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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/43

3:00 p.m., March 15, 1976

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
J. Amuzegar	C. P. Caranicas
P. Åsbrink	J. H. Kjaer
	T. Leddy
J. de Groote	H. G. Schneider
N. Deif	M. Finaish
B. J. Drabble	D. Lynch
	S. Arancibia, Temporary
S. Jagannathan	
A. Kafka	W. Temple-Seminario
K. Kawaguchi	M. Wakatsuki
	Sein Maung
P. Lieftinck	
H. R. Monday	J. B. Zulu
	E. Sacerdoti, Temporary
E. Pieske	G. Laske
	P. J. Bull
	G. Heyden Q., Temporary
	J. Foglizzo
R. J. Whitelaw	
	S. Nana-Sinkam

K. F. Magurn, Acting Secretary
J. A. Kay, Assistant

Also Present

Legal Department: J. Gold, General Counsel and Director; G. P. Nicoletopoulos, Deputy General Counsel; J. K. Oh, S. A. Silard. Research Department: J. J. Polak, Economic Counsellor and Director. Treasurer's Department: D. S. Cutler. Bureau of Language Services: J. S. Haszard, Director. Information Office: H. Hartmann. Advisors to Executive Directors: C. Bouchard, J. K. E. Cole, F. K. Hussein, A. Malak. Technical Assistants to Executive Directors: V. Amiel, E. Avillez, C. J. Batliwalla, D. Berthet, I. M. Cobbold, B. Goos, R. Khonsary, H. Kuroda, E. Leung, A. G. Morris, K. Nakayama, A. B. Nymark, M. Pietinen, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vílches, P. Zimmer, A. G. Zoccali.

1. AMENDMENT - DRAFT REPORT TO BOARD OF GOVERNORS, AND RESIDUAL ISSUES - FREELY USABLE CURRENCIES

The Executive Directors continued from the morning session (EBM/76/42, 3/15/76) their discussion of the second draft of their report on the amendment of the Articles of Agreement to the Board of Governors (DAA/76/5, Rev. 1, 3/1/76; and Rev. 1, Sup. 2, 3/10/76). They also had before them the latest version of the comprehensive draft amendment (DAA/76/9, 3/1/76; and Sup. 1, 3/5/76).

The Executive Directors took up draft paragraphs 11-15 of the draft report on the amendment contained in DAA/76/5, Revision 1, Supplement 2 (corresponding to paragraph 11 on pages 23 and 24 in DAA/76/5, Revision 1) dealing with freely usable currencies.

Paragraph 11

Mr. Foglizzo asked that in paragraph 11 of the report it should be made clear that all the operations and transactions described in the following paragraph should be conducted rapidly, so that there would be no undue delay in making usable the currencies purchased from the Fund. Second, in the penultimate sentence of proposed paragraph 12, it was stated that "the purchasing member is not entitled to an official exchange." It might be better to say that the purchasing member was not generally entitled to official exchange, because an exception to the rule was set out immediately after the sentence in question.

The Acting Chairman agreed that Mr. Foglizzo's point with respect to paragraph 11 could be met.

Paragraph 12

The General Counsel explained that the language in proposed paragraph 12 was correct; the purchasing member had no right whatsoever to an official exchange. Nevertheless, the clause could be changed to read "the purchasing member cannot insist on an official exchange,... ."

Paragraph 13

Mr. Leddy, referring to paragraph 13, noted that the last sentence on page 2 of DAA/76/5, Revision 1, Supplement 2 read "the obligation of collaboration is not the same as an obligation to provide the currency wanted by the purchasing member... ." He wondered whether the sentence meant that it was not an obligation to provide an official exchange.

The General Counsel indicated that the words "through an official exchange" could be added to make the intention perfectly clear.

Paragraph 14

Mr. Drabble commented that he hoped that paragraph 14 (page 3 of DAA/76/5, Rev. 1, Sup. 2), which dealt with the definition of a freely usable currency, could be clarified. It ought to be made clearer that the determination whether a member's currency would be freely usable or not did not rest only on the extent to which there was freedom to engage in transactions in the currency concerned, but rather on whether the currency met two specific criteria mentioned in paragraph 14. It would be helpful, at least to his authorities, if the paragraph could explain that the definition of the term "freely usable currency" was a rather precise and particular one, and that it was narrower for the purposes of the Articles than it was in general parlance.

The General Counsel stated that he would insert a sentence to the effect that the definition of the term "freely usable currency" implied an absence or virtual absence of restrictions as well as meeting the two criteria mentioned in paragraph 14. It could also be said that the definition was adopted for the purpose of the Articles of Agreement of the Fund, and in particular for the provisions listed in paragraph 15 of the report.

It was agreed to delete the word "all" from the phrase "all the principal exchange markets."

Mr. Bull commented that, in referring to an absence of restrictions, it would be necessary to make it clear that the report was referring to restrictions on nonresident-held funds and not to restrictions on the capital of domestic residents.

The General Counsel stated that to meet Mr. Bull's comment the additional sentence requested by Mr. Drabble could avoid any reference to restrictions.

Mr. Drabble indicated that he considered that it would be helpful for legislators if it could be explained that in talking of "freely usable" currencies, the Executive Directors were referring to a very small number. He wondered whether it would be possible to make the point without encountering difficulties that had arisen when he had raised the same question in earlier discussions.

The General Counsel suggested that it could be explained that the new concept of freely usable currencies would replace the concept of currencies convertible in fact, of which there had been no more than three.

Mr. Lieftinck and Mr. Kawaguchi both said that they would have difficulty in accepting the suggestion that there should be any implication that the number of freely usable currencies would be limited to three or so.

Mr. Drabble said that he would not press his suggestion.

Mr. Foglizzo suggested that a sentence should be inserted to the effect that when appreciating whether a currency was freely usable or not, the Fund should take into account the readiness of the issuer to collaborate with the Fund; the rationale was that the more widely traded the currency, the less collaboration was needed. A country whose currency was less widely traded in the principal exchange markets might receive the overwhelming benefit of the doubt as to whether its currency was freely usable if the authorities were willing to collaborate with the Fund in a particularly efficient manner.

Mr. Deif supported Mr. Foglizzo.

Mr. Amuzegar remarked that if an extensive alteration were made in the definition in paragraph 14 it might be necessary to make a change in the language of the Articles themselves.

The General Counsel observed that rather than make the quality of willingness to collaborate a precondition for placing a currency on the list of freely usable currencies, it might be better to say more generally that the Fund would reach understandings with members on the way in which the provisions would be made operative. Naturally, the Fund would reach understandings with all members whose currencies were to be considered freely usable.

Mr. Bull said that he too was sympathetic to the point made by Mr. Foglizzo, if it referred to enabling countries that had received a currency they did not want to make a second conversion into a more desirable currency. His own authorities were certainly prepared to collaborate with the Fund and to reach mutual reciprocal understandings with the central banks of other countries that were issuers of freely usable currencies to ensure that members might easily acquire the currencies they actually wished to hold, at representative rates. In determining which currencies could be considered freely usable, the Fund might well consider the willingness of the authorities to collaborate in providing additional facilities of the sort he had described.

The General Counsel suggested that Mr. Bull's point could be met, and Mr. Foglizzo's suggestion taken into account, by making an addition to paragraph 13.

Mr. Laske remarked that he had some doubt about the proposals by Mr. Foglizzo and Mr. Bull. After all, Article IV referred to collaboration covering both freely usable currencies and others, and there was no great advantage in singling out an enhanced obligation to collaborate for freely usable currencies alone. He would, however, be happy to examine any language that the General Counsel might propose for addition to paragraph 13.

Mr. Kjaer said that he would support a sentence along the lines suggested by Mr. Foglizzo and Mr. Bull. It would however be necessary to make it clear that the reference to enhanced collaboration referred particularly to currencies on the list of freely usable currencies, precisely because the issuers of those currencies would be exempt from an obligation to carry out official conversion.

Mr. Leddy said that he would have no objection to mentioning at the end of paragraph 13 that the Fund would consult with a member to reach an understanding on the way in which it would collaborate in accordance with the appropriate provisions. He did not believe that it would be wise to go as far as Mr. Foglizzo and Mr. Bull proposed.

Mr. Deif stated that he did not understand why, if any member was willing to undertake the responsibility of collaboration in the sense of exchanging its currency for any other freely usable currency, it should not be given the benefit of the doubt along the lines proposed by Mr. Foglizzo. Naturally, he understood that to do so might require a change in the definition of what the Fund meant by "freely usable currency." Nevertheless, Mr. Foglizzo's proposal seemed a reasonable one.

The General Counsel explained that under draft Article V, Section 3(e)(ii) each member whose currency was purchased from the Fund or was obtained in exchange for currency purchased from the Fund was obliged to collaborate with the Fund and other members to enable such balances of its currency to be exchanged at the time of purchase for the freely usable currencies of other members. The point was that the duty of collaboration was not confined to the issuers of freely usable currencies. As he understood it, what Mr. Foglizzo was saying was that, within the scope of the provision, the Fund would consult with members in order to satisfy itself that there would be effective collaboration.

Mr. Deif commented that there were other members that were willing to go further than the average; and it was those that it seemed to him the Fund should consider placing on the list of issuers of freely usable currency. He could see no reason for objecting to such a proposal.

The General Counsel remarked that to accept an undertaking to provide official conversion at representative rates as grounds for pronouncing a currency to be "freely usable" could extend the definition to almost any currency. Rather than adopt that approach, it would be better to do away with any definition and simply say that the Fund would determine what a freely usable currency was, at its own discretion. One reason why it might be unwise to extend the list of freely usable currencies by adopting broader definitions was that to do so could lead to the risk that undesired currencies might be provided to purchasers, which might thereby be put at undue risk and prejudice.

Mr. Deif commented that one reason why countries would like to be included in the list of issuers of freely usable currencies was that they would like to see their own currency being more extensively held in the reserves of others. It would be putting the cart before the horse to take the presently proposed definition and to say that any currency that did not meet that definition would not be considered to be "freely usable."

The General Counsel replied that if the list of freely usable currencies was extended to cover, for instance, every currency in the Fund, it would be logical to change draft Article V, Section 3(e)(iv) so that the exchange could be made for a freely usable currency selected by the purchaser at the rate of exchange referred to in draft Article V, Section 3(e)(i); and that would cause other difficulties, as had already been seen.

The Acting Chairman added that Mr. Deif's proposal would mean virtually eliminating the difference between a freely usable currency and a nonfreely usable one under Article V, Section 3(e)(i).

Mr. Deif said that he would consider the matter further.

Mr. Laske commented that it would be unwise to discuss Article V, Section 3 in terms of privilege and prestige. In asking themselves what kinds of currencies should be determined to be "freely usable," the Executive Directors should direct their attention exclusively to the matter of usability, and not to what might be advantageous or disadvantageous to the countries concerned. A number of countries that were somewhat apprehensive about the whole undertaking would become even more disturbed if it was agreed that the definition of "freely usable currencies" was to be made on grounds other than those of a purely practical nature.

Mr. Amuzegar said that while he had considerable sympathy for what Mr. Deif was trying to achieve, he could see that there might be considerable difficulties in declaring very many currencies to be "freely usable." If that course was followed, members would have to hold all such currencies in their reserves in order to be able to satisfy purchasers, and they might not wish to do so.

Mr. Bull indicated that he had no desire to widen the list of freely usable currencies. His authorities would be prepared to enter into arrangements with the Fund and with other countries on the list in order to achieve a higher degree of convertibility than was required by the provision; but the arrangement would be purely reciprocal and involve collaboration between various members. It would in no way widen the list.

The Acting Chairman concluding the discussion on the proposals for pages 23 and following and page 32 of the draft report contained in DAA/76/5, Revision 1, Supplement 2, reiterated that a reference to Mr. Foglizzo's

point about the meaning of "promptly" would be included in paragraph 11, and that language to deal with the question of collaboration would be added in paragraph 13.

Paragraph 15

No comment.

The Executive Directors continued to review the second draft of their report to the Board of Governors (DAA/76/5, Rev. 1) on a page-by-page basis. [Comments were made only on those pages to which reference is made below.]

Page 28

Mr. Kafka asked that his objection to the elimination of the present limitation on repurchases should be recorded.

Mr. Bull commented that on page 28 of the report it was written that "the Fund may decide, by the same high majority, that all members shall repurchase by installments beginning sooner or later than three years after a purchase." In Article V, Section 7(c) the text referred to "a member," and it therefore seemed to him that it might be a policy relating to a particular member.

The General Counsel, however, indicated that the whole of Article V, Section 7 was written in terms of the individual member, but that all the actions to be taken would be pursuant to general policies. In other words, the periods, the commencement and the termination of the period for repurchase were general for all members. Within that range, there might be variations in the installments for individual members. He would look at the text to make sure that Mr. Bull's point was not obscured.

Page 32

The Executive Directors took up the text proposed on page 4 of DAA/76/5, Revision 1, Supplement 2 for insertion as paragraph (x) of the draft report. They also had before them the draft text of the provisions in Article V, Section 3(e) and Article V, Section 7(j), set out in DAA/76/9, Supplement 1.

Mr. Foglizzo remarked that if the Fund failed to make the determination as to which currency was freely usable, there would be a presumption under the present drafting of Section 3(e) that the member would represent to the Fund that its currency was freely usable, something that it would be unable to do under Section 7(j).

The General Counsel agreed that there would be a case for dropping the clause "to the satisfaction of the Fund" both in Article V, Section 3(e)(i)

and in Article V, Section 7(j)(i). There was a whole string of obligations in the Articles, and the Fund was the judge of the performance of all the obligations of members.

Mr. Lieftinck said that he had no objection to deleting the phrase in the text of the two Articles, but it would be useful to spell out in the report that as a matter of fact such a provision should be met to the satisfaction of the Fund.

Mr. Leddy suggested that a simple way of dealing with the problem would be to add an omnibus sentence to the effect that all the obligations listed in the report would have to be fulfilled to the satisfaction of the Fund, and that the Fund would have the power to consult and reach understandings with members on all the points mentioned.

Mr. Sacerdoti inquired whether the Board had reached a decision regarding the proposal for parallel language in draft Article V, Section 3(e)(iv) and draft Article V, Section 7(j)(iv).

Mr. Lieftinck stated that if the versions were to be parallel, he would prefer to drop the words "selected by the other member" in draft Article V, Section 3(e)(iv).

Mr. Sacerdoti explained that he agreed with Mr. Lieftinck.

The General Counsel commented, however, that the proposal by Mr. Sacerdoti and Mr. Lieftinck would leave what might be called a yawning gap in draft Article V, Section 3(e)(iv); the position was not the same in draft Article V, Section 7(j)(iv) because there it was explicit that the Fund would ultimately take a decision.

Mr. Sacerdoti remarked that as draft Article V, Section 3(e)(iv) was only an emergency provision, some agreement would clearly be found either between the members or through the Fund on a policy that could eventually be adopted. In those circumstances, no well defined policy was required. He himself would not be particularly disturbed by the absence of a clear definition of the way in which the selection of the freely usable currency was made.

Mr. Lieftinck wondered whether the substitution of the words "acceptable to the purchasing member" for the words "selected by the other member" would be acceptable; it would certainly be a way of filling the gap.

The General Counsel observed that there were three possible solutions: either the issuer could select the currency, or the purchaser could select the currency, or they could agree. Any one arrangement would be acceptable; the lack of any arrangement at all would not be satisfactory.

Mr. Lieftinck stated that he was convinced by the General Counsel's argument; he would prefer "acceptable to the purchasing member."

Mr. Laske commented that the matter would have to be decided once and for all, either in the Articles or in the Rules and Regulations. In any event, he could not imagine that any language other than "selected by the other member" would be operable. There would have to be a clearcut rule, and the only one that would be workable was one providing that the member whose currency had to be purchased would be the one to select the freely usable currency it was providing. In practice, it would be one of the two currencies that were used throughout the world in commercial transactions.

Mr. Drabble stated that he sympathized with Mr. Laske's view, particularly in view of the recent discussion on the obligation of issuers of freely usable currency to collaborate with the Fund and with members.

Mr. Kafka commented that Mr. Laske had convinced him that the freely usable currency would have to be selected by the issuing member.

Mr. Bull noted that it might be difficult to obtain the currency that the country whose currency was being used in repurchase wished to receive. For instance, if a member approached the United Kingdom in order to obtain sterling, and the U.K. authorities said that they would provide sterling only in an exchange for Saudi riyals, there might be a deadlock. Consequently on the repurchase side there ought to be room for negotiation, though perhaps not on the other side.

Mr. Deif said that, like Mr. Kafka earlier, he would not wish to see any reference to selection of the freely usable currency by negotiation. Unlike Mr. Laske, however, it seemed to him that it was the repurchasing country that ought to make the selection.

Mr. Sacerdoti stated that he would be willing to accept the maintenance of the phrase "selected by the other member" in the Articles, but that in paragraph 12 of the draft report on page 2 of DAA/76/5, Revision 1, Supplement 2, a change should be made to indicate that the collaboration clause would apply also to draft Article V, Section 3(e)(iv) and draft Article V, Section 7(j)(iv), so that those two subparagraphs could not be applied in such a way as to put an undue burden on the purchaser. As matters stood, the end of paragraph 12 on page 2 gave the impression that the purchaser was being pressured. Moreover, some reference could be made in the report to the fact that the provision was an emergency provision, as Mr. Laske had indicated. It was reasonable to say that it would be the issuer that would select the freely usable currency because the issuer could only provide what it had in its reserves; but at the same time the issuer should not take advantage of the purchaser when making its choice.

The General Counsel stated that he could insert at the end of paragraph 12 of DAA/76/5, Revision 1, Supplement 2, a statement to the effect that under the collaboration clause discussed in paragraph 13 the issuer would be expected to take the purchaser's interests into account.

The Executive Directors agreed to the proposal by the General Counsel.

Page 36

Mr. Laske commented that in the fourth sentence of paragraph 7 the final clause should be amended to read "but this provision does not apply to holdings of currency in the Special Disbursement Account or in the Investment Account."

The Executive Directors agreed with Mr. Laske.

Page 37

Mr. Foglizzo suggested that the beginning of the first full sentence on page 37 should read "Article XXX (c) allows the Fund to take decisions... ."

Mr. Foglizzo's suggestion was accepted.

Page 43

The General Counsel indicated that the words "by the total of the quotas of the other members on the same date" at the end of paragraph 4 at the top of the page were redundant.

Page 46

Mr. Bull requested that the first full sentence should read "this aspect of the rule is in conformity with the objective of reducing the role of gold and making the special drawing right the principal reserve asset in the international monetary system."

Mr. Bull's request was accepted.

Page 48

Mr. Leddy said that in the penultimate sentence of paragraph 8 it might not be accurate to say "maintenance of the value of the Fund's holdings of currencies in the General Resources Account will not be determined on the basis of par values but on the basis of the exchange rates used for transactions involving special drawing rights." After all, holdings of currencies in the General Resources Account might be determined on the basis of par values, depending entirely on the way in which it was decided to value special drawing rights. It would therefore be better to delete the reference

to par values and make the sentence read in part "maintenance of the value of the Fund's holdings of currencies in the General Resources Account will be determined on the basis of the exchange rates used for transactions involving special drawing rights." Moreover, in the final sentence of paragraph 8, he had earlier proposed to insert the words "if expressed in terms of the SDR" after the clause "the Fund may make uniform proportionate changes in all par values."

The General Counsel said that Mr. Leddy's proposals could be met.

Page 49

Mr. Leddy stated that he would like to see included in the list of the most important changes in the Articles set out on page 49, perhaps in paragraph 1(c), a reference to the elimination of the Fund's authority to accept gold, unless otherwise decided.

The insertion proposed by Mr. Leddy was accepted.

Mr. Bull, referring to the words in the box at the top of page 49, inquired whether the words "some of the industrial members of the Fund" was the generally accepted way of referring to the Group of Ten.

Mr. Foglizzo noted that the language referred to by Mr. Bull was part of a sentence describing an agreement to avoid action to peg the price of gold or increase the total stock of gold in the hands of the monetary authorities of certain members and the Fund. It would be interesting to know what the present status of the agreement mentioned in the box might be; in particular had there been any decision about the date on which the agreement would come into effect? As it seemed unlikely that the Fund as such was in a position to answer any questions about the agreement, it might be unwise to mention it in the report. After all, even though Article IV had been accepted, there was no mention of the Rambouillet agreement. If the report was submitted to parliaments, there were likely to be questions about any part of the text; and it might be embarrassing if answers could not be given.

The General Counsel indicated that the language in the box had been requested in the course of discussion of the report. However, the last sentence in particular was perhaps unnecessarily disquieting; the simplest procedure might be to eliminate the box entirely.

Mr. Bull stated that he would be happy to see the language in the box modified if only because, on a point of fact, the agreement permitted countries to withdraw after two years without necessarily terminating it. The idea that questions might be raised in parliament did not disturb him.

Mr. Whitelaw and Mr. Monday suggested that the language in the box be deleted.

Mr. Kafka stated that he considered the agreement to be totally meaningless; he could therefore agree to dropping the reference to it.

It was agreed to eliminate the language in the box at the top of page 45.

Page 51

Mr. Laske indicated that in paragraph 4, line 9, as a result of earlier discussion, the language should read "...under which accrued obligations to pay gold to the Fund shall be discharged with special drawing rights or in the currencies of other members if the Fund prescribes them for this purpose."

Page 52

Mr. Leddy noted that the box at the top of page 52 contained a definition of the words "profits" and "surplus value." He could not accept the definition for the past, even if one might be needed for the future.

The General Counsel indicated that the definitions referred to language that was included in the amendment; the definitions would therefore have no effect on action taken prior to the amendment. The issue was, however, whether the two concepts should be included in the amendment itself. If Mr. Leddy was suggesting that the words "surplus value" should not be interpreted in the way used in the box, the provision itself would have to be amended.

Mr. Leddy stated that he saw no need to refer to the concept of surplus value in the report because the amendment itself was quite specific that the transfer of gold could be made in specie. There were detailed provisions for transfer of specie. In other words, any decision to do so would be perfectly clear without any definition of the terms used.

The General Counsel remarked that if the language remained in the amended Articles, it would only be proper to explain it in the report. Naturally, the sentence in the report could be clarified to explain that the terms only had meaning in the amended Articles.

Mr. Lieftinck commented that, since the document under discussion was to be a report on the amendment of the Articles, he would like to avoid introducing references to anything that would happen before the entry into effect of the amendments. Moreover, he saw no reason to try to define the terms "profits" and "surplus value" in the report. If an effort had to be made to do so, any suggestion that a different interpretation would be given to the terms in the preamendment period should be deleted.

The General Counsel stated that, assuming that no change was to be made in the amended Articles themselves, the paragraph could be rewritten to explain that it related only to powers that the Fund would have to take decisions with respect to the "second" 25 million ounces of gold.

Mr. Leddy stated that he would wish to look at the provision itself, in order to ascertain what the implications might be for the future. If there was to be any definition of terms in the report, it should be made quite clear that the meanings attached to the terms applied only for the purposes of the amendment and not to any preamendment events.

Page 53

Mr. Bull noted that it was not at all clear whether the sentence "the Fund will be able, therefore, to make the transfers required by this provision by using the proceeds of the sale, or by selling the gold to developing members at the present official price in the same way as it will be required to act under (a) above with respect to the entire membership" related to completing the disposition of the gold, as it should, or whether it also related to the time before the amendment of the Articles. It would be useful if the General Counsel could examine the matter.

The General Counsel said that he would review the text at the bottom of page 51 and on pages 52 and 53 to ensure that the appropriate portions clearly referred to the postamendment position only. The whole passage would be reorganized.

Page 54

Mr. Foglizzo, refering to the language in the box at the top of page 54, commented that the application of an ineligibility clause to restitution and the use of the Special Disbursement Account under Article V, Section 12(f)(iii), had not been fully discussed.

The General Counsel commented that his understanding had been that it had been suggested that the distribution of profits under Article V, Section 12(f)(iii) and the corresponding distribution in specie, if any, for the benefit of developing members should not be available if a particular member should be declared ineligible to use the Fund's resources. In response to a question that he himself had put, he had received the reply that the intention was to limit the ineligibility to one cause only, namely, the improper use of the resources of the General Resources Account. It was for that reason that it was mentioned that the ineligibility was one that arose under Article V, Section 5, rather than under the provision corresponding to the present Article XV. It had also been considered improper to deprive the developing country of the benefits under Article V, Section 12(f)(iii) with finality. There was a suspension until eligibility

was restored, and then the suspended benefits would be granted. It had been unnecessary to declare that a member would be ineligible to use the other resources of the Special Disbursement Account because those resources were in any event at the discretion of the Fund, unlike the general resources of the Fund, which were available to members under certain entitlements.

Mr. Foglizzo commented that, while he would accept the views of the majority, there were two schools of thought. The General Counsel was a member of the first, which believed that the Fund had an automatic obligation to provide its resources to member countries on certain occasions. On the other hand, the first school of thought continued, there were occasions when the Fund had to exercise judgment. If he understood him correctly, the General Counsel believed that where the obligation was automatic, the Fund should have the power to make a member ineligible to receive the resources from it. On the other hand, where there was freedom of choice for the Fund, there was no need to write such a condition into the Articles because there was a presumption that the Fund would not make its resources available to members that were behaving incorrectly.

The second school of thought, Mr. Foglizzo explained, held that where the obligation was automatic. The meaning was that the Board of Governors or legislatures had entered into certain engagements, and nothing should prevent the members from receiving what the Board of Governors or legislatures had decided that they should receive. In counterpart, in those cases where the Fund had to exercise its judgment, it would be particularly useful to have an ineligibility clause to guide the Fund and to prevent it making its resources available to members behaving improperly. While he could accept either interpretation, he would be interested to know whether the Executive Directors followed the first, which was that described on page 54, or the second, which would not require an ineligibility clause for restitution in Article V, Section 12(f)(iii) but would require one for Article V, Section 12(f)(ii).

The General Counsel observed that under Article V, Section 12(f)(ii) the Fund would be able to refuse the use of resources of the Special Disbursement Account in any circumstances that it thought appropriate, including but not limited to an ineligibility to use the resources of the General Resources Account. There was therefore no difference of opinion between Mr. Foglizzo and those who asked for the insertion of the text in the box. All that Mr. Foglizzo was suggesting was that there should be an automatic and explicit ineligibility in Article V, Section 12(f)(ii) if there was an ineligibility to use the resources of the General Resources Account.

Mr. Leddy commented that the language inserted in the box on page 54 appeared to him to be in accordance with the outcome of the earlier discussion. It was desirable for the Fund to have some discretion in the

specific application of a general decision on the distribution of the Fund's resources under either Section 12(f)(ii) or Section 12(f)(iii). As he understood the situation, what was being proposed was a simple suspension of eligibility; once a member had done away with the cause of the ineligibility, it could have access to the resources in question. Second, the provision could in any event be overridden by a majority of the votes cast.

The Executive Directors concluded for the time being their discussion of the second draft of their report to the Board of Governors on the second amendment of the Articles of Agreement, but agreed to resume the debate the following day.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/100, July 9, 1976

H. JOHANNES WITTEVEEN
Chairman

ROGER V. ANDERSON
Acting Secretary