

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/84/108

CONFIDENTIAL

May 9, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Eastern Caribbean Central Bank - Application to Become a
Holder of SDRs

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Thursday, May 17, 1984. In the absence of such a request, the draft decision will be deemed approved by the Executive Board on that date by votes of all Executive Directors, to take effect on that date. The decision will be recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Eastern Caribbean Central Bank: Application
to Become a Holder of SDRs

Prepared by the Treasurer's and Legal Departments

Approved by W. O. Habermeier and G. P. Nicoletopoulos

May 9, 1984

The Fund has received an application from the Eastern Caribbean Central Bank to be prescribed as a holder of SDRs, under Article XVII, Section 3(i) of the Articles of Agreement. The Bank is the successor to the East Caribbean Currency Authority, which went out of existence effective October 1, 1983 and which was itself a prescribed holder. The relationship between the Bank and the Authority, and the circumstances leading up to the present application, are explained below.

The East Caribbean Currency Authority was established in 1965, pursuant to the East Caribbean Currency Agreement, as a successor to the former British Caribbean Currency Board. The primary responsibilities of the Authority were to issue and manage the common currency of its member territories--the East Caribbean dollar--and to promote monetary stability among them. In April 1980 the Authority applied to the Fund for prescription as a holder of SDRs pursuant to Article XVII, Section 3(i) of the Fund's Articles of Agreement, and was prescribed as a holder on April 18, 1980. ^{1/} Thereafter, the Authority entered into several operations and transactions in SDRs, and as of the end of September 1983 held a credit balance with the SDR Department of SDR 700,000.

The members of the Authority were Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Christopher and Nevis, St. Lucia, and St. Vincent and the Grenadines. Last year the seven governments decided to replace the Authority with a new institution with full central banking powers, which would be better equipped to cope with the increasingly complex economic environment. With this objective, on July 5, 1983 they concluded an Agreement establishing the Eastern Caribbean Central Bank, as from the effective date of the Agreement, as a new international organization with broader functions and powers than those of the Authority. The Agreement provides that on the establishment of the Bank, the East Caribbean Currency Agreement "shall cease and terminate", and the East Caribbean Currency Authority "shall be deemed to cease to exist." It further provides that, on the date of establishment of the bank,

^{1/} See EBS/80/88, "East Caribbean Currency Authority--Application to Become a Holder of SDRs", dated April 15, 1980.

"all the assets and liabilities of the Authority, together with all its rights and obligations that are not inconsistent with the provisions of this Agreement, shall be deemed to have been transferred to and to vest in the Bank."

The Agreement of July 5, 1983 became effective on October 1, 1983. On that date the East Caribbean Currency Authority became defunct, and the Eastern Caribbean Central Bank was established as its successor organization.

The intention of the seven participating governments, as stated in the provision of the 1983 Agreement quoted above, is that upon its establishment the Bank should acquire all the assets formerly held by the Authority. These assets include the Authority's SDR holdings. However, under the Articles of Agreement of the Fund, an official entity that is not a participant can hold SDRs only if it has been duly prescribed as a holder by a decision of the Fund under Article XVII, Section 3(i). In view of this, the staff has advised the Bank that if it wishes to acquire legal title to the SDR holdings of the Authority, and more generally to acquire the rights to hold and use SDRs formerly enjoyed by the Authority, it should apply for prescription as an SDR holder in its own right.

The Bank has now formally applied to the Fund for prescription as an SDR holder, with effect from the date the Authority ceased to exist. In its application, the Bank undertakes to adhere to the terms and conditions prescribed by the Fund for the acceptance, holding and use of SDRs, and to consult with the Fund and collaborate with the Fund, participants and other holders as necessary in order to facilitate the effective functioning of the SDR Department and the proper use of SDRs. A copy of the application is attached. Also attached is a description of the major features of the Bank, to the extent these differ from those of the Authority.

The Bank is an official entity within the meaning of Article XVII, Section 3(i). Its prescription as a holder would be consistent with the Articles of Agreement, and in the view of the staff, would contribute to the development of the SDR system and the effective functioning of the SDR Department. The fact that the Bank has been established to serve as successor to the East Caribbean Currency Authority, which was itself a prescribed holder, and that the Bank not only performs all the functions of its predecessor but also exercises broader powers as a central bank, gives another reason to accord the Bank the same status as its predecessor.

A decision prescribing the Bank as a holder--i.e., an entity that can validly acquire, hold and use SDRs--will make it possible for the Fund, as registrar of the SDR system, to recognize and give effect to the provision of the international agreement establishing the Bank under which all the assets of the former Authority, including its SDRs, vest in the Bank. This would be done by a simple decision directing

that the records of the SDR Department show that the Bank became the owner of all SDRs held by the Authority on October 1, 1983. Since then, further SDRs have accrued by way of interest on the holdings in question, and it is proposed to treat these as having accrued to the credit of the Bank.

Recommended Decision

The following draft decision, on a matter pertaining exclusively to the SDR Department, is proposed for adoption by the Executive Board. The first paragraph of the decision constitutes a prescription under Article XVII, Section 3(1), and requires an 85 percent majority of the voting power of participants in the SDR Department. No special majority is required for the second and third paragraphs.

(DRAFT) Decision Prescribing the
Eastern Caribbean Central Bank as a Holder of SDRs

1. Prescription as a Holder

With effect from October 1, 1983, the Eastern Caribbean Central Bank ("the Bank") is prescribed in place of the East Caribbean Currency Authority ("the Authority") as a holder of SDRs in accordance with Article XVII, Section 3(i) of the Articles of Agreement.

2. Change of Ownership of SDRs
Held by the Authority

The records of the SDR Department shall indicate that as of October 1, 1983, the Bank acquired title to all SDRs held by the Authority.

3. Terms and Conditions for Acceptance,
Holding and Use of SDRs

The Bank is authorized to accept, hold and use SDRs in transactions and operations in accordance with and on the terms and conditions specified in the Decision "Terms and Conditions for the Acceptance, Holding, and Use of SDRs by Other Holders Prescribed Under Article XVII, Section 3" (Decision No. 6467-(80/71)S, adopted April 14, 1980), as amended from time to time.

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Eastern Caribbean Central Bank

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LEG
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WHD
MR. S. COLLINS

10th April, 1984

The Secretary,
International Monetary Fund,
Washington, D.C. 20431,
U.S.A.

Dear Sir:

Application to become a Holder of SDR's

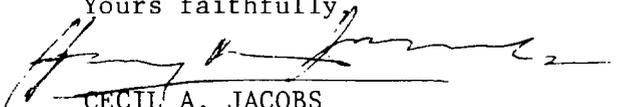
On behalf of the Eastern Caribbean Central Bank (The Bank), I have been authorised to submit an application for the Bank, as the successor to the former East Caribbean Currency Authority, to be prescribed by the International Monetary Fund as a Holder of SDR's.

The Bank wishes to become a Holder of SDR's and to have the authority to hold SDR's and to accept and use them in transactions and operations in accordance with the terms and conditions prescribed from time to time by the Fund under Article XVII, Section 3 for the acceptance, holding and use of SDRs by prescribed holders.

All communications between the Bank and the Fund regarding the Bank's acceptance, holding, and use of SDR's, shall be legally binding on the Bank and the Fund if authenticated in a manner agreed between the Bank and the Fund.

Once it has been prescribed as a Holder of SDR's, the Bank will adhere to the terms and conditions prescribed by the Fund, will consult with the Fund and will collaborate with the Fund, participants in the SDR Department and other Holders of SDRs, as necessary, in order to facilitate the effective functioning of the SDR Department and the proper use of SDRS

Yours faithfully,



CECIL A. JACOBS
GOVERNOR

CAJ/plw

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DIVISION
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The Eastern Caribbean Central Bank performs all functions of the former East Caribbean Currency Authority. These functions are: notes issuing, providing clearing facilities to banks both locally and intra-regionally, acting as banker's bank and being a lender of last resort. In addition, the Central Bank Agreement provides the new institution with full central bank powers, the more important of which are listed below.

a) Prescription of Reserve Requirements

The Bank is empowered to prescribe that financial institutions maintain required cash reserves against deposits and other similar liabilities. In countries where the volume of government securities and other money market instruments is too small to permit open market operations, variation in the level of reserve requirements is an important monetary tool.

b) Regulation of Interest Rates

Minimum and maximum rates of interest can be set with respect to deposits as well as with respect to bank loans.

c) Banking Supervision

The Central Bank Agreement empowers the Bank to regulate banking business on behalf of and in collaboration with participating governments and specifically gives the Bank the right to require financial institutions to open their books for inspection to enable verification of compliance with its directives.

d) Export Credit and Finance Guarantee Scheme

The Agreement permits the Bank to administer or participate in schemes for the purpose of providing export credit insurance and guarantee for credit extended by financial institutions.