

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/84/196
Correction 1

CONFIDENTIAL

September 18, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Misreporting and Noncomplying Purchases Under Fund Arrangements -
Guidelines on Remedial Action

The following correction has been made in EBS/84/196 (9/13/84):

Page 11, last para., line 9: for "further repurchases will be"
read "further purchases will be"

A corrected page is attached.

Att: (1)

total voting power. Paragraph 4 provides that the Fund, on a case by case basis, may decide to waive the nonobservance, thereby relieving the member of the repurchase obligation that would otherwise arise under the guidelines. The paragraph indicates the circumstances in which a waiver will normally be granted. However, as explained in the previous section of this memorandum, even where these circumstances exist the Managing Director may decide not to recommend a waiver if he considers that the misreporting which led to the purchase was clearly intentional and was designed to mislead the Fund.

If the guidelines, as adopted, incorporate a repurchase obligation, and the member fails to effect the obligatory repurchase within the prescribed period of 30 days, it will have an overdue financial obligation to the Fund. This will lead to automatic suspension of its purchase right under any current arrangement with the Fund. A continuing failure to discharge the obligation would, in due course, also lead to action to limit the member's use of the Fund's resources or to declare it ineligible under the standard procedures now being applied by the Fund for dealing with overdue obligations. These potential consequences are referred to in paragraph 5 of the draft guidelines.

The Executive Board may prefer to include in the guidelines a repurchase expectation, rather than a legal obligation. If so, the attached draft guidelines would need to be suitably modified, and could be adopted by a majority of the votes cast. In this event, the Executive Board may wish to consider two additional measures to reinforce the repurchase expectation. One would be to add to all future stand-by and extended arrangements a provision under which, if a member does not meet the expectation by repurchasing within the prescribed period, its right to make further purchases will be suspended until the expected repurchase has occurred. The provision, which would apply whether the purchase to which the expectation relates was made under the same or an earlier arrangement, would correspond to that now being included in arrangements under which a member's right to purchase is suspended if it has an overdue financial obligation to the Fund. The second measure would be to adopt a standard procedure, similar to that now being followed for overdue obligations, under which the Managing Director would be directed to initiate action under Article V, Section 5 to limit the member's use of the Fund's resources or to declare it ineligible if after a certain time the member had still not fulfilled the repurchase expectation. If the Executive Board considers that either or both of these supplementary measures should be adopted, the text of the necessary decisions could be circulated for adoption at the same time as the modified version of the draft guidelines.

Draft Decision

Misreporting and Noncomplying Purchases
under Fund Arrangements--Guidelines on Corrective Action

In a few cases, it has been found that a member has made a purchase under a stand-by or extended arrangement which it was not entitled to make by the terms of the arrangement (a "noncomplying purchase"). The purchase was permitted because, on the basis of the information available to it at the time, the Fund was satisfied that all performance criteria or other conditions applicable to the purchase had been observed, but this information later proved to be incorrect. When such a case arises in future, steps should be taken to improve the accuracy and completeness of the information to be reported to the Fund by the member under the arrangement, and the member will also be called upon to repurchase the outstanding amount derived from the noncomplying purchase, unless the Fund decides that the circumstances justify the member's continued use of the purchased resources. To this end the Fund adopts the following guidelines, which shall apply to purchases made after the date of this decision:

1. Whenever evidence comes to the attention of the Fund indicating that a performance criterion or other condition applicable to an outstanding purchase made within the previous two years under a stand-by or extended arrangement may not have been observed, the Managing Director shall promptly inform the member concerned.
2. If, after consultation with the member, the Managing Director finds that, in fact, the criterion or condition was not observed, he shall promptly notify the member of his finding. At the same time, he shall