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Supplement 2

CONFIDENTIAL

June 10, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Income Position for FY 1994; Net Income Target for  
FY 1995 and Rate of Charge; and Burden Sharing

Attached for the records of Executive Directors is the Secretary's understanding of the decisions taken at Executive Board Meeting 94/52 (6/8/94).

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

Income Position for FY 1994; Net Income Target for  
FY 1995 and Rate of Charge; and Burden Sharing

Executive Board Decisions - June 8, 1994

Disposition of Net Income for FY 1994

The Fund's net income for financial year 1994, equal to SDR 74,149,193, shall be placed to the Special Reserve.

Net Income Target for FY 1995; Rate of Charge on Use of  
Fund Resources; and Retroactive Reduction of Rate of Charge  
for FY 1995 and Increase in Net Income Target for FY 1996

1. The target amount of net income for financial year 1995 shall be 5 percent of the Fund's reserves at the beginning of the financial year.

2. Effective May 1, 1994, the proportion of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1 shall be 115.1 percent.

3. Any net income for financial year 1995 in excess of the target amount of net income of 5 percent of the Fund's reserves at the beginning of that financial year shall be used to reduce retroactively the proportion of the rate of charge to the SDR interest rate for financial year 1995. If net income for financial year 1995 is below the target amount for that year, the net income target for financial year 1996 shall be increased by the equivalent of that shortfall.

Implementation of Burden Sharing During Second Through  
Fourth Quarters of FY 1995

Section I. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

1. During the second through fourth quarters of financial year 1995, the rate of charge for financial year 1995 referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV.

2. When estimating income for purposes of Rule I-6(4)(a) and (b), no projection shall be made of deferred income. The calculation of actual net income under Rule I-6(4)(b) shall include the proceeds of adjustments for deferred income under Section IV, paragraph 2.

### Section III. Amount for Special Contingent Account 1

An amount equivalent to 1.25 percent of the Fund's reserves at the beginning of the financial year shall be generated each quarter during the second through fourth quarters of financial year 1995 in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account-1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

### Section IV. Implementation of Burden Sharing

1. During the second through fourth quarters of financial year 1995, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in accordance with Section III, the rate of charge and, subject to the limitation in (c), the rate of remuneration, shall be adjusted in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and, subject to the limitation in (c), the rate of remuneration, shall be further adjusted, in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, as amended, shall not be taken into account.

(c) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) The adjustments under this paragraph shall be made as of August 1, 1994, November 1, 1994, and February 1, 1995:

shortly after October 31 for the period August 1 to October 31;

shortly after January 31 for the period November 1 to January 31;

shortly after April 30 for the period February 1 to April 30.

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (c).