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ROOM C-120

01.

SM/83/35

February 17, 1983

To: Members of the Executive Board  
From: The Secretary  
Subject: Revision of the General Arrangements to Borrow

Attached for consideration by the Executive Directors is a paper on the revision of the General Arrangements to Borrow. A draft decision appears on page 3.

This subject has been tentatively scheduled for discussion on Thursday, February 24, 1983.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

Revision of the General Arrangements to Borrow

Prepared by the Legal Department and the Treasurer's Department

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

February 23, 1983

In SM/83/35 it was pointed out, with reference to Paragraph 22 of the revised GAB text, that the Fund is still awaiting confirmation from the Swiss authorities that Swiss participation will be through the Swiss National Bank. In further consultations with Swiss officials following the circulation of SM/83/35, the staff has been advised that, for internal reasons, it will not be possible for final confirmation to be given before mid-March, when the Swiss Federal Council is expected to reach a decision on the matter. At the same time, the Swiss officials have stated that, on the basis of preparatory work, they expect that the designation of the Bank as the participant will be confirmed, and have requested that, pending a final decision by the Swiss Federal Council, Paragraph 22 should stand in its present form.

In view of this, the staff recommend that Paragraph 22 of the revised GAB text be adopted in the form in which it appears in Attachment 1 to SM/83/35, i.e., in a form authorizing participation by the Swiss National Bank. In the event that it becomes necessary to change the provision as a result of the final decision by the Swiss Federal Council, a decision which should be known within two or three weeks, the staff will formulate a new proposal to the Board appropriately incorporating the change.

The Swiss officials have also indicated that, in view of the anticipated timetable for internal action in Switzerland to permit Swiss participation, and assuming that the revised GAB Decision itself becomes effective on or before December 31, 1983, as envisaged in SM/83/35, they may have difficulty in meeting the target date for Swiss participation of 90 days after effectiveness proposed in that memorandum. They would prefer that April 30, 1984 be prescribed as the initial target date for Swiss participation, and the staff recommend accordingly. This assumes, of course, that the revised GAB Decision itself has become effective before that date. Should it prove necessary later to extend the date for effectiveness of the revised Decision beyond April 30, 1984, a consequential extension would be needed in the date for Swiss participation.

Two changes are also proposed in the Explanatory Memorandum given as Attachment 3 to SM/83/35, as follows:

- (a) At the end of the first paragraph on page 6, after the reference to the initial amount of the Swiss credit arrangement, it is proposed to add a sentence explaining that any subsequent

change in this amount would be dealt with under Paragraph 5 of the Decision in the same manner as changes in the amounts of credit arrangements of other participants, and would not require an amendment of the Decision. This point of clarification has been sought by the Swiss authorities, in view of the fact that the initial amount of the Swiss arrangement is stated in the text of the GAB Decision.

- (b) At the end of the Memorandum, it is proposed to add a final paragraph referring to the fact that, under the revised Paragraph 19 of the GAB Decision, a new five-year period would commence on the date the revisions become effective, and that the functioning of the revised Decision is to be reviewed at the time of the consideration of the next renewal. This aspect of the revised Decision is not dealt with in the present draft of the Memorandum.

Set out below is a further draft of the decision approving the revised GAB text, which incorporates the change in the target date for Swiss participation. Revised pages of the Explanatory Memorandum (Attachment 3 to SM/83/35) incorporating the two additional points noted above, and correcting the dates of adoption and effectiveness of the original GAB Decision given in the opening paragraph of that Memorandum, are being issued with this supplementary note.

Revision of the Decision on the  
General Arrangements to Borrow

1. The Fund approves the amendments to Decision No. 1289-(62/1) on the General Arrangements to Borrow (GAB), as previously amended, and the increased amounts of participants' credit arrangements, incorporated in the revised text attached to the present Decision (Attachment 1).
2. The amendments to the GAB Decision and the increases in participants' credit arrangements under that Decision shall become effective when all ten participants have notified the Fund in writing, not later than December 31, 1983 or such later date as may be prescribed by the Executive Board, that they concur in these amendments and increases.

3. The Swiss National Bank may become a participant in accordance with the provisions of the GAB Decision when the amendments to that Decision have become effective in accordance with 2 above, provided that the Bank deposits its instrument of adherence not later than April 30, 1984 or such later date as may be prescribed by the Executive Board.



Revised Text\*

GENERAL ARRANGEMENTS TO BORROW

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. Definitions

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

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\* Upon adoption of the Decision approving this revised text, appropriate references to this Decision will be included in Paragraph 19(a) and in the Annex.

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

#### Paragraph 2. Credit Arrangements

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in special drawing rights set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

#### Paragraph 3. Adherence

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the amount of the credit arrangement of the participant with the smallest credit arrangement.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

#### Paragraph 4. Entry into Force

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with

credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. Changes in Amounts of Credit Arrangements

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. Initial Procedure

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. Calls

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by or extended arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose



to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

#### Paragraph 8. Evidence of Indebtedness

(a) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

#### Paragraph 9. Interest

(a) The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

Paragraph 10. Use of Borrowed Currency

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this Decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this Decision.

Paragraph 11. Repayment by the Fund

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the

next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. Rates of Exchange

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule 0-2 of the Fund's Rules and Regulations.

Paragraph 13. Transferability

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. Notices

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. Amendment

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. Withdrawal of Adherence

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. Withdrawal from Membership

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's

credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. Suspension of Exchange Transactions and Liquidation

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. Period and Renewal

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. , adopted , 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraph 8 through 14, 17 and 18(b) shall nevertheless continue to apply in

connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. Interpretation

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. Use of Credit Arrangements for Nonparticipants

(a) The Fund may make calls in accordance with Paragraphs 6 and 7 for exchange transactions requested by members that are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements extending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this Decision relating to calls shall apply, except as otherwise provided in Paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under Paragraph 7 in connection with requests referred to in Paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to Paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this Decision.

Paragraph 22. Participation of the Swiss National Bank

(a) Notwithstanding any other provision of this Decision, the

Swiss National Bank (hereinafter called the Bank) may become a participant by adhering to this Decision in accordance with Paragraph 3(c) and accepting, by its adherence, a credit arrangement in an amount equivalent to one thousand and twenty million special drawing rights. Upon adherence, the Bank shall be deemed to be a participating institution, and all the provisions of this Decision relating to participating institutions shall apply in respect of the Bank, subject to, and as supplemented by, Paragraph 22(b), (c), (d), (e), and (f).

(b) Under its credit arrangement, the Bank undertakes to lend any currency, specified by the Managing Director after consultation with the Bank at the time of a call, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(c) In relation to the Bank, the references to the balance of payments and reserve position in Paragraph 7(b) and (d), and Paragraph 11(e), shall be understood to refer to the position of the Swiss Confederation.

(d) In relation to the Bank, the references to a participant's currency in Paragraph 9(c), Paragraph 11(a) and (b), and Paragraph 18(b) shall be understood to refer to any currency, specified by the Managing Director after consultation with the Bank at the time of payment by the Fund, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(e) Payment of special drawing rights to the Bank pursuant to Paragraph 9(c) and Paragraph 11 shall be made only while the Bank is a prescribed holder pursuant to Article XVII of the Articles.

(f) The Bank shall accept as binding a decision of the Fund on any question of interpretation raised in connection with this Decision which falls within the purview of Article XXIX of the Articles, to the same extent as that decision is binding on other participants.

#### Paragraph 23. Associated Borrowing Arrangements

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with Paragraphs 6 and 7 for exchange transactions with that member, or to make requests under Paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this Decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this Decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in Paragraph 23(a).



ANNEX

Participants and Amounts of Credit Arrangements

I. Prior to the Effective Date of Decision No. \_\_\_\_\_

Participant		Amount in Units of Participant's currency
1.	United States of America	US\$ 2,000,000,000
2.	Deutsche Bundesbank	DM 4,000,000,000
3.	United Kingdom	£ 357,142,857
4.	France	F 2,715,381,428
5.	Italy	Lit 343,750,000,000
6.	Japan	Yen 340,000,000,000
7.	Canada	Can\$ 216,216,000
8.	Netherlands	f. 724,000,000
9.	Belgium	BF 7,500,000,000
10.	Sveriges Riksbank	SKr 517,320,000

II. From the Effective Date of Decision No. \_\_\_\_\_

Participant		Amount in special drawing rights
1.	United States of America	4,250,000,000
2.	Deutsche Bundesbank	2,380,000,000
3.	Japan	2,125,000,000
4.	France	1,700,000,000
5.	United Kingdom	1,700,000,000
6.	Italy	1,105,000,000
7.	Canada	892,500,000
8.	Netherlands	850,000,000
9.	Belgium	595,000,000
10.	Sveriges Riksbank	382,500,000
11.	Swiss National Bank*	1,020,000,000
		<u>17,000,000,000</u>

\*With effect from the date on which the Swiss National Bank adheres to this Decision in accordance with Paragraph 22.

Revised Text  
Showing Changes in Existing GAB Decision\*

GENERAL ARRANGEMENTS TO BORROW

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system ~~in the new conditions of widespread convertibility, including greater freedom for short-term capital movements~~, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to ~~lend their currencies~~ make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system ~~in the aforesaid conditions~~. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. Definitions

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in ~~units of its currency~~ special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

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\* Revised provisions appear in the Preamble and in Paragraphs 1, 2, 3, 6, 7, 9, 10, 11 and 19. New paragraphs have been added as Paragraphs 21, 22 and 23, and a second table has been added to the Annex. Existing words to be deleted are crossed out, new words to be added are underlined.

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

#### Paragraph 2. Credit Arrangements

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in ~~units of its currency~~ special drawing rights set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

#### Paragraph 3. Adherence

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of ~~its currency~~ the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than ~~the equivalent at the date of adherence of one hundred million special drawing rights~~ the amount of the credit arrangement of the participant with the smallest credit arrangement.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. Entry into Force

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. Changes in Amounts of Credit Arrangements

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. Initial Procedure

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. Calls

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by or extended

arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. Evidence of Indebtedness

(a) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. Interest ~~and Charges~~

(a) ~~The Fund shall pay a charge of one half of one per cent on transfers made in accordance with Paragraph 7(c).~~

The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) ~~The Fund shall pay interest on its indebtedness at the rates at which it levies charges on segments of its holdings of currency resulting from purchases for which it borrowed and incurred the indebtedness, provided that the rate of interest shall be not less~~

~~than four per cent per annum on any part of the Fund's indebtedness. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.~~

Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest ~~and charges~~ due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

Paragraph 10. Use of Borrowed Currency

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this Decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this Decision.

Paragraph 11. Repayment by the Fund

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees

to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto ~~but not beyond the amount of the credit arrangement.~~

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest ~~and charges~~ in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. Rates of Exchange

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule 0-2 of the Fund's Rules and Regulations.

Paragraph 13. Transferability

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. Notices

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. Amendment

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. Withdrawal of Adherence

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period



prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. Withdrawal from Membership

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. Suspension of Exchange Transactions and Liquidation

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. Period and Renewal

(a) This Decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. \_\_\_\_\_, adopted \_\_\_\_\_, 1983. References in Paragraph 19(b) to the period prescribed in Paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to Paragraph 19(b). When considering a renewal of this Decision for the period following the five-year period referred to in this Paragraph 19(a), the Fund and the participants shall review the functioning of this Decision, including the provisions of Paragraph 21.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the

absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraph 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

#### Paragraph 20. Interpretation

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

#### Paragraph 21. Use of Credit Arrangements for Nonparticipants

(a) The Fund may make calls in accordance with Paragraphs 6 and 7 for exchange transactions requested by members that are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements extending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this Decision relating to calls shall apply, except as otherwise provided in Paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under Paragraph 7 in connection with requests referred to in Paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character

or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to Paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this Decision.

Paragraph 22. Participation of the Swiss National Bank

(a) Notwithstanding any other provision of this Decision, the Swiss National Bank (hereinafter called the Bank) may become a participant by adhering to this Decision in accordance with Paragraph 3(c) and accepting, by its adherence, a credit arrangement in an amount equivalent to one thousand and twenty million special drawing rights. Upon adherence, the Bank shall be deemed to be a participating institution, and all the provisions of this Decision relating to participating institutions shall apply in respect of the Bank, subject to, and as supplemented by, Paragraph 22(b), (c), (d), (e), and (f).

(b) Under its credit arrangement, the Bank undertakes to lend any currency, specified by the Managing Director after consultation with the Bank at the time of a call, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(c) In relation to the Bank, the references to the balance of payments and reserve position in Paragraph 7(b) and (d), and Paragraph 11(e), shall be understood to refer to the position of the Swiss Confederation.

(d) In relation to the Bank, the references to a participant's currency in Paragraph 9(c), Paragraph 11(a) and (b), and Paragraph 18(b) shall be understood to refer to any currency, specified by the Managing Director after consultation with the Bank at the time of payment by the Fund, that the Fund has determined to be a freely usable currency pursuant to Article XXX(f) of the Articles.

(e) Payment of special drawing rights to the Bank pursuant to Paragraph 9(c) and Paragraph 11 shall be made only while the Bank is a prescribed holder pursuant to Article XVII of the Articles.

(f) The Bank shall accept as binding a decision of the Fund on any question of interpretation raised in connection with this Decision which falls within the purview of Article XXIX of the Articles, to the same extent as that decision is binding on other participants.

Paragraph 23. Associated Borrowing Arrangements

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those

made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with Paragraphs 6 and 7 for exchange transactions with that member, or to make requests under Paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this Decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this Decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in Paragraph 23(a).

ANNEX

Participants and Amounts of Credit Arrangements

I. Prior to the Effective Date of Decision No. \_\_\_\_\_

<u>Participant</u>		<u>Amount</u> <u>in Units of</u> <u>Participant's currency</u>
1. United States of America	US\$	2,000,000,000
2. Deutsche Bundesbank	DM	4,000,000,000
3. United Kingdom	£	357,142,857
4. France	F	2,715,381,428
5. Italy	Lit	343,750,000,000
6. Japan	Yen	340,000,000,000
7. Canada	Can\$	216,216,000
8. Netherlands	f.	724,000,000
9. Belgium	BF	7,500,000,000
10. Sveriges Riksbank	SKr	517,320,000

II. From the Effective Date of Decision No. \_\_\_\_\_

<u>Participant</u>	<u>Amount</u> <u>in special drawing rights</u>
1. United States of America	4,250,000,000
2. Deutsche Bundesbank	2,380,000,000
3. Japan	2,125,000,000
4. France	1,700,000,000
5. United Kingdom	1,700,000,000
6. Italy	1,105,000,000
7. Canada	892,500,000
8. Netherlands	850,000,000
9. Belgium	595,000,000
10. Sveriges Riksbank	382,500,000
11. Swiss National Bank*	1,020,000,000
	<u>17,000,000,000</u>

\*With effect from the date on which the Swiss National Bank adheres to this Decision in accordance with Paragraph 22.

ATTACHMENT 3

Revision of the General Arrangements to Borrow:  
Explanatory Memorandum

The General Arrangements to Borrow (GAB), under which ten industrial members agreed to extend credit lines to the Fund, were established under a Decision of the Fund adopted on January 5, 1962, and became effective on October 24, 1962. <sup>1/</sup> The credit lines may be called on by the Fund to help finance transactions with any of the ten GAB participants, when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. The arrangements have been periodically renewed, and in one case, that of Japan, the original amount of the credit line has been increased.

Proposals to amend the provisions of the GAB Decision, and to increase substantially the amounts of the credit arrangements of all participants (i.e. the amount each is committed to make available under the GAB), have been discussed in the Executive Board of the Fund and among the participants in the Group of Ten. The proposals were endorsed by the Interim Committee at its meeting on February 10-11, 1983. On February , 1983 the Executive Board formally approved a revised text of the GAB Decision incorporating the amendments and the increased amounts of credit arrangements agreed in principle during these discussions. The revisions will become effective when all ten participants have notified the Fund in writing that they concur in the amendments and in the increased amounts as approved by the Executive Board. Pending such effectiveness, the existing GAB Decision will continue in force, and any calls made by the Fund under the GAB will be subject to the existing limits on the amounts of individual credit arrangements.

The purpose of this memorandum is to describe and explain briefly the changes to the existing GAB Decision for which the concurrence of participants is now being sought. The text of the revised GAB Decision is attached. For convenience, this text is also given in a form that identifies the specific changes that have been made in the provisions of the existing Decision. The following comments broadly follow the order in which the issues are dealt with in the revised text.

Preamble

In the revised Preamble, specific references to the conditions that prevailed at the time the GAB was initially adopted have been deleted, since these are no longer applicable. The revised Preamble

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<sup>1/</sup> Executive Board Decision No. 1289-(62/1). The Decision, with amendments made to date, appears in Selected Decisions, Ninth Issue, p. 105.

retains the statement that the GAB is intended to be available to the Fund when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. This broad description will apply to all circumstances in which the GAB may be activated, including activations to finance transactions with nonparticipants, which are, however, also subject to the more specific criteria indicated in Paragraph 21 of the revised text.

The words "to lend their currencies" appearing in the existing Preamble have been replaced by the words "to make loans". This is because the Swiss National Bank, whose participation is contemplated in the revised text, is the official institution of a nonmember, and the Fund has no authority under the Articles to borrow a nonmember's currency. The general rule will continue to be that participants will make loans in their individual currencies, as specified in Paragraph 2 of the Decision. However, this rule is subject to an exception in the case of the Swiss National Bank, as explained later in this memorandum.

#### Denomination of Credit Amounts

The amounts of credit arrangements of participants, which until now have been expressed in units of each individual participant's currency, will henceforth be denominated in SDRs. Accordingly, the increased amounts shown in Part II of the Annex to the revised Decision are expressed in terms of SDRs, and references to "units of currency" formerly appearing in Paragraphs 1(vi), 2, and 3(b) have been replaced by references to SDRs. A consequential change is the deletion at the end of Paragraph 11(h) of the words "but not beyond the amount of its credit arrangement". When credit arrangements are denominated in SDRs these words become redundant, since repayments, which themselves are in terms of SDRs, could not in any circumstances exceed the amount of a credit arrangement that has actually been utilized.

#### Minimum Credit Amounts of New Participants

Paragraph 3(b) of the existing Decision, which provides for the possibility that members or their institutions other than those specified in the Annex to the Decision may be accepted as participants, prescribes SDR 100 million as the minimum amount that the candidate may propose for its credit arrangement. This fixed amount has been deleted in the revised text, and replaced by a requirement that the amount should be not less than the amount of the smallest credit arrangement of an existing participant. Under the enlarged GAB the minimum amount will be SDR 382.5 million, but this minimum will automatically change if the smallest credit arrangement is later changed pursuant to Paragraph 5. Of course, the fact that a minimum amount is prescribed does not necessarily mean that this would be the appropriate

amount in the case of a new participant. It is understood that, subject to the prescribed minimum, the amount of a new participant's credit arrangement should broadly reflect its relative size and role in the international economy and its ability to provide financing to the Fund.

#### Financing of Exchange Transactions under Extended Arrangements

Although the existing Decision contemplates that calls may be made to finance transactions with participants under stand-by arrangements, it makes no express reference to calls under extended arrangements. This form of arrangement did not exist when the original GAB Decision was adopted. Under the revised Decision, the Fund will be able to make calls to finance transactions with nonparticipants under both stand-by and extended arrangements, and in the interest of uniformity it has been decided to permit the Fund also to make calls to finance transactions with participants under both types of arrangements. Accordingly, all references to stand-by arrangements, in Paragraphs 1(ix), 6, 7, and 10, have been expanded to include extended arrangements.

#### Interest and Charges

The charge of one-half of one per cent levied under Paragraph 9(a) of the existing Decision on amounts transferred under GAB loans has been eliminated. Under the revised Decision, transfers to the Fund will be made free from any charge or fee. As a consequence of this change, the references to charges in the existing Paragraphs 9(c) and 11(i) have also been deleted in the revised text.

Under the existing Decision, the rate of interest payable on GAB loans is equal to the rate of charge levied by the Fund on members using the borrowed funds, subject to a minimum interest rate of four per cent per annum. The revised Paragraph 9(a) specifies a new basis for determining the GAB rate, under which the rate will be equal to the combined market interest rate computed by the Fund for the purpose of determining the interest payable on holdings of SDRs. Under the present Rules of the Fund, this rate is determined quarterly, as the weighted average of yields on specified market instruments, denominated in the five component currencies of the SDR basket, during a 15-day reference period preceding the beginning of the quarter. Any change in the method of calculating the combined market rate adopted by the Fund after the date on which the revised GAB Decision becomes effective will be subject to a special procedure under the revised Paragraph 9(a). That provision stipulates that the change will apply to GAB loans only if so agreed by the Fund and by at least two-thirds of the participants having three-fifths of the total amount of credit arrangements. If a change has been so agreed, the new method for determining interest will apply to the Fund's indebtedness to GAB lenders incurred after the change becomes effective. It will also apply to indebtedness to a lender outstanding at that date, unless the lender otherwise requests.



Use of Borrowed Currency

Paragraph 10 of the existing GAB Decision specifies that the Fund's policies and practices on the use of its general resources and arrangements shall also apply to purchases using currency borrowed under the GAB. A second sentence has been added to the Paragraph to make it clear that, when the revised Decision becomes effective, the Fund's authority with respect to purchase requests by members is not to be affected in any way, and that access to the Fund's resources will continue to be determined, as in the past, by the Fund's policies and practices on such access. In applying these policies and practices the Fund will, of course, take into account the availability of resources under existing borrowing arrangements, including the GAB. However, access under these policies and practices will not be impaired if the Fund is unable to draw on the GAB, since the Fund would be able to seek other means of financing such access. It seems desirable to emphasize this important principle, particularly in view of the provisions specifying the circumstances in which GAB resources will be available to members that are not GAB participants.

Repayment in Respect of Reserve Tranche Purchases

Amounts borrowed by the Fund under the GAB to finance a purchase are repayable in installments corresponding to the installments in which the purchasing member is obliged to repurchase its currency from the Fund, subject to a maximum maturity period of five years. In addition, Paragraph 11(c) requires the Fund to repay earlier whenever its holdings of this currency are reduced, if the reduction is attributed to a purchase financed by GAB borrowing. The underlying principle is that the period during which credit is extended to the Fund by the GAB lender should not exceed the period during which the corresponding purchase is outstanding. The existing provisions do not fully cover the case of reserve tranche purchases, which, since the Second Amendment of the Articles, are no longer subject to a repurchase obligation. A situation can arise--and has in fact arisen--in which the Fund borrows under the GAB to finance a reserve tranche purchase by a participant, and subsequently reduces its holdings of the participant's currency by net sales of that currency under its operational budget, without incurring any corresponding obligation to repay the GAB lenders earlier than five years from the date of the purchase. This situation will be regulated in the revised Decision by a new provision in Paragraph 11(c), requiring the Fund in these circumstances to repay an amount equivalent to the net amount of the purchaser's currency sold during a quarterly period covered by an operational budget. The repayment is to be made at the beginning of the next quarterly period.

Use of GAB for Nonparticipants

Since the inception of the GAB, the credit arrangements of participants have been available only to finance exchange transactions with

members that are themselves participants, or whose official institutions are participants. An important change that has been introduced will permit the Fund, in certain circumstances, to activate the GAB also to finance transactions with members that are not participants, i.e., members other than those described above. The provision has been included in the revised text as a new Paragraph 21.

Under Paragraph 21, the Fund will be able to make calls under the GAB to finance purchases requested by members that are not participants only if those purchases are made under policies of the Fund requiring adjustment programs. Paragraph 21(a) specifies that the transactions with such members in respect of which calls may be made must be transactions in the upper credit tranches, under extended arrangements, under stand-by arrangements extending beyond the first credit tranche, or in the first credit tranche if requested in conjunction with an arrangement of either type. Purchases by such members in the reserve tranche, in the first credit tranche not associated with a stand-by or extended arrangement, and under the CFF and related special facilities will not be eligible for financing under the GAB. In this respect, the scope for GAB financing is broader in the case of transactions with participating members than in case of transactions with members that are not participants.

The procedure for making calls pursuant to Paragraph 21 will, in general, be the same as that specified in Paragraphs 6 and 7 with respect to calls for participating members. However, Paragraph 21(b) requires the Managing Director to be satisfied that certain special criteria are met before he makes a proposal for calls to finance transactions requested by members that are not participants. Specifically, he must conclude that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. It should be noted that, while a proposal for calls itself must relate to one or more requests for eligible transactions actually received by the Fund, the prior conclusion that the Fund faces an inadequacy of resources may be based not only on requests actually received but also on requests that the Managing Director expects to be received. Moreover, the requests that are relevant for this purpose include all requests for Fund financing, not just requests for transactions that could result in calls under the GAB.

In making proposals for calls under Paragraph 21, the Managing Director is also required to pay due regard to potential calls pursuant to other provisions of the GAB Decision. However, this requirement, which is specified in the last sentence of Paragraph 21(b), is not meant to imply that a specified amount of the resources of the GAB should be reserved for the financing of transactions that may be requested by participants.

### Participation by Switzerland

Switzerland has been associated with the GAB from the outset. In view of the interest recently expressed by the Swiss authorities in full participation, and the support that participants have given to this proposal, a new Paragraph 22 has been included in the revised text, after consultation with the Swiss authorities, that would permit the Swiss National Bank to become a participating institution, with a credit arrangement of SDR 1,020 million. Any change in this specified amount after the Bank becomes a participant would be dealt with in accordance with Paragraph 5 of the Decision, in the same manner as changes in the credit amounts of other participants, and would not constitute an amendment to the Decision.

Since the Fund cannot borrow a nonmember's currency, Paragraph 22 envisages that the Swiss National Bank would undertake to lend any currency that is a "freely usable" currency under the Articles, and that has been specified by the Managing Director, after consultation with the Bank, at the time a call is made. Under Article VII, Section 1 of its Articles the Fund will need the concurrence of the issuer of each freely usable currency before borrowing that currency, and it is expected that the concurrence of at least one of them will have been obtained before the Bank becomes a participant. Paragraph 22 also provides that references elsewhere in the Decision to payments of principal and interest in a participant's currency will, in the case of the Swiss National Bank, be deemed to refer to payment in a freely usable currency specified by the Managing Director after consultation with the Bank. Further, it provides that references to payments in SDRs will apply to the Bank only as long as it is a prescribed holder of SDRs.

In addition, Paragraph 22 makes clear that references in the GAB Decision to a member's balance of payments and reserve position will, in the case of the Bank, be understood as referring to the position of the Swiss Confederation. However, the adherence of the Bank as a participating institution would not serve to confer on Switzerland any of the rights or obligations of membership in the Fund, nor could there be any possibility of drawing on the GAB to finance transactions with Switzerland as long as it remains a nonmember, although GAB resources could be used to help the Fund make early repayment of claims of the Swiss National Bank in the event of a balance of payments need. Finally, Paragraph 22 explicitly provides that the Bank would have to accept as binding decisions of the Fund pursuant to Article XXIX on questions of interpretation of the Fund's Articles that are raised under the GAB Decision, to the same extent as such decisions are binding on other participants. This is necessary to ensure that a uniform regime for such interpretation will apply to all participants, including both members and member institutions and the Swiss National Bank.

### Associated Borrowing Arrangements

The revised text includes a further new paragraph, Paragraph 23,

referring to arrangements that the Fund may make to borrow from members that are not participants, or from official institutions of such members, in association with the GAB. These arrangements could take a number of different forms. Under one type of arrangement, the lender could undertake to make loans to the Fund for the same purposes as the GAB and on comparable terms: it could, for example, extend to the Fund a revolving line of credit similar to, though not necessarily completely identical with, the GAB credit arrangements. Paragraph 23(a) empowers the Fund, with the concurrence of the GAB participants, to include in a borrowing arrangement of this type a provision authorizing the Fund to make calls on GAB participants under Paragraphs 6 and 7 of the GAB Decision to finance transactions with the nonparticipating member concerned, or authorizing the Fund to request participants under Paragraph 11(e) of the Decision to assist in financing claims of the lender under the arrangement that are encashed prior to maturity on balance of payments grounds, or to include both of these features. For the purposes of the GAB, calls or requests so authorized would be treated as if they were calls or requests in respect of a participant.

It will be open to the Fund to enter into borrowing arrangements with nonparticipants for purposes similar to those of the GAB, including arrangements on comparable terms, that do not include either of the special provisions referred to above. This is made clear in Paragraph 23(b) of the revised text. In conjunction with such arrangements, some form of relationship may be established between the lender and the GAB participants, but the nature and specific features of such relationship, if any, are not regulated by the terms of the Decision itself. Of course, it also remains open to the Fund at any time to borrow for purposes that are not the same as or similar to those of the GAB.

#### Increases in Amounts of Credit Arrangements

The revised text of the GAB Decision includes, in an Annex, tables showing the amounts of participants' individual credit arrangements. Part I of the Annex lists each amount as it stands at present, expressed in the national currency of the participant. Part II lists the increased amount that is now being proposed for each participant, expressed in terms of SDRs. To become effective, the proposed increases require the agreement of the Fund and of all ten participants, as provided in Paragraph 5 of the GAB Decision. When all necessary concurrences have been given, and the Swiss National Bank has become a participant as authorized by Paragraph 22 of the revised text, the total amount of credit arrangements will stand at SDR 17 billion.

#### Period of Renewal, and Review

The period of effectiveness of the existing GAB Decision is at present scheduled to expire on October 24, 1985. It is proposed instead to commence a new five-year period on the date the revised GAB Decision

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becomes effective, and a provision to this effect has been included in the revised Paragraph 19(a). Under the revised Paragraph, a decision to renew the arrangements for a further period will need to be taken at least twelve months before the end of this five-year period. The Paragraph requires the Fund and the participants, when considering this next renewal, to review the functioning of the various aspects of the revised Decision, including the provisions of Paragraph 21 relating to the use of GAB resources for nonparticipants.