ANNOTATIONS OF THE ARTICLES OF AGREEMENT

ARTICLE I

Purposes

The purposes of the Fund should be kept clearly in mind when considering the subsequent provisions of the Articles of Agreement. The pattern will appear more distinctly if the provisions are connected to three purposes which, from the point of view of the actual operations of the Fund, are most important, namely:

1. The maintenance of stable and orderly exchange rates and avoidance of competitive currency depreciation.

2. Eliminating exchange controls and other restrictive and discriminatory currency practices;

3. To give confidence to members in pursuing such policies by selling them needed foreign exchange in limited amounts and under adequate safeguards, while measures are taken to correct maladjustments in their balance of payments without resorting to extreme measures.

ARTICLE II MEMBERSHIP

Section 1. Original members.

When an organization is not yet in being the agreement providing for its creation must contain some automatic mechanism to enable it to acquire its original members. Subsequent sections of this agreement provide, in detail, the technique of becoming an original member.

This section places two limitations on eligibility for original membership in the Fund:

(a) The country must be one of those represented at the United Nations Monetary Conference; and

(b) The government of that country must accept membership prior to December 31, 1945.

Placing a time limitation on the right to become an original member has the advantage of expediting the submission of acceptances of membership by the various countries. Moreover, if a country, represented at the United Nations Monetary conference, waits several years before deciding to become a member, it may no longer do so under the automatic mechanism provided, but may become a member only upon such terms and conditions as the Fund may prescribe.

ARTICLE II MEMBERSHIP

Section 2. Other members.

This provision is concerned primarily with countries which are presently neutral or enemy. It gives the Fund wide latitude in setting the conditions upon which it will accept new members, thus enabling the Fund to meet any contingency which may arise in the postwar period.

The danger that some countries may abuse this discretion by attempting to impose unreasonable conditions upon new applicants for membership is rather negligible. The terms of admission "prescribed by the Fund" are arrived at by a simple majority of the votes cast. The United States with 28 per cent of the total vote would obviously have a strong voice in any decision that is reached.

ARTICLE III QUOTAS AND SUBSCRIPTIONS

Section 1. Quotas

Each member country must be assigned a "quota". The size of a country's quota determines

a) the amount of the country's contribution to the resources of the Fund;

b) the extent to which it is privileged to purchase foreign exchange from the Fund; and

c) the relative voice of that country in the management of the Fund.

Under this section the quota of each original member is fixed in advance, and is set forth in Schedule A of the Agreement. With respect to other members, the size of the quota will be one of the terms of admission prescribed by the Fund.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 2. Adjustment of Quotas.

This section provides two procedures for changing the existing relationships with respect to quotas. One deals with a general adjustment of quotas, the other with the adjustment of the quota of a particular member.

Once every five years the Fund is required to review the question of a general adjustment of quotas, and to make appropriate recommendations should its review disclose the need for such a general adjustment. The recommendation that quotas be adjusted would become effective only if it were approved by a four-fifths majority of the total voting power of all the members of the Fund. On this question each member would vote separately through its representative on the Board of Governors, who would cast the full number of votes to which that member is entitled.

However, no member's quota can be changed without its consent. Thus if a general adjustment were approved by a four-fifths vote and a country opposed both the proposed general adjustment and the proposed change in its quota, it could not prevent the general adjustment from taking place, but it could retain its own existing quota.

In the absence of a general adjustment, the Fund will consider changing a particular quota only when the member concerned requests the adjustment. This also would require approval by a four-fifths majority of the total voting power.

It may be noted that the United States, having more than one-fifth of the total voting power, could effectively block any general or specific change in quotas.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 3(a). Subscriptions: Time, place and form of payment.

Each member is required to be fully paid up before it becomes eligible to buy currencies from the Fund.

This provision has two effects:

(a) It makes full payment of the subscribed quota a condition precedent to the use of the resources of the Fund; and

(b) It enables the Fund to set the deadline for payment of the subscribed quota.

Under Article XX the Fund has substantial control over the timing of the establishment of a member's par value and hence of its "eligibility" to buy currency from the Fund. Since, under this section, liability for the payment of the subscribed quota is tied to "eligibility" to buy currencies from the Fund, the Fund is enabled to control the time for paying the subscribed quota.

Thus, if a member is not anxious to buy currencies from the Fund and for this reason prefers to delay the payment of its quota for several years, it could not do so under this section.

The term "appropriate depository" is explained fully in Article XIII.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 3 (b) & (c). Subscriptions: Time, place, and form of payment.

Payment of the subscribed quota is made partly in gold and partly in the local currency of the member.

The minimum gold payment is 25 per cent of the member's quota, or 10 per cent of the member's net official holdings of gold and United States dollars, whichever is the smaller. Under this provision the countries with large gold and dollar assets are protected by the 25 per cent cut-off on their liability for gold payments to the Fund and countries with small gold and dollar assets are protected by the option to pay in only 10 per cent of such assets.

A few additional observations on (b)(ii):

1. United States dollars are included in determining gold contributions because many countries hold gold or dollars interchangeably as part of their reserves. This is also a safeguard against members holding their reserves in dollars in order to minimize their liability.

2. Members seeking the benefit of (b)(ii) are required to furnish necessary data to enable the Fund to determine their net official holdings of gold and United States dollars.

ARTICLE III QUOTAS AND SUBSCRIPTIONS

Section 3 (d). Subscriptions: Time, place, and form of payment.

This subsection provides for the contingency that a member whose territory was occupied by the enemy may not be in a position to ascertain its net official gold and dollar holdings at the date set by the Fund. The Fund is here authorized to fix an appropriate alternative date.

If the alternative date is later than that on which the member would otherwise be eligible to buy currencies from the Fund, the Fund and the member may tentatively agree on the amount of the member's net official holdings of gold and dollars for the purpose of making a provisional gold payment. The member would then pay the agreed amount in gold and the balance in its local currency.

When the true position of the member is ascertained a suitable adjustment will be made. If the member's actual holdings of gold and dollars prove to be greater than the amount tentatively agreed upon, the member will buy with gold an appropriate amount of its currency from the Fund; if the actual holdings are proved to be smaller than the amount tentatively agreed upon, the Fund will buy with gold an appropriate amount of the member's currency from the member.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 4(a). Payments when quotas are changed.

When a member consents to an increase in its quota it is required to pay the amount of the increase within 30 days after the date of its consent. Unlike the payment on the original subscription, the member is not given any alternative with respect to the basis for computing the portion of the increase which is to be paid in gold. It is required to pay in gold 25 per cent of the increase irrespective of whether its total gold contribution would thereby exceed 10 per cent of its net official holdings of gold and United States dollars.

An exception is made to this rule in order to cover the special case where the member's total monetary reserves are less than its new quota. In such event the Fund may in its discretion reduce the proportion of the increase to be paid in gold.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 4(b). Payments when quotas are changed.

When a member's quota is reduced the Fund is required to return to the member within 30 days an amount equal to the reduction. The Fund, in returning the amount of the reduction to the member does not maintain the original ratio of gold to local currency, but returns only such an amount in gold "as may be necessary to prevent reducing the Fund's holdings of the currency below 75 per cent of the new quota."

To illustrate, assume a member subscribed originally to a quota of $100 million, and assume that it consented to a reduction of $10 million. Assume also that this member based its original gold contribution on net official holdings of gold and United States dollars in the sum of $200 million, and accordingly paid in gold $20 million. Assuming there were no transactions in that country's currency, the Fund would not pay any part of the $10 million reduction in gold.

The rationale is as follows:

On the assumptions made above the member would have paid on its original subscription $20 million in gold and $80 million in local currency. When it reduced its quota to $90 million it became entitled to a return of $10 million. The Fund, in returning the $10 million to the member need only pay sufficient gold to prevent reducing the Fund's holdings of that country's currency below 75 per cent of the new quota. Seventy-five per cent of $90 million is $67.5 million. Thus, if the Fund paid the entire $10 million in local currency, its holdings of the currency of that member would still be $70 million or $2½ million in excess of 75 per cent of the new quota.

Moreover, the application of this provision is not limited to members which took advantage of the privilege of basing their gold contributions on 10 per cent of their net official holdings of gold and United States dollars. It applies as well to those members which paid a full 25 per cent of their subscription in gold.

This is true because a member which originally paid 25 per cent in gold and 75 per cent in local currency may have exercised its right to purchase foreign currencies from the Fund. As a result the Fund may be holding local currency of that country in excess of 75 per cent of its quota. When a country, so situated, reduces its quota, the Fund repays the amount of the reduction in local currency until its holdings of that currency equal 75 per cent of the member's new quota.

It may be noted from the foregoing analysis of section 4(a) and (b) that any revision of quotas, upward or downward, will probably result in a strengthening of the Fund's relative gold position by increasing the proportion which its gold holdings bear to its total assets.

ARTICLE III - QUOTAS AND SUBSCRIPTIONS

Section 5. Substitution of securities for currency.

This provision permits a member country to substitute securities for any of its currency held by the Fund in excess of ordinary working balances. The Fund, of course, makes the decision as to the size of the working balance it wants to maintain in each currency and as this balance is depleted the member must provide further local currency against the surrender of securities. The securities eligible for this purpose are notes or similar obligations issued by the member or its central bank. These obligations are non-negotiable, non-interest bearing and payable at par on the Fund's demand.

The provision tends to lessen the financial burden connected with membership in the Fund. It also is of assistance to those members having high and rigid reserve requirements.

ARTICLE IV - PAR VALUES OF CURRENCY

Section 1. Expression of par values.

This section requires that each member express the par value of its currency in terms of gold. Thus the pound sterling, French franc, etc. must be defined in terms of a given amount of gold. Alternatively, members may define their currencies in terms of the U.S. dollar of the weight and fineness in effect on July 1, 1944, if they prefer. Actually, there is no difference between defining the par value of a currency in gold or in U.S. dollars of a specific weight and fineness, but some countries appear to prefer to define their currency in terms of U.S. dollars.

The procedure for determining the initial par value of each currency is prescribed in Article XX.

ARTICLE IV - PAR VALUES OF CURRENCY

Section 2. Gold purchases based on par values.

In Section 1 of this Article members agree to express the par value of their currencies in terms of gold. Under this section the Fund fixes a margin above and below par value for transactions in gold by members. No member may buy gold at a price above par or sell gold at a price below par except within the margin prescribed by the Fund. This procedure is, of course, part of the machinery for stabilizing exchange rates.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 3. Foreign exchange dealings based on parity.

This section fixes the maximum and minimum rates for foreign exchange transactions between the currencies of members. In the case of spot exchange transactions the fluctuation may not exceed parity by more than one percent. In the case of forward exchange transactions, a greater margin is possible provided the Fund considers such margin reasonable.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 4. Obligations regarding exchange stability.

This section prescribes the obligation of each country for maintaining exchange stability upon accepting membership in the Fund. This obligation requires each member to collaborate with the Fund in promoting exchange stability, maintaining orderly exchange arrangements with other members and in avoiding competitive exchange alterations. It imposes on each member the responsibility for keeping exchange transactions between its currency and the currencies of other members within the limits of parity prescribed under Section 3.

While each country obligates itself to keep exchange transactions at parity within its jurisdiction it was not intended that this would obligate members to support the currency of another member which was weak in their market, or to impose exchange controls just to place a legislative floor under the weak currency of another member. This would be shifting a member's responsibility for maintaining the exchange value of its currency to other members whereas the Fund is designed to fix the responsibility for maintaining the parity of a member currency squarely on the shoulders of that member. So that there could never be any controversy on the score of which country had the responsibility of maintaining a rate between two currencies, this section expressly provides that a member fully discharges all of its responsibility under this section if in fact it freely buys and sells gold (within the limits fixed by the Fund under Section 2) in the settlement of international trade transactions. Thus the U.S. is discharging its responsibility under this section so long as it maintains its existing gold policy.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 5. Changes in par values.

While the Fund is intended to promote exchange stability, it is not its purpose to prevent changes in par values of currencies where these are essential to correct a fundamental disequilibrium. Rather it is intended to permit the orderly adjustment of exchange rates under such circumstances. The Fund makes these changes the subject for multilateral consideration on the part of all members instead of leaving them to unilateral decision on the part of one country.

The rules for changing the par value of the currency of any member are quite simple:

1. The par value of member's currency may be changed only when that member proposes the change, and a member may not propose a change except to correct a fundamental disequilibrium. The Fund has no power to change the par value of a member's currency without its consent. (On the other hand, the Fund would not use its resources to maintain an unsound rate. See for instance Article V, Section 5, relating to ineligibility to use Fund's resources and Article XX, Section 4 relating to initial determination of par values).

2. No member may, at any time, change the par value of its currency without first consulting with the Fund.

3. After consultation with the Fund but without obtaining its approval, a member may change the par value of its currency up to ten percent of the par value initially fixed when the country accepted membership in the Fund. This privilege is expended whenever changes totaling ten percent have occurred regardless of whether the change is up or down or a combination. Thus an increase of five percent in the par value of a currency followed subsequently by a five percent reduction would prevent any further changes under this provision. It is of particular importance in the early post-war years when a whole new pattern of exchange rates will probably be emerging in some areas such as in Europe and Asia. During this trying period when the Fund is just getting on its feet, and the world is making its first attempt at international monetary cooperation, it may contribute much to the ultimate strength and prestige of the Fund if it can "feel its way along" through the technique of consultation and leave each member to bear the full responsibility for these minor transitional adjustments.

4. Any further changes beyond the ten percent provision discussed above requires the Fund's approval. If the change is small (less than a further ten percent of the initial par value), the Fund may be required to make its decision within three days. If it is large, the Fund may require more time. In any event it would be most extraordinary for the Fund to be caught unswares on any rate proposal. It will have a staff continuously studying rate problems; it will know of conditions developing in each country by virtue of the information they are required to report; it will know the extent of their use of the Fund's resources and, no doubt, the problem will have been informally discussed by the member with the Fund's staff long in advance. Moreover, it is essential that a member get a prompt decision since general knowledge of a possible change may be most demoralizing to the exchange markets.

5. The Fund is required to approve a proposed change if it is satisfied it is necessary to correct a fundamental disequilibrium. Changes which do not affect the international transactions of members are, of course, of no interest to the Fund. The Fund may not object to a change because of the domestic social or political policies of the member. It approaches the problem of a change in rates solely on the basis of economic criteria.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 6. Effect of unauthorized changes.

In section 5 above, the Fund was given authority to object to the proposal of any member to change the par value of its currency. This section provides specific sanctions to put teeth into those objections.

If a member changes the par value of its currency despite the Fund's objection, it automatically loses the privilege of using the resources of the Fund. The Fund does have the power, however, to lift this sanction if it should decide at any time that such action is appropriate. Thus, if the Fund and the member should be able to settle their differences, the member could be permitted to regain access to the Fund's resources. If, on the other hand, the member fails to iron out its differences with the Fund within a reasonable time, the Fund has the power to compel the member to withdraw from the Fund. The provisions governing compulsory withdrawal of a member appear in Article XV, Section 2.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 7. Uniform changes in par values.

The Fund may make uniform proportionate changes in the par values of the currencies of all members. In order to do so, there must be approval by the majority of the total voting power, and such majority must include every member which has 10 per cent or more of the total of the quotas. Under this formula, a uniform change could not take place without the approval of the United States.

In conformity with the principle that the par value of a member's currency cannot be changed without its consent, it is provided that any member can prevent the proposed change from applying to the par value of its currency by informing the Fund within 72 hours that it does not wish the par value of its currency to be changed.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 8. Maintenance of gold value of Fund's assets.

This section provides that the gold value of the Fund's assets shall be maintained, notwithstanding changes in the par or foreign exchange value of the currency of any member. The purpose of this provision is to maintain intact the gold value of the Fund's assets.

In order to keep constant the gold value of the Fund's assets, the agreement provides for the following three contingencies:

(1) A possible depreciation of the currency of a member;

(2) A possible appreciation of the currency of a member; and

(3) A possible uniform proportionate change in the par values of the currencies of all members.

(1) In the event that the currency of a member depreciates as the result of either an authorized or unauthorized change in the par value of its currency, that member is obligated to pay to the Fund an amount of its own currency sufficient to compensate for the reduction in the gold value of its currency held by the Fund. Thus, if a member either lowers the par value of its currency or permits the actual value of its currency to be reduced in relation to foreign currencies within its own territories, such a member becomes subject to this provision.

(2) In the event that the par value of a member's currency is increased, the Fund is obligated to return to such member an amount of its currency equal to the increase in the gold value of its currency held by the Fund. This obligation of the Fund applies only to an authorized increase in the par value of the member's currency. There is no obligation on the part of the Fund to return any currency to a member as a result of an unauthorized increase in the foreign exchange value of that member's currency.

(3) In the event that there is a uniform proportionate change in the par values of the currencies of all members, the same rules apply as those outlined above but the Fund does have the power to waive these provisions. Discretion in this instance is important in order to give the Fund the necessary freedom of action to meet future contingencies.

ARTICLE IV - PAR VALUES OF CURRENCIES

Section 9. Separate currencies within a member's territories.

Under Article XX a government in accepting membership in the Fund also accepts it on behalf of all of its colonies, territories, possessions, etc. Under the same Article initial rates of exchange are fixed by the Fund and the member for not only the metropolitan territories of the member but also for each separate currency existing in any territories of that member.

This section provides for changes in exchange rates where there are separate currencies within the territories of one member. Ordinarily any member proposing a change in the par value of the currency of its metropolitan territory will be deemed to be proposing a corresponding change in the par value of the separate currencies of all territories under its jurisdiction and the Fund will act on that assumption. However, the member can, if it elects, confine the proposed change to any particular currency or currencies, leaving the balance unaffected.

ARTICLE V, SECTION 1

Agencies dealing with the Fund

Since the Fund is an agency for monetary cooperation among governments, it will do all of its business with governments and governmental agencies. It will never engage in transactions with private traders or banks and will not operate in exchange markets. When the Fund sells foreign exchange to a member, it will not sell to the traders who may need the exchange. It will sell to the central bank, or some other appropriate government agency, which will arrange for the exchange being made available in the market. This is the way in which operations of the United States exchange stabilization fund have been carried on in the past, and the Fund will function along the same procedural lines.

This limitation will have two desirable results. In the first place, it assures private traders and banks that they will not have to compete with an international institution and that their business will not be subject in any way to its control. Secondly, all governments that are members of the Fund will be constantly informed of any steps taken by the Fund in their respective jurisdictions.

A number of types of fiscal agencies have been included because different countries may find it convenient to use different agencies.

ARTICLE V, SECTION 2

Limitation on the Fund's operations

The Fund is an institution of limited powers, that is, it can do only those things which are authorized by the Articles of Agreement. In addition to the extensive safeguards set forth in other sections, the Fund is here prohibited from operating on its own initiative in exchange markets or initiating exchange transactions with governments or governmental agencies.

The principal transaction in which the Fund will engage is the sale of foreign exchange to a member requesting it, the member making payment in its own currency. Other transactions for the Fund's account will be the collection of charges, sale of currencies for gold, recapture of monetary reserves, and the sale of gold for currencies that are becoming scarce.

ARTICLE V, SECTION 3

Conditions governing use of the Fund's resources

The primary objective of the Articles of Agreement is to substitute international cooperation in the field of monetary policy for practices harmful to world trade. This goal can be achieved through the maintenance of stable and orderly exchange rates and the abolition of restrictive and discriminatory currency practices. Accordingly, each country undertakes specific obligations designed to achieve this end.

The Fund is provided with resources to assist member countries in carrying out these undertakings. The Fund gives members confidence that they will have time to correct maladjustments in their balance of payments without resorting to extreme measures which are destructive of national or international prosperity.

Each member can purchase foreign exchange from the Fund with its own currency. It can do so only if the following conditions are met:

(1) A member can purchase foreign currency from the Fund only if it is going to be used to make payments in that currency which are consistent with all of the provisions of the Articles of Agreement. This condition is essential to prevent the use of the Fund for purposes which are beyond the scope of the Articles of Agreement.

When a country is required to make more payments abroad than it receives from abroad, its balance of payments is adverse and it must meet this adverse balance in foreign exchange. The purchase of foreign exchange from the Fund to meet this unbalance is not in any way a solution of the country's problem. It must still take whatever steps are necessary to bring its international accounts into balance; but the foreign exchange it obtains will give it time within which to make the necessary adjustments.

(2) If a currency has been declared scarce a member can purchase such currency from the Fund with its own currency only in accordance with the conditions for apportionment established by the Fund. (See Article VII, Section 3)

(3) There are two quantitative limitations on a member's purchase of foreign exchange from the Fund with its own currency. When the Fund's holdings of a member's currency are equal to 200 percent of its quota, the member may purchase foreign exchange from the Fund with its own currency only with special permission and only on terms prescribed by the Fund. In effect,

this limitation on maximum holdings of a currency means that the net amount of foreign exchange which a member may purchase from the Fund with its own currency, that is, after deducting sales of its currency to other members and sales of foreign exchange to the member for gold, is equal to its quota plus the amount of its gold subscription. For example, if the quota of a country is $100 million and it has paid its subscription with $20 million in gold and $80 million in its currency, then the Fund can acquire $120 million more of that country's currency before the Fund's holdings reach 200 percent of the member's quota. When aggregate net sales of foreign exchange to that member for its own currency amount to $120 million the prescribed maximum limitation would be reached.

The other quantitative limitation is on the rate at which purchases may be made. A member may not purchase foreign exchange during any twelve-month period in an amount greater than 25 percent of its quota. If, however, the Fund's holdings of its currency are less than 75 percent of its quota, it may purchase foreign exchange until the Fund's holdings reach 75 percent of its quota without being subject to his limitation.. For example, the quota of Australia is $200,000,000. At a time when the Fund holds $150,000,000 worth of Australian pounds, Australia will have the right to purchase $50,000,000 worth of foreign exchange with Australian pounds during the next twelve-month period. If, however, the Fund's holdings of Australian pounds are equal to only $50,000,000, Australia could purchase $100,000,000 in foreign exchange with Australian pounds before the limitation on the purchase of an additional $50,000,000 of foreign exchange during the twelve-month period comes into effect.

(4) If the Fund declares a member ineligible to use the resources of the Fund, its right to purchase foreign exchange with its own currency will be terminated. Declarations of ineligibility can be made under Article V, Section 5, if countries use the resources of the Fund in a manner contrary to the purposes of the Fund; under Article IV, Section 6 if a country changes the par value of its currency despite the objection of the Fund; under Article VI, Section 1, if a country fails to exercise controls to prevent the use of the resources of the Fund to meet a large or sustained outflow of capital; and under Article XV, Section 2(a) if a member fails to fulfill any of its obligations under the Articles of Agreement.

(5) Members are prohibited from acquiring foreign exchange from the Fund to hold against forward exchange transactions.

ARTICLE V, SECTION 4

Waiver of Conditions

To provide a degree of flexibility and allow for the application of a measure of judgment, the Fund may waive the conditions on which foreign exchange can be purchased. Special consideration will be given to requests of members for waivers if they have long records of avoiding large or continuous use of the Fund's resources. The Fund is not required to waive any of the conditions for such countries, but it will consider their records in passing upon the requests. The Fund will also consider periodic or exceptional requirements of the member requesting a waiver.

There may be occasions where a country is willing to pledge collateral with the Fund to obtain foreign exchange. Collateral may take the form of gold, silver, securities or other assets acceptable to the Fund. The member may be willing to pledge part of its gold reserves or offer marketable securities as collateral if it expects that its need for the foreign exchange will be relatively short. In such cases the Fund might sell foreign exchange beyond the usual limits if it received adequate collateral as a protection for the other members.

Whenever the Fund waives any of the conditions governing purchases of foreign exchange, it must do so on terms which safeguard its interests. The interests of the Fund are the interests of all the members so that the terms will be designed to promote the welfare of the members collectively.

It should be noted that waivers under this section are subject to the special voting provisions of Article XII, Section 5, which increase the votes of countries whose currencies have been used and decrease the votes of countries that have used the Fund's resources.

ARTICLE V, SECTION 5

Ineligibility to use the Fund's resources

This is one of four sections that authorize the Fund to cut off a country's access to the resources of the Fund. (Others are contained in Article IV, Section 6, Article VI, Section 1 and Article XIV, Section 2(a)). The justification for action under this section must be that a country has used the Fund's resources in a manner contrary to the purposes of the Fund. The most important type of case that this provision is intended to cover is that of a country using the Fund's resources to meet an adverse balance of payments stemming from a fundamental disequilibrium in its economic position, without taking appropriate measures to correct the fundamental defects in its economic policy which cause the unbalance. The resources are to be used for the purpose of gaining time within which the country can make an adjustment without resorting to exchange control, blocking of current payments and similar destructive practices which undermine world trade. If a country uses the Fund as a means of gaining time but fails to use the time profitably, it is not observing this purpose and the Fund can take action to prevent the abuse.

The Fund is given power to protect its resources and the interests of other members if it finds that one member is using the resources improperly. It can send a report to such a country and limit the use it can make of the resources pending a reply to the report. If no reply is forthcoming, or the reply does not satisfy the Fund, the limited use may be continued, or after a reasonable period of notice, the country's use of the resources can be stopped completely.

This is the second provision to which the special voting arrangements contained in Article XII, Section 5 are applicable, i.e., if a vote is taken the votes of countries whose currencies have been used are increased and those of countries that have called on the resources of the Fund are decreased.

ARTICLE V, SECTION 6

Purchase of Currency from the Fund for Gold

If a member uses its gold reserves to purchase foreign currency, it must do so by purchasing it from the Fund, provided that it can do so with equal advantage. This section will enable the Fund to increase its gold holdings and so strengthen the Fund by making its assets available for the acquisition of any currency desired by the members.

This provision of the Agreement does not apply to newly-mined gold produced in a member country. Such gold may be disposed of freely in any market. Gold mining countries may continue to treat gold as an ordinary export and dispose of it through recognized commercial channels.

ARTICLE V, SECTION 7

Repurchase by a member of its currency held by the Fund

The repurchase provisions are an important means of insuring that the Fund's resources will be used properly and will remain liquid.

A member may repurchase its own currency from the Fund with gold at any time. A member can, therefore, reduce or terminate the deterrent charges that accrue under Article V, Section 8, and in so doing it will strengthen the Fund's position. In addition to this right of member countries, there is a specific obligation on every member country to make certain repurchases at the end of each financial year of the Fund.

The objectives of the annual repurchases are as follows:

(1) To insure that a country uses its own resources to the same extent that it uses the Fund's resources to meet an adverse balance of payments. This means that so long as a country's monetary reserves (its official holdings of gold and convertible currencies as defined in Article XIX) exceed its quota, it must voluntarily use its reserves equally with its drawing rights, or at the end of each year it will have to use its reserves to repurchase one-half of the currency it sold to the Fund during the year in order to acquire foreign exchange.

(2) To insure that when a country finds its balance of payments favorable and its monetary reserves increasing, it will use the increase in its monetary reserves to repurchase its currency from the Fund to the same extent that it builds up its own resources. This means that one-half of the increase in a country's monetary reserves during the year will have to be used to repurchase its currency from the Fund.

(3) To insure that all of the currency reserves of the Fund are used for the purposes of the Fund. Some countries do all of their foreign trade in terms of dollars or sterling. The Fund does not wish to interfere with this practice. But it wants to make possible the use of the Fund's Cuban pesos to settle balances with Cuba, etc. Accordingly, while members may continue to carry on their trade in third currencies, the favorable balances accumulated from such dealings must be used to repurchase their own currencies.

There are three limitations on the operations of the repurchase provisions:

(1) To assure members a minimum amount of monetary reserves, the repurchase requirement is not carried to the point at which it would cause a country's monetary reserves to be reduced below its quota.

(2) The repurchase requirement is not carried to the extent that it would cause the Fund's holdings of the repurchasing country's currency to fall below 75% of its quota. The preferred distribution of the Fund's assets is 25% gold and 75% of the quota of each country in the currency of that country.

(3) Members are required to use convertible currencies as well as gold in making repurchases. In many instances a currency will be convertible even though the Fund holds it in an amount exceeding 75% of the country's quota. It would not improve the Fund's position to acquire additional amounts of such a currency. Thus, the repurchase provisions will not be applied in a manner that would increase the Fund's holdings of a currency used for repurchasing above 75% of the quota of the country involved.

The provisions of Schedule B are mathematical rules required to apply the repurchase provisions properly. They merely carry out the purposes of this section.

ARTICLE V, SECTION 8

Charges

The Fund will levy at least two types of charges and probably a third type. It will impose on all countries (1) a service charge for exchange transactions, and (2) a deterrent charge on currency balances. It may also levy a handling charge on gold transactions.

Each time a member purchases foreign exchange from the Fund, it will have to pay a service charge of 3/4 of 1% on the amount purchased. This charge will provide the Fund with revenue to meet its administrative expenses and whenever possible to pay a return to the member countries. The service charge will be uniform for all members, since the deterrent charge is the one that is designed to make the cost of using the resources of the Fund dependent upon the amount and period of use of such resources.

The deterrent charges are one of the principal means by which the Fund will discourage countries from relying on its resources instead of taking appropriate steps to bring about equilibrium in their balance of payments. The charges will be assessed against the Fund's holdings of a member's currency because these holdings measure the use which the country has made of the Fund's resources. They will increase progressively as the holdings increase and they will also increase progressively as the time extends during which the balances are held.

The quantitative graduation of charges works in this way:

(1) There is no charge on currency balances below the quota of a member.

(2) The charge on currency balances up to 25% above the quota is one-half of 1%.

(3) For each 25% bracket above this amount the charge will be increased by an additional one-half of 1%.

The time graduation of charges works as follows:

(1) Charges during the first year for each bracket are as shown in the quantitative graduation above.

(2) Each year thereafter the charge in each bracket is increased by one-half of 1%.

The way in which these charges increase is shown in the following schedule:

Charges Levied by the Fund on Holdings of Member Currencies in Excess of Quotas

Currency holdings in excess of quotas	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
0 - 25 per cent	1/2 a/	1	1-1/2	2	2-1/2	3	3-1/2	4	4-1/2	5
25 - 50%	1	1-1/2	2	2-1/2	3	3-1/2	4	4-1/2	5	-
50 - 75%	1-1/2	2	2-1/2	3	3-1/2	4	4-1/2	5	-	-
75 - 100%	2	2-1/2	3	3-1/2	4	4-1/2	5	-	-	-
100-125% b/	2-1/2	3	3-1/2	4	4-1/2	5	-	-	-	-

a/ For holdings less than 25 percent in excess of the quota there is no charge for the first three months.

b/ Holdings may exceed 200 percent of the quota only by special waiver by the Fund. When the requirement is waived, the Fund may set conditions which safeguard its interests, including such charges as it deems appropriate. The charges cannot be less, however, than the amount determined by increases of 1/2 percent in each 25 percent bracket.

Whenever the rate applicable to any portion of the Fund's currency holdings for any period has reached the rate of 4%, the country and the Fund must attempt to find a way in which the balances can be reduced which will be satisfactory to both the Fund and the country. If they fail to reach agreement on this matter by the time the charge has risen to 5%, the Fund can impose any charge that it deems appropriate for the purpose of reducing the currency balance.

Although the Articles of Agreement set forth prescribed percentages for the deterrent charges, it is possible that they may prove too large or too small at some time in the future. Accordingly, there is provision for changing the schedule of charges by a vote of three-fourths of the total voting power.

Moreover, the payment of these charges to the Fund must be in gold unless the member's monetary reserves are less than one-half of its quota. In that event, it pays in gold a proportion equal to the ratio of its monetary reserves to one-half of its quota, and the balance may be paid in its own currency. This provision avoids taking a large percentage of the gold holdings of any country if its gold holdings are so small that their further reduction will merely intensify its difficulties.

ARTICLE VI, SECTION 1

Use of the Fund's Resources for Capital Transfers

The primary purpose of the International Monetary Fund is to secure stability of international exchange rates and to eliminate discriminatory and restrictive exchange practices which hamper current trade. Its resources are not intended to be used to finance capital movements and the undue use of its resources for this purpose would interfere with the Fund's ability to discharge its responsibility in connection with current transactions. Members are prohibited, therefore, from making use of the Fund's resources to meet a large and sustained outflow of capital.

Whenever the Fund finds that a country is using the Fund's resources to meet a larger or sustained outflow of capital, it may request that member to exercise controls which will prevent the use of the Fund's resources for this purpose. If the country fails to exercise appropriate controls, the Fund can declare it ineligible to use the Fund's resources for any purpose.

This provision does not mean that all countries must have exchange controls. The Fund will not examine every transaction in foreign exchange engaged in by traders or investors in a member country. It will determine whether capital outflows are being financed through the Fund by examining the over-all balance of payments position of a member country. Thus, while a country would not have to exercise exchange control, in order to provide the Fund with the information it needs to determine whether the Fund's resources are being used for capital transfers, a country would need a simple reporting system. Such a reporting system has been in use in the United States for ten years and has caused little inconvenience to those who report.

This section will not affect the right of a member to finance capital movements out of its own resources of gold and foreign exchange so long as the capital movements so financed are in accordance with the purposes of the Fund. Primarily this means that large capital flights, disturbing to the country from which the money flees and to the country to which the money flees, can not be effected even if the member uses its own resources of gold and foreign exchange. On the other hand, there are capital movements which tend to stabilize exchange rates, for example, a capital export from a country which has a favorable balance of trade to a country which has an unfavorable balance of trade. These types of capital movements are, of course, wholly consistent with the purposes of the Fund.

The Fund, moreover, does not propose to prohibit the use of its resources for capital transactions incidental to the ordinary course of trade, banking and other business. In brief, ordinary credit transactions are regarded as part of the process of current trade, and the Fund's resources may be used for payments involving such transactions.

It should be noted that this Agreement leaves the determination of when a capital outflow is large or sustained to the discretion of the Fund. What would be a large transfer for one country would be insignificant for others.

ARTICLE VI, SECTION 2

Special Provisions for Capital Transfers

Some member countries will have little occasion to use the resources of the Fund while their balance of payments on current account is favorable. Their currencies will be purchased from the Fund by other members. If, therefore, these countries export capital by buying other currencies from the Fund for capital transfers, they actually will facilitate a better distribution of the Fund's currency holdings. Therefore the Agreement provides that a country whose currency has been held by the Fund for at least six months in an amount less than 3/4 of its quota, may use the resources of the Fund for any purpose, including capital transfers. Thus, under appropriate safeguards, countries whose currencies are in relatively great demand may replenish the Fund's stock of their currency to a desirable level without, at the same time, reducing the Fund's holdings of other currencies below a desirable level.

ARTICLE VI, SECTION 3

Controls of Capital Transfers

The Fund Agreement permits members to impose such controls over exchange transactions as they believe to be necessary to regulate international capital movements, but the members may not use these controls for purposes which will restrict payment on current transactions or which will unduly delay settlement of obligations arising from current transactions. If a country does control capital movements, it must do so in a manner that will not be prejudicial to current transactions.

This section, however, does not prevent a country from exercising control over the use by its nationals of currency declared scarce by the Fund under Article VII. Moreover, under Article XIV, Section 2, a country may retain exchange restrictions adopted prior to the war if it makes use of the privileges of the transitional period. These provisions will be discussed under those Articles.

ARTICLE VII, Section 1

General scarcity of currency

The problem of a possible scarcity of a particular currency is, of course, of great concern to the Fund. Obviously the Fund is interested in first, attempting to prevent any currency from becoming scarce and, second, prescribing a standard of fair practice if a particular currency should become scarce.

Section 1 deals with the problem of a general scarcity of a particular currency, i.e., one which manifests itself in the exchange markets quite apart from the Fund's position in that currency. For example, supposing that after the Fund had been in operation for a year it should conclude that although it still had large dollar resources available, nevertheless the adverse balance of payments of other countries with respect to the dollar was so great that it amounted to a general scarcity of dollars. Under this section the Fund could issue a report setting forth the reasons for the scarcity and making recommendations for bringing it to an end. Of course, a representative of this country would participate in the preparation of the report.

The Fund would stand in a very advantageous position to make an objective report on a monetary problem of such obvious international concern. It can speak with the prestige of an international organization devoted to the interests of all members and thoroughly informed on the problem and its possible consequences.

The specific recommendations made in the report would depend on the factors responsible for the scarcity and would focus both on the country whose currency was becoming scarce and on the countries demanding the currency. The Fund might recommend efforts to increase imports by the country with the favorable balance of payments or measures to expand the volume of its foreign investment, if they would be appropriate in the given situation. Should the Fund decide, however, that a decrease would be desirable in the purchases of other countries from the nation whose currency was scarce, or that other measures are needed, it would make such recommendations. In general, the Fund would endeavor to make suggestions leading to a balancing of international accounts through an expansion rather than a contraction of international trade.

It is important to emphasize that under this section the recommendations of the Fund would not be binding on the members, nor would the Fund have

power to impose any penalty for failure to follow them. Its power would rest not in coercion but in persuasion and in providing the world with the facts and objective recommendations.

It should be noted that the Fund is not obligated to issue a report of this sort and would undoubtedly weigh carefully its action and the probable consequences thereof before deciding to issue a report.

ARTICLE VII, SECTION 2

Measures to replenish the Fund's holdings of scarce currencies.

This section deals with measures the Fund may take whenever its holdings of a particular currency become scarce. It deals specifically with the means of replenishing the Fund's holdings of the currency in question and not with the problems which may arise when a general scarcity of the currency is developing. These general problems are dealt with under Section 1.

The Fund's resources will be composed of member currencies and gold. If its holdings of a particular member currency were becoming scarce, the Fund could convert some of its gold into that currency. This will be accomplished by selling gold to the member for its currency, the member being required to accept the gold in exchange for its currency.

The other method open to the Fund to replenish its supply of such a currency is to borrow that currency. The Fund can borrow from the member whose currency is becoming scarce, or, with the approval of that member, from other sources within the jurisdiction of that member or elsewhere. No member is under any obligation whatever to lend its currency to the Fund or to approve the Fund's borrowing it from other sources.

ARTICLE VII, SECTION 3

Scarcity of the Fund's holdings

If the Fund's holdings of the currency of any member fall so low that the Fund's ability to supply the demand of other members is seriously threatened, the Fund will formally declare such currency scarce. The Fund is not required to have issued in advance a report under Section 1 concerning a general scarcity, nor is it required to issue any other kind of report before it declares a currency scarce. Such a report might aggravate a developing scarcity. After it has declared a currency scarce, however, the Fund must issue a report explaining why it has declared a currency scarce.

When the Fund declares a currency scarce, it must apportion its sales of that currency. In doing so it will consider the relative needs of the various members, including their own supply of the currency and their ability to obtain it outside the Fund, the general international economic situation, and all other pertinent facts.

The Fund's declaration that a currency is scarce operates as an authorization to the other members to impose temporary limitations on the freedom of exchange operations in that currency. The members must consult with the Fund before imposing such limitations. Each member will have complete jurisdiction in determining the nature of the limitations but will be subject to a number of rules appearing in this section and in Section 4.

A country whose currency has become scarce may find that its exports are restricted to some extent. This is not a consequence of the action of the Fund but of the fact that other countries are short of the scarce currency. Without the Fund, restrictions would probably be far more severe, for the Fund will protect the member against imposition of unnecessary restrictions. A member imposing restrictions can not go farther than is necessary to limit the demand for the scarce currency to the supply available. They must also relax and remove such controls as rapidly as possible, and the authorization to impose restrictions will expire as soon as the Fund declares that the currency is no longer scarce. In addition, the restrictions will be subject to the provisions of Article IV, Sections 3 and 4, so that they can not be administered in a manner which will cause fluctuations in rates of exchange.

ARTICLE VII, SECTION 4

Administration of restrictions.

This section contains a further limitation on the manner in which member countries can restrict transactions in a scarce currency. It recognizes the interest of the member whose currency has become scarce and requires the country imposing restrictions to give sympathetic consideration to any representations by the other member regarding the administration of the restrictions.

ARTICLE VII, SECTION 5

Effect of other international agreements on restrictions.

A number of countries have made prior agreements concerning the administration of exchange restrictions. In order that restrictions imposed as a result of a currency's becoming scarce may be administered consistently with these Articles of Agreement, this section provides that no country may invoke the provisions of a prior agreement in a manner which would prevent the operation of the sections relating to scarce currencies.

ARTICLE VIII, SECTION 1

Introduction

The purpose of this section is to make it clear that the general obligations of members assumed under this Article are not exclusive. Many obligations appear in other sections of the Articles of Agreement.

ARTICLE VIII, SECTION 2

Avoidance of restrictions on current payments

Members are prohibited from imposing restrictions on the making of payments and transfers for current international transactions without the approval of the Fund. Under Article XIX(i) current transactions include payments due in connection with foreign trade and other current business, including services, and normal short-term banking and credit facilities; payments due as income from investments; moderate payments for amortization and depreciation; and moderate remittances for family living expenses.

This is one of the most important obligations assumed by countries accepting membership in the Fund. The use of restrictive controls on exchange transactions has been one of the principal devices which for the past two decades have tended to stifle international trade. Their removal will do much to facilitate a balanced growth of world trade.

The prohibition against restrictions on payments means the person to whom payment is due will be able to collect. The prohibition against restrictions on transfers means that when a person to whom a current payment is due has been paid in a foreign currency, he will be able to convert it into his own currency. In both cases the prohibition is against restrictions on transactions expressed in the currency of the member whose national is making the payment as well as in the currency of the member whose national is receiving payment.

There are two cases in which this prohibition will not apply:

(1) If a currency has been declared scarce, a member can restrict payments and transfers in that currency in accordance with the provisions of Article VII, Section 3(b).

(2) Members availing themselves of the transitional arrangements under Article XIV may retain restrictions during the post-war transitional period but they will be subject to the provisions of Article XIV, Section 4, with respect to their removal.

In addition to the two exceptions noted above, this section does not prohibit exchange controls over capital transfers (see the explanation of Article VI, Section 3). Accordingly, there may be in some instances,

controls over current payments and transfers, and controls over capital transfers. The evasion of necessary controls would be in conflict with the objectives of the Fund and, accordingly, each member undertakes not to enforce within its jurisdiction contracts which involve the currency of another member and which are contrary to the exchange control regulations of that member, provided that the controls are maintained or imposed consistently with the Articles of Agreement.

This does not mean that one country owes any duty to police or enforce the exchange control regulations of another country. It does mean, however, that if suit is brought within the courts of one country involving a contract which violated the exchange control regulations of another country, the courts of the former will not enforce the contract. Members may also if they desire cooperate with each other in making their exchange control regulations more effective provided that the controls and the measures of cooperation are consistent with the Articles of Agreement.

ARTICLE VIII, SECTION 3

Avoidance of discriminatory currency practices

Members are prohibited from engaging in discriminatory currency arrangements and multiple currency practices except with the approval of the Fund or as authorized during the post-war transitional period under Article XIV. This prohibition is against the government of a member, its treasury, central bank, stabilization fund, and other similar fiscal agencies.

Discriminatory currency arrangements and multiple currency practices are restrictive trade devices which have been prevalent for a number of years. They have been used to gain unfair advantages in international trade and their net effect has been to reduce drastically the total volume of such trade. One of the principal objectives of the Fund is to rid the world of these vicious practices which in the long run are not for the advantage of any country.

Although these devices are used principally for the purpose of gaining competitive advantages, they have sometimes been used to raise revenue, resembling inmany respects an additional tariff on imports collected at the time the exchange is sold. Accordingly, some members will need a reasonable time within which to adjust their fiscal structures in order that the abolition of such devices will not cause undue hardship. Such countries must consult with the Fund as to the progressive removal of these practices and arrangements. If they are maintained or imposed during the post-war transitional period under Article XIV, their removal will be effected in accordance with section 4 of that Article.

ARTICLE VIII, SECTION 4

Convertibility of foreign-held balances

This section requires that each member buy balances of its currency held by another member if the balances to be bought have been recently acquired as a result of current transactions, or if the conversion of the balances is needed for the purpose of making payments for current transactions. The purchasing member has the option of payment for its own currency in the currency of the selling member or in gold.

This obligation to convert balances gives greater assurance that direct payments and transfers for current international transactions can be freely effected. Together with section 2(a) of Article V, which prohibits restrictions on payments and transfers for current international transactions, this section helps member countries to meet their current payments out of current receipts and also by the conversion of foreign exchange balances accumulated abroad. This section has the further benefit of permitting a member holding an accumulated balance abroad to convert it for the purpose of meeting current payments in a third country.

A number of safeguards are provided in order that the obligation to convert foreign-held balances will not operate to destroy stability of exchange rates. These safeguards are:

(1) If a member is having balance of payments difficulties which lead the Fund to permit it to impose restrictions on current payments and transfers under Article V, Section 2, it will not be obligated to convert the balances so restricted.

(2) If a member's economy is such that it finds it necessary to control capital transfers, it will not be required to convert balances whose transfer is restricted under such controls.

(3) Since the Fund is not designed to deal with indebtedness arising out of the war, balances accumulated abroad prior to the removal of restrictions maintained or imposed in accordance with the transitional arrangements (Article XIV, Section 2) are not subject to the convertibility obligation.

(4) If the member that is subject to the convertibility obligation has exchange regulations which have been violated by the accumulation of the balance sought to be converted, the obligation is not applicable.

(5) When the currency of the member seeking conversion of an accumulated balance has been declared scarce under Article VII, Section 3(a), this obligation will not apply since its application would further aggravate the scarcity of its currency.

(6) When the member subject to the obligation to convert balances cannot use the resources of the Fund, the obligation does not apply. Such a country is, however, still obligated not to impose restrictions on current payments and transfers and to maintain the par value of its currency.

ARTICLE VIII, SECTION 5

Furnishing of information

In order to operate effectively, the Fund must have accurate and current information on the balance of payments position of members. It will also need similar information on all other aspects of the economies of members which definitely affect their international economic position.

Members are therefore obligated under subsection (a) to furnish the Fund with such information as it deems necessary for its operations. To avoid uncertainty, the minimum information necessary for the effective discharge of the Fund's duties is specified in the Agreement. It is intended that the required information should, in general, be made available to the Fund regularly, since it would be altogether impractical for the Fund to procure information only after a question specifically involving it had been raised.

Subsection (b) recognizes that the Fund should not expect information of the same fullness and accuracy from all members, since the statistical services of different countries at present are in a very uneven state of development. The subsection also makes certain that members will not be obliged to furnish information in such detail that the affairs of individuals or corporations are disclosed. It provides, however, that informatinn shall be supplied in as detailed and accurate a manner as is practicable, and it is clearly contemplated that those countries whose services are now inadequate will take steps to improve them.

The Fund will be in an ideal position to act as a center for the general collection and exchange of information on monetary and financial problems. Subsection (c) gives the Fund the power to act in this capacity for the purpose of assisting members in carrying out the purposes of the Fund. If the Fund desires information for use in making studies which will assist members and the Fund, but which are not essential to the operation of the Fund, it can obtain the data by agreement with members.

ARTICLE VIII, SECTION 6

Consultation between members regarding existing international agreements.

An agreement relating to such a broad segment of the economic field as that covered by the Fund could not practicably be drafted to avoid conflict with all aspects of pre-existing economic arrangements between members. Recognizing the problem which would exist with regard to exchange provisions contained in outstanding agreements, Section 6 stipulates that the parties to such agreements will consult one another with a view to making such mutually acceptable adjustments as may be necessary. This provision would apply to some of the trade agreements negotiated by the United States, which have clauses relating to exchange control. It appears, however, that action under the section need not be taken unless a member of the Fund actually contemplated imposing restrictions in accordance with the Agreement. Attention to merely theoretical conflicts would not be required.

The provisions of the section are expressly specified to be without prejudice to the operation of Article VII, Section 5 (p. 15), which states that members shall not invoke the obligation of any prior engagements in such a manner as to prevent the operation of the provisions regarding scarce currencies.

ARTICLE IX, SECTION 1

Purpose of Article

If an international organization designed to operate for the mutual benefit of its entire membership is to fulfill its purposes, it must be accorded equal status and opportunity to function in the territories of all member countries. Its necessary operations cannot be subject to interference or restrictions by the particular members in whose territories they take place.

In the conduct of relations between nations it has long been found mutually advantageous that duly accredited agents be free from restrictions by the countries in which they are to carry out their duties. Recent experience has demonstrated that in many respects similar status is necessary to the proper functioning of international public organizations.

The purpose of Article IX is to ensure that the Fund would receive the requisite freedom and equality of treatment in all cases.

ARTICLE IX, SECTION 2

Status of the Fund

This section makes the Fund a legal person in each member country, with full capacity to carry out its functions, subject, of course, to any limitations set up elsewhere in the Agreement. The specification of certain particularly important aspects of legal personality is not intended to circumscribe the general effect of the section.

ARTICLE IX, SECTION 3

Immunity from judicial process

Since the Fund is an international agency and would ordinarily deal only with member countries or their fiscal agencies, it is given complete immunity from judicial process, except to the extent that it expressly waives immunity. In most cases, it would not be desirable that questions between a member and the Fund be settled in the courts of that member. Detailed provision for dealing with such questions is made in Article XVIII (p. 33) relating to interpretation of the Agreement. However, the power given the Fund to waive immunity would permit court determinations in appropriate cases, particularly those which might conceivably arise between the Fund and private persons over such matters as, for example, contracts for supplies or for the leasing of quarters.

The provisions of the section accord with the ordinary rules of law in this country respecting agencies of sovereign states.

ARTICLE IX, SECTION 4

Immunity from other action

The property and assets of the Fund, which are held for the benefit of all members, certainly should not be subject to seizure by any member. This section therefore confers complete immunity from all forms of seizure not covered by the preceding section.

ARTICLE IX, SECTION 5

Immunity of archives

If the Fund is to operate in the interests of all members, its records and files must be free from interference on the part of any particular member. Section 5 confers the necessary immunity.

ARTICLE IX, SECTION 6

Freedom of assets from restrictions

Immunity of the Fund's assets from seizure might be of little value if their use in accordance with the Agreement could be restricted as, for example, by exchange controls. On the other hand, there is no reason to prevent the imposition of restrictions on the transfer or other use of property which is not necessary to the operations provided for in the Agreement. The section accordingly would protect the Fund to the full extent necessary for its operations and only to that extent, although it may be presumed, without doubt, that the Fund would not attempt any transaction except to facilitate operations contemplated by the Agreement.

ARTICLE IX, SECTION 7

Privilege for communications

An international agency communicating frequently with its members could not operate properly unless its official communications were as free from interference as those of the member countries themselves. This section accords to the Fund the freedom of communication which is customarily accorded representatives of foreign governments with diplomatic status.

ARTICLE IX, SECTION 8

Immunities and privileges of officers and employees

While the main operations of the Fund would perforce be conducted in relatively few member countries, the Fund would be enjoined by Article XXX, Section 4, to recruit its personnel on as wide a geographical basis as possible, subject to the paramount importance of securing the highest standards of efficiency and technical competence. The Fund should not be hampered in carrying out this principle by restrictions or difficulties under the law of the countries in which it operates that would deter qualified nationals of other member countries from accepting employment.

Section 8 is intended to make certain that the Fund's officers and employees should be accorded the immunities appropriate to the needs of the Fund, except with respect to taxation, which is covered by Section 9 of this Article. It should be noted that in general Section 8 would in no way affect the relationship between an officer or employee of the Fund and the member country of which he is a national. The immunity from legal process conferred upon officers and employees with respect to acts performed by them in their official capacity may perhaps be regarded as an exception to the ordinary relationship, but only to the degree precisely necessary for the protection of the Fund.

ARTICLE IX, SECTION 9

Immunities from taxation

The principle that the Fund must be free from undue restriction or interference by members very obviously extends to the field of taxation. Moreover, even the levying of non-discriminatory taxes on the assets of the Fund by a particular member would confer on that member an advantage over other members.

The property, income, and operations of the Fund are, therefore, not to be taxed by any member. The provisions of the section do not, however, contemplate that taxes entering into the cost of goods or services utilized by the Fund would have to be remitted, since the possibility of improper burdens is insignificant compared with the administrative difficulties which would be involved. The Fund would not be exempt from taxes which are really charges for services, such as recording fees or water rates.

It is also essential that the officers and employees of the Fund working in a country other than that of which they are nationals should be free from taxation imposed by the country in which they work with respect to their compensation from the Fund. The salary of a citizen of the United States employed in Great Britain could not be taxed by the latter, but it would be subject to taxation by this country. The pertinent considerations are the same as those discussed under Section 8.

The obligations of an international public organization should not be subjected to discriminatory taxation. Neither should they be taxed by a member country merely because the organization has offices in the territory of that member or because the obligation is expressed in that member's currency. Such factors, depending solely on the circumstance that the Fund must necessarily operate in the territories of some member or members, are not a proper basis of taxation. Subsection (c) provides safeguards in this field while fully preserving the rights of members to levy ordinary taxes on obligations of the Fund held by its own nationals. It should be noted, however, that in practice the provisions of this subsection will apply infrequently since the only occasion of the Fund to incur obligations, other than contracts for supplies and other operating items, is in replenishing its supply of scarce currency under Article VII, Section 2 (p. 14).

ARTICLE IX, SECTION 10

Application of Article

In some countries the provisions of Article IX might automatically become operative upon acceptance of membership. Under the constitutions of other countries it might, however, be necessary or convenient to enact legislation for the effectuation of the Article. This section makes clear that countries of the latter sort which become members are obliged to adopt the appropriate legislation.

ARTICLE X

Relations with Other International Organizations

The Agreement relating to the Fund is one of the first documents intended to set up a permanent international organization which has been proposed for acceptance by the United and Associated Nations. Provision for cooperation by the Fund with other international bodies which the member nations may organize is clearly appropriate. Examples of proposed organizations which suggest themselves immediately are the International Bank for Reconstruction and Development and the general security organization which is currently under discussion.

To the extent that cooperation could be achieved within the framework of the Agreement, it might be carried out simply by act of the Fund. If, however, the desirable methods were not permissible under the Agreement, they could be put into effect only through an amendment adopted pursuant to Article XVII (p. 32). Thus, while the need for cooperation is definitely recognized, all countries may join the Fund with the assurance that its structure will not be changed by virtue of arrangements with other international agencies without the approval of the general body of members.

ARTICLE XI, SECTION 1

Undertakings regarding relations with non-member countries

Since at the outset membership in the Fund would be confined to the countries specified in Schedule A (p. 42), it is necessary to provide standards for relationships between members and non-members in the field covered by the Agreement. The purposes of the Agreement might otherwise be prejudiced through transactions with non-members or with persons in their territories.

The aims of Article VI (p. 12) relating to capital transfers might, for instance, be frustrated indirectly by transfers to non-member countries. Again, depreciation of the currency of a member in terms of the currency of a non-member, might result in de facto depreciation and undermine the provision for exchange stability which members have accepted as the policy of the Fund.

Subdivisions (i) and (ii) would definitely bind member countries and their fiscal agencies from acting with respect to non-members and their nationals in a manner contrary to the provisions of the Agreement or the purposes of the Fund. Under subdivision (iii), members would also be obliged to cooperate with the Fund with a view to preventing transactions by private persons in their territories that might be deleterious to the Fund. These requirements would have no direct application to countries, such as the United States, which have strong currencies and have consistently avoided practices not in accord with the Agreement.

ARTICLE XI, SECTION 2

Restrictions on transactions with non-member countries

Just as the interests of the Fund and its membership as a whole necessitate the provisions of Section 1 of this Article, so the protection of individual members requires that they be free to defend themselves through exchange restrictions against unfair practices by non-member countries. Section 2 makes it clear that members retain this power, but its exercise must not be prejudicial to interests of members or contrary to the purposes of the Fund.

If, for example, a non-member had blocked the proceeds of a member's exports, the member might in turn block the funds of the non-member and its nationals as a preliminary step toward bringing about some reasonable arrangement for settlement of mutual obligations, subject, of course, to the conditions mentioned above.

ARTICLE XII, SECTION 1

Structure of the Fund

Translated into terms familiar in American corporate organization:

(1) The Board of Governors is equivalent to stockholders. It will meet infrequently and will be responsible for some of the major decisions and for the selection of the Executive Directors.

(2) The Executive Directors are equivalent to a board of directors and will make the policy determinations necessary in the operation of the Fund. They will always be available when questions arise.

(3) The Managing Director is equivalent to a president or general manager, who will carry on the business of the Fund under the supervision of the Executive Directors.

(4) The staff is equivalent to general employees.

ARTICLE XII, SECTION 2

Board of Governors

All the powers conferred upon the Fund by the Articles of Agreement are vested in the Board of Governors. This is the governing body in which each member is represented. Governors are expected to express the views of their countries and, accordingly, they alone may exercise those powers with respect to which all countries will be likely to wish their views expressed. Subsection (g) authorizes the Board to adopt rules and regulations necessary or appropriate to conduct the business of the Fund. Through the exercise of this authority, the Board can lay down general rules to guide the action of the Executive Directors.

Since Governors represent the members, they will not be paid by the Fund but by the countries appointing them. They will serve at the pleasure of the countries appointing them and thus each member can be certain that its views will be presented to the Fund.

The Board is not required to meet more than once each year but any five members can require that the Board meet. Members having one-fourth of the votes may also insist upon a meeting. This means, for instance, that the United States alone can call a meeting.

ARTICLE XII, SECTION 3

Executive Directors

The Executive Directors will be responsible for the Fund's general operations. They will always be available for the business of the Fund so that decisions can be made at any time by a body of men selected by and representing the members. Each Director will be entitled to appoint an alternate who will have full power to act for the absent director. The alternate will be appointed by the Director so that he will be a man in whom the Director has full confidence and the two can work effectively together. The Board of Governors will determine what powers may be exercised by the Executive Directors but the pattern of the management provisions assumes that the Executive Directors will actually exercise all of the powers except those which are specified as being exercisable only by the Board of Governors.

Although Directors will be appointed and elected by the member countries, and will vote in accordance with the voting strength of the member countries, they would owe their primary duty to the Fund as a whole. Their salaries will be paid by the Fund and they will, in effect, be servants of the Fund.

The five countries with the largest quotas will always be entitled to appoint Executive Directors. Those countries are the United States, United Kingdom, the U.S.S.R., China, and France. In addition, there will be seven elected directors. Two directors will be elected by the American Republics, other than the United States, in a separate election. The other five will be elected by the remaining members in a separate election.

The appointment and election provisions are designed to make the Directors representative of all the members. Each Director appointed by one of the large countries will have the voting power of that country. The provisions governing the election of Directors are framed in such a way that it will be possible to determine accurately the countries responsible for the election of each of the Directors and each Director will have the voting power of the countries responsible for his election. Thus the total voting power of the Executive Directors will be exactly the same as the total voting power of the Governors, but instead of having 44 men cast the votes, they will be cast by 12 to 14 men. The election provisions appear in Schedule C and work as follows:

A. Election of two Directors by the American Republics:

The Governors representing the American Republics, other than those having appointive directors, would elect two directors by the method of proportional representation, each Governor casting all of the votes assigned to his country for one candidate who may or may not be a Governor.

B. Election of the other five directors:

The Governors representing countries that do not have appointive directors and are not American Republics would elect five directors by the method of proportional representation, each Governor casting all of the votes assigned to his country for one candidate who may or may not be a Governor.

A new group of Executive Directors will be appointed and elected every two years. It is possible that sometimes the number will be increased from 12 to either 13 or 14, in order that the two countries whose currency subscriptions have been in the greatest demand will be represented separately. Subsection (c) which makes this possible, works in this way:

(a) When the first body of Executive Directors is elected, this provision will not operate because all of the countries' currencies will be held by the Fund in the amounts in which their subscriptions were paid. At other times when new Executive Directors are elected, the two countries whose currencies have been used in the largest absolute amounts will be entitled to appoint Directors. This does not mean the countries whose currencies have been used in the largest amounts relative to their quotas, but those whose currencies have been used in the largest amounts in terms of gold or United States dollars. In determining the amount of each currency that has been used, the daily balances over the preceding two years will be averaged. If both of the countries so determined are included among the five largest countries, and thereby are entitled to appoint Directors, this additional provision will not operate. If one of such countries is among the five largest but the other is not, then the latter will be entitled to appoint a Director.

(b) Assume that in terms of United States dollars, the Fund has used the currencies of the following countries in the amounts shown below:

United States	$150,000,000
Canada	$100,000,000
Brazil	$ 50,000,000
Belgium	$ 30,000,000
Norway	$ 5,000,000

(c) In the example above the United States has an appointive director, but Canada does not, so that Canada would appoint a Director and the total number would be increased to thirteen. As a result, however, Canada would not be entitled to participate in the election of Directors. The Director appointed by Canada would have the voting power of the Canadian Governor and the total voting power of the elected directors would be reduced accordingly. Thus the voting power of the Executive Directors would be unchanged. It would merely be distributed among thirteen instead of twelve Directors.

This provision assures that the two countries whose currencies are in the greatest demand will always be represented and be able to state their views. In many cases they will be able to convince the other Directors that their point of view is correct in connection with matters of vital interest to them. Moreover, their Executive Directors can cast their votes without being influenced by the fact that they represent other countries as well.

Since provision is made for the possibility of admitting countries to membership which were not represented at the United Nations Monetary and Financial Conference, the Board of Governors is given authority to increase the number of Directors to be elected after such countries have been admitted. To exercise this power there must be a four-fifths vote in the Board of Governors. This means that the United States can prevent any increase in the number of Executive Directors.

Although each country will know who the Director is who represents it and casts its votes, it is possible that questions may arise in which a particular country that has not appointed a Director will want to have its own views made clear to the Executive Directors. To assure that its views are presented, regulations must be issued permitting it to send a representative to attend meetings at which there are considered requests made by it or matters particularly affecting it. Such a representative will be permitted to participate in the discussion but he will not participate in any votes that may be taken.

ARTICLE XII, SECTION 4

Managing Director and Staff

The Managing Director will conduct the transactions of the Fund and handle its normal day to day business. He will be responsible for the work of the staff of the Fund and will appoint and dismiss members of the staff. In all his work he will be subject to the supervision and control of the Executive Directors who will select him. He can not be either a Governor or an Executive Director so that there will be no danger of his expressing the point of view of one country, or one group of countries.

In addition to his operating duties, the Managing Director will be chairman of the Executive Directors. In this way he will be a definite link between the actual operation of the Fund and the body primarily responsible for managing the Fund. When decisions are made by the Executive Directors, the Managing Director will not be permitted to vote unless there is a tie vote, in which case he may decide the issue. The Managing Director may also participate in meetings of the Board of Governors but he may not vote at any such meeting.

The Managing Director and all other members of the staff are employees of the Fund and owe their duty entirely to the Fund. They are not to represent the interests of any country, and the members are required to refrain from attempting to influence them in the discharge of their functions.

The Managing Director is required to pay due regard to the geographical areas from which he selects a staff. However, his primary objective must be to secure men of the highest standards of efficiency and technical competence.

ARTICLE XII, SECTION 5

Voting

It was recognized in the Articles of Agreement that the Fund's operations would generally not be based on technical voting. A realistic position was taken, however, that cases will arise where votes will have to be counted. In devising a voting system, the provisions governing voting in international organizations were considered. In such organizations, the principle is to give each country one vote and this principle is not discarded. Each country which belongs to the Fund will have a basic vote equal to the basic vote of other countries. But in the case of the Fund, a further factor must be given proper weight -- the economic importance of the members as measured by their quotas. Accordingly, each member has additional votes in proportion to the size of its quota. In this way the political and economic significance of the countries are given effect in the voting that may have to take place.

Voting is closely related to the quotas but is not exactly equivalent to quotas. Some weight has been given to the political significance of membership by providing all members with 250 votes regardless of their quotas. There will be a total of 99,000 votes for the 44 countries represented at the conference, of which 11,000 or one-ninth will be divided equally among the countries and 88,000, or eight-ninths, will be divided in direct proportion to the relative size of the quotas -- one vote being given to each country for the equivalent of each 100,000 U.S. dollars of its quota. Thus, if all countries join the Fund, the United States, with a quota of $2,750,000,000, will have 27,750 votes, or about 28% of the total (the percentage would be greater if some countries did not join the Fund); the United Kingdom, with a quota of $1,300,000,000, will have 13,250 votes, or about 13% of the total; and the U.S.S.R., with a quota of $1,200,000,000, will have 12,250 votes, or about 12% of the total. The British Commonwealth will have 25,700 votes, or not quite 26% of the total, which is less than the voting power of the United States.

Except when a vote is taken under a section of the Articles of Agreement, which provides otherwise, all decisions of the Fund will be by a majority of the votes cast. A schedule of relative voting strength is attached which shows the votes of each country and its percentage of the total votes. The principle of majority rule governs votes taken by the Board of Governors and also votes taken by the Executive Directors. The minimum number of votes that can ever decide an issue is a majority of the

votes of a quorum. On the Board of Governors a quorum must consist of at least two-thirds of the total voting power, or at least 66,000 votes, so that the smallest majority possible in that body is slightly over 33,000. A quorum for the Executive Directors must be not less than one-half of the voting power, or 49,500 votes, so that the smallest possible majority in that body is 24,751 votes.

There are two situations in which a vote either of the Executive Directors or the Board of Governors may be particularly affected by the position of the member countries with respect to the Fund. They are: (1) votes taken on whether the conditions on which foreign exchange will be sold to a member should be waived; (2) votes taken on whether a member should be suspended from further use of the resources of the Fund because it has not been using them in a manner consistent with the purposes of the Fund. In these cases the relative position of countries with respect to use of the Fund's resources is recognized as increasing or decreasing their interest. Thus, the votes of countries whose currencies have been used are increased, and those of countries which have made net use of the Fund's resources are decreased. One vote will be added for the equivalent of each $400,000 of net sales of a country's currency and one vote will be subtracted for the equivalent of each $400,000 of a country's net purchases of the currencies of other countries. This means;

(1) Net sales of a country's currency include sales of currency subscribed and sales of currency obtained by the Fund in exchange for gold to the amount subscribed by that country, but do not include sales of currency acquired by the Fund in exchange for other gold, or sales of currency borrowed by the Fund. Sales of gold other than that subscribed by the particular member are excluded because the country gets full value for its currency when it receives the gold and does not involve any financial investment in the Fund. Similarly, borrowed currency is excluded because the terms under which the loan is made will give the country full compensation in the form of interest, etc.

(2) Net purchases by a country of the currencies of other countries means the additional holdings of the Fund of the currency of the purchasing member which were acquired by the Fund in return for the currency of other members. It does not include currency subscribed, currency acquired in exchange for gold, or currency borrowed by the Fund with the permission of the member. Purchases of a country's currency are to be measured net, so that if a country has made purchases of $100,000,000 but if other countries have purchased or it has itself repurchased $50,000,000 of its own currency with its monetary reserves, only the $50,000,000 increase in the holdings of the Fund will be considered net purchases.

(3) In no case can the net purchases or net sales be deemed to exceed the quota of the country. Accordingly, the maximum increase in the votes of a country will be 25% of the votes assigned to it on the basis of its quota, and the maximum reduction of a country's votes will be 25% of the votes assigned to it because of its quota.

(4) For example, assume that Country A has a quota of $800,000,000 and that it paid its quota $600,000,000 in currency and $200,000,000 in gold. When a vote to which this provision applies is about to take place, the Fund holds only $200,000,000 in A's currency. The Fund has not purchased currency from A for gold, nor has it borrowed A's currency. Under this provision Country A will be entitled to an additional vote for each $400,000 by which its original currency subscription has been reduced. In this case it would be an additional 1,000 votes. If the Fund had also used Country A's gold subscription of $200,000,000 to purchase A's currency, then Country A would get a further 500 votes, or a total of 1,500 additional votes.

Decreases in voting would work this way: Assume that Country B also has a quota of $800,000,000 and that it paid its quota the same way -- $600,000,000 in currency and $200,000,000 in gold. When the vote takes place, the Fund holds $1,000,000,000 of B's currency. The Fund has never acquired B's currency for gold or borrowed B's currency. Country B will lose one vote for each $400,000 of its currency held by the Fund in excess of $600,000,000, or 1,000 votes.

ARTICLE XII, SECTION 6

Distribution of net income

The Fund is not an institution designed to make profits. It will, however, derive income from charges on exchange transactions, handling charges on gold transactions, and deterrent charges against currency balances under Article V, Section 8(c). Out of these funds it will have to pay its administrative expenses and it is only the amount in excess of such expenses that will be available for distribution.

At different times the considerations involved in determining the amount of income to be kept in reserve and the amount to be distributed will vary. Accordingly, there is no fixed distribution of income and the Board of Governors can adjust the proportions to the situation existing at the end of each year.

Whenever the Board decides to distribute net income it must do so on the following principles:

1. A two percent payment to members on the amount of their currency used by the Fund during the year, provided the amount used has reduced the Fund's average holdings of their currency below 75 percent of their quotas.

2. Any further distribution will be divided among all member countries in proportion to their quotas.

3. Each country will be paid in its own currency.

The prior claim of two percent payment on currency used by the Fund is intended to compensate members for any costs they have incurred in financing the local currency subscription to the Fund where such subscriptions have actually been put to use. This provision applies only to the use of currency which has the effect of reducing the Fund's holdings of the currency below 75 percent of the quota. It should be noted that throughout the agreement it is assumed that the most appropriate division of the Fund's assets is in the form of 25 percent gold and 75 percent of each currency. Until the Fund's holdings of a currency fall below 75 percent of the quota, the Fund has not made use of the subscription of that country to an extent justifying compensation to the member.

Any further distribution of the Fund's net income in a given year would be divided among member countries in proportion to their quotas, reflecting the fact that all countries are in effect stockholders in the Fund.

ARTICLE XII, SECTION 7

Publication of reports

The Fund may publish any reports that it feels will be helpful in carrying out its purposes. It is required to publish two types of reports in order that its business will be conducted openly and all countries will have accurate knowledge of its operations and position.

(1) It must publish annually an audited statement of its accounts.

(2) It must publish a quarterly statement showing:

(a) Its total purchases and total sales of each currency.

(b) Its total purchases and total sales of gold.

(c) Its holdings of each currency.

(d) Its holdings of gold.

ARTICLE XII, SECTION 8

Communication of Views to Members

One of the important functions of the Fund will be to study economic trends which influence the balance of payments position of member countries and to assist member countries in preventing serious disequilibria from developing. Whenever the Fund believes that the course of action of a particular member is of concern to the other members or involves the rights or obligations of the particular member under the Fund agreement, it may communicate to such member a report setting forth its views with respect to the member's course of action. Such reports can be extremely useful in the sound development of an expanded world trade.

To implement the informal communication of its views, the Fund may publish reports which it has made to individual members. The publication of reports will influence popular opinion and in this way call attention to the need for broader policies which would be in harmony with the purposes of the Fund and in the interest of all countries. No conditions are imposed on the Fund's right to make informal reports, but the following conditions apply to publication of any reports made to members;

(1) Two-thirds of the total voting power must favor publication.

(2) The report must relate to monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members.

(3) If a member to whom the report was made is not entitled to appoint an Executive Director, it shall be entitled to send a representative to attend any meeting of the Executive Directors at which the publication of the report is to be discussed or voted upon.

(4) A published report may not involve changes in the fundamental structure of the economic organization of member countries.

ARTICLE XIII, SECTION 1

Location of Offices

The Fund's principal office will be located in the United States. Agencies or branch offices may be set up within any other country that is a member of the Fund.

ARTICLE XIII, SECTION 2

Depositories

The currency of each member will be held in a depository located in that country. If a member has a central bank, it must designate the central bank as the Fund's depository. If it does not have a central bank, then it must designate some other institution which will be the depository if it is acceptable to the Fund.

The Fund's gold will be held in the depositories designated by the five countries having the largest quotas, i.e., United States, United Kingdom, U.S.S.R., China and France. The Fund may also select other designated depositories to hold gold.

When the Fund is initially established, at least one-half of its gold will be held in a depository in the United States. An additional 40% of its gold will be held in the depositories in the United Kingdom, the U.S.S.R., China and France. The Fund may at any time transfer gold from one depository to another but in so doing it must pay due regard to the cost involved in shipping gold and the likelihood of its being needed in the place to which the Fund considers moving it. These considerations will not be involved if at any time an emergency arises which leads the Executive Directors to believe that the gold will not be safe in the place in which it is deposited. Under such circumstances the Executive Directors may transfer it to any place where it can be protected.

ARTICLE XIII, SECTION 3

Guarantee of the Fund's Assets

The depositories in which the Fund holds its assets, both currency and gold, will be central banks and possibly other private institutions in countries which do not have central banks. Accordingly, the Government of each member country guarantees the Fund against any loss which may result from any failure or default on the part of the depository which it has designated.

ARTICLE XIV, SECTION 1

Introduction

It was pointed out in the explanation of Article V, Section 3 that members can use the Fund's resources only for the purpose of making payments for current international transactions which are consistent with all the provisions of the Articles of Agreement. The Fund is not intended to meet emergency needs which will arise in the immediate post-war transitional period. It can not provide facilities for relief and reconstruction or deal with international indebtedness arising out of the war. Problems of this nature will be dealt with on a government to government basis or by other international organizations such as UNRRA and the International Bank for Reconstruction and Development.

ARTICLE XIV, SECTION 2

Exchange Restrictions

Although all countries represented at the conference desire to remove exchange restrictions and to develop post-war trade free from exchange controls, some of them have been so devastated by the war and by actual enemy occupation that they will be unable to take this step immediately upon the cessation of hostilities. They require time within which to restore their productive facilities and put their own houses in order.

This is recognized in the Agreement which permits the continuation of exchange controls during the period of post-war transition with the proviso that such restrictive measures will be withdrawn as soon as possible. Members electing to avail themselves of transitional arrangements provided for in Article XIV may, during the post-war transitional period, maintain and adapt to changing circumstances restrictions which they have imposed on payments for current international transactions. Countries which have been occupied by the enemy may, if necessary, introduce new exchange controls.

There are three important limitations on the right of members to continue exchange control:

(1) In their foreign exchange policies they must have continuous regard to the purposes of the Fund;

(2) They must, as soon as conditions permit, take all possible measures to develop commercial and financial arrangements with other members which will facilitate international payments and the maintenance of exchange stability;

(3) They must withdraw exchange restrictions as soon as they are satisfied that without such restrictions they can settle their balance of payments without unduly encumbering their access to the resources of the Fund.

This section provides those members who must make serious adjustments in the early post-war period an opportunity to do so and it also protects the resources of the Fund from excessive use by those countries which will have balance of payments difficulties as a result of devastation or enemy occupation.

ARTICLE XIV, SECTION 3

Notification to the Fund

In order to avail itself of the transitional arrangements a member must notify the Fund, before it becomes eligible to purchase exchange from the Fund, that it is not prepared to accept the obligations of Article VIII, Sections 2, 3 and 4. These obligations are:

(1) Not to impose restrictions on the making of payments or transfers for current international transactions.

(2) To avoid discriminatory currency arrangements and multiple currency practices; and

(3) To buy balances of its currency arising out of current transactions, and balances held by another member that needs to convert them in order to make payments for current transactions.

All other obligations set forth in the Articles of Agreement must be observed by member countries during the transitional period. Each member availing itself of the transitional arrangements must notify the Fund as soon as it is prepared to accept the obligations from which it is relieved during the transitional period.

ARTICLE XIV, SECTION 4

Action of the Fund Relating to Restrictions

Although the question of whether a particular country should avail itself of the transitional arrangements is a matter for that country to determine alone, the question of when the full obligations of membership should be assumed is the joint responsibility of the Fund and of the country.

At any time and not later than three years after the beginning of operations, the Fund must issue a report on restrictions maintained by members under the transitional arrangements. For each subsequent year the Fund must issue an additional report until all of the restrictions have been removed.

Five years after operations begin, each country still retaining restrictions under the transitional arrangements must consult with the Fund as to whether they should be retained any longer.

At any time the Fund may make a representation to a member that conditions are favorable for the withdrawal of a particular restriction or for the general abandonment of all restrictions that are still maintained under the transitional arrangements. After such a representation has been made, the member will have a suitable time within which to make a reply. If the Fund finds that the member persists in maintaining unnecessary restrictions, it may declare the member ineligible to use the resources of the Fund.

ARTICLE XIV, SECTION 5

Nature of Transitional Period

In its relations with member countries, the Fund will give recognition to the fact that the post-war transitional period will be one of change and adjustment, and in making decisions on requests occasioned by the need for such changes and adjustments, it will give the member the benefit of any reasonable doubt.

ARTICLE XV, SECTION 1

Right of members to withdraw

A member country has the right to withdraw from the Fund at any time. It need merely serve notice on the Fund and its withdrawal is immediately and completely effective. All of its obligations under the Articles of Agreement cease to be binding and it is free to act in exchange matters in any way that it sees fit. No breach of international law or good faith is involved in such action and the only duty that remains is to settle accounts with the Fund.

The right to withdraw is a fundamental principle of the entire concept of the International Monetary Fund. It is striking evidence that accepting membership in the Fund is a voluntary act which will bind countries only so long as they wish to be bound. The entire structure of the plan is based upon the premise that nations will agree to give up certain rights only if they are benefitted by what they receive as consideration for giving up the rights. Stated briefly, a country joining the Fund gives up its right to change the exchange value of its currency at will and the right to engage in discriminatory exchange practices. In return it receives benefits of two kinds -- first, those resulting from similar self-denial on the part of other nations and second, those derived from the ability to purchase foreign exchange from the Fund. No country would be willing to substitute cooperative measures to solve its exchange problems for competitive measures unless it knew that all, or nearly all, other countries would do likewise. In addition, a government that is acting in good faith will not enter into a commitment if it is in doubt about its ability to abide by its obligation. In the case of the Fund this problem is alleviated to a considerable extent by the provision that the Fund will sell foreign exchange to members in limited amounts and under adequate safeguards in time of need. The availability of this help in meeting an adverse balance of payments will make it possible for countries to maintain exchange stability without resort to extreme measures destructive of national or international prosperity. In order, however, that all governments may feel free to undertake the duties attached to membership, they are given a free right to withdraw completely at any time.

The right to withdraw is important from the point of view of all countries. An international institution of this type is a new type of cooperative device and all nations want to proceed cautiously. But this right is particularly important to the United States. The willingness of America to participate extensively in international affairs and accept fully its international responsibilities is a relatively recent development. We must test the ground to see if it is firm and not cut off our ability to retreat. Moreover, our financial stake in this enterprise is the greatest. If, in spite of all the safeguards provided elsewhere in

the Articles of Agreement, we should decide at some future date that the best interests of the United States are not furthered by membership in the Fund, we would want to cut their ties with it. We will always have the right to do this and to do it without in any way violating any legal or moral obligation to the Fund or to the other member countries.

Although the right to withdraw is absolute, there are a number of factors which will induce countries to remain members of the Fund. Withdrawal will mean that they can no longer look to the Fund for assistance during periods of exchange difficulty and that they cannot be certain that the other members will not resort to discriminatory currency practices with respect to trade with them. Moreover, a country that withdraws from the Fund will automatically cease to be a member of the International Bank for Reconstruction and Development unless, within three months, members of the Bank having three-fourths of the voting power agreed to allow it to remain a member. This would cause it to lose the Bank's assistance in obtaining long-term foreign exchange loans.

ARTICLE XV, SECTION 2

Compulsory withdrawal

Since the Fund will be composed of many countries it must have power to protect its resources for the benefit of all members. If one country fails to live up to its obligations, the Fund has the right to declare it ineligible to use the resources of the Fund. The power conferred upon the Fund by this section is extensive. It can be exercised when a country violates any provision of the Agreement, but before the Fund acts the country involved must be informed of the nature of the alleged violation and given an opportunity to explain its behavior through a representative or in writing.

Similar power is conferred by Article IV, Section 6, in connection with changes in the par value of a member's currency in spite of the Fund's objection, but in that case the member automatically becomes ineligible to draw further on the resources of the Fund. The procedure is reversed because the violation is extremely serious and there is no debatable question of fact present. A change in the par value of a currency is easily ascertainable and it is impossible to imagine a case in which there would be any dispute as to whether or not a change had been made. Consequently, the member involved does not need the protection of a hearing in advance. It will have had an opportunity to argue its case at the time it proposed the change.

There is also a specific provision of this type in Article V, Section 5, which applies to cases where a country uses the Fund's resources improperly. If the Fund believes that a country is not observing the purposes of the Fund in purchasing foreign exchange, it is essential that immediate action be taken in order to protect the other countries. In this situation, however, there may be room for disagreement as to whether the charges are well founded and the member in question must also be protected. Article V, Section 5, meets both needs. The Fund can limit the country's use of its resources immediately, but must present a report and give the country time to reply before it is declared ineligible.

The problem of a country using the Fund's resources to finance a flight of capital is also treated separately in Article VI, Section 1. In such a case the appropriate action of the Fund is not to cut off the country's access to the resources immediately or to become involved in a dispute which may lead to a continued flight financed through the Fund, but to request the members involved to take appropriate action to correct the situation. This is the simplest and most effective approach because if there has been such a flight it will be stopped and if there has not, then the measures adopted by the member will not have caused any serious

difficulties. The country can, in most cases, prevent capital flights with simple administrative machinery.

When a country persists in the violation of an obligation, it can be required to withdraw. This penalty can be imposed irrespective of whether the country has previously been declared ineligible to use the resources of the Fund. In view of the serious nature of the sanction, however, it may be used only when a country has given proof that it consciously and purposely violated the Agreement. The sanction may be applied for any violation and will be a particularly effective power for the Fund to have if it objects to a proposed change in the par value of a member and the member makes the change in spite of the objection. This is the reason for the reference to Article IV, Section 6.

A further protection of the rights of members is provided by the requirement that withdrawal can be compelled only if the decision is made by a majority of the countries having a majority of the votes. In other words, there is added to the normal voting majority necessary, a majority of the member countries. There is a political problem of considerable magnitude involved in ejecting a member and with respect to this aspect of the clause all countries should have an equal voice.

ARTICLE XV, SECTION 3

Settlement of accounts with members withdrawing

Although withdrawal takes effect immediately, a withdrawing member remains obligated to settle its accounts with the Fund. The Fund will cease engaging in transactions in the currency of a member that has withdrawn, except those transactions necessary to settle accounts.

To facilitate a prompt settlement suitable to the Fund and the withdrawing country, it is provided that all accounts shall be settled with reasonable dispatch by agreement between them. If an agreement is not reached promptly, the provisions of Schedule D become the basis of settlement. Paragraphs 1, 2 and 3 of Schedule D will govern settlement of accounts with a country whose currency is held by the Fund in an amount insufficient to pay the balance due to the country. Paragraphs 4, 5 and 6 will govern the settlement if the Fund holds its currency in an amount in excess of that needed to pay the balance due to the country.

Paragraph 7 relates to both situations and provides that if the Fund goes into liquidation within six months of a country's withdrawal, accounts will be settled in accordance with the provisions governing liquidation - Article XVI, Section 2 and Schedule E. This provision is designed to take care of the problem that might be created if one or more of the larger countries withdraw. Settling balances with them might put such a strain on the Fund that liquidation would be necessary, and to assure all countries fair treatment, the provisions governing liquidation would apply to the withdrawing member and other members.

The principal objective of paragraphs one through six is to settle accounts in such a way that severe strains on the resources of the Fund and the withdrawing country can be avoided.

If the Fund owes to the withdrawing country a larger amount than the currency of that country held by the Fund, the resources of the Fund might be overtaxed if immediate payment were required. If payment can be spread over a period of years, the Fund will be able to meet its obligation without seriously impairing its continued functioning. On the other hand, if the Fund holds more of a withdrawing country's currency than is necessary to settle accounts, it can be adequately protected only if excess holdings are taken off its hands in such a way that it obtains the full value of the currency. A withdrawing country may not, however, be in a position to redeem this currency in gold immediately upon withdrawal and accordingly paragraphs 4, 5 and 6 provide for the redemption of the currency over a reasonable period of time.

The following is an explanation of the procedures specified in paragraphs 1 through 6:

(1) The Fund's obligations to a withdrawing country consist of the full amount of its quota plus any currency borrowed by the Fund from that country. This the Fund must repay but it will deduct any amount due to it for charges, currency due as a result of a change in par value, etc.

(2) If a net balance is due from the Fund to the country, it must be paid in the country's currency, and if the currency is not sufficient, the remainder must be paid in gold or in a manner to be agreed between the country and the Fund. If agreement on this point is not reached within six months, the currency which the Fund does hold will be paid immediately and the remaining amount will be paid in equal half-yearly installments over the next five years. Installments will be paid in the currency of the withdrawing country, or if the Fund is unable to pay in that currency, then it will pay in gold.

(3) If the Fund fails to make any payment on the date it is due, the country entitled to payment may insist that the Fund pay it the amount due in any currency held by the Fund. The only exception is that such a country may not demand a currency which has been declared scarce (this could not be the currency of the withdrawing country) under Article VII, Section 3.

(4) When the Fund holds an excess of the currency of a withdrawing country and agreement on the method of settling accounts is not reached within six months, the withdrawing country will be obligated to redeem the excess currency in gold on the basis of the par value for its currency on the date of withdrawal. The country may at its option redeem the excess in the currencies of members whose currencies at the time of redemption are convertible in accordance with the provisions of Article VIII, Section 4. The same time is given to the withdrawing country to redeem its currency as is given to the Fund to pay a deficiency. Redemption will be made in ten equal installments over a five-year period. When, however, the Fund acquires additional currency over a half-yearly period, the amount acquired must also be redeemed at the end of the half-yearly period. In the event that the country fails to meet this obligation, the Fund is authorized to dispose of the excess currency which should have been redeemed. It can dispose of the currency in any market but it must do so in an orderly manner so that serious injury to the exchange value of the currency will be avoided.

(5) A country may withdraw at a time when the Fund's holdings of its currency exceed its quota. Thereafter, member countries may need that currency in order to meet an adverse balance of payments. If they do, they must purchase such currency from the holdings of the Fund which are in excess of the amount due to the withdrawing country. This does not, however, give the purchasing country any additional right to use the resources of the Fund.

(6) If the Fund sells excess currency holdings because the withdrawing country failed to redeem it or if the Fund sells such holdings because another member country needed the currency, two protective devices are needed and paragraph 6 supplies both of them. First, it is necessary to assure the purchaser of the currency against the possibility of the currency being blocked or otherwise restricted. Accordingly, each country agrees when it accepts membership that if it withdraws, excess balances of its currency held by the Fund will be free at all times for the purchase of goods or for the payment of debts due to that country or persons within its territory. A second need is to compensate the Fund for a loss which it might suffer in selling such excess balances if it falls below the par value in effect on the date of withdrawal. To meet this a withdrawing country is obligated to compensate the Fund for any such loss.

ARTICLE XVI, SECTION 1

Temporary Suspension

No one can foresee in advance every possible contingency that may arise in the work of the Fund. Thus it would be shortsighted to establish complex and detailed operating provisions without taking into account the possibility, however remote, of circumstances arising which may require modifications of one type or another.

Modifications of the Articles of Agreement require the approval of the Congress of the United States. There must, however, be a measure of flexibility in the document in order that sudden shifts of conditions affecting the work of the Fund will not cause crises so severe as to drastically restrict its usefulness or cause it to disintegrate. This section, which authorizes the temporary suspension of certain portions of the Agreement, meets both needs.

The operation of the sections discussed below may be suspended by the Executive Directors but only if they vote unanimously for suspension and only if they immediately call a meeting of the Board of Governors to consider the problem. Suspension of a provision by the Executive Directors may continue for only four months. If within that period the Board of Governors has not taken any action, the provision will automatically become effective again. The Board may, however, extend the suspension for an additional eight months. To do this requires a four-fifths majority vote in the Board of Governors so that the United States alone could prevent an extension of the suspension as well as action to suspend on the part of the Executive Directors. At any time after a provision has been suspended, the Executive Directors by a simple majority of the total voting power can reinstate it.

This provision thus gives the Fund a limited amount of flexibility for its own protection but does not permit changes in the Articles of Agreement without the approval of governments, which in our case means approval by Congress.

The following is a list of sections which may be suspended, together with an explanation for the inclusion of each such section:

(1) Article IV, Section 3, provides maximum and minimum rates for exchange transactions between the currencies of member countries. Although on the basis of present knowledge the maximum and minimum rates appear to be adequate, it is possible that at some time they may prove to be too restrictive. If such a development should take place, the operation of exchange markets would be seriously affected.

(2) Article IV, Section 4(b), obligates each member to permit within its territory exchange transactions involving its currency and currencies of other members only at rates within the limits prescribed by the section discussed immediately above. If the section already discussed should have to be suspended because the limits proved inadequate, then this section too would have to be suspended.

(3) Article V, Section 2, limits the operations of the Fund to transactions for the purpose of supplying a member with the currency of another member for gold or its own currency. This is the section which prescribes the passive character of the Fund and its suspension would permit other sections to be construed without reference to the passivity of the organization.

(4) Article V, Section 3, sets forth the conditions upon which a member may purchase currencies of other members from the Fund. If this section were suspended, no member would have the right to purchase exchange from the Fund. This might be an important power for the Fund to have during a period of political upheaval.

(5) Article V, Section 7, authorizes members to repurchase their own currencies from the Fund for gold, and which specifies the manner in which members are required to repurchase their currencies in order to maintain the liquidity of the Fund's assets. If a situation arose in which the Fund felt that its best interests would be served by suspending sales of foreign exchange, it would in all probability be appropriate for the Fund to suspend also the repurchase provisions. In this way it would not be engaging in any exchange transactions at all.

(6) Article V, Section 8(a), fixes a service charge to be paid by all members when purchasing exchange from the Fund. The rates prescribed may at some future date prove too large or too small in spite of the fact that they are quite reasonable at present.

(7) Article V, Section 8(f), requires that charges be paid in gold. It may be necessary in an emergency to permit charges to be paid in local currency.

(8) Article VI, Section 2, permits countries whose currencies are held by the Fund in small amounts to use the Fund's resources for capital transfers. It would be necessary to suspend this section also if other exchange transactions of the Fund were suspended as described in (4) and (5) above.

(9) Article XI, Section 1, specifies the obligations of members in their dealings with non-members. The problems that may arise in connection with the financial relations of members and non-members can not be fully predicted. The difficulties that may be encountered will depend to a large extent upon the behavior of the non-members and their attitude toward the Fund. Accordingly, it may become necessary in an emergency to modify the prescribed obligations of members in respect to non-members.

ARTICLE XVI, SECTION 2

Liquidation of the Fund

If in an emergency the Executive Directors should conclude that liquidation of the Fund is a necessity, they could temporarily suspend all transactions of the Fund and refer the matter to the Board of Governors. Only the Board of Governors, however, can vote to liquidate the Fund.

If the Board should decide to liquidate, the Fund would immediately terminate all activities except those necessary to realize its assets and settle its liabilities. All the obligations of members would terminate at once except those directly involved in the collection and distribution of assets. These obligations appear in this section; in Schedule D, which provides that a withdrawing country's accounts will be settled in accordance with the liquidation provisions if the Fund is liquidated within six months of its withdrawal; in Schedule E which sets forth the manner in which liquidation is to be administered; and in Article XVIII, paragraph (c), which sets forth a method of arbitration in the event that disputes arise during liquidation.

The manner of liquidating assets appears in Schedule E and is based upon the following principles:

(1) The first duty of the Fund will be to pay off its obligations, including loans, before returning their subscriptions to members.

(2) The remaining assets should be distributed in such a way that each country's part of the distributed assets would be in proportion to its quota.

(3) No country should receive the currency of another country if its currency has been distributed to the second country. When currencies are allocated, the United States will be allocated some sterling and the United Kingdom will be allocated some dollars. The currencies could be actually distributed this way with an obligation on each country to redeem its currency held by the other. It is simpler, however, for the Fund to carry out as much of the redeeming as possible before distribution.

(4) If a country does receive the currency of another country, the issuing country should be required to redeem the currency or make it available for the purchase of goods and the payment of debts.

In paying off a liability, other than the return of subscriptions, the Fund will use the currency in which the obligation is payable. If it does not have enough of the currency, it will pay in gold. If the gold is insufficient, it will use other currencies in proportion to the quotas of the members but the proportions may be varied if equable use proves impracticable.

In returning subscriptions the Fund will apportion all its assets as provided in paragraph 2 of Schedule E:

(a) Gold will be allocated only to those countries whose currencies are held by the Fund in amounts less than their quotas. Each will receive gold in proportion to the amount by which its quota exceeds the Fund's holdings of its currency. For example, Country A and Country B each have quotas of $100,000,000. The Fund holds $50,000,000 of A's currency and $75,000,000 of B's currency. There is $9,000,000 of gold to distribute to both countries. A will get $6,000,000 and B will get $3,000,000.

(b) The Fund will then allocate to each member one-half of the currency of the member held by the Fund. If the amount so allocated would exceed 50% of the member's quota, only 50% of its quota will be allocated. For example, the Fund holds $80,000,000 in Australian pounds and Australia's quota is $200,000,000 - Australia will be allocated $40,000,000 in Australian pounds. If the Fund held $400,000,000 in its currency, Australia would be allocated only $100,000,000 in Australian pounds.

This method results in countries receiving varying proportions of their own currencies, but it is designed to meet a specific problem. Dividing all currencies on the basis of each country taking its own and getting a share of the excess balances of those held in largest amount relative to quotas, assumes that the strength of a currency can be determined by seeing how much the Fund's holdings are above or below the quota of the country. This will not necessarily be true although it will in many cases be a good indicator. Some strong currencies, however, may be held by the Fund in rather large amounts, and all countries that cannot be paid in fullin their own currencies should share in those which are strong even though held in large amounts. For example, assume that the Fund holds dollars equal to 30% of the U.S. quota, cruzieros equal to 60% of Brazil's quota, and sterling equal to 150% of the United Kingdom quota, and other currencies in amounts in excess of the countries' quotas. Sterling may be a

stronger currency than many of those held by the Fund in relatively smaller amounts. Whatever risk there may be in liquidating any currencies should be borne by all countries, including those whose currencies are held in amounts in excess of their quotas. In the example given, the United Kingdom will assume its share of the risk along with the United States. Under the liquidation plan, some of the dollars will be distributed to other countries but the last step - exchange of currencies - will result in all dollars being paid to the U.S.

(c) The remaining balance of each currency will be allocated to all of the countries in proportion to the amounts still due them.

After apportioning the assets, the Fund will exchange the currencies allocated to the various countries. For example, the U.S. will get a number of other currencies and dollars will be allocated to other countries. Foreign currencies in the U.S. allocation will be exchanged for dollars in the allocations to foreign countries to the extent that this is possible.

Remaining balances of foreign currencies distributed to one country must be redeemed by the countries whose currencies they are. Within three months after a decision to liquidate all countries must agree with the Fund on a redemption plan. If they do not reach agreement, the countries who receive their currencies will have rights similar to those the Fund has when a country withdraws while the Fund holds its currency in an amount in excess of its quota, i.e., the country that issued the currency is obligated to redeem it over a five-year period in gold or the currency of the country holding, and if it fails to redeem on time, the holder can liquidate it in an orderly manner. Moreover, the issuing country guarantees that such currency will be free at any time for the purchace of goods or the payment of debts in its territory, and guarantees the holder against exchange losses.

ARTICLE XVII

Amendments

Article XVII provides in essence that the adoption of amendments to the Agreement shall be effected through their acceptance by three-fifths of the members having four-fifths of the total voting power. An amendment so adopted is binding on all members, subject to their right of withdrawal from the Fund under Article XV, Section 1 (p. 30). These provisions represent a balancing of several factors which would affect the Fund.

Reasonable freedom of amendment is highly desirable regarding a new organization which is to operate in a complex field. While it would therefore be unwise to require unanimous approval on most questions that might arise, the members of the organization should be assured that amendments will not be adopted without the considered approval of a substantial majority.

The voting provisions are further intended to strike a proper balance between the position of the smaller members as sovereign states and the interests of the larger members with respect to their investment in the Fund. If the vote were conducted solely on the basis of the total voting power determined under Article XII, Section 5 (p. 26), great weight would be given to the members with large quotas, since size of quota is a major element under that section. The three countries with the largest quotas, established in Schedule A (p. 42), i.e., the United States, the United Kingdom, and the Union of Soviet Socialist Republics, could rewrite the document by themselves. The dual nature of the vote actually required in the amending process strikes a more even balance, for neither a few large members alone nor a general coalition of smaller members could cause adoption of an amendment. In this respect it will be noted, however, that at the outset no amendment could be adopted without the concurrence of the United States, which would hold more than one-fifth of the total voting power.

Special protection is given to the basic rights of members by subdivision (b) of the Article, which provides that modification of these rights may be brought about only if an amendment is accepted by all members. The first right so protected is that of withdrawing from membership at any time under Article XV, Section 1 (p. 30), which is not only of general importance but which itself provides the ultimate safeguard that no imposition would be visited on any member under the provision that amendments receiving the specified vote are binding on all members. Next is the provision of Article III, Section 2 (p. 2) that no change in a member's quota shall be made without its consent, which is fundamental since size of quota would determine the extent to which a member must subscribe to the Fund and may use the Fund, as well as its voting power and relative importance in the organization. Finally, there is the provision of Article IV, Section 5(b) (p.5) that no change may be made in the par value of a member's currency except on the proposal of that member. This right is obviously of great significance, for changes in par value might affect not only international transactions but also the whole economy of a member.

ARTICLE XVIII

Interpretation

The cardinal principle of Article XVIII is that all questions relating to the interpretation of the Agreement involving members should be settled within the framework of the Fund itself. Reference to an outside agency would be highly impractical because of the technical field in which the Fund would operate and the frequent need of prompt decision. It would be entirely inconsistent with sound operation of the Fund if, for instance, a question under Article V, Section 5 (p. 9), concerning the propriety of a member's use of the Fund's resources were to be referred to another agency for decision.

At present, no generally accepted outside agency exists, but even if one did, it could hardly represent all parties at interest as fairly and with as much understanding as the Fund.

Since the Executive Directors of the Fund would be in continuous session while the Board of Governors would sit infrequently, the Article provides that all questions be submitted in the first instance to the Directors. Any member may, however, require that the decision of the Directors be referred to the Board, that is, in effect, to the entire membership. For the protection of the Fund, pending determination by the Board, the Fund may act on the basis of the decision by the Directors.

Entirely different considerations apply with respect to countries whose membership has ceased. A country which has signified its dissatisfaction with the Fund should not be required to submit to the Fund's decision. Furthermore, questions between a former member and the Fund would not be so urgent as those during membership since they would relate solely to the final settlement of accounts. Provision is therefore made that disagreements arising in such cases should be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member concerned, and an impartial umpire. The umpire would have full power to settle all questions of procedure in case of disagreement.

ARTICLE XX, SECTION 1

Entry into force

The earliest date on which the Articles of Agreement can become binding is May 1, 1945. If by May 1, 1945 countries having 65% of the quotas ($5,720,000,000) have signed it and given evidence that they have accepted it in accordance with their laws and have taken all steps necessary to carry out its provisions, the Agreement will become effective. The U.S., U.K., U.S.S.R. and China could start the Fund because they have more than 65% of the quotas. If the U.S. and any one of the other three largest countries, or a group of the smaller countries, fail to sign, the Agreement cannot come into force.

ARTICLE XX, SECTION 2

Signature

(a) Governments accepting the Agreement must sign and also deposit evidence that the Agreement is accepted in accordance with their laws and all steps necessary to carry it out have been taken.

(b) When the Agreement comes into force all members that have signed and deposited proper evidence will become members. Other governments signing and making the deposits later will become members at the time the deposits are made.

(c) The U.S. will keep the other governments informed of the status of the Articles of Agreement.

(d) In order that the Fund may meet its initial expenses, each government that signs will send to the U.S. 1/100 of 1% of its subscription in gold or dollars. For the U.S. this amounts to $275,000 and for all the countries it amounts to $880,000. If the Agreement does not come into effect by December 31, 1945, the U.S. must return the funds transmitted.

(e) The countries represented at the United Nations Monetary and Financial Conference may sign at any time before December 31, 1945. If by that date the number that have signed is not sufficient to bring the Agreement into force, it will lapse. If, however, it has come into force, those who have not signed can only join the Fund in accordance with the provisions relating to the admission of new members.

(f) Members admitted subsequently by the Fund will sign when they are admitted.

(g) All governments signing accept the agreement on their own behalf and in behalf of areas they govern. For the U.S. this means Alaska, Hawaii, Puerto Rico, Guam, etc. For the United Kingdom this means Malaya, British Guiana, etc.

(h) Countries occupied by the enemy may not wish to decide whether to join the Fund until they have been liberated. Accordingly, such countries may deposit the evidence required at any time within six months after their metropolitan territories are liberated.

(i) The privilege granted to occupied countries under the preceding paragraph will become effective when they sign the Agreement. If the deposit is not made in time, the signature becomes void. The obligation to make a small payment under (d) also becomes binding at the time of signature.

ARTICLE XX, SECTION 3

Inauguration of the Fund

When the Agreement comes into force the U.S. will call the first meeting of the Board of Governors. The purpose of the initial meeting is to organize the administration of the Fund and begin the work that must precede the commencement of operations. Preparations must be made for the hiring of a suitable staff, for working out operating details, for opening accounts with depositories, etc.

The problems that will have to be considered are appropriate for consideration of the Executive Directors. However, until December 31, 1945 the full list of original members will not be known and it is essential that the right to appoint directors or participate in the election of directors be preserved until that date. Thus, provisional directors will be appointed and elected with a new body of directors to be selected as soon as possible after December 31, 1945. The provisional directors will act with full powers until the first regular election is held.

ARTICLE XX, SECTION 4

Initial determination of par values

(a) No effort will be made to determine par values until the Fund is ready to begin exchange transactions. The problems involved will be studied prior to that time but rates will not be communicated to the Fund. When this time arrives the Fund will call for each country that is not occupied by the enemy to communicate the par value of its currency based on rates of exchange existing on the 60th day before the Agreement came into force.

(b) The communicated value will be the par value unless within 90 days the member or the Fund objects. If either objects the Fund will fix a time within which the country must agree with the Fund on its par value. If agreement is not reached, the country will be deemed to have withdrawn. Although the country involved has the responsibility of determining its own par value and, therefore, has the right to object to the par value communicated, it is essential that the Fund also be free to accept or reject it. If the Fund believes that the par value communicated by a member cannot be maintained without making use of the Fund's resources to such an extent that the Fund and other members will be injured, then the Fund must notify the member of its opinion and the par value will be a matter for agreement between the country and the Fund. Ultimately, they must find a par value which, in the opinion of the Fund, can be maintained by the country without heavy support out of the Fund's resources.

(c) After the par value of a member's currency has been determined, it can purchase currencies of other members in accordance with the prescribed provisions, provided that the Fund has begun exchange transactions. (Paragraph (h) requires that par values be determined for members having 65% of the quotas before transactions can begin.)

(d) Countries occupied by the enemy at the time the Fund calls for the communication of rates will be given additional time. Since the ninety-day period allowed other countries may not be sufficient, each such country will agree with the Fund on the period during which either the Fund or the country may object to the par value. During this period the Fund and the country may agree on any necessary change in the par value of its currency. There will not, therefore, be any pressure on an occupied country to fix a definite par value before this can be done with reasonable assurance that it is a proper one. In order to assist the country in maintaining a balance in its international accounts during this period, the Fund will sell foreign exchange to the country in amounts limited to what it considers appropriate and can impose any conditions it sees fit to protect its resources.

(e) Some occupied countries may adopt new currency units. If they do they must inform the Fund and must communicate par values for such units. The par value will be determined in the same manner as if they had not adopted new units.

(f) If an occupied country and the Fund agree upon changes in the par value as provided in (d) above, such changes will not be considered in determining whether subsequent changes can be made without concurrence of the Fund under Article IV, Section 5(c). This is a special provision for occupied countries whose par values will be difficult to determine and may need adjustment during the first few months of operations.

(g) A country that governs areas having separate currencies may, if it wishes, treat the par values of such currencies separately. If it does not do so the Fund will regard all of the subordinate currencies as included in the communication on the principal currency.

(h) The Fund cannot begin exchange transactions until major hostilities in Europe have ceased. There must be par values established, however, for countries having 65% of the quotas. The Fund is not required to start transactions when these two conditions exist, but only at such time thereafter as it sees fit to do so.

(i) Even when the Fund does begin transactions, it need not conduct them with respect to all currencies for which par values have been determined. It may postpone them with those countries which it believes are not prepared to use the resources of the Fund without prejudice to the interests of the Fund or the members.

(j) The Fund will establish procedures for the determination of par values for the currencies of countries it subsequently admits to membership.