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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/45

10:00 a.m., March 17, 1976

H. J. Witteveen, Chairman
W. B. Dale, Deputy Managing Director

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

R. V. Anderson, Acting Secretary
D. H. Ross, Assistant

Also Present

Asian Department: S. M. Thakur. European Department: P. C. Hole. Fiscal Affairs Department: D. C. Treffry. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; P. R. Lachman, J. K. Oh, S. A. Silard. Research Department: J. J. Polak, Economic Counsellor and Director. Treasurer's Department: D. S. Cutler, D. Williams. Bureau of Language Services: J. S. Haszard, Director. Information Office: J. H. Reid, Director; H. Hartmann. Personal Assistant to the Managing Director: D. W. Green. Advisors to Executive Directors: C. Bouchard, J. K. E. Cole, F. K. Hussein, A. Malek. Technical Assistants to Executive Directors: V. Amiel, S. Arancibia, E. Avillez, C. J. Batliwalla, D. Berthet, T. Bilget, I. M. Cobbold, B. Goos, R. Khonsary, H. Kuroda, E. Leung, C. J. Lohmann, A. G. Morris, K. Nakayama, A. B. Nymark, M. Pietinen, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vilches, M. A. Wasfy, P. Zimmer.

1. REPORT BY MANAGING DIRECTOR

The Chairman informed Executive Directors that he had recently visited Basle for a meeting of the Board of Directors of the Bank for International Settlements. He had not been present at the meeting of the Governors of the Group of Ten, as they did not discuss the problem of the gold ceiling; Governor Zijlstra had felt that significant differences of view still remained and that it was, perhaps, not urgent to solve them. Moreover, it appeared improbable that in the near future the ceiling would become relevant. He had had, however, several informal meetings, including one with a number of Governors, at which the preparations for Fund gold auctions had been discussed. Some Governors were anxious about the applicability to the BIS of the conditions to be established by the Fund for participation in the auctions. At a dinner for the Governors he had elucidated on a speech he had previously made in Frankfurt on international liquidity, and an interesting discussion had followed.

In Egypt, the Chairman remarked, he had been invited by the Prime Minister to comment on the economic situation and on the problems and policies of the country. He had had intensive and fruitful discussions with President Sadat and the three ministers responsible for economic affairs, finance and planning. With them he had discussed various important aspects of financial and economic policies and had reached agreement in principle on some substantial changes in policy that could be the basis for a stand-by arrangement with the Fund. The details of the stand-by arrangement would be worked out by the staff mission that would be visiting the country in the second half of April.

The Executive Directors took note of the statement by the Managing Director.

2. COMPREHENSIVE DRAFT AMENDMENT - RESIDUAL ISSUES - ELECTION AND APPOINTMENT OF EXECUTIVE DIRECTORS

The Executive Directors continued from EBM/76/39 (3/11/76) their discussion of a redraft by the General Counsel of Article XII, Section 3(b).

The redraft read:

> The Executive Board shall consist of Executive Directors, who need not be Governors, as follows:
>
> (i) five shall be appointed by the five members having the largest quotas; and

(ii) fifteen shall be elected by the other members.

For the purpose of each regular election of Executive Directors, the Board of Governors, by an 85 per cent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above. The number of Executive Directors in (ii) above shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below, unless the Board of Governors decides, by an 85 per cent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board.

They also had before them a statement by the General Counsel made at EBM/76/37 (3/10/76) (see Annex I).

Mr. Drabble said that he strongly favored modernization of Article XII, Section 3(b). It would be inadvisable to make extensive amendments to the Articles and to leave untouched an outdated provision that affected not only the Executive Board but also the Interim Committee and potentially the Council. His constituency had unique problems with the precise wording of the present Articles, which worked in an arbitrary fashion because of the phrase "American Republics." His authorities would be reluctant to continue to live under the present Articles when an opportunity for change had presented itself.

He would, therefore, prefer the draft amendment prepared by the General Counsel and initially discussed at EBM/76/39 (3/11/76) to the present Articles, Mr. Drabble indicated. While his authorities had always been conscious of the need to keep the Executive Board at an effective operational size, he had been impressed by the arguments of a number of Executive Directors regarding the possible disturbing effects that could arise from appointments under Article XII, Section 3(c). In that connection, he would welcome an opportunity to consider whether the presently proposed amendment had, in fact, been made flexible enough to deal with the problem. The matter was of sufficiently great importance for the effective future operation of the Fund not to be left unresolved, thus, by default, keeping the present Article unchanged.

Mr. Kafka stated that he remained strongly opposed to any change in the status quo. The balance in the representation of Executive Directors on the Executive Board was threatened not only by the possible appointment of Executive Directors by creditors, but also by the formation of new constituencies, and the entry of new members. The language proposed in the General Counsel's draft amendment therefore appeared to be inadequate.

Mr. Lieftinck commented that, although he appreciated the effort to produce an alternative to the existing text of Article XII, Section 3(b), he would prefer to adhere to the present provision, which gave the kind of flexibility that was needed. While it was true that the proposed amendment would update the present Article, he could not accept an arrangement by which, if an additional Executive Director were appointed under Section 3(c), the number of elected Executive Directors should be automatically reduced unless there was an 85 per cent majority to prevent such a reduction. If the General Counsel's draft was the only remaining alternative, he would support retention of the existing text of the Articles.

Mr. Yaméogo remarked that if all the countries presently members of the Fund had been represented at Bretton Woods, the text of Article XII, Section 3(b) would have been different; the provision should be modernized and he therefore supported the General Counsel's proposed amendment. Decision-making should be equitably distributed between the developing countries and the developed countries. The preferential treatment accorded to the American Republics at Bretton Woods should not continue after the amendment of the Articles; the African, Latin American and Asian countries should all be adequately represented. He was pleased to note that a member that was entitled to appoint an Executive Director could decline to do so if it so wished. The Executive Directors would also do well to recognize not only that balance in the Executive Board was important but also that the burden on an Executive Director could become unduly large if the number of countries that elected him was very great.

Mr. Monday endorsed the remarks of Mr. Drabble and Mr. Yaméogo. He was strongly opposed to maintaining the status quo and preferential treatment for the American Republics until the same treatment was accorded to Africa and the present two African seats were protected. He supported the redraft of Article XII, Section 3(b) proposed by the General Counsel.

Mr. Whitelaw indicated that he could support neither the proposed redraft nor the present text of Article XII, Section 3(b). He could not accept the proposed amendment, because an 85 per cent majority would be required to maintain the number of elected Executive Directors in the event of the appointment of an Executive Director under Section 3(c). Equally, he could not endorse the status quo, since it was clearly out of date and did not deal with the problem to which the Executive Directors had originally addressed themselves, namely, the problem that would arise for the 15 elected Executive Directors if an additional Executive Director were appointed under Section 3(c). The status quo offered nothing in terms of security for those constituencies that would be threatened by such an appointment. He would be interested to hear Mr. Drabble's ideas on the subject. In the event of there not being

sufficient support for the amendment, he assumed that the Executive Directors would automatically revert to the status quo.

Mr. Kafka, referring to Mr. Yaméogo's remarks, said that his problem was not with the continuation of the preferential treatment for the American Republics. The balance between the developing countries and others would be better protected with an Executive Board of 12 than if an Executive Board of 20 was mentioned in Article XII, Section 3(b). Mr. Foglizzo had put forward a similar argument, which he fully endorsed.

Mr. de Groote commented that, like Mr. Drabble and others, he felt that the Executive Directors should not fail in their responsibility to modernize Article XII, Section 3(b). His preference had been for a text along the lines of the one previously proposed by Mr. Lieftinck, whereby if an additional Executive Director was appointed under Section 3(c) the number of Executive Directors would automatically have been increased. If that proposal were unacceptable, he could support the General Counsel's draft amendment, which had several advantages over the present text. The number of 15 elected Executive Directors would be recognized in the Articles; there would be no preferential treatment for the American Republics; the appointment of an Executive Director under Section 3(c) would be optional; and, the Executive Director appointed under that section could decide whether or not he wished to continue to represent and cast the votes of the other members of his constituency.

He wondered whether the Executive Directors could not accept changing the presumption in the last sentence of the redrafted text in favor of maintaining, rather than reducing, the number of elected Executive Directors if there was an appointment under Section 3(c), Mr. de Groote continued. The sentence in the text would therefore read: "The number of Executive Directors in (ii) above shall be maintained if Executive Directors are appointed under (c) below, unless the Board of Governors decides, by an 85 per cent majority of the total voting power, that maintenance of the number would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board." Of course, the United States seat would still have a veto on the maintenance of the number of elected Executive Directors, and hence on an increase in the size of the Executive Board, if an additional Executive Director were appointed under Section 3(c).

Mr. Åsbrink supported Mr. de Groote's proposal.

Mr. Ryrie said that if the Executive Directors had to choose between the redraft presented by the General Counsel and the status quo, he would prefer the redraft. However, his authorities were not entirely satisfied

with the text because of its rigidity on the question of whether, in any circumstances or even temporarily, there could be an increase in the number of Executive Directors.

Mr. Deif commented that his authorities were split between retaining the present Article and rejecting the proposed draft in its present form. Previously he had opposed the General Counsel's proposal because it contained a presumption toward reducing rather than maintaining the number of elected Executive Directors if an additional Executive Director were appointed under Section 3(c). He could therefore support Mr. de Groote's proposal.

He understood that a change had been proposed in the first line of the General Counsel's draft to make it read "the Executive Board shall consist of Executive Directors presided over by the Managing Director," Mr. Deif recalled. His authorities objected to that suggestion, because it would mean that the Executive Board would not be able to meet and undertake its regular functions unless the Managing Director was presiding. If the Executive Directors were to include the phrase "presided over by the Managing Director," they should include the language of Rule C-5(b) in the Rules and Regulations, which said "in the absence of the Managing Director, the Deputy Managing Director shall act as Chairman and shall have a deciding vote in case of an equal division. In the absence of both the Managing Director and the Deputy Managing Director, the Executive Director selected by the Executive Board shall act as Chairman." There had been occasions when neither the Managing Director nor the Deputy Managing Director had been expected to be present in some of the executive sessions of the Executive Board.

The General Counsel commented that the language of the proposal as modified would make no change in the present Articles. It was, in fact, provided in Article XII, Section 4 of the present Articles that "the Managing Director shall be Chairman of the Executive Directors." The Rules and Regulations reflected the interpretation that the Executive Board referred to the Executive Directors presided over by the Chairman. What would be a considerable change would be to say that the Executive Board simply consisted of Executive Directors. That would not be correct either under the present Articles or under the amended Articles.

Mr. Deif remarked that there was no difference of view between himself and the General Counsel regarding Article XII, Section 4, but rather over its possible interpretation. To insist that the Executive Board should consist of Executive Directors presided over by the Managing Director could be interpreted to mean that the Executive Directors could not meet unless presided over by the Managing Director or Deputy Managing Director; to have such a reference in the Articles could be counterproductive.

The General Counsel recalled that an earlier proposal had said "the Executive Board shall consist of Executive Directors and the Managing Director as Chairman." There was always some flexibility in connection with procedural matters. For instance, the present Articles did not refer to the Deputy Managing Director.

Mr. Deif indicated that he could accept the language cited by the General Counsel with the understanding that such language did not prevent the Executive Board from meeting in the absence of the Managing Director or the Deputy Managing Director.

Mr. Amuzegar said that he had previously proposed the wording "chaired by the Managing Director."

Mr. Lieftinck noted that draft Article XII, Section 1 said "the Fund shall have a Board of Governors, an Executive Board, a Managing Director, and a staff... ." There was a clear distinction between the Executive Board and the Managing Director. He would not object to stipulating somewhere in the Articles that the Executive Board normally should be presided over by the Managing Director. He was Chairman of the Executive Board but he should not be added to the Executive Board. It would not be correct to say that the Executive Board should consist of Executive Directors and the Managing Director as Chairman; it should only consist of a certain number of Executive Directors.

The General Counsel commented that he could not agree with the analysis presented by Mr. Lieftinck. Draft Article XII, Section 1 did not contradict the description he had given of the structure of the Fund. The Managing Director was mentioned separately in Section 1 because he had a double function. He was not only the Chairman of the Executive Directors, but also the head of the staff; and he had separate functions in that respect. That was why he was mentioned in Article XII, Section 1. The matter had been settled in the present Articles that the Managing Director was the Chairman of the Executive Directors. In the amended Articles the words "Executive Directors" would be replaced by "Executive Board." An essential feature of the structure of the Fund was that the Managing Director should be the link between two separate entities in the Fund. He should belong to both the Executive Board and the staff, of which he would be executive head.

Mr. Gavaldá remarked that he would prefer to change the Articles rather than adhere to the present text of Article XII, Section 3(b). However, his authorities were not fully satisfied with the redraft presented by the General Counsel, particularly with respect to the automatic reduction in the number of elected Executive Directors if an additional Executive Director were appointed under Section 3(c). He would, therefore, support Mr. de Groote's proposal.

Mr. Foglizzo said that he understood that at present the Executive Directors had a choice between accepting the redraft presented by the General Counsel or adhering to the status quo, with an appropriate paragraph in the report on Amendment in both cases. In those circumstances, he would prefer to maintain the present Articles for the reasons he had expressed at a previous meeting. However, it appeared that the Executive Directors were entering into a discussion of possible amendments to the General Counsel's proposed draft, and in that respect the proposal made by Mr. de Groote seemed sensible and useful. His position had been governed by his interest in helping to protect some constituencies that might be threatened, but if they believed that they would be better protected by the draft amendment than by an appropriate paragraph in the report, he could accept their view. The present redraft was a compromise resulting from an attempt to modify the Articles to permit an automatic increase in the size of the Executive Board if an Executive Director were appointed under Section 3(c), and the strong objections by the U.S. chair to such a proposal. While he would welcome improvements in the General Counsel's redraft of the provision, if none could be made he would prefer to keep the present Articles.

Mr. Amuzegar indicated that the Articles should be amended with the specific objective of maintaining, if not improving, the balance in the Executive Board between the developed countries and the developing ones. If an Executive Director were appointed under Section 3(c) the presumption should be that the size of the Executive Board would increase temporarily. Moreover, the Articles should provide for a future increase in the number of Executive Directors commensurate with increases in the Fund's membership. For those reasons he was unable to endorse either alternative. Presently, he was inclined to consider further Mr. de Groote's proposal.

Mr. Pieske recalled that the previous week the Executive Directors had said that decisions once taken in the course of discussions on amendments should be adhered to. It was his understanding that at EBM/76/39 (3/11/76) the Executive Directors had decided that at the present meeting they would make a choice between the existing Articles and the redraft presented by the General Counsel; they should therefore do so. Moreover, his authorities had come to a conclusion on the basis of such an understanding. Both alternatives would be acceptable, Mr. Pieske observed, because, as in the past, he expected that the operation of the provision would be carried out in a reasonable manner. The proposal by Mr. de Groote--which had received some support--did not appear to be in line with the understanding reached. His suggestion would, in effect, be a retrograde step, as it would introduce the kind of nearly automatic increase in the size of the Executive Board that had been rejected at a previous discussion; only an 85 per cent majority of the Board of Governors could prevent an increase under Mr. de Groote's

proposal. He wondered whether a compromise could not be found between the present Articles and the proposed amendment. Perhaps the provision could be redrafted with a clear statement in the report to the effect that not only would all decisions on the representation of the African countries in the Executive Board and in the Interim Committee continue to be respected, but also that in redrafting the Article the Executive Directors would not change the status of the American Republics in the Executive Board and in the Interim Committee.

Mr. Sacerdoti felt that there was a need to modernize the Articles, and, for the reasons stated by Mr. Drabble, he could not accept maintaining the present Article. He recalled that during the previous week Mr. Drabble had proposed reducing the majority of 85 per cent to 70 per cent, and other suggestions had been made by Mr. Lieftinck and Mr. de Groote. It was not his understanding that the Executive Directors had agreed to reduce the number of alternatives; in fact, some Executive Directors had supported the redraft of Article XII, Section 3(b) presented at EBM/76/39 (3/11/76), while others had favored the General Counsel's statement at EBM/76/37 (3/10/76), which provided for a more automatic increase in the number of Executive Directors. He would prefer a compromise and could therefore support Mr. de Groote's proposal.

Mr. Drabble proposed that the majority for decisions relating to Article XII, Section 3(b) should be reduced from 85 per cent to 70 per cent, and that the number of elected Executive Directors could be reduced by one rather than two. The text would, therefore, read "the number of Executive Directors in (ii) above shall be reduced by one, if one or more Executive Directors are appointed under (c) below, unless the Board of Governors decides, by a 70 per cent majority of the total voting power... ." Unless there was a lower majority, the presumption of a reduction would be too rigid. He could appreciate that the U.S. authorities might have some difficulty with a lower majority, as it might run counter to the original decision. The 85 per cent majority was intended, however, to govern the permanent size of the Executive Board and not a temporary change in its size. If his proposal were unacceptable, he would wish to consider carefully Mr. de Groote's suggestion, which would not involve a reduction in the majority required in the Board of Governors.

The Deputy Managing Director said that it was his understanding that, after long discussions and with considerable reluctance, a number of Executive Directors had agreed that the only choice before them was to endorse the basic approach of the redraft presented by the General Counsel at EBM/76/39 (3/11/76) or to accept the existing provision on the election of Executive Directors. It was that choice on which he had asked the Executive Directors to consult their authorities, and to be prepared to reach a clear decision at the present meeting.

Mr. de Groote agreed with the Deputy Managing Director that the choice was to be between the basic approach of what was contained in the General Counsel's redraft and the proposal for an appropriate paragraph in the report on amendment. He could not agree with Mr. Pieske that the discussions had reached the stage at which Executive Directors should not try to improve the text of the draft amendment; the Executive Directors had not constrained themselves to making a choice between the redraft and the existing Articles when the elements for an improvement to the amendment were clearly available. Under Mr. Lieftinck's suggestion the number of elected Executive Directors would have increased automatically if one or two Executive Directors were appointed under Section 3(c). However, under his own proposal such an increase would be conditional on the approval of the Board of Governors by an 85 per cent majority. The difference between his idea and the redrafted text was that in the former the number of elected Executive Directors would normally be maintained rather than reduced.

Mr. Leddy said that he believed that at the present meeting the Executive Directors were to have made a choice between the redraft presented by the General Counsel and the existing Articles. At a previous meeting Mr. Cross had said that he would be prepared to accept the redraft of Article XII, Section 3(b) if it would clearly produce an agreement. Whether there was amendment or not, his authorities were prepared to have a statement in the report along the lines of the one presented by the General Counsel at EBM/76/35 (3/8/76). They could not go beyond the proposals contained in the General Counsel's redraft of Article XII, Section 3(c).

Of the Executive Directors who had spoken, Mr. Leddy observed, none had clearly favored the amendment, except Mr. Pieske who had said he could accept either alternative. Those who favored an amendment along the lines of the General Counsel's redraft wished to make further changes to it, and that would not be acceptable to his authorities. If the General Counsel's redraft could not produce agreement, he would prefer to adhere to the present text of the Articles. Mr. Kafka and Mr. Foglizzo had made powerful arguments in support of maintaining the status quo, which was probably more flexible than the proposed amendment. For instance, it would not establish the number of 20 Executive Directors as an important benchmark; the Executive Directors had not been bound by the number 12 in the present Articles and there was, of course, provision for increases so that the original benchmark now had little meaning. He had not been persuaded by the arguments that the Executive Directors should modernize Article XII, Section 3(b), as there were other anachronisms in the amended Articles, for example, in Article VIII, Section 4.

Mr. Whitelaw mentioned that previously the Executive Directors had had a text that the General Counsel had prepared based on ideas put

forward by Mr. Jagannathan. It was unclear whether or not there had been a majority of the voting power in favor of accepting that particular proposal. The Executive Directors had consulted with their authorities, and some of the comments at the present meeting were, naturally, a consequence of those consultations. If the Executive Directors reflected on a matter, they should be entitled to hold a different view from the one that they had taken on a previous occasion.

The proposal of Mr. de Groote had his support and he was interested in Mr. Drabble's suggestions, Mr. Whitelaw remarked. Mr. Pieske's proposal raised the problem of knowing where the safeguarding of constituencies should end. In any event, his suggestion would not solve the questions of the size of the Executive Board or of the number of elected Executive Directors.

Mr. Lieftinck said that he believed that the recollection of the Deputy Managing Director was correct regarding a choice between two alternatives, provided that further alternatives did not present themselves. He agreed with Mr. de Groote and Mr. Whitelaw that so long as the Executive Directors had not taken a clearcut decision, they should be free to improve on the text of the draft amendment. He had submitted the two alternatives to his authorities and had requested them to say which of them they would prefer. If there were to be additional proposals, he would feel free to indicate his position with respect to them.

Mr. Amuzegar commented that the issue should be settled on the basis of the proposals made by Mr. de Groote and Mr. Drabble.

The Chairman considered that there appeared to be sufficiently widespread interest in the alternative suggestions for them not to be excluded from discussion. However, the Executive Directors should bear in mind the clear and strong views that had been expressed by Mr. Leddy.

Mr. Heyden remarked that Mr. Suárez' authorities had consistently supported the maintenance of 3 seats for the American Republics; that was the reason why they were in favor of amending the Articles to reflect the present de facto status quo, namely, 5 appointed Executive Directors, 3 Executive Directors elected by the American Republics, and 12 other elected Executive Directors. However, that proposal had not been accepted. His authorities had been willing to have 5 appointed Executive Directors plus 15 elected Executive Directors, without any protection for the American Republics, on the express condition that the size of the Executive Board would automatically increase to 21 when an additional Executive Director was appointed under Article XII, Section 3(c), subject to a 70 per cent majority in the Board of Governors. That proposal too had been unacceptable. After carefully evaluating the new draft proposal and their own preferences, his authorities were in favor of maintaining the present Articles.

Mr. Kawaguchi indicated that his authorities would prefer to modernize Article XII, Section 3(b), but if agreement could not be reached they could reluctantly accept the status quo. He could not go along with Mr. de Groote's suggestion, as the presumption should be in the direction of an automatic reduction in the number of elected Executive Directors if an additional Executive Director was appointed under Section 3(c). Mr. Drabble's proposal to reduce the required majority from 85 per cent to 70 per cent was attractive, as it would meet the wishes of most Executive Directors. His suggestion that the number of elected Executive Directors should only be reduced by one, even if two were appointed, was interesting. If it would help in reaching a compromise, he could support that proposal.

Mr. Sein Maung said that if he had to choose between the two basic alternatives, he would prefer the General Counsel's redraft. He would, however, welcome proposals that would tend to increase the size of the Executive Board if an Executive Director were appointed under Section 3(c).

Mr. Lieftinck commented that Mr. de Groote's suggestion deserved careful consideration, although he could accept the present presumption. In an earlier discussion he had proposed the deletion of the last sentence in the General Counsel's redraft. That would have given the Board of Governors freedom at each regular election to decide on an increase or a decrease in the number of Executive Directors, depending on whether the Fund's membership had risen or declined and on whether additional Executive Directors had been appointed under Section 3(c). If the text of the Article was left unaltered, the report should contain a full discussion of the various considerations to be taken into account in changing the number of elected Executive Directors or the size of the Executive Board.

Mr. Jagannathan remarked that his authorities were in favor of updating the Articles. The major question appeared to be what would happen if an additional Executive Director were appointed. Mr. Whitelaw had referred to the draft of the General Counsel at EBM/76/37 (3/10/76), which provided that the number of elected Executive Directors should be reduced only in certain circumstances. Mr. de Groote had proposed that their numbers should be reduced only by an 85 per cent majority and Mr. Drabble had suggested that a 70 per cent majority should be required to maintain the number of elected Executive Directors. He still favored the General Counsel's proposal put forward at EBM/76/37 (3/10/76), but he could support any change that would avoid a virtually automatic reduction in the number of elected Executive Directors if an Executive Director were appointed under Section 3(c).

Mr. Ryrie reiterated that if the choice was between the draft amendment and no change in the Articles, he would support the amendment;

however, it would be useful to try to improve the text. As to Mr. de Groote's suggestion, he would not be keen on reversing the presumption; the size of the Executive Board ought not to be increased above 20. Perhaps Mr. Drabble's proposal would be acceptable if he were to restrict his suggestion to reducing the majority from 85 per cent to 70 per cent in the last sentence of the General Counsel's redraft and leave the text unaltered regarding the reduction in the number of elected Executive Directors if one or two were appointed under Section 3(c). There appeared to be a strong case for a 70 per cent majority; as he doubted whether a veto would be appropriate. That the Executive Board should not become too large and unwieldy was a matter in which all members of the Fund were interested. If an Executive Director were appointed under Section 3(c), there might be a general desire not to increase the size of the Executive Board and, therefore, a 70 per cent majority ought to be a sufficient safeguard. In addition, the increase in the norm from 75 per cent of quota to 100 per cent would diminish the chances of the appointment of a sixth or seventh appointed Executive Director.

Mr. Kafka said that, while Mr. Lieftinck's proposal would not express a presumption, it would not alter the fact that the number of elected Executive Directors could only be maintained by an 85 per cent majority of the Board of Governors. The question of imbalance related not only to the additional appointment of Executive Directors, but also to the formation of new constituencies. At most a bare majority of the voting power was in favor of a change in the Articles. He wondered whether it would be proper to include in the Articles a profound change that had not been discussed by the Interim Committee.

Mr. Jagannathan, Mr. Monday, Mr. Yaméogo and Mr. Sacerdoti supported Mr. Ryrie's proposal.

Mr. Lieftinck indicated that he could not support Mr. Ryrie's proposal, because he could not endorse the presumption of a reduction in the number of elected Executive Directors if there were additional appointed Executive Directors. Those appointments would be for two years, and to upset the structure of the Executive Board and the Interim Committee for such a temporary occurrence would be unacceptable.

Mr. Deif associated himself with Mr. Lieftinck. He could support Mr. Lieftinck's proposal to delete the last sentence of the General Counsel's redraft and to write a detailed statement in the report.

Mr. de Groote endorsed the remarks of Mr. Lieftinck. The situation caused by the appointment of one or two Executive Directors under Section 3(c) would be only temporary. The presumption in favor of a reduction of the number of elected Executive Directors should be reversed, because the increase in the number of appointed Executive Directors would be

exceptional and for only two years; the appointment of an Executive Director by a creditor country should not upset the structure of the Executive Board or reduce the number of elected Executive Directors, unless the Board of Governors decided by an 85 per cent majority that such a reduction was desirable.

Mr. Leddy remarked that Mr. de Groote's proposal would create a presumption that the Executive Board would expand temporarily if an additional Executive Director were appointed under Section 3(c). Several Executive Directors had commented that a reduction in the number of elected Executive Directors would be upsetting, but the reasons for that argument were not clear. Regardless of what might happen to the number of Executive Directors, the appointment of an additional Executive Director could upset constituencies. In fact, the effort to maintain 15 elected Executive Directors could cause substantial changes in the composition of constituencies. Moreover, it was most unlikely that a reduction of the size of the Executive Board at the end of the temporary appointment would be easily accomplished; there would be difficulties both at the beginning and at the end of the temporary period. He appreciated Mr. Ryrie's proposal, but he was unable to support it.

Mr. Amuzegar said that, having listened to Mr. Leddy's reaction to Mr. Drabble's proposal, he would revert to his original position and support Mr. Lieftinck.

Mr. Whitelaw commented that he could support Mr. Ryrie's proposal. There were 15 elected Executive Directors with more than 50 per cent of total voting power and their views about the matter of the number of elected Executive Directors should be taken into account. An 80 per cent majority would be required to ratify the draft amendments. If the 15 elected Executive Directors felt strongly enough about Article XII, Section 3(b), they could block the amendments. The U.S. chair should give further consideration to the matter.

The Chairman observed that discussion of the variations of the two alternatives had not helped the Executive Directors to reach an agreement. A number of Executive Directors appeared to favor an amendment along the lines of the General Counsel's redraft with some variations, and about the same number apparently wished to retain the present text of Article XII, Section 3(b). It would not be advisable to decide the matter by a slender majority. Perhaps the Executive Directors should revert to discussing the two alternatives with which they had started. He wondered whether Mr. Leddy could agree to the General Counsel's redraft as a compromise, and whether those Executive Directors who wished to make further improvements to it would be prepared to drop their proposals.

Mr. Leddy indicated that he could accept the General Counsel's redraft of Article XII, Section 3(b) if it were to lead to an agreement. However, a number of Executive Directors appeared to favor no amendment, which was his original position. If there was a strong consensus--including the members that felt most affected by the provision--in favor of the General Counsel's redraft, he could accept it.

Mr. de Groote remarked that his own proposal and that of Mr. Drabble and Mr. Ryrie appeared to command more support than either of the alternatives. Perhaps if the U.S. authorities could give further thought to his proposal, agreement could be reached.

Mr. Ryrie said that he believed that the discussion had shown that even among those Executive Directors who would prefer to modify the General Counsel's redraft there was a good deal of disagreement. Some Executive Directors would not like to accept the presumption that the number of elected Executive Directors should be reduced, while others would prefer to do so. He had hoped that a small modification might have provided a basis for a solution, but clearly a consensus did not exist.

Mr. Drabble commented that he had been prepared to accept Mr. Ryrie's modification to his proposal, which had been an attempt to find a compromise between those who favored a presumption of reducing and those who preferred a presumption of maintaining the number of elected Executive Directors if additional Executive Directors were appointed under Section 3(c). Specifically, his original proposal would have meant that if one additional Executive Director were appointed, the number of elected Executive Directors should normally decrease, but if two were appointed the size of the Executive Board should increase by one subject to an 85 per cent majority. There appeared to be a significant number of Executive Directors who could support Mr. Ryrie's proposal to reduce the majority from 85 per cent to 70 per cent; perhaps Mr. Leddy could consider that suggestion.

Mr. Amuzegar remarked that the Executive Directors should give Mr. Leddy an opportunity to discuss with his authorities the proposals of Mr. Drabble and Mr. Ryrie.

Mr. Foglizzo considered that the General Counsel's redraft of Article XII, Section 3(b) presented at EBM/76/39 (3/11/76) could not constitute a compromise, because few Executive Directors could accept it as presently drafted. It only dealt with the problem of the appointment of an Executive Director under Section 3(c), and that could be discussed in the report on amendment. The text appeared to prejudge how such matters as changes in constituencies as a consequence of quota increases or increases in the Fund's membership would be dealt with, namely, by presuming that the size of the Executive Board should be maintained

at 20 Executive Directors. If the whole matter were dealt with in the report, it would not contain such a presumption. The report would mention that the Executive Directors considered the present number of Executive Directors satisfactory under the present conditions, but that there could be changes as circumstances altered.

Mr. Lieftinck said that he believed that the Executive Directors were discussing a sensitive and important amendment to the Articles. In trying to amend and modernize the Articles the Executive Directors had adopted the policy that unless there was a large majority in favor of an amendment they would adhere to the status quo. Perhaps the best conclusion to draw from the present discussion would be that there was not sufficient support to amend Article XII, Section 3(b).

Mr. Kafka agreed with Mr. Foglizzo and Mr. Lieftinck that a provision in the present Articles should not be amended when there was strong opposition to a change.

Mr. Leddy commented that the General Counsel's text, as presently drafted, apparently had no support. The Executive Directors seemed to be divided between adhering to the present Articles and making changes beyond those that had been proposed by the General Counsel.

The Chairman observed that, among those Executive Directors who wished to modernize Article XII, Section 3(b), Mr. Ryrie's proposal commanded the most support.

Mr. Whitelaw said that he believed that many of the Executive Directors could support Mr. de Groote's proposal; but that, if it were not acceptable, they could go along with the 70 per cent majority suggested by Mr. Ryrie.

Mr. Yaméogo wondered whether it might not be possible to combine the proposals of Mr. de Groote and Mr. Ryrie.

Mr. Pieske remarked that Mr. de Groote's proposal to reverse the presumption in the redraft presented by the General Counsel would not take account of the case in which the additional appointed Executive Director continued to cast the votes of his former constituency. In such a case there would be no reason to expand the Executive Board to 21.

Mr. de Groote replied that agreement on the matter to which Mr. Pieske had referred was implicit in the General Counsel's redraft. His proposal was directed to a different issue and would not apply to an additional appointed Executive Director who decided to continue to cast the votes of his former constituency. The text would read "the number of Executive Directors in (ii) above shall be maintained if Executive Directors are

appointed under (c) below, unless the Board of Governors decides, by an 85 per cent majority of the total voting power, that maintenance of the number would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board."

Mr. Ryrie indicated that his proposal was to change "eighty-five" to "seventy" in the fifth last line of the General Counsel's redraft of Article XII, Section 3(b).

Mr. Lieftinck said that he would prefer to delete the last sentence of the redraft presented by the General Counsel.

The Executive Directors agreed to continue their discussion of the matter in the afternoon.

3. AMENDMENT - DRAFT REPORT TO BOARD OF GOVERNORS

The Executive Directors continued from EBM/76/44 (3/16/76) their page-by-page consideration of the second draft of the report to the Board of Governors (DAA/76/5, Rev. 1, 3/1/76), returning to Section Q--Special Drawing Rights--paragraph (iv) on page 87.

Page 87

Mr. Lieftinck said that, although at EBM/76/44 (3/16/76) he had expressed some support in principle for Mr. Kafka's proposal to allow the Fund to enter into the same operations and transactions in the Special Drawing Account as members, he would prefer to maintain Article XVII, Section 3(ii) and (iii) unchanged. Mr. Kafka's amendment would open up the possibility for the Fund to enter into all kinds of transactions, including some that the Executive Directors had decided would be inappropriate at the present time. There might be some specific transactions that the Executive Directors would like to have included in the amendments, but he could not go as far as Mr. Kafka had proposed.

Mr. Sacerdoti commented that the Executive Directors should not give a blank authorization for operations by the Fund in SDRs, because that might lead to operations that would be contrary to provisions in other parts of the Articles. However, the Fund should be allowed to enter into some specifically defined operations, such as borrowing SDRs. Under draft Article VII the Fund could borrow currency; it appeared reasonable to allow it to borrow SDRs. If the role of the SDR were to be strengthened, it would be absurd to say that the Fund could borrow all kinds of currency but not SDRs. It might also be appropriate to allow the Fund to

obtain grants in SDRs. The Trust Fund would receive grants in currency, but under the present Articles it would not be possible to designate the Trust Fund to be a holder of SDRs.

Mr. Laske considered that looking into the question raised by Mr. Kafka would necessitate a close examination of all possible operations to decide those in which the Fund should be allowed to participate. The Executive Directors should not reopen the discussion, but should adhere to the draft Articles as they had been formulated. Regarding Mr. Sacerdoti's suggestion, the text of the provisions relating to SDRs, including Article VII, had been discussed at length and it would not be appropriate to raise the matter at the present time.

Mr. Leddy agreed with Mr. Laske. Mr. Kafka's proposal might authorize the Fund to enter into operations that the Executive Directors had specifically rejected on earlier occasions. The individual changes proposed by Mr. Sacerdoti would be less difficult to deal with, but they would still raise problems. For instance, he doubted whether it would be wise for the Fund to be allowed to borrow SDRs at 7 per cent and lend at only 3.5 per cent, which was the present rate of remuneration. The argument had been put forward at EBM/76/44 (3/16/76) that the Fund should be empowered to do whatever participants or other holders were permitted to do, but he did not find it persuasive.

Mr. Foglizzo remarked that the Executive Directors should adhere to the text as presently drafted. While he had been interested in Mr. Sacerdoti's proposals, there was a large difference between borrowing SDRs and borrowing currencies. Members were entitled to draw currencies and to receive them, but there was no such entitlement to receive SDRs from the General Account, only the possibility by agreement. It would be inappropriate therefore to introduce SDRs into Article VII as proposed by Mr. Sacerdoti. In addition, as the Fund was not allowed to make grants, it should not be allowed to receive SDRs as grants.

Mr. de Groote said that he had been attracted by Mr. Sacerdoti's proposal to give the Fund the possibility of accepting loans and grants in SDRs. His proposal would enhance the status of the SDR and make it possible for the Fund to enter into a number of operations that might be necessary in the future. Questions of interest rates need not be settled at the present time, but rather whether the Executive Directors wished to have certain possibilities open for the future that would, of course, be subject to an appropriate majority in the Executive Board.

Some of the Executive Directors, Mr. de Groote commented, appeared to be saying that the Fund should not have authority to do as Mr. Kafka had proposed. However, draft Article IV, Section 2(c)--which read "to accord with the development of the international monetary system, the

Fund, by an 85 per cent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article"--empowered the Fund to establish an exchange arrangement whose content was not specified. There appeared to be no harm in making it possible for the Fund to receive loans and grants in SDRs, as the provision would be subject to a high majority.

Mr. Ryrie recalled that he had expressed some sympathy for Mr. Kafka's proposal at EBM/76/44 (3/16/76); but it would raise a number of important new questions in which the Executive Directors should not become involved. In the interests of completing the amendment exercise quickly, the Executive Directors should adhere to the text as drafted.

The Chairman concluded that there was insufficient support for the proposal put forward by Mr. Kafka. For that reason, it might be best to leave the Articles as drafted and to maintain the text on page 87 of the report as written.

The Executive Directors agreed to the Chairman's conclusion.

Page 91

The General Counsel noted that Mr. Foglizzo had made a comment on the text at EBM/76/44 (3/16/76); and it would be taken into consideration.

Page 92

Mr. Foglizzo considered that in the third paragraph it would be helpful to say that some of the uses referred to in the subparagraphs were new and some others were improved but were not new.

The General Counsel remarked that he would look at the text.

Pages 93 - 95

No comment.

Page 96

Mr. Foglizzo said that he believed that the word "may" in the second line should be replaced by the word "shall."

The General Counsel indicated that Mr. Foglizzo was correct.

Pages 97 - 98

No comment.

Page 99

Mr. Lieftinck wondered whether the term "profits or surplus value" would be deleted as a consequence of remarks made at EBM/76/44 (3/16/76).

The General Counsel explained that the conclusion reached at EBM/76/44 (3/16/76) was that the language would not be changed, but there would be a general statement saying that the language would enable the Fund to make a decision about the disposition of the Fund's gold in an appropriate manner.

Pages 99a - 99b

No comment.

Page 100

Mr. Foglizzo recalled that majority for the prescription of medium of payment for additional subscription--Article III, Sections 3(a) and 3(b)--had recently been discussed, but that the question of reducing the majority from 85 per cent to 70 per cent had not been resolved. He would prefer to retain the figure of 85 per cent, both because the matter was political and because it had been on the basis of a compromise that his authorities had accepted a norm of 100 per cent, which originally they had opposed. In addition, there was likely to be one resolution with two separate decisions, one relating to the adjustment in quotas and the other to the prescription of medium of payment; for practical purposes it would be inadvisable to have different majorities for those decisions.

The General Counsel commented that the question of majorities tended to be political. As a technical matter, he agreed that it was likely that the two decisions referred to would be taken together.

Mr. Leddy said that he had been surprised to see the figure of 70 per cent in the text.

Mr. Whitelaw remarked that he could support a 70 per cent majority, but if the record of the discussions on the subject indicated that there had been strong expressions of opposition he would reconsider his position.

Mr. Foglizzo said that he wished it to be clearly understood that his chair had consistently opposed the reduction of the majority to 70 per cent.

The Chairman commented that the Executive Directors should provisionally accept a 70 per cent majority, but that Mr. Foglizzo objected and that Mr. Whitelaw should have an opportunity to raise the matter again if he so wished.

Pages 101 - 110

No comment.

Mr. Sacerdoti said that he understood that there would be some changes in the paragraph in the report relating to Article V, Section 3, and that they would be subject to scrutiny by the Executive Directors.

The General Counsel remarked that there were a number of amendments to be made in the report.

The Executive Directors concluded their page-by-page discussion of the report. A revised text of the draft report would be circulated for final approval in the week beginning Monday, March 22.

4. COMPREHENSIVE DRAFT AMENDMENT - SCHEDULE K

The Executive Directors considered a memorandum from Mr. Cross regarding Schedule K--Administration of Liquidation. (See Annex II).

The General Counsel said that he understood that hitherto Mr. Cross had proposed that under the liquidation provisions there should be a choice on the part of a payee member that would receive gold to opt instead for currency. Such a proposition would have upset the balance of the liquidation provisions. Issues of equity would have arisen because, if members preferred currency to gold, they would be taking currency that would otherwise go to other members and would, therefore, be affecting their position in the liquidation provisions. The result might be that another member would have to take the gold that the opting member did not accept.

The proposal now put forward by Mr. Cross was different and would not involve a large structural change in the provisions, the General Counsel continued. The suggestion was that a certain amount of gold should not be distributed preferentially to creditor members--those countries of whose currency the Fund held less than the amount equivalent to quota--but instead the gold would be distributed later in the

liquidation scheme. Gold would, therefore, be apportioned in relation to quota among all members and would not be distributed preferentially according to creditor positions. Some creditor members that would receive a certain amount of gold under the present Articles would receive more than they would otherwise receive of the currencies of other members, because there was a pro rata distribution of all currencies among all members in proportion to quotas.

The amount of gold that would be subject to the change in distribution, the General Counsel commented, would consist of the capital portion of the gold held by the Fund as of August 31, 1975, because only the surplus value would be distributed to those members that had been members on that date, and the gold accepted by the Fund after August 31, 1975. Both those amounts of gold would be moved down in the liquidation provisions from being distributed to creditor countries to being distributed to all members in proportion to their quotas.

Mr. Leddy wondered whether the ultimate distribution would be in proportion to quotas. The problem with the existing provisions was that they required a creditor member to accept, on a preferential basis, gold valued at the market price, and that was neither desirable nor consistent with the general drift of the amended Articles. His authorities had, indeed, suggested the possibility of providing members an option to receive currency instead of gold, but had been persuaded that such a proposal would be complex and probably inequitable. The present proposal would place receipts of gold by members in settlement of their positions vis-à-vis the Fund on an equal footing with currency.

The General Counsel explained that the ultimate distribution would fall into two parts; first, assets would be distributed in proportion to the remaining indebtedness of the Fund; and second, any surplus would be distributed to all members in proportion to quotas.

The Executive Directors agreed to continue their discussion at 3:30 p.m.

Article XII

Section 3. Executive Board

(b) The Executive Board shall consist of Executive Directors, who need not be Governors, as follows:

(i) five shall be appointed by the five members having the largest quotas; and

(ii) fifteen shall be elected by the other members.

At each regular election of Executive Directors, the Board of Governors, by an eighty-five per cent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above. The number of Executive Directors for whose election provision would otherwise be made shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below and cast a majority of the votes allotted to other members pursuant to (*i*) (ii) below, unless the Board of Governors decides that this reduction would hinder the effective discharge of the functions of the Executive Board.

(c) For the purpose of each regular election of Executive Directors, the Fund shall calculate for each member the total amount, on the average over the preceding two years, represented by (i) the reduction below quota of the Fund's holdings of the member's currency in the General Resources Account, and (ii) indebtedness of the Fund to the member, its central bank, or its official agencies under Article VII, Section 1(i). If the two members for which the calculation shows the largest absolute amounts are not among the members entitled to appoint Executive Directors under (b)(i) above, either or both of the two members, as the case may be, may appoint an Executive Director.

(d) Elections of elective Executive Directors shall be conducted at intervals of two years in accordance with the provisions of Schedule E. Supplemented by such regulations as the Fund deems appropriate. For each regular election of Executive Directors, the Board of Governors may issue regulations making changes in the proportion of votes required to elect Executive Directors under the provisions of Schedule E.

(*i*) (i) Each appointed Executive Director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(ii) If the votes allotted to a member that appoints an Executive Director under (c) above were cast by an Executive Director together with the votes allotted to other members as a result of the

last regular election of Executive Directors, the member may agree with each of the other members that the number of votes allotted to it shall be cast by the appointed Executive Director. Each of the other members making such an agreement shall not participate in the election of Executive Directors.

(iii) Each elected Executive Director shall be entitled to cast the number of votes which counted toward his election. When the provisions of Section 5(b) of this Article are applicable, the votes which an Executive Director would otherwise be entitled to cast shall be increased or decreased correspondingly.

(iv) All the votes which an Executive Director is entitled to cast shall be cast as a unit.

Schedule D

1. (a) Each member and each group of members that appoints or has the number of votes allotted to them cast by an Executive Director shall appoint to the Council one Councillor, who shall be a Governor, Minister in the government of a member, or person of comparable rank, and may appoint not more than seven Associates. The Board of Governors may change, by an eighty-five per cent majority of the total voting power, the number of Associates who may be appointed. A Councillor or Associate shall serve until a new appointment is made or until the next regular election of Executive Directors, whichever shall occur sooner.

(b) Each Councillor shall be entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. A Councillor appointed by a group of members may cast separately the votes allotted to each member in the group. If the number of votes allotted to a member cannot be cast by an Executive Director, the member may make arrangements with a Councillor for casting the number of votes allotted to the member.

Schedule E

1. The election of the elective Executive Directors shall be by ballot of the Governors eligible to vote.

2. In balloting for the Executive Directors to be elected, each of the Governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5(a). The fifteen persons receiving the greatest number of votes shall be Executive Directors, provided that no person who received less than [four] per cent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When fifteen persons are not elected in the first ballot, a second ballot shall be held in which there shall vote only (a) those Governors who voted in the first ballot for a person not elected, and (b) those Governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above [nine] per cent of the eligible votes. If in the second ballot there are more candidates than the number of Executive Directors to be elected, the person who received the lowest number of votes in the first ballot shall be ineligible for election.

4. In determining whether the votes cast by a Governor are to be deemed to have raised the total of any person above [nine] per cent of the eligible votes the [nine] per cent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until [nine] per cent is reached.

5. Any Governor part of whose votes must be counted in order to raise the total of any person above [four] per cent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed [nine] per cent.

6. If, after the second ballot, fifteen persons have not been elected, further ballots shall be held on the same principles until fifteen persons have been elected, provided that after fourteen persons are elected, the fifteenth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

As I have indicated in previous Executive Board discussions, I do not think the present staff draft of Schedule K provides for the proper sequence in use of different Fund assets in liquidation. I would like to request consideration of a revision as shown in the attachment and explained below.

The present Articles, in effect, provided for a preferential allocation of IMF gold to members with a creditor position. This was reasonable in the Bretton Woods system, in which gold was at the center of the system, had an official price, and was in a sense a preferred asset.

The same logic does not hold in our reformed system in which gold is not the central reserve asset, has no official price, and (valued at market price) is not a preferred asset. Accordingly IMF gold valued at market price should not be put into a preferred position in liquidation. Creditors should not be required to accept gold on a preferred basis--gold which furthermore may or may not prove to be worth the market value attributed to it by the Fund at liquidation.

As I understand Schedule K,

Section 1 deals with the settlement of amounts due "outside" creditors;

Section 2 (a) deals with distribution of the imputed profit on gold acquired by the Fund up to August 31, 1975, and held by it upon liquidation, and of assets held in the Special Disbursement Account; and

Sections 2 (b), (c), and (d) deal with the settlement of subscriptions.

The revision I suggest would simply remove Section 2 (b). This would change the distribution of IMF assets in a way that I believe would accomplish three things as compared with the present draft: first,

Emphasize a distribution of IMF assets in proportion to the Fund's holdings of various assets; second,

Increase the amounts received by creditors in their own currencies or in claims redeemable in their own currencies (with an SDR value guarantee), and reduce the amounts received by creditors in market-valued gold; and third,

Shift the ultimate distribution of Fund gold away from a pattern based on creditor positions toward a pattern based on quotas.

I do not see particular technical or operational problems in such an approach.