adoption of Alternative A (pp. 36 and 36a) subject to minor drafting changes, which are referred to the Drafting Committee.

11. Initial Determination of Par Values. (SA/1, Article XIII, Section 5, p. 50; Drafting Committee Report: Article XIX, Section 4)

The Committee recommends the adoption of Alternative B (Document 347, pp. 50c to 50e), together with the amendment reported in Document 351, subject to revision to indicate that paragraph (b) applies to appreciation as well as depreciation of currencies and to paragraphs E and F to avoid the use of the term "provisional initial rate of exchange".

12. Subscriptions: Time of Payment. (SA/1, Article II, Section 5, p. 4; Drafting Committee Report: Article III, Section 3)

In Alternative A, Section 5, (p. 4) the date on which the holdings of gold and gold-convertible exchange of members should be established for the purposes of determination of initial payments was left blank. The Committee recommends that this date should be the date of entry into force of the Agreement.

13. Definitions. (SA/1, Article XII, Section 2, p.47; Drafting Committee Report: Article XVIII)

The Committee received two drafts of proposed definition and referred them to a drafting subcommittee.

SUPPLEMENTAL REPORT OF
AD HOC SUBCOMMITTEE A OF COMMITTEE 4 OF COMMISSION II

July 13 - 11:30 a.m.

SUGGESTED AMENDMENT TO ALTERNATIVE A, ART. VII
SECT 4, PAGE 52

A meeting of the Ad Hoc Subcommittee A of Committee 4 of Commission II was held on July 13, at 11:30 a.m., at which representatives from the following countries attended: Cuba, India, Poland, United Kingdom and the United States. The Chairman was Sir Chintaman D. Deshmukh of India.

The meeting considered the question of Immunities from Taxation, which had been held over pending receipt of report of the Drafting Committee of Commission I (Document #321), dealing with similar provisions for the Fund.

The Subcommittee agreed that the provisions in Sections 10 and 11 of this document were applicable to the Bank. Consequently, the Subcommittee approved amending Section 4, page 52 of Document #245 to read as follows:

(a) The Bank, its assets, property, income and its operations and transactions authorized by this Agreement shall be exempt and immune from all taxation and from all customs duties. The Bank shall also be exempt and immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Executive Directors, Alternates, Officials or Employees of the Bank who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Bank (including any dividend or interest thereon) by whomsoever held -

- (i) which discriminates against such obligation or security solely because of its origin; or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid or the location of any office of place of business maintained by the Bank.

(d) Each member shall take action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article. Each member shall inform the Bank of the detailed action which it has taken to grant the status, immunities, and privileges provided for in this Article.

Working Paper for Drafting Committee
of
COMMISSION II

Text of Provisions Recommended
by

Ad Hoc Committee 3b
of Commission II
July 14, 1944.

ARTICLE V

Doc. 245

Alt. A Section 4. Advisory Council
p. 32

There shall be an Advisory Council of not less than seven persons selected by the Board of Governors from outstanding citizens of member countries, including representatives of banking, business, industrial, labor and agricultural interests, and with as wide a representation of citizenship of members as possible. In those fields where specialized international organizations exist, the corresponding members of the Council shall be selected in agreement with such organizations. The Council shall advise with the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request.

Councillors shall serve for two years and may be re-appointed. They shall be paid their reasonable expenses incurred in behalf of the Bank.

Alt. A Section 5. Loan Committees
p. 33

The committees required to report on loans under Article III, Section 4, shall be appointed by the Bank, except that each such committee shall include an expert selected by the Governor representing the member in which the project is located. The committee may include members of the technical staff of the Bank.

Alt. A Section 7. Location of Offices
p. 35

(Alt. A approved as written, subject to decision in Commission II as to substance.)

Alt. 2 Section 8. Depositories
p. 36

Subsection (a). (Approved as written.)

Alt. A Section 11. Publication of Reports
p. 39

The Bank shall publish an annual report containing an audited statement of its accounts and shall issue at

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intervals of three months or less a summary statement of its financial position and a profit and loss statement showing the results of its operations.

The Bank may publish such other reports as it deems desirable for carrying out its purposes and policies.

Copies of all reports, statements and publications issued under this section shall be regularly distributed to member countries.

Alt. A Section 12. Allocation of Income
p. 40

The Board of Governors shall determine annually what part of the Bank's net income shall be placed to reserve and what part, if any, shall be distributed.

If any part is distributed, two per cent non-cumulative shall be paid, as a first charge against the distribution for any year, to each member on the basis of the amount by which at the end of the fiscal year the amount paid on the par value of its shares exceeds the amount of its currency held by the Bank; and the balance to all members in proportion to their shares. Payments to each member shall be made in its own currency.

COMMISSION II

Report of Committee 3-b
Meeting of July 14, 1944

Present:	Belgium	The Netherlands
	Brazil	Norway
	Canada	Peru
	Colombia	Union of South Africa
	China	U.S.S.R.
	French Delegation	U.K.
	Cuba	U.S.A.

Chairman: Miguel Lopez Pumarejo (Colombia)

Reporting

Delegate: M. H. de Kock (Union of South Africa)

Secretary: Mordecai Ezekiel

Assignment: Pages 29-40, excluding 34, 37, and 39.

The Committee met at 9:40 a.m., with all members present. Action was taken on sections as follows:

Section 4, page 32--Advisory Council. The draft recommended by Committee 3a was discussed and approved with minor amendments to read

"There shall be an Advisory Council of not less than seven persons selected by the Board of Governors from outstanding citizens of member countries, including representatives of banking, business, industrial, labor and agricultural interests, and with as wide a representation of citizenship of members as possible. In those fields where specialized international organizations exist, the corresponding members of the Council shall be selected in agreement with such organizations. The Council shall advise with the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request.

"Councillors shall serve for two years and may be reappointed. They shall be paid their reasonable expenses incurred in behalf of the Bank."

Section 5, page 33--Loan Committees. On discussion, it was felt unwise to require that a majority of the committee should be from the bank staff, and the following language was recommended: "The committee required to report on loans under Article 3, Section 4 shall be appointed by the Bank except that such committee shall include an expert selected by the Governor representing the member in which the project is located. The committee may include members of the technical staff of the Bank."

Section 7, page 35--Location of Offices. A majority of the members of the committee favored the provisions of Alternative A, providing definitely for the location of offices in the territory of the largest stockholder. Two members,

however,

however, favored Alternative B. Alternative B leaves the decision on location to the first meeting of the Board of Governors. The argument was advanced that this is an operating matter not appropriate to decision by this present conference of experts. The committee therefore reports the matter in disagreement.

Section 8, page 36--Depositories. Subsection (a) was approved with slight verbal changes to be consistent with the Fund language. Subsection (b) was deferred until final Fund language is available for comparison.

Section 10, page 38--Protection of Assets. Final action on this section was deferred until the final Fund language is available. After a discussion of whether a gold clause should be included in this section, a special subcommittee was set up to examine this problem.

Section 11, page 39--Publication of Reports. Although this section had already been referred direct to the Drafting Committee, the ad hoc committee on scanning it felt that some addition was needed to adapt it to requirements of the Bank. It therefore recommends to the Commission that the language previously passed be modified by adding the following paragraph at the end of the section:

"Copies of all reports, statements, and publications issued under this section shall be regularly distributed to member countries."

Section 12, page 40--Allocation of Income. This section was modified to place responsibility in the Board of Governors, and to substitute "all" members for "the" members in the third line for the end, and approved as amended.

APPENDIX I

Committee 3 of Commission II
Subcommittee 3b.

Resume of Actions at Meetings through July 14, 1944.

Article V, Section 1, Alt. A, pp 29, 29a	Accepted with revisions to agree with Fund language.
Article V, Section 2, Alt. A, p 30	Deferred, pending decision on Fund language.
Article V, Section 3, a-h, Alt. A, pp 31, 31a	Deferred, pending decision on Fund language.
Article V, Section 3, i-l, Alt. A., pp 31a, 31b	Accepted with revisions to agree with Fund language.
Article V, Section 3, m and re- mainder, Alt. A, pp 31c, 31d	Deferred, pending decision on Fund language.
Article V, Section 4, Alt. A, p 32	Accepted, after amendments.
Article V, Section 5, Alt. A, p 33	Accepted, after amendment.
Article V, Section 7, Alt. A, p 35	Accepted by majority, subject to disagreement being reported to Commission II.
Article V, Section 8a, Alt. A, p 36	Accepted.
Article V, Section 8b, Alt. A., p 36	Deferred, pending decision on Fund language.
Article V, Section 10, Alt. A, p 38	Deferred, pending report of Special Subcommittee.
Article V, Section 11, Alt. A, p 39	Agreed to recommend to Commis- sion addition to provide dis- tribution of reports to mem- bers.
Article V, Section 12, Alt. A, p 40	Accepted, after amendment.

July 14, 1944

COMMISSION II

The Secretariat has prepared the following summary of the status of the document:

	<u>In Committee</u>	<u>Approved by</u>
Art. I		Commission
Art. II, Sections 1-6, inclusive.		Drafting Committee
Section 7		Commission
" 8		Commission
" 9		Drafting Committee
Art. III, Section 1		Commission
" 2		Drafting Committee
" 3	Committee 2	
" 4,		
Preamble	Committee 2	
(1)	Committee 2	
(2)		Drafting Committee
(3)		Drafting Committee
(4)	Committee 2	
(5)		Drafting Committee
Section 5	Committee 2	
Section 6		Drafting Committee
Art. IV, Section 1		Drafting Committee
" 2	Committee 2	
" 3		Drafting Committee
" 4	Committee 2	
" 5		Commission
" 6	Committee 2	
" 7	Committee 2	
" 8		Commission
" 9		Commission
" 10		Commission
Art. V, Sections 1-5, inclusive.	Committee 3	
Section 6 - To	be discussed in Commission.	
" 7	Committee 3	
" 8	Committee 3	
" 9		Commission
" 10	Committee 3	
" 11		Commission
" 12	Committee 3	
" 13 -	Included in Article VII.	
Art. VI	Committee 3	
Art. VII, Section 1		Drafting Committee
" 2		Drafting Committee
" 3	Committee 4	
" 4	Committee 4	
Art. VIII		Drafting Committee
Art. IX, Section 1		Drafting Committee
" 2 -	To be drafted.	
" 3		Drafting Committee
Art. X	- To be drafted.	

July 14, 1944

COMMISSION II

Third Report of Drafting Committee

The Drafting Committee met at 8:30 P.M. on July 13th and considered the matters referred to it arising out of the reports submitted at the Commission meeting on the same day. The Committee took the following action:

- (1) Document #340, First Report of the Drafting Committee.

Article V, Section 13, should be omitted, since its provisions have been included elsewhere in SA/3.

- (2) Document #330, Report of Ad Hoc Committee 1a.

(a) Article II, Section 1 (page 3 of SA/3) was approved.

(b) Article VI, Section 4 (page 45 of SA/3) was drafted to read as follows:

Any member which ceases to be a member of the International Monetary Fund shall immediately cease to be a member of the Bank, unless the Bank by _____ per cent of its aggregate votes favors its remaining as a member.

In accordance with the instructions of the Commission, this draft was transmitted to Ad Hoc Committee 3c, which is to make recommendations as to the per cent to be required.

- (3) Document #331, Report of Subcommittee 1b.

(a) Article II, Section 2 (page 4a, Doc. #331) approved.

(b) Article II, Section 3 (page 5a, Doc. #331) approved.

(c) Article II, Sections 4 and 5. These Sections will be dealt with in the fourth report of the Committee.

(d) Article II, Section 6 (page 8b, Doc. #331) approved.

- (4) Document #337, Report of Ad Hoc Committees 2a and 2b.

(a) Article III, Section 4. The Drafting Committee had before it only subsections 2, 3, and 5.

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July 14, 1944

Doc. #389

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Subsections 2 and 5 were approved and 3 was redrafted. These three subsections are contained on the attached sheet.

- (b) Article III, Section 6, (page 2, Doc. #337) approved.
 - (c) Article IV, Section 1 (page 3, Doc. #337) approved.
 - (d) Article IV, Section 3 (page 21 of SA/3) Alternative A, approved.
- (5) Document #354, Report of Ad Hoc Committee 3a.
- (a) Article III, Section 2, Alternative A (page 13 of SA/3) approved as amended. (The amended Article is contained in the attached sheet.)
 - (b) Article V, Section 6 (page 34 of SA/3) and point (2) of Alternative F (page 15c of SA/3). These Sections will be dealt with in the fourth report of the Committee.
 - (c) Article V, Section 1 (b) (5). The subcommittee's amended wording was essentially approved. This subsection therefore reads as follows:

Making agreements to cooperate with other international organizations, other than agreements of a temporary and administrative character.

The Committee recommends that its action on the foregoing matters be endorsed by the Commission.

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July 14, 1944

Doc. #389

ARTICLE III

Section 2. Agencies Dealing with the Bank.

Except as otherwise indicated in this Agreement, the Bank shall conduct its business only with or through the governments of the members, their central banks, stabilization funds, and other similar fiscal agencies, the International Monetary Fund, and other international agencies participated in primarily by members of the Bank.

Section 4. Conditions on which Bank may Guarantee or Make Loans

(2) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to secure the funds under conditions which in the opinion of the Bank are reasonable for the borrower.

(3) A competent committee, after a careful study of the merits of the proposal, has submitted a written report recommending the project.

(5) In guaranteeing a loan made by other investors, the Bank receives compensation for its risk.

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July 14, 1944

Doc. #389

REPORT OF AD HOC COMMITTEE II OF
COMMISSION II

July 15, 1944

On July 14, a special subcommittee of the Ad Hoc Committee met to consider the question of Agricultural Loans referred to it by the Commission at its meeting of July 13. The Ad Hoc Committee subsequently held regular sessions to consider those sections of Articles III and IV which had been referred to it.

The observer of the United Nations Interim Commission on Food and Agriculture, Mr. Twentyman, appeared before the Committee and the problems presented by the Interim Commission were given consideration by the Committee. To make its position clear the Committee adopted paragraph 6 of Article III, Section 4 (Appendix, page 15g) of this report.

The Committee recommends to the Commission that in the future the reports of subcommittees avoid interpretive qualifications of text submitted, and suggests that only text reported and adopted shall be regarded as authoritative.

The Drafting Committee of the Commission has presented its draft of Paragraphs 2, 3, and 5 of Article III, Section 4. The first and fourth paragraphs of this section had been referred back to the Committee for revisions. A complete draft of the entire section as reported by the Drafting Committee and approved by Ad Hoc Committee II is given in this report. (Appendix, page 15g)

Several sections had been referred to a special subcommittee for re-drafting. The new draft has incorporated material from earlier sections which replaces material in Document 245. The substance of Article III, Section 5, page 17, Document #245 and Article IV, Section 3, page 19, has been incorporated in the new Article IV, Sections 2 and 3, appended hereto.

The present text of Article IV, Section 2 (Appendix, page 20b of this Document), has been approved by the Committee and is recommended for the approval of the Commission. Article IV, Section 3 and Section 4, Paragraph A, were approved in substance by the Committee and were rewritten in accordance with the instructions of the Ad Hoc Committee. (Appendix, pages 21a and 22f.) Similar action was taken by the Committee regarding Article IV, Sections 6 and 7 whose texts are given here as drawn by the Drafting Subcommittee.

Respectively submitted by:

E. I. MONTOULIEU

Chairman

Report of Quota Committee of
Commission I

July 15, 1944

The Quota Committee of Commission I met at 10 a.m. on July 15 and agreed to recommend to Commission I the following text for Schedule A:

QUOTAS	(In millions of dollars)	
10 Australia	200	
9 Belgium-	225	225
Bolivia	10	
11 Brazil	150	
7 Canada	300	
10 Chile	50	
4 China	550	
17 Columbia	50	
Costa Rica	5	
Cuba	50	125
12 Czechoslovakia	125	
Denmark*	*	
Dominican Republic	5	
Ecuador	5	
Egypt	45	
El Salvador	2.5	
Ethiopia	6	
5 France	450	40
Greece	40	
Guatemala	5	
Haiti	5	
Honduras	2.5	
Iceland	1	
6 India	400	
Iran	25	
Iraq	8	
Liberia	.5	10
Luxembourg	10	
14 Mexico	90	275
8 Netherlands	275	
16 New Zealand	50	
Nicaragua	2	50
Norway	50	
Panama	.5	
Paraguay	2	
Peru	25	
13 Philippine Commonwealth	15	125
Poland	125	
Union of South Africa	100	
3 Union of Soviet Socialist Republics	1200	
2 United Kingdom	1300	
1 United States	2750	
Uruguay	15	
Venezuela	15	
15 Yugoslavia	60	60
Total	8800	\$ 900

*The quota of Denmark shall be determined by the Fund after Denmark accepts membership in accordance with Article XIX, Section 1. 450

The Committee's recommendation was unanimous with the exception of reservations by China, Egypt, the French Delegation, India and New Zealand.

The Mexican Delegation agreed to relinquish \$10 million of its quota in favor of \$5 million each for Colombia and Chile. The above table includes these readjustments.

The Committee was composed as follows: Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, Egypt, French Delegation, India, Mexico, New Zealand, Norway, United Kingdom, Union of Soviet Socialist Republics, United States, Chairman.

Fred M. Vinson, Chairman

Report of Quota Committee of
Commission I

July 15, 1944

The Quota Committee of Commission I met at 10 a.m. on July 15 and agreed to recommend to Commission I the following text for Schedule A:

QUOTAS	(In millions of dollars)
Australia	200
Belgium-	225
Bolivia	10
Brazil	150
Canada	300
Chile	50
China	550
Columbia	50
Costa Rica	5
Cuba	50
Czechoslovakia	125
Denmark*	*
Dominican Republic	5
Ecuador	5
Egypt	45
El Salvador	2.5
Ethiopia	6
France	450
Greece	40
Guatemala	5
Haiti	5
Honduras	2.5
Iceland	1
India	400
Iran	25
Iraq	8
Liberia	.5
Luxembourg	10
Mexico	90
Netherlands	275
New Zealand	50
Nicaragua	2
Norway	50
Panama	.5
Paraguay	2
Peru	25
Philippine Commonwealth	15
Poland	125
Union of South Africa	100
Union of Soviet Socialist Republics	1200
United Kingdom	1300
United States	2750
Uruguay	15
Venezuela	15
Yugoslavia	60
Total	8800

*The quota of Denmark shall be determined by the Fund after Denmark accepts membership in accordance with Article XIX, Section 1.

The Committee's recommendation was unanimous with the exception of reservations by China, Egypt, the French Delegation, India and New Zealand.

The Mexican Delegation agreed to relinquish \$10 million of its quota in favor of \$5 million each for Colombia and Chile. The above table includes these readjustments.

The Committee was composed as follows: Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, Egypt, French Delegation, India, Mexico, New Zealand, Norway, United Kingdom, Union of Soviet Socialist Republics, United States, Chairman.

Fred M. Vinson, Chairman

Report of the Meeting of the ad hoc Com-
mittee 2 of Commission II

July 15, 1944 - 10 a.m.

The Committee considered the Sections of the Bank document which had been submitted by its Drafting Sub-committee. Article IV, Section 2, page 20b, and Article IV, Section 6, page 24b, were approved by the Committee and recommended for adoption by the Commission.

Article III, Section 4, was amended by the Committee. In paragraph (1), third line, substitute "which is" in place of "and". The Committee decided that Paragraph (4) should be divided into two portions, a new paragraph (5) beginning with the second sentence so that the Section will have 7 subparagraphs.

Article IV, Section 3 was amended by inserting in paragraph (d) the words "in exceptional circumstances" after the word "may" so that the paragraph will read: "The Bank may, in exceptional circumstances, at the request of a member in which a portion of a loan is spent, etc. etc." With this amendment it is recommended to the Commission for adoption.

The Committee approved Article IV, Section 4, paragraph (a), as submitted by its Drafting Sub-committee, Document 394, page 22f, but is still considering the remaining paragraphs of this Section. The Committee also still has under consideration Article IV, Section 7.

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REPORT
OF
DRAFTING COMMITTEE
OF
COMMISSION II
ANNEX I

July 19, 1944

Doc. #468

ARTICLES OF AGREEMENT

OF

THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

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

Introductory article

The International Bank for Reconstruction and Development is established and shall operate in accordance with the following provisions:

Article I

PURPOSES

The Purposes of the Bank are:

1. To assist in the reconstruction and development of member countries by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.
2. To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its reserves and other resources.
3. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby

assisting in raising productivity, the standard of living and conditions of labor in their territories.

4. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

5. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

Article II

MEMBERSHIP IN AND CAPITAL OF THE BANK

Section 1. Membership.

(a) The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank in accordance with Article X, Section 2(b).

(b) Membership shall be open to other Governments, being members of the Fund, at such times and in accordance with such terms as may be prescribed by the Bank.

Article II

Section 2. Authorized capital.

The authorized capital stock of the Bank shall be \$10,000,000,000, in terms of United States dollars of the weight and fineness in effect on _____.

The capital stock shall be divided into 100,000 shares having a par value of \$100,000 each, which shall be available for subscription only by members.

The capital stock may be increased when the Bank deems it advisable by three-fourths of the total of the voting power.

Section 3. Subscription of shares.

(a) Each member shall subscribe shares of the capital stock of the Bank. The minimum number of shares to be subscribed by the original members shall be those set forth in Schedule A. The minimum number of shares to be subscribed by other members shall be determined by the Bank. The Bank shall reserve a sufficient portion of its capital stock for subscription by such members.

(b) The Bank shall prescribe rules laying down the conditions under which members may subscribe further shares of the authorized capital stock of the Bank in addition to their minimum subscriptions.

(c) If the authorized capital stock of the Bank is increased, each member shall have a reasonable opportunity to subscribe a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank under such conditions as the Bank shall decide, but no member shall be obligated to subscribe any part of the increased capital.

Section 4. Issue price of shares.

Shares included in the minimum subscriptions of original members shall be issued at par. Other shares shall be issued at par unless the Bank by a majority of the total voting power decides in special circumstances to issue them on other terms.

Section 5. Division and calls of subscribed capital.

The subscription of each member shall be divided into two parts as follows:

- (i) twenty percent shall be paid or subject to call under Section 7(i) of this Article as needed by the Bank for its operations;
 - (ii) the remaining eighty percent shall be subject to call by the Bank only when required to meet obligations of the Bank created under Article IV, Section 1(a)(ii) and Section (a)(iii) below.
- } S.C.
} R

Calls on unpaid subscriptions shall be uniform on all shares.

Section 6. Limitation on liability.

Liability on shares shall be limited to the unpaid portion of the issue price of the shares.

Section 7. Method of payment for subscriptions for shares.

Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members as follows:

- (i) under Section 5(i) of this Article, two percent of the price of the share shall be payable in gold or United States dollars, and when calls are made the remaining 18 percent shall be paid in the currency of the member;

- (ii) when the call is made under Section 5(ii) of this Article, payment may be made at the option of the member either in gold, U. S. dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call has been made;
- (iii) when a member makes payments in any currency under (i) and (ii) above, such payments shall be made in amounts equal in value to the member's liability under the call. This liability shall be a proportionate part of the capital stock of the Bank as defined in Section 2 of this Article.

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Section 8. Time of payment of subscriptions.

(a) The two percent payable in gold and U. S. dollars under Section 7(i) of this Article, shall be paid within 60 days of the date on which the Bank begins operations.

(b) The remainder of the subscription in Section 7(i) of this Article shall be paid as and when called for by the Bank, provided

(i) the Bank shall call up not less than ⁸~~10~~ percent of the price of the share within one year of its beginning operations and

(ii) that not more than 5 percent of the value of the share shall be called up in any period of three months.

REPORT SUBMITTED TO COMMISSION III BY COMMITTEE 2 ON
ENEMY ASSETS, LOOTED PROPERTY, AND RELATED MATTERS

(To be presented at the meeting of Commission III July 20, 1944)

Bretton Woods, July 20, 1944

Mr. Chairman:

At the second meeting of Commission III held at 5:00 p.m. on July 10, 1944, Committee 2 was appointed to consider proposals for action which had been assigned to it in accordance with the recommendations of the Agenda Committee and to make recommendations to the full Commission concerning action to be taken at this Conference with respect thereto.

Committee 2 wishes to report as follows concerning its decisions and recommendations.

The first item to which Committee 2 gave its attention was the proposal recommending the liquidation of the Bank for International Settlements submitted by the Norwegian Delegation and designated as No. 4 in the Report of the Agenda Committee (Document No. 235).

After considering the proposal in various forms it was the unanimous decision of Committee 2 to place the following recommendation, submitted jointly by the Norwegian and Netherlands Delegations, before Commission III and to recommend its adoption by the Conference:

"The United Nations Monetary and Financial Conference recommends the liquidation of the Bank for International Settlements at the earliest possible moment."

Committee 2 then turned its attention to the two proposals on enemy assets and looted property submitted by the Polish and French Delegations and designated as numbers 2 and 3 respectively in the Report of the Agenda Committee. The United States Delegation submitted an alternative draft resolution relating to this subject and embodying the features of the two earlier proposals. Thereupon, both the French Delegation and the Polish Delegation withdrew their proposals in favor of that submitted by the United States Delegation.

The Committee unanimously recommends to Commission III that the following resolution be adopted in principle. The Committee further recommends that the present draft be referred by the Commission to a drafting committee which shall be authorized to place it in form for consideration by the Plenary Session. The text of the recommended resolution is as follows:

WHEREAS:

1. In anticipation of their impending defeat, enemy leaders, enemy nationals and their associates and collaborators are transferring assets through clandestine channels to and through neutral countries to be concealed and held at their future disposal. Success on the part of such persons in secreting and preserving under their control substantial amounts of assets in and through neutral countries will perpetuate their influence, power, and ability to plan anew future aggrandisement and world domination. The efforts of the United Nations to establish and permanently maintain peaceful international relations after the conclusion of the present war would thereby be jeopardized.

2. Throughout the past four years enemy countries and their nationals have taken the property of occupied countries and their nationals. Enemy methods have ranged from open loot and plunder of currency, gold, securities, and other movable property, to subtle and complex devices, including the establishment of puppet governments in occupied territories, designed to give the cloak of legality to their robbery and to secure for themselves ownership and control of important financial and economic enterprises in the postwar period despite the impending defeat of their armed forces. To ensure their success and to frustrate the efforts of postliberation governments to undo their work, they have, through sales and other methods of transfer, run the chain of their ownership and control through foreign countries, both occupied and neutral, thus making the problem of disclosure and disentanglement one of international character.

3. Throughout the past four years as the enemy has occupied additional countries, the residents, under duress, have been forced to turn over to him their assets. The United Nations have declared their intention to do their utmost to defeat the methods of dispossession practiced by the enemy and have reserved their rights to declare invalid any transfers of property belonging to persons within occupied territory. They have adopted special controls and other measures not only to protect and safeguard property, within their respective jurisdiction, owned by occupied countries and their nationals, but also to prevent looted property from being disposed of in United Nations markets or acquired by persons subject to their jurisdiction.

THEREFORE:

It is resolved that, in recognition of these considerations, the United Nations Monetary and Financial Conference:

I. Notes with satisfaction the establishment by the United Nations of machinery designed to assist the nations of the world in

(a) uncovering, segregating, controlling, and making appropriate disposition of enemy assets;

(b) locating and tracing ownership and control of looted property and taking appropriate measures to make restoration to its lawful owners.

II. Recommends that all Governments represented at this Conference, and particularly those already participating in the operation of this machinery, call upon the Governments of neutral countries:

(a) to take immediate measures to prevent any disposition or transfer within territories subject to their jurisdiction of any

(1) assets belonging to the Government or any individuals of institutions within those United Nations occupied by the enemy; and

(a) looted gold, currency, art objects, securities, other evidences of ownership in financial or business enterprises, and of other assets looted by the enemy;

as well as to uncover, segregate and hold at the disposition of the post-liberation authorities in the appropriate country any such assets within territory subject to their jurisdiction.

(b) to take immediate measures to prevent the concealment by fraudulent means or otherwise within countries subject to their jurisdiction of any

(1) assets belonging to, or alleged to belong to, the Government of and individuals or institutions within enemy countries.

(2) assets belonging to, or alleged to belong to, enemy leaders, their associates and collaborators, and

to facilitate their ultimate delivery to the post-armistice authorities.

Respectfully yours,

Chairman: (Signed) Andre Istel, French Delegation

Reporter: (Signed) Wilhelm Keilhau, Norway

To the Honorable Eduardo Suarez
Chairman of Commission III

7/19/44
Doc. #481 (470)

ARTICLE XII
FINAL PROVISIONS

Section 1. Entry into Force.

This Agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than 65% of the total subscriptions set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature.

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Bank as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 1(b), of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one-twentieth of one percent of the price of each share in gold or United States dollars for the purpose of meeting administrative expenses of the Bank. This payment shall be credited on account of the payment to be made in accordance with Article II, Section 8(a). The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Bank when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 1(b).

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred and eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period, the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

Section 3. Inauguration of the Fund.

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional Executive Directors. The governments of the five countries, to which the largest number of shares are allocated in Schedule A, shall appoint provisional Executive Directors. If one or more of such governments have not become members, the executive directorships which they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional Executive Directors shall be elected in accordance with the provisions of Schedule B and shall remain in

office until the date of the first regular election of Executive Directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional Executive Directors any powers except those which may not be delegated to the Executive Directors.

DONE at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 1(b).

SCHEDULE B

Election of Executive Directors

1. The election of the elective Executive Directors shall be by ballot of the Governors eligible to vote under Article V, Section 4 (b).
2. In balloting for the elective Executive Directors, each Governor eligible to vote shall cast for one person all of the votes to which the member appointing him is entitled under Section 3 of Article V. The seven persons receiving the greatest number of votes shall be Executive Directors, except that no person who receives less than fourteen percent of the total of the votes which can be cast (eligible votes) shall be considered elected.
3. When seven persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those Governors who voted in the first ballot for a person not elected and (b) those Governors all or part of whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above fifteen percent of the eligible votes.
4. In determining whether the votes cast by a Governor are to be deemed to have raised the total of any person above fifteen percent of the eligible votes, the fifteen percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until fifteen percent is reached.

5. Any Governor, part of whose votes must be counted in order to raise the total of any person above fourteen percent, shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed fifteen percent.

6. If, after the second ballot, seven persons have not been elected, further ballots shall be held on the same principles until seven persons have been elected, provided that after six persons are elected, the seventh may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.