

5th June, 1946.

Draft Rules and Regulations

SECTION B.

My main objections are to paragraphs 10 to 18 which are a re-hash of the articles with some additions on the length of time which the Fund proposes to take to reply to members in a given set of circumstances. It will clearly be the duty of the Fund to communicate to the member with all possible despatch, its views on any proposed change in accordance with the Articles of Agreement, but I doubt whether we can spell this out in detail.

2. My comments on individual paragraphs are as follows:

B.1. It should be sufficient for the Fund to notify the agreed par values and subsequently to communicate any changes that may occur.

B 2. The Operations Division should be in possession of this information and in this case too, notification might perhaps be limited to alterations in established rates.

B 3. It will be realised that the price of gold is dependent also upon insurance, freight and banking costs, the aggregate of which may possibly exceed the 1% here mentioned.

B 4. I do not like the word "contemplates" although I realise that the purpose is sound enough in wishing to receive advance information of gold movements.

B 6. The reference to "time bills of exchange" is confusing, as ~~notes~~ such instruments ~~which~~ are now nearly always negotiated in the currency of the country where the operation takes place, e.g. foreign bills circulating in the London Discount Market are all drawn in sterling. Consequently the rate is dependent upon a transfer risk rather than an exchange risk. Furthermore, I am not sure how the provisions of this paragraph would apply to a forward purchase, say, twelve or eighteen months ahead. I think that we therefore have to elaborate considerably in detail—a task which I would rather leave to the Operations Division, or cut these references drastically.

3. For the reasons stated above, I am in favour of telescoping

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Chairman,
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most of/

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most of the succeeding paragraphs and of abandoning the intention of trying to fix the ten-day and twenty-day period.

4. I have prepared a short alternative to Section B which is attached. Whatever its merits or demerits, it may be useful to you and the Committee if only as a document of comparison and to show which way my mind is working. I do not think that any really fundamental point is omitted from it, but I should be grateful to have the views of the Committee, who may regard it as over-compressed.

A.G.S.

Mr. Harry D. White,
Chairman,
Sub-Committee on Draft Rules and Regulations.

Copies to: Mr. Koo
Mr. Santos-Filhos
Mr. Brenner

Enclosure.

B. Par values and exchange rates.

B 1. As soon as the Fund and a member have agreed on the par value of a member's currency, and of any other currencies related to that currency, the Fund shall publish the agreed par value for the information of all members. All agreed variations shall be similarly published, and the Fund shall also draw the attention of other members to any variation in exchange rates in which it has not concurred.

specially
(separate currencies of territories in respect of which it has accepted members' par values in the Fund)

just covers changes in par values

B 2. It shall be the duty of members to arrange through their fiscal agencies that frequent and regular information as to the market rates of currencies bought and sold in their territories is made available to the officers of the Fund. The Managing Director shall report to the Executive Directors any case in which, after informal consultations with the member have failed to produce a satisfactory explanation, it appears to him that the member is not fulfilling its obligations under Article IV Section 3, having regard to the permitted margins for spot and forward transactions in foreign exchange prescribed by the Fund and to Article XIV.

weekly report of exchange rates outside currency of member reported upon by member to Fund. Monthly, or more often if any, made by Fund. See White's draft

B 3. The rates for forward exchange transactions may vary from spot rates for a similar transaction by ~~X per cent per annum.~~

a percentage prescribed by the Fund for each currency from time to time.

In considering whether a rate conforms to these limits any element of insurance, transportation or cabling cost, and any credit risk shall be allowed for, and the member shall be given the benefit of the doubt.

INSKAT -> 6. old B-4 redrafted

B 4. The provisions of B2 and B3 above shall apply, mutatis mutandis, to gold transactions between members or in the territories of members/

Par values and exchange rates.

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for the settlement of international transactions

Separate B-4

of members. In particular members shall inform the Fund whether their monetary authorities freely buy and sell gold within the prescribed limits (Article IV Section 4(b)). *shall notify the Fund*

B-7 - Old B-6 text sentence

of any change in its policy
B-5 [old B-3]

~~B 5. If a member proposes to tolerate, introduce or continue exchange rates for any class of transactions which differ from parity by more than the prescribed margin it shall inform the Fund thereof within one month of agreement on parities, with a statement of its reasons for doing so. The provisions of B2 and B3 shall apply, as appropriate.~~

~~B 6. It is the duty of a member desiring to change the par value of its currency to give the Fund as much notice as the circumstances allow, and to submit a full and reasoned statement that such a change is necessary to correct a fundamental disequilibrium.~~

~~It is the duty of the Fund to give priority to such requests, and if it is not able to agree with the proposal, to allow a representative of the member an opportunity to state his case in person. If under Article IV Section 5(c) the Fund is not entitled to object, the member may be informed of a contrary opinion but the difference of opinion shall not otherwise be published.~~

shall be prepared to consider on the next business day
Considers on next business day but no decision before country entitled to be represented has been present.

~~If the Fund is entitled to object, and after hearing the member's case continues to object, a written statement of the Fund's objections shall be given to the member, and circulated to other members, without prejudice to any decision by the Executive Directors under Article IV Section 6 the difference of opinion shall be brought before the next meeting of the Governors unless in the meantime it has been resolved.~~

B 7. If a member proposing a change in the par value of its

currency is of opinion that the change will not affect international transactions, it shall submit evidence to support its contention.

B 8. Where the Articles prescribe a time limit within which the Fund must indicate its views, the member is entitled to assume that the Fund does not object if it has received no reply within the stated period.