

EB/CQuota/83/2

February 10, 1983

To: Members of the Committee of the
Whole on Review of Quotas

From: The Secretary

Subject: Eighth General Review of Quotas - Payment for
Increase in Quotas

There is attached for the information of Executive Directors a paper on the technical feasibility of payment arrangements for increase in quotas.

Att: (1)

Other Distribution:
Department Heads

SDRs. It may, therefore, be expected that the member that made the temporary loan in SDRs would not require any interest, fee or commission for its services.

These various transactions and operations would take place on a value date immediately after the member making the quota payment had confirmed to the Fund payment in full of the domestic currency component of the quota increase at the Fund's holdings rate for the currency at that time. ^{1/} This domestic currency payment would thus be expected to precede the asset payment in SDRs. On the date of the payment of the latter, the quota increase would become effective and the reserve tranche position established. It would then, of course, be possible for the member to draw the reserve tranche on the same value date in order to simultaneously repay the original holder of SDRs.

It is conceivable that a similar arrangement would be possible in currencies specified by the Fund for the asset payment, either with the cooperation of the issuer of the currencies or of a central bank willing to assist, or if members arranged bridging finance with a commercial bank. Operations in currency may, however, involve more than one day to complete, and in view of this, exchange risks could arise for the parties concerned. Furthermore, borrowing from a commercial bank, even within the same day, could involve transaction costs or fees for the borrowing member. It is, therefore, recommended that these arrangements should be made in SDRs, which do not involve any exchange risks since the timing of each of the steps can be arranged so as to be within the control of the Fund.

Cooperation of members

The procedures outlined above could only be operational if participants in the SDR Department were willing to assist by making the 'same day' loans in SDRs. It would be preferable if a number of members were to share in the administration of the arrangement. Thus, the staff will, in due course, approach major SDR holders who could be involved in the arrangement.

^{1/} The SDR value of the domestic currency payment for the quota increase would, in the usual way, be maintained by the member. The payment for the domestic currency portion of the quota increase has to be based on the Fund's holdings rate for the currency, and in the unlikely event that this should have changed between the time the Fund's payment instructions are issued and payment is actually made, an adjustment will be necessary before the payment can be regarded as fully made.

Possible amounts

It is not possible at this stage to estimate the total volume that would be involved in operations under the arrangement, but it is expected to be a small proportion of the total of asset payments as the arrangements are envisaged only for those members that did not hold sufficient reserve assets for the payments. The arrangements would not be available to other members, even though some of them might have a balance of payments and reserve need to draw their reserve tranche positions after the asset payments had been completed.

Borrowing of SDRs for Asset Payment for Quota Increases and Simultaneous Reserve Tranche Purchase and Repayment of Borrowing

1. A member (Member X), which is willing to cooperate and has the authority to do so, would authorize the Fund to debit its SDR Account, as and when required, and credit the amount of the asset payment as a loan in SDRs to other members making their reserve asset payments for the quota increases on the understanding that

(i) the borrowing member does not have sufficient SDR holdings or foreign exchange available with which to make the reserve asset payment;

(ii) the borrowing member would make an immediate reserve tranche purchase in the amount of the asset payment, and

(iii) that the SDRs received in the purchase would be credited back to Member X on the same value date as its SDR Holdings Account had been debited for the SDR loan.

2. A member (Member Y) making its quota payment that needed to borrow SDRs for the asset portion would instruct the Fund as follows, to be carried out after that member had confirmed payment in full of 75 per cent of the quota increase in its own currency.

(i) Indicate that it will need to borrow, because it has insufficient reserves with which to make the asset payment, from another participant as arranged by the Fund an amount of SDRs to make reserve asset payment amounting to 25 per cent of the increase in quotas to which it consented and that these SDRs should be credited to its SDR Account;

(ii) Authorize the Fund, after the crediting of the SDRs, to debit its SDR Account in settlement of the reserve asset payment;

(iii) Request, for value the same day, a reserve tranche purchase; the text would include the required representation by Member Y of a balance of payments need;

(iv) Instruct the Fund, regarding use of the SDRs obtained through the reserve tranche purchase, to pay the SDRs obtained in the reserve tranche purchase in repayment of the borrowing.

3. As the result of the above, the Fund would have the authority from the members concerned to execute the various transactions and operations on the same value date, which would be after the Fund had received confirmation from the borrowing member that the local currency portion of its quota increase had been paid in full. As the Fund would make the arrangements between members, it would be fully informed of the details of the SDR loans as required under Decision No. 6001.