

FILES

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/46

3:00 p.m., March 17, 1976

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

Executive Directors

J. Amuzegar
P. Asbrink
S. Y. Cross
J. de Groote

B. J. Drabble
R. Gavalda
S. Jagannathan
A. Kafka
K. Kawaguchi

P. Liefstinck
H. R. Monday

E. Pieske
W. S. Ryrie

R. J. Whitelaw
A. W. Yaméogo

Alternate Executive Directors

J. H. Kjaer
T. Leddy
H. G. Schneider
M. Finaish
D. Lynch
S. Sevilla

W. Temple-Seminario
M. Wakatsuki
Sein Maung

E. Sacerdoti, Temporary
G. Laske

G. Heyden Q., Temporary
J. Foglizzo
R. S. Deane
S. Nana-Sinkam

K. F. Magurn, Acting Secretary
B. J. Owen, Assistant

1. Comprehensive Draft Amendment - Election and Appointment
of Executive Directors Page 3
2. Comprehensive Draft Amendment - Schedule K Page 11

Also Present

Asian Department: S. M. Thakur. Legal Department: J. Gold, General Counsel and Director; 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: H. O. 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, M. Berger, D. Berthet, T. Bilget, I. M. Cobbold, B. Goos, R. Khonsary, H. Kuroda, E. Leung, A. G. Morris, A. B. Nymark, M. Pietinen, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vilches, M. A. Wasfy, P. Zimmer, A. G. Zoccali.

1. COMPREHENSIVE DRAFT AMENDMENT - ELECTION AND APPOINTMENT OF
EXECUTIVE DIRECTORS

The Executive Directors resumed from the previous meeting their consideration of memoranda prepared by the staff on the election and appointment of Executive Directors under Article XII, Section 3(b) and Section 3(c) (DAA/76/7, 2/12/76; DAA/76/8, 2/12/76). They also had before them a redraft of Article XII, Section 3(b) submitted by the General Counsel at EBM/76/39 (3/11/76) (see Annex I), and a corresponding draft passage for the report to the Board of Governors presented by the General Counsel at EBM/76/35 (3/8/76) (see Annex II).

Mr. Leddy stated that he had reported the discussion at the previous meeting to his authorities but had not been authorized to accept any amendment other than that proposed by the General Counsel at EBM/76/39. Of course, there would in any event be a statement in the draft report recording the Executive Board's awareness of the problems raised in connection with the issue and its preparedness to agree that, if certain circumstances arose, there would be a temporary increase in the size of the Executive Board.

Mr. Heyden reiterated the position he had taken at the previous meeting in favor of maintaining the status quo.

Mr. Jagannathan remarked that he could accept the redraft of Article XII, Section 3(b) proposed by the General Counsel.

Mr. Foglizzo suggested that as an alternative to an amendment of Article XII, Section 3(b), the following language might be inserted in the report: "The Executive Board has agreed that the objectives and considerations referred to above will continue to guide the Fund in the exercise of its powers under Article XII, Section 3(b) and Section 3(d). The Executive Board therefore concluded that the present number of 15 elected Executive Directors, which appears fully appropriate to meet these objectives and considerations under present circumstances, need not be introduced explicitly in the amended Articles as a guarantee that an adequate representation of the Executive Board shall be preserved, this objective being more surely attained through decisions adopted as in the past under the present Articles at each regular election."

Mr. Amuzegar asked whether Mr. Leddy had any views on the language to be inserted in the draft report. The language proposed by Mr. Foglizzo did not seem to be adequate.

Mr. Leddy said that he would be prepared to look at the text proposed by Mr. Foglizzo. He presumed that wording along the lines submitted by the General Counsel at EBM/76/35 would also be included, with

reference to preventing a reduction in the size of the Executive Board in the event of an appointment under Section 3(c).

Mr. Kafka said that Mr. Foglizzo's proposal was entirely acceptable to him.

Mr. de Groote considered that the most satisfactory solution would be to accept language along the lines suggested by Mr. Foglizzo, together with the passage drafted by the General Counsel on Section 3(c), and with an amendment to Article XII, Section 3(b) based on the text submitted by the General Counsel at EBM/76/39. Amendment and Mr. Foglizzo's language for the report were not necessarily mutually exclusive.

Mr. Foglizzo commented that he had envisaged the insertion of his text before the final paragraph of the draft passage for inclusion in the report submitted at EBM/76/35 by the General Counsel. The entire statement in the report would be an alternative to amendment of Article XII, Section 3.

Mr. Leddy remarked that his understanding of Mr. Foglizzo's proposal was that it was an explanation of why there was no amendment of the Articles.

The Chairman noted that there had been agreement in the Executive Board that action would be taken to achieve a certain objective. In that sense, a draft passage in the report along the lines envisaged by Mr. Foglizzo, if it was modified slightly to explain the amendment rather than the absence of it, could accompany the proposed amendment of Article XII, Section 3(b).

Mr. Amuzegar said that he was in favor of Mr. de Groote's suggestion. If the substance of Mr. Foglizzo's view was acceptable to Mr. Leddy, it seemed reasonable to modernize the Articles at the same time. He asked whether it would be possible to recess the meeting to enable the Executive Directors to consider a written text of the proposals before the Executive Board.

Mr. Liefstinck said that he was willing to recess the meeting, but he reiterated that he could not accept amendment of Article XII, Section 3(b), for the reasons he had stated at the previous meeting. The last sentence of the redraft of Section 3(b), with the provision for an 85 per cent majority, would prevail over whatever explanatory language was included in the report on the amendment.

The Executive Directors adjourned the meeting at 4:00 p.m. and reconvened at 5:00 p.m. to consider alternative versions of a paragraph for insertion before the last paragraph of the draft passage for the report on amendment, submitted by the General Counsel at EBM/76/35:

Alternative A

The Executive Board has agreed that the objectives and considerations referred to above should continue to guide the Fund in the exercise of its powers under Article XII, Section 3(b) and Section 3(d). The Executive Board has concluded that the number of 15 Executive Directors who are elected under current practice gives effect to these objectives and considerations under present circumstances. Therefore, it is felt that the present number of elective Executive Directors need not be incorporated in the amended Articles in order to give a guarantee that there will be a proper balance of areas and interests in the Executive Board. This objective can be attained in the future, as in the past, through decisions adopted under the present provisions for each regular election.

In view of what is said above, the Executive Board has agreed that if one or two additional Executive Directors were appointed under Article XII, Section 3(c) for a period of two years between any two regular elections, and the appointment were to threaten to upset a desirable balance in the Executive Board, or to expand unduly the size of constituencies, it would recommend action to prevent a reduction in the number of elected Executive Directors during the two-year period.

Alternative B

The Executive Board has agreed that the objectives and considerations referred to above should continue to guide the Fund. The Executive Board has concluded that the number of 15 Executive Directors who are elected under current practice gives effect to these objectives and considerations under present circumstances and has agreed, therefore, that the present number of elective Executive Directors should be incorporated in the amended Articles in order to give a guarantee that there will be a proper balance of areas and interests in the Executive Board. [Insert explanation of amendment.]

In view of the considerations referred to above, the Executive Board has agreed that if one or two additional Executive Directors were appointed under Article XII, Section 3(c) for a period of two years between any two regular elections, and the appointment were to threaten to upset a desirable balance in the Executive Board, or to expand unduly the size of constituencies, it would recommend action to prevent a reduction in the number of elected Executive Directors during the two-year period.

Mr. Foglizzo observed that Alternative A was not a fully acceptable version of the text he had proposed earlier, because breaking his second sentence into three separate sentences disturbed the logical sequence.

Mr. Liefstinck noted that the word "therefore" could be deleted from the second sentence of Alternative A, for which he had a clear preference. He had serious objections to Alternative B, which began by attaching importance to incorporating a reference to 15 Executive Directors in order to ensure a proper balance of areas and interests, but then went on to explain that under amended Article XII, Section 3(b), that number could be reduced unless there was an 85 per cent majority to maintain it. Thus, the guarantee referred to was not in effect a guarantee.

The General Counsel noted that the explanation of the amendment, to which Mr. Liefstinck had referred and which was mentioned in square brackets in Alternative B, would depict fully the circumstances in which the possibility of a reduction might occur but would then go on to describe how that reduction could be prevented.

Mr. Jagannathan agreed with Mr. Liefstinck that the language of Alternative B was not acceptable. He was in favor of an amendment of Article XII, Section 3(b), even though the redraft of Section 3(b) by the General Counsel did not go as far as he would have wished. He would like to consider Alternative A, rather than Alternative B, as accompanying language to an amendment of the Articles, if it could be modified to state that the present number of elected Executive Directors need not be taken as a minimum in all circumstances under the amended Articles.

The Chairman suggested that perhaps the word "guarantee" could be replaced by a less stringent formulation.

Mr. Cross suggested that the word "guarantee," as well as the word "therefore," could be avoided if the last two sentences of Alternative A read: "It is felt that the objective of a proper balance of areas and interests in the Executive Board can be attained in the future, as in the past, through decisions adopted under the present provisions for each regular election and, therefore, that the present number of elected Executive Directors need not be incorporated in the amended Articles."

Mr. Yaméogo pleaded, on behalf of the less developed countries for acceptance of Alternative B, together with an amendment to Article XII, Section 3(b), as suggested by the General Counsel at EBM/76/39.

Mr. Heyden said that he was in favor of Alternative A.

Mr. Kafka considered that Mr. Cross' version of Alternative A was an improvement, and he supported it.

Mr. Finaish asked for clarification as to whether Alternative A would guarantee both that 15 Executive Directors could be elected and that one or two additional Executive Directors could be appointed, if options under Article XII, Section 3(c) were exercised.

The General Counsel replied that Alternative A was based on the assumption that there would be no change in the present Articles. At present, under Article XII, Section 3(b), the Executive Directors decided to recommend to the Board of Governors what the number of elective Executive Directors should be. In making their recommendation, the Executive Directors could take whatever considerations into account they wished, including the fact that there would be an additional appointment, and, in that connection, whether or not the constituency concerned would cast its own votes or have them cast by the additional appointed Director. In other words, under the present Articles, the number of elected Executive Directors above 12 could be determined for each election.

Mr. de Groote said that on the assumption that Alternative B could be amended in the same way that Mr. Cross had amended Alternative A, the choice to be made was between the amended alternatives. Like Mr. Yameogo, he was in favor of an amended Alternative B as a commentary on the redraft of Article XII, Section 3(b) put forward at EBM/76/39.

Mr. Drabble observed that he too could support an amended Alternative B and the proposed amendment to Article XII, Section 3(b). However, he wondered whether consideration could be given to amending the last paragraph of the draft passage for the report to explain that under the amendments proposed to Section 3(c) it would be possible for the appointed Director to retain all the members of his constituency and vote for them, and that that was one reason why there was a presumption in favor of the reduction.

The General Counsel agreed that that would be a correct statement.

Mr. Amuzegar said that he was prepared to support Alternative B as amended.

Mr. Ryrie commented that, as he would prefer to see the Articles modernized, he could support Alternative B although it needed to be amended to avoid the word "guarantee" and to be brought into line with the wording suggested by Mr. Cross for Alternative A. However, he had been impressed by the remarks of the Chairman and Mr. Kafka at the previous meeting to the effect that it would not be a satisfactory basis to proceed to amend Article XII, Section 3(b) if there was only a narrow majority in favor of doing so. Unless there was sufficient support for Alternative B, Alternative A should be accepted.

Mr. Kawaguchi said that his position was exactly the same as Mr. Ryrie's.

Mr. Åsbrink, Mr. Gavalda, Mr. Jagannathan, Mr. Monday, Mr. Sein Maung, and Mr. Sacerdoti expressed themselves in favor of Alternative B, amended appropriately, and of the amendment to Article XII, Section 3(b) proposed at EBM/76/39.

Mr. Pieske remarked that for the reasons he had mentioned at the previous meeting, both alternatives were acceptable to him.

Mr. Foglizzo recorded his support of Alternative A.

The Chairman concluded that there were a few Executive Directors who could accept either alternative, but that there was a substantial majority in favor of Alternative B and an amendment to Article XII, Section 3(b) as proposed at EBM/76/39. Therefore, he took that to be the sense of the meeting.

Mr. Kafka said that he doubted whether those Executive Directors who had expressed themselves in favor of Alternative B represented 50 per cent of the total voting power. Strong opposition had been expressed to amendment of Article XII, Section 3(b), which was a highly sensitive political issue that had at no point been discussed in the Interim Committee. Those Executive Directors who took a neutral position should not be counted on one side or the other of the issue.

The Chairman responded that the issue had been given careful consideration and at great length. So far, Executive Directors representing about 45 per cent of the voting power had spoken in favor of Alternative B, with about 15 per cent being against, and some Executive Directors representing about 25 per cent of the voting power being able to accept either alternative.

Mr. Kafka considered that a majority of 45 per cent was not sufficiently convincing for the adoption of a sensitive proposal.

Mr. Heyden supported Mr. Kafka's position.

Mr. Finaish stated for the record that his chair was in favor of two principles: first, the unimpaired right of the two largest creditors to exercise the option to appoint an Executive Director; and second, if such an appointment was made and an appointed Executive Director was not to cast the votes of his former constituency, the number of Executive Directors on the Board should increase automatically to accommodate the appointed Director or Directors. The appointment of such a Director was a temporary phenomenon and should not present difficulties to anyone.

He could not accept as a serious argument the contention that an increase in the size of the Executive Board beyond 20 would cause it to become inefficient. As long as one accepted the principle of the Articles that the largest creditors should be represented on the Executive Board, it was not consistent to put a creditor under a constraint; a heavy burden would be placed on any major creditor that knew that its appointment of an Executive Director would automatically reduce the number of seats for elected Executive Directors. In certain situations the major creditors might find themselves under intolerable pressure to forego the appointment, in order to accommodate others.

Mr. Liefertinck said that he could accept the Chairman's sense of the meeting, which was based on a sufficient majority to be considered a broad consensus. However, he was not part of that consensus.

The Chairman explained that the proposal before the Executive Board was that Article XII, Section 3(b) should be amended according to the draft text submitted by the General Counsel at EBM/76/39 (3/11/76) and that the commentary for inclusion in the report should be based on Alternative B, with the word "guarantee" replaced by a more suitable word, and the text of course being circulated for approval with the remainder of the report.

Mr. Kafka asked for a formal vote to be taken, under Rule C-10.

The Chairman ascertained that with Mr. Foglizzo, Mr. Heyden, Mr. Kafka, and Mr. Liefertinck casting a total of 15.27 per cent of the voting power against, 12 Executive Directors casting a total of 48.56 per cent of the voting power approved the proposal to amend Article XII, Section 3(b). Mr. Cross, Mr. Finaish, Mr. Pieske, and Mr. Whitelaw abstained.

Mr. Kafka stated that he considered that less than a majority of the voting power represented had voted in favor.

The decision was:

The Executive Directors accept the redraft of Article XII, Section 3(b) submitted at EBM/76/39 (3/11/76), and agree to include in the report to the Board of Governors, paragraphs along the lines of Alternative B above.

Adopted March 17, 1976

The General Counsel observed that it was not clear whether the Executive Board had agreed that the formula for the calculation with respect to the appointment of an Executive Director under Article XII, Section 3(c) was to remain unchanged or not.

Mr. Schneider said that his impression was that the calculations should remain unchanged.

Mr. Cross recalled that the only question had been whether or not to take account of drawings both from the General Account and other Fund facilities.

The General Counsel explained that the question was whether there should be a deduction in the calculation because a member, that would otherwise be a creditor, had made purchases for which there were holdings under excluded or other facilities. Under the provision as it was presently written, calculations were made of the Fund's holdings below a member's quota, and all holdings below quota were taken into account, whether or not they were acquired under an excluded facility. However, the practice in the past had been to assume, on days when there was an excess over quota, that the holdings were at quota. There had been no effective reduction since the averaging had been made without reference to the excess.

If the provision was to remain unchanged, the General Counsel observed, it could be stated in the report that the reference in Section 3(c) to quota meant 100 per cent of quota and not 75 per cent of quota. It could also be stated that calculations made under the provision would be based on a complete averaging.

Mr. Cross said that he would be willing to leave the provision unchanged, especially if the implications of changing it could not be foreseen.

The Chairman remarked that the provision could be reinterpreted at any time in the future by the Executive Board.

Mr. Sacerdoti observed that taking quota to mean 100 per cent of quota would lead to important differences in the calculations. Moreover, he did not see the rationale for making such a change while the Fund still held gold. Presumably, the rationale for a reference to 100 per cent of quota was the change in the provision on the norm. He was in favor of interpreting the reference in Section 3(c) to mean 75 per cent of quota, as in the past.

Mr. Cross repeated that it might be advisable not to change the provision but to reach an understanding on continuing to interpret it as in the past. As he had already stated in an earlier discussion, it might in a sense be fairer not to change the understanding in midstream.

Mr. Whitelaw supported Mr. Cross.

The Executive Directors agreed not to change the provision of Article XII, Section 3(c) with respect to the calculation of creditor positions.

2. COMPREHENSIVE DRAFT AMENDMENT - SCHEDULE K

The Executive Directors resumed from the previous meeting their discussion of the proposal by Mr. Cross for an amendment to Schedule K-- administration of liquidation--in the comprehensive draft amendment (DAA/76/9, 3/1/76).

Mr. Liefertinck remarked that the proposal of Mr. Cross was likely to affect the existing rights of members under the present Articles of Agreement. Moreover, some countries had accepted Fund membership on conditions calling for gold payment subscriptions subject to the liquidation provisions. Therefore, he asked whether the discussion of the proposed changes in Schedule K could be postponed until he had had an opportunity to consult the authorities of all the countries that had elected him.

Mr. Laske recalled that at the previous meeting he had spoken against reopening issues arising out of the draft amendment at the present late stage of the discussion. To be consistent, he would like to take the same position with respect to Mr. Cross' proposal.

Mr. Kafka said that he had no objection to postponing the discussion, although he could go along with Mr. Cross' suggestions.

Mr. Whitelaw said that he too could accept the proposal of Mr. Cross.

Mr. Ryrie said that although he was favorably disposed toward the proposal, he supported Mr. Liefertinck's proposal for a short postponement of the discussion.

Mr. Cross stated that he would not press his proposal if its consideration would lead to a further delay in the completion of the discussion on the comprehensive draft amendment and report to the Board of Governors.

The Executive Directors agreed not to change Schedule K.

The Chairman observed that a revised text of the comprehensive draft amendment and of the draft report to the Board of Governors would be circulated to Executive Directors for approval.

The Executive Directors adjourned for the time being their discussion of the comprehensive draft amendment of the Articles of Agreement.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/102, July 12, 1976

WILLIAM B. DALE
Acting Chairman

W. LAWRENCE HEBBARD
Secretary

Redraft of Article XII, Section 3(b)
by the General Counsel
Executive Board Meeting 76/39
March 11, 1976

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 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 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 eighty-five 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.

Draft Passage for Report on Amendment
Statement by the General Counsel
Executive Board Meeting 76/35
March 8, 1976

Under the last sentence of Article XII, Section 3(b) the Fund may increase, by an eighty-five per cent majority of the total voting power, the numbers of Executive Directors to be elected under Article XII, Section 3(b)(ii) and (iii) of the amended Articles beyond the numbers stated in those provisions. Under Article XII, Section 3(d), the Fund may supplement the provisions for elections in Schedule E, and the Fund must issue regulations changing the proportion of votes required to elect Executive Directors when the numbers are increased beyond those in the Articles.

In exercising its powers under the provisions referred to above, the Fund has been guided by the objectives of ensuring that the size of the Executive Board will contribute to the effective dispatch of its business, that a desirable balance will be maintained in the composition of the Executive Board, that the size of constituencies will not place undue burdens on Executive Directors and hinder the efficient conduct of the business of the Executive Board, that members will be as free as possible within the provisions of the Articles and the regulations for the elections to form the constituencies of their choice, and that a relative equilibrium will be achieved in the voting power of the constituencies electing Executive Directors. Some of these considerations were made explicit in the Report of the Executive Board to the Board of Governors of July 24, 1972 entitled Size and Structure of the Executive Board, which was noted by the Board of Governors, with particular reference to paragraphs 2 and 6, in Resolution No. 27-12 of the Board of Governors, adopted August 31, 1972. For the future, the considerations referred to will be relevant not only for the composition of the Executive Board but also for the Interim Committee and the Council on its establishment.

With considerations such as those referred to above in mind, the Executive Board has agreed that if one or two additional Executive Directors were appointed under Article XII, Section 3(c) for a period of two years between any two regular elections, and the appointment were to threaten to upset a desirable balance in the Executive Board, or to expand unduly the size of constituencies, it would recommend action to prevent a reduction in the number of elected Executive Directors during the two-year period.