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ATTENTION**

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EBD/83/239

September 14, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Rules and Regulations Amended Since the 1982 Annual Meeting

Attached for the Executive Board's consideration is a draft letter to the Chairman of the Board of Governors submitting for review by the Governors the texts of amendments to the Rules and Regulations adopted since the 1982 Annual Meeting. A proposed Resolution for the Board of Governors is attached as Annex II.

It is not proposed to bring this matter to the agenda for discussion unless an Executive Director so requests by the close of business on Friday, September 16, 1983. In the absence of such a request, the letter and draft Resolution will be deemed approved for transmittal and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads

Dear Mr. Chairman:

In accordance with Section 16 of the By-Laws, the attached amendments of the Rules and Regulations adopted since the 1982 regular meeting (Annex I) are submitted for review by the Board of Governors. A draft resolution for approval by Governors appears in Annex II.

On July 26, 1983, the Executive Board adopted two decisions with respect to the SDR. The first officially adopted the term "SDR" as standard usage in Fund documents and publications in place of the full expression "special drawing rights". This was accomplished by the addition of a new Rule, Rule B-6.

When the SDR scheme was being developed in the late 1960s, one of the issues was the name to be given to the proposed new supplement to reserve assets. The term "special drawing right" was eventually accepted and incorporated in the First Amendment to the Articles of Agreement. Increasingly the term "SDR" came to be regarded as a name in its own right rather than merely as an abbreviation, and use of the full expression "special drawing right" tended to be restricted primarily to formal documents relating to or promulgated by the Fund. In view of this, it was decided that the term "SDR" itself be given official status and recognition. The texts of the other Rules in the fortieth issue of the Rules and Regulations have been changed as necessary to incorporate the new term.

The second decision, amending Rules I-9, I-10, and T-1 effective August 1, 1983, dealt with the frequency with which the rate of interest on the SDR and the rate of remuneration is changed, the frequency with which interest is paid, and with related technical matters.

The general purpose of these changes regarding the SDR interest rate is to further enhance the role of the SDR as an international reserve asset by bringing its yield closer in line with yields on other reserve assets included in the SDR basket. The changes will help improve the liquidity of the SDR and thereby improve the asset as a means of payment and as a store of value. In order to maintain the attractiveness of the SDR vis-à-vis other reserve assets, the Fund has adopted an approach that relates the effective yield on the SDR to the effective yield on currencies that members may hold in their reserves. The approach has been to value the SDR by reference to a basket of major currencies and to set its interest rate by reference to interest rates that could be earned on three-month investments in these currencies. Because the SDR interest rate was set only quarterly, however, it frequently diverged substantially from prevailing market rates on other investments, including those in the reference basket. Since most of the instruments in which countries hold their reserves are repriced daily in the money markets of the world, an analogous daily adjustment of the SDR interest rate was considered. It was found, however, that a weekly setting approximated fairly closely the result of a daily setting, while being a more moderate departure from the previous practice and it was thus decided to fix the SDR interest rate weekly, using the daily combined market rate of the Friday of the preceding week.

Previously, charges on SDR allocations and interest on SDR holdings were settled annually as of the end of each financial year of the Fund (i.e., April 30) by debiting or crediting the SDR accounts of each holder. By contrast, interest income on the instruments in the interest-rate basket was received more frequently, typically every three months. As a result, because of the effect of compounding, the interest return on the SDR was actually lower than the return on successive investments in the instruments in the basket. It was determined that quarterly payment of interest at the rate as presently calculated would bring the effective return on the SDR much closer to the result of investing in the instruments in the basket, and quarterly payment of interest and charges was approved. In order to maintain comparability between SDRs and remunerated reserve tranche positions, it was decided that remuneration, like SDR interest, would also be payable quarterly.

A change in accounting procedures has also been adopted. Rule T-1(a) formerly stated that interest and charges in respect of SDRs shall be paid promptly as of the end of each financial year of the Fund. In order to do this, the accounts were held open to enable transfers of SDR interest and charges to be effected after the balances in each account resulting from other transfers were established and interest accrued thereon calculated. Since interest and charges do not begin to accrue on the newly credited and debited amounts until the first day of the following period in any case, Rule T-1(a) was revised to provide that transfers representing interest on SDR holdings and charges in SDR allocations be made promptly as of the first day of the new accounting period. The same accounting method has also been applied to the payment of remuneration.

The Executive Board has made no other changes in the Rules and Regulations since the last Annual Meeting.

Very truly yours,

J. de Larosière
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
1983 Annual Meeting
International Monetary Fund

RULES AND REGULATIONS AMENDED SINCE
THE 1982 ANNUAL MEETING

1. Rule B-6. Text as adopted July 26, 1983.

SDR refers to the special drawing right of the Fund. The term "SDR" (or "SDRs", as appropriate) shall be adopted as standard usage in Fund documents, correspondence and publications where a reference to special drawing rights is intended, provided that if the text is in a language in which a different usage has become established, that usage may be retained.
2. Rule I-9. Text as amended July 26, 1983, effective August 1, 1983.
 - (a) Remuneration shall accrue daily. The amount that has accrued during each quarter of the financial year of the Fund shall be paid as of the beginning of the following quarter.
 - (b) A member that wishes to receive in its own currency the whole or a specified portion of the remuneration payable to it shall so notify the Fund.
3. Rule I-10. Text as amended July 26, 1983, effective August 1, 1983.
 - (a) The rate of remuneration shall be equal to 85 per cent of the rate of interest on holdings of SDRs under Rule T-1(b), rounded to the two nearest decimal places.
 - (b) The Fund shall review the rate of remuneration on the occasion of the annual review of the rate of interest on holdings of SDRs under Rule T-1(d).
4. Rule T-1. Text as amended July 26, 1983, effective August 1, 1983.
 - (a) Interest and charges in respect of SDRs shall accrue daily at the rate referred to in (b) below. The amount that has accrued during each quarter of the financial year of the Fund shall be paid promptly as of the beginning of the following quarter. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.
 - (b) The rate of interest on holdings of SDRs for each weekly period commencing each Monday shall be equal to the combined

market interest rate as determined by the Fund at the beginning of the period in the manner described in (c) below.

- (c) The combined market interest rate shall be the sum, rounded to the two nearest decimal places, of the products that result from multiplying each yield or rate listed below, expressed as an equivalent annual bond yield, for the preceding Friday by the value in terms of the SDR on that Friday of the amount of the corresponding currency specified in Rule 0-1, as determined pursuant to Rule 0-2(b). If a yield or rate is not available for a particular Friday, the calculation shall be made on the basis of the latest available yield or rate.

U.S. dollar	Market yield for three-month U.S. Treasury bills
Deutsche mark	Three-month interbank deposit rate in Germany
French franc	Three-month interbank money rate against private paper in France
Japanese yen	Discount rate on two-month (private) bills in Japan
Pound sterling	Market yield for three-month U.K. Treasury bills

- (d) The Fund will review the rate of interest on holdings of SDRs at the conclusion of each financial year.

DRAFT RESOLUTION

Amendments of the Rules and Regulations

RESOLVED:

That the Board of Governors of the Fund hereby notifies the Executive Board that it has reviewed Rule B-6, and the amendments of Rules I-9, I-10 and T-1, which have been made since the 1982 Annual Meeting, and has no changes to suggest.