

DRAFT FOR ANNUAL REPORT

Modifications of the Rules and Regulations

When the Rules and Regulations were adopted by the Executive Board, it was anticipated that experience would show ways in which they could be improved and would also bring to light new problems not considered at the time they were prepared. During the first year's experience with the Rules and Regulations, most of the provisions have been found workable and satisfactory. Several provisions, however, have been modified to provide more useful procedures and to clarify matters which were not entirely clear. Moreover, several new sections have been added to deal with problems that have arisen since the original text was adopted.

There will undoubtedly be changes and additions in the years to come which will also be presented to the Board of Governors for review.

Practically all of the changes made during the past years relate to INEX transactions between the Fund and its members, and have resulted from the experience gained during the initial period of Fund operations. There are parts of the Rules and Regulations which have not as yet been operative, and it remains to be seen whether they will be suitable for the matters they are designed to cover.

The following is a summary of the changes which have been made, together with the reason for each of them:

1. Section G-2 has been reworded in order to clarify the previous ambiguous provision which used the term "agency" to refer to both fiscal agencies and depositories. This was entirely a change in wording and has no substitute of importance.

2. Section G-3 has been expanded to set up a more detailed procedure for the handling of requests for the purchase of foreign exchange. Previously, the Fund had merely been required to deal with a request with a delay of two working days. The original text gave no assurance to members that normal and relatively small requests would be carried through with a brief period of time. It was decided that such assurance would be desirable from the point of view of the members as well as the Fund, and for this reason Section G-3 was re-drafted to provide that on the third business day after the receipt of a request instructions would be given to the appropriate depository to make the transfer unless the Executive Board has indicated otherwise. This provision is related closely to the revision of Section G-5.

3. When Section G-2 was revised as noted above, Section G-5 was added to the Rules and Regulations. It sets forth a procedure for calling to the attention of the Executive Board all unusually large requests within short periods of time. The Board will have a opportunity to take action with respect to such request if they so desire, and unless they act within the period prescribed by Section G-3, such transactions will be carried through in the same manner as smaller requests.

4. Section I-7 was added in order to incorporate in the Rules and Regulations the decision of the Board of Governors establishing the fiscal year of the Fund and to record the Executive Board's decision as to the Fund's financial year for the purposes of Article V, Section 7. The obligation of members who used the Fund's resources to repurchase their own currencies are related to "financial year" of the Fund and in order that these obligations may be entirely clear to the members concerned the decision is taken to define the financial year before transactions began, and to record the decision in the Rules and Regulations. For purposes of clarity, it was thought to be desirable to include in the same provision the previous decision of the Board of Governors that the

fiscal year of the Fund should begin on July 1 and end on June 30. This decision has been made by the Board of Governors at its Inaugural Meeting in March, 1946.

5. Section I-8 has been added to inform the members of the basis on which the Fund would normally respond to offers of the members to buy foreign currencies from the Fund with gold. In the opinion of the Executive Board, it would be undesirable for the Fund to sell its currencies for gold on terms which would result in any cost to the Fund should it become necessary to sell the gold and re-obtain the currencies. If for any special reason a particular offer of gold would be of benefit to the Fund, a special ~~action~~ ^{decision} may be made to accept it on different terms.

6. A new sentence has been added to the end of Section I-5 which deals with members wishing to pay in their own currencies part of the charges due to the Fund. The new sentence will permit provisional payment to be made in accordance with the members on statements of its monetary reserves, and the Fund will subsequently make a final determination of the proportion of such charges to be paid in gold. In this way, payment can be made promptly at the time required by the Articles of Agreement, and the exact allocation of the charges between gold and currencies will be made at a later date.

7. Section B-8 has been added to define the term "business day" which had been used in Section G and substitutes this phrase which the term "work day" which had formerly been used in Section C. The purpose of this change was to make the rules more clearer and more consistent.

8. Section D-2 has been modified as a result of the Executive Board's consideration with several requests for increases in quotas. It ~~is~~ was found that this Section as originally adopted would not be appropriate in those cases in which a member might pay less than 25% of an increase in gold. In view of the fact that the members are required to pay increases of 25% in gold

unless at the time the member consents to the increase, its monetary reserves are less than its quota. It will be necessary for the Fund to consider the possibility of a reduced gold payment subsequent to the approval of the increase by the Board of Governors and the consent by the member. For this reason it seems appropriate for this decision to be made by the Executive Board within the thirty-day period which a member is allowed for paying the amount of the increase to the Fund. If this decision had to be made by the Board of Governors, it would not be possible to make payment of the additional amount within the prescribed period.