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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/25

11:00 a.m., February 3, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
J. Anson	
	H. G. Schneider
B. de Maulde	A. Le Lorier
A. Donoso	
R. D. Erb	
	T. Alhaimus
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	M. Casey
A. Kafka	
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	J. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
F. Sangare	E. I. M. Mtei
M. A. Senior	
J. Tvedt	L. Vidvei
	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

African Department: O. B. Makalou, Deputy Director. European Department: B. Christensen. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director. External Relations Department: H. P. G. Handy. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel, Ph. Lachman. Middle Eastern Department: S. H. Hitti, G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan, D. S. Cutler, D. Gupta, T. M. Tran, P. K. Woolley. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, C. J. Batliwalla, S. E. Conrado, S. El-Khouri, I. R. Panday. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, H. Arias, L. Barbone, M. Camara, T. A. Connors, R. J. J. Costa, I. Fridriksson, G. Gomel, M. J. Kooymans, W. Moerke, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, E. Portas, J. Reddy, H. Suzuki, P. S. Tjokronegoro, A. Yasseri.

1. GENERAL ARRANGEMENTS TO BORROW - PROPOSALS FOR REVISION AND EXPANSION

The Executive Directors considered a staff memorandum containing a further revision of the proposals for revising and expanding the Decision on the General Arrangements to Borrow (SM/82/239, Rev. 2, 1/31/83).

Mr. Lovato wondered whether the alternatives in square brackets in paragraph 3(b) for determining the amount of the credit arrangement of a new participant could not be replaced by more general language along the lines of the explanation in Section III(a) of the commentary. He had in mind a general statement that would provide for the amount to reflect the relative position of a participant in the international economy and its ability to contribute.

The Director of the Legal Department noted, first, that the provision was intended to indicate the minimum amount of a credit arrangement, not the full amount. Second, the formulation suggested by Mr. Lovato would make it possible for a number of small members to be accepted as participants provided that their relative economic position justified a small contribution.

Apart from the need to choose between the alternatives in paragraph 3(b) on adherence, the Director added, the only aspects of the revised Decision remaining for clarification were those concerning the parallel lenders.

Mr. Polak observed that the provision on adherence had in effect been inoperative. No new participant had ever been admitted, not because a minimum contribution had been specified, but because the existing participants had not wanted to enlarge the group. The participants would have to reach agreement, inter alia, on the amount of the new contribution when another member or institution gave notice of its willingness to adhere to the Decision, and it seemed to him that either the whole of the last sentence, or the proviso relating to the amount, could be deleted. In fact, the reference to a minimum amount of SDR 100 million for the credit arrangements had in the past left the impression that a member willing to provide that amount also had some kind of a claim.

Mr. de Maulde remarked that it might be difficult, if no floor were set to the amount of a credit arrangement, for participants to refuse an offer to contribute a small amount. He would therefore prefer to retain the reference in the second set of square brackets to the smallest credit arrangement because it introduced the idea of a sliding scale above that minimum.

Mr. Anson noted that the principle of a minimum amount had been in the original Decision. As it had been agreed to make as little change in the existing text as possible, he would also prefer the second of the two solutions offered.

Mr. Laske said that he agreed with the reasoning of Mr. de Maulde and Mr. Anson. The principle of a minimum amount could best be maintained by specifying that the smallest credit arrangement should be the minimum amount of an arrangement for new participants.

Mr. Erb, Mr. Hirao, and Mr. Joyce also expressed their support for a reference to the amount of the smallest credit arrangements.

The Executive Directors accepted the language in the second set of square brackets in paragraph 3(b).

Mr. Laske considered that the revised text of the Decision reflected essentially the discussion in the Executive Board on January 5 (EBM/83/4 and EBM/83/5) as well as the understandings reached more recently by the Ministers of the Group of Ten at their meeting in Paris. However, during the Executive Board's consideration of the proposals to revise the Decision, he had indicated his authorities' view that a change in the method of determining the SDR interest rate should not apply automatically to GAB claims; it should become effective for purposes of the GAB only after the participants had agreed to it. Such a provision did not appear to be an unreasonable protection for the holders of GAB claims. Three elements entered into the determination of the SDR interest rate: first, the number of currencies, five at present; second, the selection of particular market instruments, at present those of roughly 90 days' maturity; and, third, the mathematical procedure for the actual computation. The Executive Board had the power, with the required majority, to change any of those elements. Moreover, it was not totally inconceivable that, at some time in the future, the Fund might establish more than one SDR interest rate, for different maturities of claims.

He would therefore propose adding to paragraph 9(a) of the draft Decision a sentence reading: "Any change in the way in which the combined market interest rate is determined shall apply under the GAB only after concurred in by all the participants," Mr. Laske continued.

Furthermore, as far as the provisions on the parallel lenders were concerned, Mr. Laske recalled that his authorities would prefer to regulate the terms and conditions of any parallel lending agreements, and thereby the rights and obligations of parallel lenders, in separate decisions outside the GAB Decision. The desirable link to the GAB itself could be established in each parallel lending agreement. In that context, his authorities continued to favor a solution in which draft paragraph 1(xi) and draft paragraph 21(a) would be replaced by a single paragraph stating that there was a possibility of parallel lending to the GAB, and that if the terms and conditions of any such parallel lending agreement should affect the rights and obligations of the participants under the GAB decision, such parallel lending agreements would require the concurrence of all the participants.

Mr. Erb said that he had no problem with Mr. Laske's proposal for paragraph 9(a). He also agreed with the approach that Mr. Laske was suggesting with respect to the parallel lending provisions in the Decision.

As he had indicated in previous discussions, the U.S. authorities' view of parallel lending arrangements was that different types of arrangement could be negotiated with different potential parallel lenders, and that the rights and obligations that such lenders shared with GAB participants might vary under individual parallel lending arrangements. Thus, it would be better to have a general umbrella provision in the GAB Decision that would in effect permit different types of commitment to be made under different parallel lending arrangements.

Mr. de Maulde said that he could agree with Mr. Laske's idea of not linking the GAB interest rate to any future change in the method of determining the SDR interest rate, on the grounds that that would give the Fund greater freedom to move the SDR rate itself, if that was necessary. He was greatly interested in the proposal by Mr. Laske and Mr. Erb relating to parallel lending, but would defer judgment until he had heard the response of other speakers.

The Director of the Legal Department said that it would be possible to replace the provision in paragraph 1(xi) of the Definitions, and paragraph 21(a) relating to parallel creditors, with a formulation along the lines suggested by Mr. Laske and Mr. Erb. Care would have to be taken to ensure that, if an arrangement with another member provided for the use of the resources of the GAB, the participants in the GAB would not have to seek additional authorization from their parliaments. The new paragraph could read:

> A borrowing agreement between the Fund and a member, or an official institution of a member, that is not a participant, under which the member or the official institution is associated with the objectives of this Decision may, with the concurrence of all participants, authorize the Fund to make calls 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 agreement, or both, as if they were calls or requests in respect of a participant.

Under such a provision, the Director of the Legal Department explained, the resources of the GAB could be used--with the agreement of all participants--for the benefit of a member that had an associated agreement with the Fund either to make calls for the benefit of that member or to make an early encashment of the claim on that member, those being the only possible uses or benefits for participants as well as for associated members.

Mr. Hirao expressed his support for Mr. Laske's proposed addition to paragraph 9(a). The way in which the interest rate was determined should be changed only with the concurrence of all the participants, who had every right to state their views on the matter. He also broadly agreed with Mr. Laske's suggestion relating to parallel creditors.

Mr. Erb asked for confirmation that participants in the GAB and any other potential lender would not be precluded from reaching agreement, in the framework of each individual borrowing arrangement, on such matters as consultations.

The Director of the Legal Department confirmed that the type of consultations in which an associated creditor would participate would be determined by the agreement, insofar as the consultations involved the Fund, and would be incorporated in understandings among the participants, insofar as the participants were concerned. The participants would have to specify the extent to which a particular associated creditor would take part in their consultations.

Mr. Polak considered that the new presentation that had been suggested for the provisions on the parallel lenders was an improvement. But the proposed change in the interest rate provision was neither substantive nor an improvement. In negotiating loan arrangements with individual lenders or with relatively small groups of lenders, the Fund had always had to face the problem of how to satisfy the lender's requirement that it be safeguarded against the risk of a change in the interest rate on the SDR and thereby of the interest rate paid to that lender. Much against its own preferences, the Fund had felt obliged to allow lenders that had strong feelings on the matter to continue to benefit from the old SDR rate--or even from the old SDR currency basket--when the Fund changed the rate. It was inherently bad for the Fund for there to be various baskets of interest rates. If the currency basket changed, and the participants did not all agree to accept the new interest rate basket, the two baskets could be inconsistent. That might be inevitable when the Fund had borrowing agreements with individual creditors or with a limited number of creditors, but he failed to see how the participants in the GAB, who collectively had a large voice in Executive Board decisions on the matter, would not shape the view of the Executive Board on changes in the interest rate basket, which were made by a 70 per cent majority. Under Mr. Laske's proposal, the unanimous agreement of the participants would be necessary before a change in the interest rate could be applied under the GAB; yet any reasonable majority of the participants that was not in favor of the change would be able to prevent its approval in the Executive Board. Moreover, even if a large majority of the participants were willing to accept a change in the SDR interest rate--if for no other reason than that the Fund should not have two such rates--its view would not prevail.

In sum, Mr. Polak said, the Fund and the GAB were likely to arrive at the same view in practice, but the possibility of conflict would leave a bad impression and might encourage future creditors to ask for the same treatment. Thus, he questioned the desirability of amending paragraph 9(a) as proposed by Mr. Laske.

The Treasurer commented that in addition to the considerations mentioned by Mr. Polak, which were in accordance with the views that the staff had expressed both in the Executive Board and in the meeting of the

G-10 Deputies, it might be worthwhile noting that the one party to the new arrangements that was not present in the Executive Board--Switzerland--had had no difficulty in accepting an interest rate determined by the Fund.

Mr. Anson remarked that he recognized the arguments of principle made by Mr. Polak. The draft provision as it stood entailed no real risk for the lender, but if the German authorities had difficulties about accepting it, the additional sentence proposed by Mr. Laske should perhaps be included.

On the more substantive matter of the provisions for parallel lending, Mr. Anson said that he was uncertain whether or not the draft enabling clause proposed by the Director of the Legal Department to replace paragraph 21(a) would permit the parallel agreements to contain as few or as many of the benefits that he had mentioned as might be thought appropriate, or whether it would provide for basically reciprocal provisions on those points.

The Director of the Legal Department confirmed that either one or both of the benefits could be conferred, or not conferred, under an associated agreement. As far as reciprocity was concerned, the member would be associated under such an agreement with the objectives of the Decision, a looser formulation than the definition in paragraph 1(xi) of a parallel creditor, which had required that the terms be comparable to those of the General Arrangements to Borrow. A more flexible formulation was necessary in order to permit all possible types of arrangement. Neither the Fund nor the participants would be obligated to confer one or both of the benefits, which would be conferred with the concurrence of all the participants.

In response to a question by the Chairman, the Director of the Legal Department said that the proposed draft would cover all options, including short-term borrowing agreements like the one with the Saudi Arabian Monetary Authority. He recalled that Switzerland had been associated with the GAB on two occasions through ad hoc borrowings in connection with particular transactions of the Fund with members, for which it had activated the GAB.

The Treasurer remarked that the financial terms of such arrangements, including the maturity and interest rate provisions, had been substantially the same as those under the GAB itself. He did not deny that other financial terms acceptable to the parties were possible, but it was important to know how broad the enabling legislation would be.

Mr. Schneider wondered where the borderline would fall with respect to terms and conditions as between an agreement associated with the objectives of the Decision and a separate agreement with the Fund.

The Director of the Legal Department noted that the only requirement for an arrangement to be associated with the GAB would be that the lending should be for the objectives of the Decision. The precise type of

association would be specified in the credit arrangement, as would the benefits that the member could derive under the GAB. The Fund, in the first instance, would determine whether or not an arrangement qualified for association with the objectives of the Decision, although the concurrence of all the participants would subsequently be required.

Mr. Erb asked for confirmation of his understanding that the draft replacement for paragraph 21(a) would not preclude a borrowing arrangement between an institution or a country and the Fund having the same objectives and conditions as the GAB but without the privileges of paragraphs 6, 7, and 11(e).

The Director of the Legal Department confirmed that such an arrangement would not be precluded.

The Chairman remarked that an important characteristic of the GAB was its standing nature. It would seem desirable for parallel or associated credit arrangements to have the same characteristic.

The Director of the Legal Department said that the inclusion of a reference to the standing nature of the borrowing agreement was a matter for judgment. It would of course be better from the Fund's point of view to indicate in some way that it would be a standing credit arrangement of the GAB type.

Mr. Erb remarked that while it would be better for the Fund to have standing agreements, it would seem advisable not to mention that possibility in the text of paragraph 21(a) because it would not be precluded, and because ad hoc arrangements were also a possibility, however remote.

The Chairman noted that the formulation in draft paragraph 21(a) was general and could cover not only the close type of parallel credit arrangements envisaged in the initial text of the revised GAB Decision, but also looser types of association that would not necessarily entail the activation of paragraphs 6 and 11(e).

The Director of the Legal Department, responding to a question by Mr. Joyce, noted that the provision under discussion was an enabling clause, which would not prevent the Fund from entering into borrowing arrangements not associated with the Decision.

Mr. de Vries asked why it was necessary to authorize the Fund to make calls "in accordance with paragraphs 6 and 7," rather than, as in paragraph 1(xi), to the "purposes of this Decision." As he understood it, the idea was to give the Fund the flexibility to apply some or all of the provisions of the Decision in borrowing arrangements with different lenders.

The Chairman pointed out that the language was permissive and did not oblige the Fund to apply paragraphs 6 and 7, or paragraph 11(e), if it felt that the nature of the borrowing arrangement did not warrant it.

The Director of the Legal Department added that the intent of the provision was to require the Fund, if it were permitted under the borrowing arrangement to make calls for exchange transactions with the member or in connection with an early repayment of a claim under the arrangement, to do so in accordance with the provisions established.

The Treasurer remarked that although the financial terms of the broad range of arrangements that would be possible under the enabling clause would be subject to the decision of the Fund and to the concurrence of the participants, only experience would show whether that would offer sufficient protection. It was envisaged that the GAB would be activated to deal with an impairment of the monetary system, but the fact that it could be activated to enable nonparticipants to draw under stand-by and extended arrangements suggested that it might be necessary to consider the time dimension. Of course, the Fund might have greater flexibility if it had recourse to short-term credits, but the financial aspects of its borrowing should not be overlooked.

The Chairman suggested that Executive Directors return to the way in which parallel creditors would be associated with the GAB after they had given further thought to the draft replacement for paragraph 21(a), and that they should take up again the proposal relating to paragraph 9(a) on the interest rate, under which participants in the GAB would be given the right not to accept a change in the SDR interest rate.

Paragraph 9(a)

Mr. Malhotra noted that Mr. Polak had marshaled strong arguments, which he hoped would find acceptance, against a change in the interest rate provisions. More broadly speaking, one of the basic positions of his chair was that as views in the Executive Board and in the Group of Ten should not normally diverge, since the G-10 participants were strongly represented in the Board, the smaller the number of the separate decisions that had to be taken, the better.

Mr. Erb said that he was not sure that there was any inconsistency in having different SDR interest rates under the GAB, should the participants decide not to apply a change in the rate. The question of consistency seemed to him to be related to the purpose for which the interest rate was chosen. At the most general level, the appropriate interest rate for any lending arrangement was one consistent with the expected maturity structure of the loans to be financed by that arrangement. It was hard to put the SDR interest rate in that category. Indeed, the Deputies had faced the dilemma of what was an appropriate interest rate. As he recalled, the point had been made that the expected duration of GAB loans to the Fund, if experience was any guide, might be in the order of three years rather than the full five-year period of the GAB. An interest rate for a term of three years might be appropriate, but because none was readily available, it had been decided to tie the interest rate to the SDR rate, which was however determined by a different set of objectives and criteria. At some point, a decision might be taken to

make the SDR rate either a shorter-term rate or a longer-term rate, and it would then seem appropriate for the lenders under the GAB or under any other lending arrangement with an interest rate linked to the SDR to reach a judgment as to whether or not they should keep the existing interest rate formulation, which might be more appropriate to the maturity structure of the lending arrangement, or should adopt the new SDR rate. Conceivably, there could one day be a series of interest rates based on the SDR basket, linked to overnight money, one-year, three-year, and five-year money. The interest rate under different lending arrangements would then be linked to the basket with the appropriate term structure. Thus, there seemed to be a case for a potential difference between the SDR interest rate and the interest rate paid on GAB loans.

Mr. Polak considered that a reasonable case could be made for basing the interest rate under the GAB on a different maturity structure from that of the SDR interest rate, which was presently based on three-month rates. Some of the Fund's borrowing was based on an SDR interest rate related to five-year market rates. But the G-10 had decided that the short-term SDR interest rate should apply under the GAB. Therefore, he saw no reason why the GAB participants should have the right to continue to use an existing SDR rate if the Fund changed the SDR interest rate. If the SDR interest rate for purposes of the GAB was to be properly differentiated by maturity, as Mr. Erb had suggested, the matter should be considered without delay.

The Chairman remarked that the question of the definition of the SDR itself, namely, the number of currencies in the basket, might also arise.

Mr. Laske agreed that it might be necessary to consider including in the GAB, which was a lending arrangement of the Fund, a provision relating to the valuation basket of the SDR. As for his proposal to require the concurrence of the GAB participants in any change in the method of establishing the SDR interest rate, he had found Mr. Erb's supporting arguments to be more convincing than those presented by Mr. Polak and the staff. In an arrangement that was expected to be permanent, it seemed only appropriate to afford the creditors some protection for changes that could not be foreseen when they entered into the arrangement. He felt confident that all the participants lending under the GAB would cooperate with the Fund and would not make capricious use of any of the provisions of the Decision, in particular the one he had proposed, which would offer creditors the minimum protection that should be accorded to them.

The Chairman said that he would feel easier about Mr. Laske's proposal if it were geared to majority approval, rather than to giving each participant in the GAB the possibility of deciding whether or not an old or a new SDR interest rate should apply to all the participants. An essential feature of the GAB was its standing nature and the close integration of the GAB resources with the Fund's own resources, even to the extent that the interest rate applicable under the original GAB Decision had been the rate charged for use of the Fund's ordinary resources. A departure from that principle had been agreed, and the interest rate

under the amended Decision would be 100 per cent of the SDR rate. He understood that it was important for a group of lenders not to have to experience disturbances in the interest rate unless they were in full agreement with any change in that rate insofar as it was reflected in the GAB. But problems might arise if the GAB was treated as a commercial lending operation, and if each individual lender was given a right to veto acceptance of a new rate by the group of lenders.

Mr. de Maulde said that he continued in principle to support Mr. Laske's proposal: participants should feel protected. An alternative to the veto provision, or to any provision calling for concurrence by a majority, might be to offer individual participants the chance to opt out of a change in interest rate.

The Economic Counsellor remarked that it might be useful if Mr. Laske could indicate whether his authorities were seeking protection on behalf of the creditors for the duration of a GAB period or in respect of outstanding indebtedness. If the SDR interest rate were changed in the life of a loan, the creditor might well wish to have the option--although under Mr. Laske's formulation, all participants would have to agree--to keep the existing interest rate or to accept the new rate. Alternatively, if there were no loans outstanding, the protection sought might relate to new indebtedness incurred subsequent to any change in the SDR rate.

Mr. Laske considered that the Chairman's proposal to tie decisions on accepting a change in the rate to acceptance by a majority was well worth considering. The question was of course what percentage of the total claims represented by the GAB participants at any time would be a sufficient majority. He was also interested in Mr. de Maulde's suggestion that members that were not happy with a change in the method of establishing the SDR interest rate, and thereby the GAB interest rate, could opt out of a change in the rate. As the Economic Counsellor had noted, some differentiation should be made between old claims and claims that arose after a change in the method of establishing the SDR interest rate took effect. Of the three suggestions put forward, his initial preference was for Mr. de Maulde's.

The Treasurer noted that it was obvious from the discussion that the lenders' interests had to be taken into account, and in a way that satisfied the particular concerns that had been expressed. The suggestion by Mr. de Maulde would give the participant the precise protection that it sought, and need not upset the Arrangements as a whole. However, it would introduce the possibility of a differential interest rate subsequent to a change in the SDR interest rate, a risk that did not seem great enough to outweigh the need of the lender for protection. As Mr. Erb had recalled, the G-10 had originally been of the view that its lending to the Fund was for more than three months and should therefore carry the higher interest rate of a longer maturity. But the G-10 had been willing to accept a rate as low as the SDR rate, with its maturity of approximately three months, because the staff had argued that claims under the GAB were relatively liquid and similar to a reserve position in the Fund.

If maturity were deemed to be the important feature, some protection in that respect could be built into the Arrangements for the benefit of participants in general. It should be recalled that there had been a provision in the original GAB Decision for a minimum interest rate. It would be helpful to know whether Mr. Laske's concern was related solely to the interest rate level or whether it was broader. As Mr. Polak had observed, one of the most difficult aspects of a broader protection for the lenders was that an inconsistency might develop between the SDR valuation basket and the interest rate basket; if there were large amounts of GAB loans outstanding, it could then become more difficult for the Fund to change the valuation of the SDR, rather than easier.

Mr. Laske stated that the concern of his authorities was not confined to the interest rate level. As he had indicated in his opening remarks, three elements determined the SDR interest rate basket: the number of currencies, which might be increased or decreased; the selection of market instruments, which might be changed from the present 90-day instrument; and the mathematical method of computation. It was not inappropriate to give a lender under the GAB the possibility of considering whether a change in any of those elements might infringe upon its interests. He reiterated his view that, although lenders were unlikely to make active use of a provision for their protection along the lines that he had suggested, his authorities had relatively strong feelings on the matter. Central banks had to protect their position and would not wish to see their options foreclosed.

In response to a question by the Chairman, Mr. Laske confirmed that his proposal was intended to cover any change in the formula that determined the combined market interest rate, including possible changes in the currencies.

The Chairman recalled that the initial concept of the GAB had been to provide ordinary resources that increased members' reserve positions. The concept of the revised GAB that was emerging would lead to a different type of lending arrangement containing precautionary conditions more consistent with a credit agreement. If that was what lenders wanted, the Fund would of course accede to their wishes.

Mr. Anson said that there would appear to be inconsistencies within the Arrangements if one participant chose to receive an old interest rate when all the others accepted the new rate. But since in practice all participants were likely to concur in a change, the simplest solution might be to accept Mr. Laske's proposal.

Mr. Nimatallah said that as he understood Mr. de Maulde's suggestion, participants would be permitted to opt out of a new interest rate and not out of the Arrangements themselves. He asked whether his understanding of Mr. de Maulde's suggestion was correct.

Mr. de Maulde confirmed Mr. Nimatallah's understanding of his proposal, which would be to add to the formulation put forward by Mr. Laske a sentence reading: "Any change that was not concurred in by a participant would not apply to that participant."

The Director of the Legal Department said that the simplest way to give effect to Mr. de Maulde's proposal would be to state that a change would not apply to any participant that had not concurred. A further question was whether or not, apart from indebtedness outstanding as a result of drawings that had not been repaid, the option to keep an old rate should continue after the end of a period and the renewal of the GAB, since at that time any participant would be able to opt out of the arrangements altogether.

Mr. Laske wondered whether it was necessary, even for the sake of legal completeness, to limit the option to abstain from accepting any change in the interest rate to the current period of the GAB.

The Chairman remarked that the participants' option to abstain from any change would begin again under the new period.

Mr. Erb considered that the provision adopted should not result in a differential interest rate under the GAB. Therefore, he would prefer Mr. Laske's original formulation calling for unanimous approval. Mr. Polak had made the point that participants, as members of the Executive Board, could shape any decision on a change in the SDR valuation or interest rate that might affect the GAB. But it would surely be a mistake for judgments about such matters to be complicated by the need to consider the implications of one decision for a host of other decisions and arrangements. As a matter of convenience, many lending arrangements were tied in one fashion or another to the SDR basket or SDR interest rate, and it would be appropriate to include a clause in each of those arrangements providing for the retention of an old interest rate to prevent any judgment or decision on a change in the SDR basket or interest rate from being affected by, say, participants' interests relating to the interest rate under the GAB. Every effort should be made, by means of such a clause, to make that separation possible and thereby avoid encumbering SDR decisions with unrelated issues.

Mr. Polak said that although basically he agreed with Mr. Erb, Mr. Laske's formulation would have to be amended if an individual participant in the GAB was not to be able to force all participants--and by implication also the Fund--to keep the old SDR interest rate for purposes of the GAB. To achieve the protection sought, it would be necessary for the provision to include also the requirement that, on the occasion of a change in the SDR basket, all participants and the Fund jointly would agree that it should not apply to the GAB. The Fund would then have the flexibility to take decisions relating to the SDR on their merits, or to decide whether or not the formula for determining the GAB interest rate was still the correct one.

Mr. Joyce said that he understood Mr. Polak's concern about the possibility of a number of different rates, and also appreciated the Chairman's feeling that the characteristics of the GAB were being changed slightly. But he sided with those who felt that it was not unreasonable for the creditors, for the purposes of their lending activities, to have a right

of decision on the matter of the interest rate. While Mr. de Maulde's opting-out formula was attractive on the face of it, he shared the concern that had been expressed about a differential rate in the GAB. Decision making by the GAB had to be a collective process, but that did not necessarily mean unanimity; a formulation could surely be worked out to enable the decision to be taken by a majority that would provide sufficient assurance for all the lenders to the GAB and that would result in maintaining the collective approach.

It was still not clear to him, Mr. Joyce added, whether Mr. Laske's concern was related to the right of creditors to choose a shift to a new rate or to stay with an old rate for new loans, or whether the right would extend to decisions affecting the line of credit as such and thus to future as well as to past loans.

Mr. Laske said that he had had in mind protection for the existing claims of lenders under the GAB. The question of whether or not the change in the method of establishing the rate would apply to future lending was on a somewhat different plane. The appropriate distinction could be made in the formulation that he had put forward by limiting the restraining provision to existing claims, rather than to the current GAB period.

The Chairman considered that a procedure for voting would avoid the potential inconvenience of segmented interest rates that could arise under an individual opting-out clause along the lines suggested by Mr. de Maulde, and would at the same time avoid giving one single country a veto power. Such a procedure would otherwise maintain the uniform approach suggested by Mr. Laske. A suitable rule for voting was outlined in paragraph C of the letter from Mr. Baumgartner, which was attached to the GAB Decision. It called for a two-thirds majority of the number of participants voting, and a three-fifths majority of the weighted votes of the participants voting. If changes in the interest rate were made subject to such a majority vote, the creditors would be given a measurable degree of protection--although not total protection--because those majorities would indicate a strong consensus in the group. His proposal would ensure that the GAB provisions stayed more closely in line with changes in the provisions relating to the SDR.

Mr. Schneider remarked that another argument in favor of tightening up the formulation suggested by Mr. Laske was that a nonmember might be able to block acceptance of a new rate by all the member participants. That nonmember would also not be represented in the Executive Board.

Mr. Donoso suggested that the formulation would be more symmetrical if it also allowed the Fund to retain the possibility of applying the old rate under the GAB if that were in its own interests. The Fund, as well as the participants, should have the right to accept or to reject the application of the new rate for purposes of the GAB.

Mr. Erb said that he had no problem with the Chairman's proposal for a voting procedure, linked perhaps to the calls. However, he felt sure that the consensus approach that had always prevailed in the GAB would continue to prevail. No vote had ever been taken by the GAB participants, even when the Arrangements had been activated. The G-10 Deputies' decision to tie the interest rate under the revised GAB to the SDR had stemmed from the spirit of compromise and willingness to adjust that had led to consensus without a vote. Under the provisions suggested by Mr. Laske, enormous pressure would be exerted on any participant that wanted to exercise a veto power, given the way the G-10 worked. However, although the provision would change the consensus process of the GAB, he could go along with the explicit formulation suggested by Mr. Laske.

The Treasurer commented that it might be desirable to make provision for participants to reach a decision promptly as to whether or not they would accept a new rate. It might also be advisable to word the provision in such a way that the new rate would apply unless an objection was expressed, the presumption being that the Fund would make the right decision.

Mr. de Maulde remarked that, under his proposal, a participant would have the right to maintain an old rate for outstanding commitments to lend to the Fund; the new rate would apply to new calls on participants, unless any participant had strong objections, in which case that participant would be able to opt out of the calls.

The Chairman considered that no such option would be possible under a majority rule, which would apply during the course of a period even with respect to new commitments. Participants would be obliged to accept the view of the majority.

The Economic Counsellor remarked that creditors seemed to be seeking protection in relation to outstanding commitments, a feature that might be important to legislatures.

The Director of the Legal Department agreed that legislatures might seek assurance that a rate applying to already contracted loans would apply for the duration of the loan, even if it extended beyond the current period, and not be changed because the debtor had altered the method of calculating the rate.

The Executive Directors agreed to resume their discussion in the afternoon, on the basis of a draft text to be prepared by the staff.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/24 (2/2/83) and EBM/83/25 (2/3/83).

2. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/83/38 (2/2/83) is approved.

APPROVED: July 8, 1983

JOSEPH W. LANG, JR.
Acting Secretary