

SM/83/187
Correction 1

October 28, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Simplification of Operations in SDRs

The following corrections have been made in SM/83/187 (8/15/83):

Page 15, lines 1 and 2: for "determined on any one of the three"
read "determined within the period commencing"

Page 18, draft Rule P-6, line 4: for "determined by the Fund at any one
of the three"
read "determined at any time during the
period commencing three"

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

at rates for that currency in SDR terms determined within the period commencing three business days prior to the intended value date of the exchange. This definition conforms to the current practice of the Fund, but would need to be modified if in future the Fund were to change its practice, e.g., if it were to reduce the period between rate determination and settlement to two business days. The currency used in the exchange may be that of a member or a nonmember, and for purposes of the definition the term "currency" is extended to include monetary assets. This extended definition, which derives from the wording of Article XXX(i), recognizes that spot exchanges of SDRs for currency and for other monetary assets are conceptually the same and should be treated in the same way under the Rules. ^{1/} It does not seem necessary at this time to attempt to formulate a definitive description of the type of assets that will be regarded as "monetary" assets for purposes of the Rule: this can be left for later determination on a case-to-case basis. It may be noted that any arrangement in which SDRs are to be exchanged for value four or more business days after the exchange rate is determined, whether the exchange is for currency or another monetary asset, would be classified as an operation authorized under the Rules.

Rule P-7 in the draft Rules set out in the Attachment corresponds to the existing Rule P-6, which requires equal value to be applied to transactions by agreement and specifies how the applicable exchange rate will be determined. The only substantive change is to accord to the parties greater freedom in selecting the daily rate they wish to apply to the transaction, as proposed in Part V of this memorandum. The combined effect of the two Rules on transactions by agreement is to prevent participants engaging in spot exchanges of SDRs for nonmember currencies or other monetary assets, unless and until the Fund has determined a representative rate for the particular currency or asset in terms of the SDR. ^{2/}

3. Recording of Transfers

The last two P Rules in the Attachment, P-12 and P-13, correspond to the present Rules P-8 and P-9, respectively. The present Rule P-8 requires a participant using SDRs in a transaction to inform the Fund immediately of the receipt of currency under the transaction. The entitlement of the other party to the transaction to receive SDRs arises as soon as it duly provides currency in accordance with the Rules, and the notice required by the Rule serves as confirmation from the holder that the other party

^{1/} For the same reasons, it is considered that the term "currency" in Article XIX, Section 2(b) is to be understood in a functional sense as including monetary assets.

^{2/} In the case of the ECU, for example, the Fund recently determined the basis for establishing a representative rate in terms of the SDR: see EBD/82/6, "Representative Rate for the European Currency Unit (ECU)", January 12, 1982.

has performed its side of the transaction. The only change in the text of the present Rule P-8 proposed in the revised Rule P-12 is in the final part of the sentence, which as phrased at present only calls for notice to the Fund when currency is received "in accordance with the Articles of Agreement and these Rules and Regulations." Notice should be given whenever currency is received, whether or not the prospective transferor considers that the receipt is in accordance with the Articles and Rules, and this is made clear in the revised Rule.

The last Rule, P-13, deals with the manner in which the Fund will exercise its responsibilities as registrar of the SDR system to record transfers arising from both operations and transactions. It is proposed to reformulate the prerequisites for recording a transfer in more specific terms than those found in the present Rule P-9. Accordingly, the first paragraph of the draft Rule P-13 lays down the condition that the transaction or operation should comply with the relevant requirements of the Rules. This formulation reflects the fact that the revised Rules, in themselves, constitute a complete statement of the Fund's requirements, either directly or by reference to applicable provisions of the Articles. The Rule also makes clear that in satisfying itself of compliance the Fund is entitled to rely on the notice and declaration provided by the user.

The second paragraph of Rule P-13 deals with the date as of which a transfer will be given effect. In the case of transactions, the relevant date will be when currency has been provided: this repeats the principle stated in the last sentence of the present Rule P-9. In the case of operations, the relevant date will be that specified in the notice to be given by the user under the new Rule P-9.

4. Application to Prescribed Holders

The final change proposed in the Rules is the addition of a new Rule Q-2. The Rule, which is included for purely technical reasons, would have the effect of expanding references to "participants" in the P-Rules to include "prescribed holders," to the extent the Fund has permitted these holders also to enter into voluntary transactions and operations. Under the existing Decision on the subject (No. 6467-(80/71)S, adopted April 14, 1980), prescribed holders are authorized to engage in these dealings to the same extent as participants. Accordingly, the simplified procedures applicable to operations between participants would apply equally to operations with and between prescribed holders.

VII. Proposed Decision

It is recommended that the Executive Board rescind the existing decisions prescribing operations in SDRs, and amend the existing Rules to incorporate the revisions now proposed, by adopting the following Decision. Since they serve to eliminate a number of existing substantive and procedural requirements, without requiring any changes to be made in any operational arrangements that are currently outstanding, the revised

Rules can be brought into effect immediately, and will apply to any operations that may be in process at the time they become effective. The amended Rules contain a prescription pursuant to Article XIX, Section 2(c), and accordingly the Decision adopting them requires a seventy per cent majority of the total voting power.

1. Executive Board Decisions No. 6000-(79/1)S, 6001-(79/1)S, 6053-(79/34)S, 6054-(79/34)S, 6336-(79/178)S, 6337-(79/178)S and 6436-(80/37)S, as amended to the date of this Decision are hereby rescinded.

2. Rules P-6, P-7, P-8, and P-9 of the Rules and Regulations of the Fund are replaced by the Rules set forth in the Attachment to SM/83/187, which are adopted as Rules P-6 through P-13.

3. The following additional Rule is hereby adopted as Rule Q-2:

Q-2. To the extent that the terms and conditions referred to Rule Q-1 permit prescribed holders to enter into transactions by agreement or operations in the same manner and on the same terms as participants, references to participants in the Rules relating to such transactions and operations shall be deemed to refer also to prescribed holders.

Proposed Revisions to P-Rules

Transactions by Agreement

P-6. For purposes of these Rules, a transaction by agreement under Article XIX, Section 2(b) is a use of SDRs in which, by agreement between two participants, SDRs are exchanged for currency at rates in terms of the SDR determined at any time during the period commencing three business days before the intended value date of the exchange. As used in this definition, the term currency includes other monetary assets.

P-7. (a) Currency shall be provided in a transaction by agreement at the SDR rate for that currency determined under Rule O-2 for the third business day preceding the value date of the transaction, or for a later day up to and including the value date itself if so agreed between the parties to the transaction.

(b) No participant shall levy any charge or commission in respect of a transaction by agreement.

Prescribed Operations

P-8. (a) For purposes of these Rules, an operation in SDRs under Article XIX, Section 2(c) is a dealing, other than a transaction with designation or a transaction by agreement, in which one participant in agreement with another arranges to transfer SDRs to the other participant.

(b) Participants are authorized to engage in any operation in SDRs as defined in (a) on such terms and conditions as may be agreed between the parties, other than operations in SDRs involving gold.

P-9. A participant that has arranged to transfer SDRs in an operation shall, not later than the date it wishes the transfer to be effected, give the Fund notice of the amount of SDRs to be transferred, the name of the recipient and the intended date of the transfer, and shall declare that the transfer is pursuant to an operation authorized by the Rules on Operations. The notice shall constitute an instruction to the Fund to record the transfer on the date specified in the notice, provided that this instruction may be given subject to later confirmation.

P-10. The Fund may call for periodic reports from participants giving details of their operations in SDRs. Each party to an operation shall provide such additional information relating thereto as the Fund