

EBS/83/237
Supplement 3

CONFIDENTIAL

December 29, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Determination of the Rate of Remuneration -
Alternative Approaches

The attached paper summarizes the methods for determining the rate of remuneration in relation to the SDR interest rate outlined by the Managing Director at the conclusion of Executive Board Meeting 83/184 (12/28/83), including two variants suggested by Executive Directors. As agreed, the matter will be discussed by the Executive Board tomorrow, Friday, December 30, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

Determination of the Rate of Remuneration--Alternative Approaches

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by David Williams

December 29, 1983

At the end of Executive Board Meeting No. 83/184 (12/28/83), the Managing Director outlined three approaches on which Executive Directors may wish to concentrate attention at the meeting scheduled for continuation of the discussion. These three approaches, which reflect views put forward in the course of the discussion and include two variants requested by Executive Directors, are set out schematically below. The appropriate form of an amendment to the Fund's Rules could be prepared in the light of the Board's discussion of this paper.

Method A

1. The rate of remuneration shall be raised to [88] percent of the SDR interest rate effective May 1, 1984.
2. The relation of the rate of remuneration to the SDR interest rate (below also called the "remuneration coefficient") shall be reviewed on the occasion of the reviews of the rate of charge under Rule I-6(4) and of the SDR interest rate under Rule T-1(b).

Method B

1. The remuneration coefficient shall be increased progressively to reach 100 percent not later than May 1, 1987.
2. Effective May 1, 1984 the remuneration coefficient shall be increased to [90] percent.
3. In the period August 1, 1984 to January 31, 1986 the remuneration coefficient shall be increased at the beginning of each quarter of the Fund's financial year by one percentage point for every one-tenth of a percentage point the SDR interest rate has declined up to and including the week preceding the quarter below the lower of (i) the SDR interest rate in the week including April 30, 1984 or (ii) the SDR interest rate in effect for the last day in the quarter preceding the last increase in the remuneration coefficient became effective.

4. If the rate of remuneration has not been increased to equality with the SDR interest rate earlier, the remuneration coefficient shall be raised to 100 percent of the SDR interest rate in three equal installments on February 1, 1986, November 1, 1986, and May 1, 1987.

5. If the rate of charge would exceed the SDR interest rate, the Executive Board will review the remuneration coefficient, and in particular will consider whether the rate of remuneration should be set at [85] percent of the SDR interest rate or at the level that would reduce the rate of charge to the SDR interest rate, whichever is higher.

Method B: Variant

An Executive Director has suggested that the threshold level against which a decline of the SDR interest rate is to be measured would be adjusted (i.e. raised or lowered) at the beginning of each financial year. Under this variant, paragraph 3 would be replaced by the following:

3V. The remuneration coefficient shall be increased at the beginning of each quarter starting August 1, 1984 and ending July 31, 1985 by one percentage point for every one-tenth of a percentage point the SDR interest rate has declined up to and including by the week preceding the quarter below the lower of (i) the SDR interest rate during the week including April 30, 1984, or (ii) the SDR interest rate in effect for the last day in the quarter preceding the last increase in the remuneration coefficient became effective; and in each quarter starting August 1, 1985 and ending January 31, 1986 the remuneration coefficient shall be increased by one percentage point for each one-tenth of a percentage point the SDR interest rate has declined by the week preceding the quarter below the lower of (i) the SDR interest rate during the week including April 30, 1985 or (ii) the SDR interest rate in effect for the last day in the quarter preceding the last increase in the remuneration coefficient became effective.

Method C

1. The remuneration coefficient shall be increased progressively to 100 percent of the SDR interest rate.

2. Effective May 1, 1984, the remuneration coefficient shall be raised to [90] percent.

3. The remuneration coefficient shall be increased at the beginning of each quarter by one percentage point for every one-tenth of a percentage point the SDR interest rate has declined up to and including the week preceding the quarter below the lower of (i) the SDR interest rate during the week including April 30, 1984, or (ii) the SDR

interest rate in effect for the last day in the quarter preceding the last increase in the remuneration coefficient became effective.

4. If the rate of charge would exceed the SDR interest rate, the Executive Board will review the remuneration coefficient, and in particular will consider whether the rate of remuneration should be set at [85] percent of the SDR interest rate or at the level that would reduce the rate of charge to the SDR interest rate, whichever is higher.

Method C: Variant

An Executive Director suggested that the adjustment of the remuneration coefficient in the light of declines in the SDR interest rate should begin on January 1, 1984 and include an annual adjustment of the threshold level. This would call for an alternative paragraph 3 as follows:

3V. The rate of remuneration shall be raised to equality with the SDR interest rate as and when the SDR interest rate declines. In each 12-month period starting January 1, 1984, the remuneration coefficient shall be increased each quarter by one percentage point for each one-tenth of a percentage point that the SDR interest rate has declined up to and including the week preceding the quarter below the lower of (i) the rate applicable during the preceding week including December 31, or (ii) the rate in effect for the last day in the quarter preceding the last increase in the coefficient.