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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/26

3:00 p.m., February 3, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
J. Anson	C. Taylor
	H. G. Schneider
B. de Maulde	A. Le Lorier
A. Donoso	
R. D. Erb	
M. Finaish	
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	
A. Kafka	
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
F. Sangare	E. I. M. Mtei
	S. E. Conrado, Temporary
J. Tvedt	L. Vidvei
	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

European Department: B. Christensen. Exchange and Trade Relations Department: W. A. Beverdige, Deputy Director; S. Mookerjee, Deputy Director. Legal Department: G. P. Nicoletoupolos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; Ph. Lachman, A. O. Liuksila. Middle Eastern Department: A. K. El Selehdar, Deputy Director; A. S. Ray, Deputy Director; J. R. Dodsworth, M. Shadman, G. Tomasson, M. Yaqub. Research Department: W. C. Hood, Economic Counsellor and Director. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan, D. S. Cutler, D. Gupta, M. A. Tareen, T. M. Tran, P. K. Woolley. Western Hemisphere Department: S. T. Beza, Associate Director. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, J. R. N. Almeida, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, H.-S. Lee, P.-C. Maganga-Moussavou, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alacui-Abdallaoui, L. Barbone, M. Camara, L. E. J. Coene, T. A. Connors, R. J. J. Costa, I. Fridriksson, G. Gomel, A. Halevi, M. J. Kooymans, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, J. Reddy, D. I. S. Shaw, H. Suzuki, A. Yasseri.

1. GENERAL ARRANGEMENTS TO BORROW - PROPOSALS FOR REVISION AND EXPANSION

The Executive Directors continued from the previous meeting (EBM/83/25, 2/3/83) their consideration of a memorandum setting out the text of a further revision of the GAB decision prepared in the light of discussions in recent meetings in Paris of the GAB participants, and of views expressed by Executive Directors (SM/82/239, Rev. 2, 1/31/83). They also had before them a sheet setting out Alternative A and Alternative B for a possible addition to paragraph 9(a) (Attachment I); a proposal for a redraft of paragraph 21(a) (Attachment II); and a proposal for a new paragraph 23 formulated by the staff in the light of the morning discussion (Attachment III). 1/

Paragraph 9(a)

The Chairman remarked that the intention had been to cover not only the points made in Alternative A and Alternative B, but also the point raised by the Economic Counsellor to the effect that it would be useful to protect a future lender from an unwanted change in the method of calculating the combined market interest rate. He invited the Director of the Legal Department to suggest a way of incorporating that addition into Alternative A or Alternative B.

The Director of the Legal Department suggested that at the end of Alternative A, a proviso should be added reading, "provided that if a participant so requests at the time this agreement is reached, the change will not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective."

Mr. Laske said that he would prefer Alternative B. His objection to Alternative A was that one third of the participants holding two fifths of the credit line could force upon the rest of the participants a change in the method of determining the interest rate. He realized that there was already some protection for creditors in the sense that each participant had an absolute veto power over the introduction of a change in the method of determining interest rates on GAB loans to the Fund. Nevertheless, the majority required for changing the method of determining the interest rate should be higher. He would prefer the majority to be two thirds of the participants having three fifths of the total amount of credit arrangements. Moreover, the idea should be expressed in a positive rather than a negative way.

Mr. Donoso inquired what the situation would be if the Fund proposed a change in the definition of the special drawing right (SDR) and nonetheless preferred that the change should not be extended to arrangements with the GAB. He wondered whether the language now proposed would cover that situation.

1/ During the discussion it was agreed to renumber paragraph 21(a) as paragraph 23(a) and to entitle it Associated Borrowing Arrangements. In consequence, the proposal for paragraph 23 (Attachment III) was not discussed. A different version, written in the light of the discussion, was taken up the following morning.

Mr. Polak commented that there would be merit in saying that both the Fund and the participants must agree that the new rate being applied to the SDR should also apply to claims under the GAB. It might be reasonable to say that a change in the method of calculating the combined market interest rate should apply only if the Fund and at least two thirds of the participants had increases to the total amount of the credit arrangements so agreed. Moreover, it seemed rather curious to him that in the present document, which was after all a Fund document, there should be any mention at all of a voting procedure for the participants.

Mr. Laske said that he could agree with Mr. Polak's language.

The Director of the Legal Department indicated that, naturally, unless the Fund proposed a change in the method of determining the rate at which it paid interest on holdings of special drawing rights, the problem exercising Mr. Donoso would not arise.

Mr. de Maulde stated that he agreed with Mr. Polak regarding the desirability of making reference in a Fund document to the voting majorities in the Group of Ten.

Mr. Polak remarked that he wished to make a more substantive change. Alternative A had been drafted in such a way as to protect the participants against a change in the method of calculating the combined market interest rate, thus departing from the assumption that the method would fix the combined market interest rate at 100 per cent of the SDR rate. While that might be satisfactory for the participants, the language would mean that the participants would have to adhere to 100 per cent of the SDR rate on the present formulation, even if both they and the Fund thought that a new definition should apply both in the Fund and to credits from the GAB. One way of making his point would be to say that "the Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights." Mr. Erb had correctly asked for some flexibility in the protection for participants. Suppose, for instance, that the Fund decided that the SDR interest rate ought to be at 80 per cent of the combined market rate; at the same time it could be agreed--with participants possessing veto power by the proper voting formula and the Fund concurring--that the interest on the Fund's indebtedness to the GAB would stay at 100 per cent. Using his language would simplify the whole paragraph.

Mr. Anson commented that Mr. Polak's language amounted to a completely new proposal. After all, participants should be entitled to assume that the rate that the Fund would pay on its indebtedness to the GAB would continue to be a market rate, even if the calculation of the market rate changed. The claims were to be put into reserves, and he did not believe that any potential lending authorities could agree to a proposition that there should be a reserve asset that did not carry

a market rate. If Mr. Polak's formulation were adopted, it would be necessary to refer to agreement by "all participants," something that most speakers wished to avoid. The paragraph as written did not achieve the effect desired by Mr. Laske and others. One way of dealing with the matter might be to make the second sentence read; "A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants...."

Mr. Laske stated that he could accept Mr. Anson's proposition.

Mr. Erb raised the point that if there were an associated member, which would in effect be treated as if it were a participant and thus have voting rights, it might be necessary to take those votes into account when making a change in the interest rate calculation.

The Director of the Legal Department suggested that the point could be met by circulating an addendum to what was generally referred to as the Baumgartner letter. While the General Arrangements did not in any formal sense incorporate the letter, it was a part of the corpus of legislation.

The Treasurer remarked that if the majority required were determined in accordance with arrangements agreed among the participants, the participants might well arrange the majority in such a way that one of them would have a veto power, which was surely what most members wished to avoid. It might therefore be necessary to insert the proviso "provided that none of the participants has a veto."

Mr. de Maulde spoke once again in favor of keeping the text as short as possible. The arrangements between participants would certainly take account of the record of the present discussion and of the Managing Director's summing up.

The Deputy Managing Director remarked that he felt that some amendment would be required to the Baumgartner letter, if only because the Baumgartner letter specified that the purchasing member, or the member receiving a stand-by arrangement, would not have a vote in any decision that might be taken by the participants. It might not be entirely obvious that when a stand-by arrangement or a purchase was not involved, such a member would have a vote. It was a point that the participants might wish to specify.

Mr. Laske said that he would not have any objection to the proposal by the Deputy Managing Director, provided that the language was "by a qualified majority established among themselves."

Mr. Polak suggested that while the Executive Directors could follow Mr. de Maulde and refer to a document incorporating the majorities by which the participants would agree to a change in the method of computing the combined market rate, it might be simpler to refer not to the participants as a group but simply to participants, the language being "and at

least two thirds of the participants having at least three fifths of the total amount agreed...." There would be no need for a decision among the participants themselves; the Fund would conduct a poll on the basis of information provided to it by individual participants.

Mr. Erb commented that Mr. Polak's formulation did not deal with the possibility of an associated member's having the same rights and obligations as the participant.

Mr. Polak, however, considered that Mr. Erb's point would be covered, provided that the arrangements with any associated member laid down that the associated member would be counted as a participant in the circumstances discussed in paragraph 9(a). It was surely not necessary to repeat the words "associated members" on every occasion.

Mr. Joyce commented that, while he was satisfied with Mr. Polak's formulation, he was disturbed by the language proposed by the Director of the Legal Department regarding the opting-out provision. It was necessary to preserve the right of a government with respect to its existing indebtedness to opt for a continuation of the existing terms, even though there might be a change. He would be happy if the language at the end of paragraph 9(a) read, "provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective."

After further discussion it was agreed that paragraph 9(a) should read: "The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective."

Paragraph 10

Mr. Donoso remarked that the last four lines of paragraph 10 read, "...and access to these resources by members shall be determined by the Fund's policies and practices and the total amount of such resources that are available to the Fund, and shall not depend on whether the Fund can borrow under this decision." As he read that language, the Fund ought to define its policies in such a way that they could not depend on whether the Fund could borrow under the decision or not. That would surely be incorrect, for the implication was that the Fund would never use the resources made available to it under the General Arrangements to Borrow.

The Director of the Legal Department explained that the intention was to say that the access limits and all other aspects of Fund policies with regard to access by members to the Fund's resources should be determined by the Executive Board, and that whether the Fund could borrow or not under the decision in connection with financing purchases by a participant would in no way affect the Fund's policies on access to its resources. Put the other way round, the language was meant to imply that whether the Fund would finance a purchase by a participant, or a nonparticipant, would not depend on whether the participants decided to put up the amounts requested by the Managing Director or not.

Mr. Donoso remarked that he still had difficulties with paragraph 10. While he had understood the explanations by the Director of the Legal Department, he noted that access to the general resources of the Fund by members "would be determined by the Fund's policies and practices and the total amount of such resources that are available to the Fund." As he understood the sentence, that would mean that the Fund could not count on the availability of resources from the General Arrangements to Borrow in defining its policies relating to access. That seemed to him a limitation on the powers of the Fund to define its policies, in addition to those already in existence.

The Chairman explained that the language of paragraph 10 had been written to meet the preoccupation of Executive Directors who had considered a situation in which, although there was a need for borrowed resources, the participants in the GAB would not agree to an activation. The language of paragraph 10 had therefore been designed to make it clear that the Fund would continue to apply its access policies even if, in a moment of need, the resources of the GAB were not available. The inaccessibility of the resources of the GAB would not be allowed to impair the rights of a member to have access to the Fund's general resources, even if the Fund had to seek other sources of borrowing to provide that access.

Mr. Donoso said that he welcomed the explanation by the Chairman; he only doubted whether the language of paragraph 10 made the point clear, particularly in its reference to the availability of general resources.

The Treasurer noted that he would have no difficulty in deleting the adjective "general" before the word "resources" in the second sentence in paragraph 10.

Mr. Donoso remarked that he would be happy with any language that got away from defining access in relation to the amount of resources available to the Fund, which implied a limitation if the Fund could not borrow at a given moment.

After some discussion, the Executive Directors agreed that the second sentence of paragraph 10 should read: "Nothing in this decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this decision."

New draft paragraph 21(a) (Attachment II)

The Executive Directors took up the proposal by the staff for a text to replace draft paragraph 21(a).

Mr. Erb stated that he did not like the expression "under which the member or the official institution is associated with the objectives of this decision...." He preferred the language of original paragraph 1(xi), which was "undertakes to make loans to the Fund for the same purposes and on terms comparable to those described in this Decision...."

The Chairman, however, remarked that such language, with the words "comparable to," was less flexible than the idea that Mr. Erb had apparently been trying to introduce at the morning session. He could, for instance, imagine that at a given moment the Fund might wish to enter into a very short agreement with a member country for the same general purposes as it would enter into an agreement with the GAB, but that there would be a great difference in the terms. Such an arrangement would cause Mr. Erb difficulty because the terms would not be strictly comparable to those with the GAB.

Mr. Erb indicated that he was trying to cover every possible contingency. As the language was now written, it was possible to conceive that a member could undertake to make loans to the Fund with the same objectives as those of the GAB, but to come to a judgment that differed from that of the participants. Such an arrangement would surely be unsatisfactory. He could however accept language such as "a borrowing agreement between the Fund and a member, or an official institution of a member that is not a participant, under which the member or the official institution undertakes to make loans to the Fund for the same purposes and on terms comparable to those described for this decision may, with the concurrence of all participants,..."

The Director of the Legal Department remarked that, while comparability was always a matter of judgment, the language might be tighter than would prove desirable.

Mr. Joyce suggested that a way out of the difficulty might be to say, "...under which the member or the official institution undertakes to make loans deemed by the Fund and the participants to be compatible with the purposes of this decision...."

Mr. Erb however considered Mr. Joyce's language to define too loose a relationship. His aim was to ensure that if there were a borrowing agreement in which the associated member had the same rights as the participant, it should also have the same obligations. It would be very complicated if the rights and obligations of the associated member were different from those of participants. His position would not preclude other arrangements that would have different degrees of rights and obligations while remaining consistent with the desires of the associated members to be closely affiliated with the GAB, and it would still permit lending arrangements of other types to be negotiated.

After further discussion it was agreed that paragraph 21(a) should read: "A borrowing agreement between the Fund and a member or an official institution of a member that is not a participant, under which the member or the official institution undertakes to make loans to the Fund to the same purposes as, and on terms comparable to, those made by participants under this Decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with paragraphs 6 and 7 for exchange transactions with that member, or to make requests under paragraph 11(e) in connection with an early repayment of a claim under the borrowing agreement, or both, as if they were calls for requests in respect of a participant."

Mr. Erb then asked either that paragraph 21 should be renamed "Parallel Lending Arrangements and Use of Credit Arrangements for Non-Participants" or that a separate paragraph 23 should be added, headed "Associated Borrowing Arrangements." Paragraph 23 would be the text just agreed upon for paragraph 21(a), together with an addition stating explicitly that other types of parallel lending arrangements could conceivably be envisaged.

The Director of the Legal Department commented that there would certainly be no difficulty in putting in a separate paragraph 23 on associated borowing arrangements. However, he was not certain that any benefit was to be gained by adding a provision stating that the Fund could enter into other borrowing arrangements, on the grounds that the point was self-evident. It seemed equally self-evident that the other borrowing arrangements would not be subsumed under the General Arrangements to Borrow. The point might best be made in the commentary.

It was agreed that paragraph 21(a) should be renumbered paragraph 23(a) and headed "Associated Borrowing Arrangements."

The Chairman, however, remarked that Mr. Erb was referring to a subcategory which would in a sense be an arrangement between the Fund and the lender involving an association with participants, but not as closely as the arrangement mentioned in what had become main paragraph 23.

Mr. de Maulde suggested that the sentence could read: "In association with the GAB, the Fund may also enter into other types of agreement."

Mr. Prowse considered that the purpose of any additional text would be to establish that members of the GAB and associated members might make other types of arrangement with the Fund. Second, nonparticipants might make loans to the Fund that were associated with the purposes of the GAB. He did not quite understand what the purpose of referring to the second category was unless the paragraph went on to define the implications of such an arrangement.

Mr. Erb explained that in his mind the purpose was to state explicitly that there were other possible types of associated lending arrangements that could be activated in association with the GAB. The nature of the

associated arrangements could run the full spectrum from a country's saying on an ad hoc basis that it would like to lend in association with the GAB, to an arrangement that required no relationship at all between the lender and participants in the GAB. The relationship might be only between the associated member and the Fund. Or, it might be that at the time of the activation of the GAB the lender in question would be part of the consultation process with the GAB participants lending at that time. There were in fact many different possibilities.

Mr. Nimatallah wondered whether Mr. Erb's proposal would not be more easily expressed if the paragraph he had in mind started by a reference to a member wishing to lend to the Fund, rather than by a reference to the Fund.

Mr. Prowse remarked that, as he understood it, a country could become an associated member for the purpose of a particular transaction, and that that transaction would have the same obligations, rights and responsibilities as if it were an associated member of the GAB. In other words, the country would lend on the same terms and for the same purposes as would be served by an activation of the GAB. But, whether that country had any rights flowing from that loan would depend on a decision of the participants in the GAB at that time.

Mr. Erb explained that what he had had in mind was that the lending by a given member would perhaps involve an agreement between the participants in the GAB and the outside member that wished to participate at a certain moment, the participation perhaps taking the form only of consultation. There might for instance be members of the Fund that would wish to be associated with the GAB only when the GAB was activated for nonparticipants; and agreement might be arranged between the participants in the GAB and that member as to what would be involved in a consultation. His only purpose in suggesting an explicit sentence was to indicate that there were other possibilities.

Paragraph 21(c)

Mr. Tvedt said that he welcomed the language in paragraph 21(c), under which the Managing Director might initiate the procedure for making calls. However, the Fund could not borrow a nonmember's currency, and the wording of the preamble had been changed from "lend their currency" to "make loans." He therefore wondered why in paragraph 2 the language still read "to lend its currency."

The Director of the Legal Department explained that paragraph 2 referred to the countries set forth in the Annex--namely, the original participants--so that there was no need to change the language.

It was agreed to leave paragraph 2 unchanged.

The Treasurer remarked that paragraph 2 referred only to members; it did not refer to the National Bank of Switzerland. Consequently "lend its currency" was satisfactory.

Mr. Prowse commented that in paragraph 21(c) on page 14 of SM/82/239, Revision 2 (1/31/83), the text spelled out the circumstances in which the Managing Director might initiate the procedure for making calls "if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing...." Although the language had long been accepted, he wondered whether in fact the term "and expected" meant that expected requests could initiate the procedure for making calls on participants in the GAB, and whether Executive Directors wanted expected requests to have that effect without the Fund's having the requests actually in hand.

The Director of the Legal Department explained that the purpose was to enable the Managing Director, faced with expected requests, to approach the participants on the basis either of actual requests alone or of expected requests alone, in order to start negotiations.

Mr. Joyce commented that he had understood that the language reflected a situation in which normally an actual request would be such as to create an inadequacy of resources. There might however be cases when, in addition to actual requests--which would by themselves not occasion an inadequacy--there were requests in the offing, meaning expected requests, which, taken together with the actual requests, would add up to a total that indicated an inadequacy of resources.

Mr. Prowse observed that actual requests might often be insignificant, while looming or expected requests might be large. Did Executive Directors wish to trigger the activation of the GAB in those circumstances?

The Treasurer remarked that the language might not be necessary at all because paragraph 21(c) supposed that there would be an actual request under paragraph 21(b). When the Managing Director had an actual request, he had to consider the availability of the Fund's resources in the light not only of that request but also of any other request for Fund financing that was either actual or expected.

The Director of the Legal Department stated that there was no doubt that a proposal could be made only in relation to an actual request. The question under consideration was whether the Managing Director could approach the participants before making a proposal to enable them to determine that the circumstances specified in paragraph 21(c) actually existed. On that basis, the language of paragraph 21(c) was correct. What was required was a determination of inadequacy first by the Managing Director and then by the participants, and that inadequacy had to be an inadequacy to meet not only actual requests, if the Managing Director had them, but also expected requests. The Managing Director would in fact take into account the whole ensemble of requests, whether actual or expected. The language did not mean that there had in fact to be actual requests. That was the intention of the Deputies as he had understood it.

Mr. Prowse said that if that understanding were recorded, he could accept the language as it stood.

It was agreed to renumber paragraphs 21(b) and 21(c) in consequence of paragraph 21(a) having become paragraph 23(a).

Draft paragraph 23(b)

Mr. Erb then proposed that a draft paragraph 23(b) should read: "Other forms of association between a member or an official institution of a member lending to the Fund, and the participants in this decision, are possible."

The Director of the Legal Department commented that if Mr. Erb's intention was that it would be possible to establish some kind of an association under the decision between the participants and other associate lenders, the point was already covered in paragraph 23(a). If Mr. Erb had a different point in mind, it would need to be spelled out in more detail.

The Chairman remarked that he understood Mr. Erb to be trying to describe an arrangement that would not be so closely defined as the agreement in paragraph 23(a); what it would do would be to open up avenues of collaboration in a rather looser form.

Mr. de Maulde said that it ought to be possible to meet Mr. Erb's purpose by rewording paragraph 23(a) to read: "Borrowing agreements may be entered into between the Fund and a member or an official institution of a member that was not a participant, under which the member or the official institution undertakes to make loans to the Fund for the purposes of this decision. Such borrowing agreements, made on terms comparable to those made by participants may, with the concurrence of the participants, authorize the Fund...." He himself did not like Mr. Erb's version because of an objection to ending a legal decision with the word "possible."

Mr. Erb commented that there seemed to be two separate points; the first had been put forward by the Director of the Legal Department to the effect that the Fund might enter into an agreement completely outside the General Arrangements to Borrow. He had no objection to mentioning that point, which was however not his. The point that was concerning him was that in draft paragraph 23 there was a passage that read, "under which the member or the official institution undertakes to make loans to the Fund for the same purpose as and on terms comparable to those made by participants under this decision." His aim was to indicate that there might be an intermediate arrangement by which an associated member could associate with participants in the General Arrangements to Borrow but not go so far as to have identical terms. The arrangement might simply be to participate in meetings of the General Arrangements to Borrow, or to consult with participants, or to associate with them for lending to nonparticipants, any of which could be negotiated with the participants in the GAB.

The Director of the Legal Department observed that while it would be simple to write language arranging for associate members to arrange to consult with the participants, it was important to know whether Mr. Erb

contemplated that under those arrangements it would be possible to provide for one of the types of benefits in relation to the potential lender that was specified in draft paragraph 23(a). If that was Mr. Erb's intention, the best procedure would be to leave the text of draft paragraph 23(a) as it stood, and to add a separate sentence that it would be possible to have some other type of a borrowing arrangement involving a different type of association.

The Chairman proposed that Mr. Erb's point should be that by introducing paragraph 23(b), reading: "Other forms of association with the General Arrangements to Borrow can be envisaged that would not entail the legal consequences mentioned in paragraph 23(a) above."

Mr. Erb accepted the Chairman's proposal.

Mr. Anson commented that it was surely unnecessary to say that the Fund could borrow from any source it wished; all the language he had heard so far seemed to be implying some sort of restriction on the Fund's right to do so. From a practical point of view, it was essential to include the words "with the concurrence of the participants." One way of meeting Mr. Erb's point might be to say: "Nothing in the decision should preclude the Fund, with the concurrence of the participants, from entering into other forms of association."

After further discussion it was agreed that the paragraph should read: "(b) Nothing in this decision shall preclude the Fund from entering into any other type of borrowing agreement, including an agreement involving an association between the Fund, the lender and participants, that does not contain the authorizations referred to in paragraph 23(a)."

The Executive Directors invited the staff to prepare a paper showing the changes and additions, including draft paragraphs 23(a) and 23(b), agreed to during the present meeting for review the following morning.

2. IRAN - SIZE OF QUOTA

Mr. Salehkhou made the following statement:

> I have been instructed by my Governor of the Fund for Iran to request favorable consideration by the Executive Board of the use--for the purpose of determining the size of quota to be made available in the Eighth General Review--of quota size that had been available to the Islamic Republic of Iran under the Seventh General Review. In the examination of this request, the Executive Directors may wish to take into account that the period of consent to the increase under the Seventh Review coincided with post-revolutionary events that signified probably the most critical period in Iran's modern history.
>
> A number of extraordinary developments, largely beyond the control of the Iranian authorities, made the consent to the

proposed increase under the Seventh Review virtually impossible in practical terms. The eventful period was characterized by several adverse developments, particularly severe externally imposed military, political, and economic constraints on the country, all of which negatively affected public opinion and largely contributed to the development of deep apprehension among the people and the officials with regard to some aspects of the external world, which was admittedly perceived as antagonistic under the then-prevailing circumstances. Such a situation made it understandably all the more difficult for the new authorities to assess their relations with old and new partners as well as with international institutions and to establish a normal and fair relationship with them.

It should be noted that owing to their preoccupation with a host of urgent matters and pressing priorities, the authorities found it impossible to avail themselves of all the existing information concerning Fund quota increases and their implications. Further, the freezing of Iranian external assets did not positively contribute to better mutual understanding.

Circumstances have greatly changed, and the political environment in Iran is progressively being normalized. Accordingly, the Iranian authorities are now prepared to associate on a new, fair, and just basis with the international community and positively to play a role that is compatible with her potential and in accordance with her independence, sovereignty, and constitutional commitments, including close cooperation with Third World nations in their endeavor for rapid development. The Islamic Republic's economic situation has also greatly improved as a result of severe austerity measures that have enabled her to strengthen her external payments and reserve positions despite the heavy burden of certain conditions prevailing in the area and without recourse to any foreign borrowings. At the same time, oil production and exports--the major traditional source of the country's foreign exchange earnings--after sharp fluctuations have settled at a level that has resulted in Iran's emerging as the second-largest OPEC oil producer.

Executive Directors may also take into account that Iran has traditionally been a large contributor to Fund resources and has strongly supported their continued expansion to enable the Fund to play a more active role in the international financial system. Pioneering, and active participation in, the oil facility is an example of Iran's cooperation with the Fund. The Iranian authorities have maintained a positive attitude toward cooperating with the Fund. Despite all the economic hardships the country has suffered in recent years, she has relied entirely on her own efforts--at the cost of great sacrifices--thus avoiding recourse to IMF and other international resources. The present request should therefore be considered in the light of such considerations.

Iran's share in the present quotas is equivalent to only about one half of her share in calculated quotas and is, therefore, exceptionally out of line. Any method of distribution of the overall increase under the Eighth General Review will only marginally affect this large discrepancy, and the resulting quota will be far from reflecting the size of Iran's economy or her potential for cooperation with the Fund and for participation in Fund quota increases.

In the past, the Executive Board, by accepting a number of requests for the extension of the period of consent under the Seventh General Review, had kindly expressed its sympathy to the Islamic Republic of Iran and its understanding of the exceptional difficulties that she was undergoing. Further, by Decision No. 6747-(81/82), adopted February 13, 1981, the Board agreed that, "...it will sympathetically consider a proposal to the Board of Governors that it approve a request for an increase in the quota of Iran up to the amount available under Board of Governors Resolution No. 34-2 if Iran makes a request for the increase before the end of 1981."

In the light of the aforementioned, I would be grateful to the Board if it would, in the same spirit, extend its sympathetic consideration to a procedure that would permit Iran to have an increase in her quota that would be based on an imputed quota of SDR 1,075 million, the amount available in the Seventh Review, which, by applying the overall methods of computation, would give increases in the Eighth Review as shown in Attachment IV.

Mr. Erb, while thanking Mr. Salehkhou for his efforts in explaining the problem facing the Government of Iran, remarked that his own understanding was that there were other procedures that could be followed for achieving the objective that Mr. Salehkhou had in mind. The approach suggested by Mr. Salehkhou had a number of disadvantages, mainly associated with the state of negotiations on the Eighth General Review of Quotas. The Executive Board had engaged in extensive discussions on the Eighth General Review. It had completed those discussions and had submitted a report to members of the Interim Committee describing the options that the Board had considered regarding its approach to the Eighth General Review. One of the most important elements of that approach was the desire of most Executive Directors to apply uniformly a single method for providing selective quota increases. His understanding of Mr. Salehkhou's proposal was that it would give Iran an additional adjustment that would not be shared by other members that might in the past have failed to take up a quota increase for similar reasons. The question of the uniformity of treatment would be raised if the approach were applied to one country and not to another.

In the circumstances, Mr. Erb went on, it would be better to ask Mr. Salehkhou to explore other possible ways of achieving his objective. His request could perhaps be dealt with in the same way as special quota increases had been handled in the past.

Mr. Joyce said that he too was grateful to Mr. Salehkhou for his paper and that he had some sympathy with him in the difficulty that he was facing. However, like Mr. Erb, he found the timing of the request rather unfortunate. Presumably, if Mr. Salehkhou's request were acted upon by the Executive Board in the present meeting, it would require a number of changes in the material that had been sent to Ministers and Governors taking part in the forthcoming meeting of the Interim Committee. Ministers had already been briefed as well as possible on the results of the Executive Board's discussions. If the relevant figures were to be changed shortly before the Interim Committee meeting, albeit for good reason, Ministers and Governors would have not only to make a judgment on the particular request but also to consider the consequential effects on the quota positions of their own and other countries.

His own preference, Mr. Joyce went on, would be to invite the staff to prepare a paper setting out a detailed account of the implications of the proposal and the various ways in which it might be handled, on the understanding that the Executive Board should take it up fairly urgently after the meeting of the Interim Committee.

Mr. Malhotra stated that he had considerable sympathy with Mr. Salehkhou's request. He could agree that there had been exceptional circumstances prevailing in Iran that had prevented the country from exercising its rights to the quota allocated to it. The desire of the Government of Iran to recapture its voting power and its quota was clearly legitimate. The Seventh General Review of Quotas had not yet been overtaken by the Eighth Review. It would therefore be possible to devise some means by which the Government of Iran could achieve the objectives that Mr. Salehkhou had described.

As he understood Mr. Erb and Mr. Joyce, Mr. Malhotra went on, while they both sympathized with Mr. Salehkhou, they appeared to fear that the number of changes involved in the report to the Interim Committee might delay other important decisions. He himself was not at all clear that the work involved would be difficult. The staff was able to make alternative quota calculations rapidly, and he would have thought the effort worth making. In any event, it ought not to be beyond the ingenuity of the staff and the Executive Board to find a way of taking into account the unique circumstances of Iran.

Mr. Wang commented that, taking into account the special circumstances, the Executive Board should give sympathetic consideration to the request by the Iranian authorities.

Mr. Kafka said that he too sympathized with Mr. Salehkhou and, like Mr. Wang, hoped that a way could be found to meet his request without upsetting the progress of the Eighth General Review of Quotas.

Mr. Laske remarked that he too had great sympathy for Mr. Salehkhou in the problems that he was facing and for the authorities of his country in the difficulties that they had been exposed to at the time of the

period for acceptance of the Seventh General Review of Quotas. However, he saw the same practical difficulties mentioned by Mr. Erb and Mr. Joyce in trying to meet Mr. Salehkhou's request so soon before the meeting of the Interim Committee that was expected to make recommendations on the Eighth General Review of Quotas. He would therefore, like other Executive Directors, be grateful if the staff could show the Executive Board other ways of dealing with the request, so that it could be taken up as a matter of urgency, once Ministers and Governors had expressed themselves on the report on the Eighth General Review of Quotas already sent to them by the Executive Board.

Mr. Hirao stated that he understood that a number of extraordinary developments had made it difficult for Iran to consent to its increase in quotas under the Seventh General Review before the extended deadline. However, the decision of February 13, 1981 made it clear that the extension was final. Not only had the period for consent to increases in quotas under Board of Governors' Resolution No. 34-2 for the Seventh General Review been extended to the close of business on March 16, 1981; but the Executive Board had also agreed that if Iran was unable to consent to the quota increase by that date, which applied to all members, it would sympathetically consider a proposal to the Board of Governors that it approve a request for an increase in the quota of Iran up to the amount available under the same resolution, if Iran made a request for the increase before the end of 1981, something that the Iranian authorities had not done. The Seventh General Review had therefore been closed off and work on the Eighth Review started.

It was of course quite true, Mr. Hirao went on, that Iran's actual quota was seriously out of line; its quota share was equivalent to only about one half of its calculated quota share. There were many reasons why a member's quota should be out of line, and one of the main objectives of the Eighth General Review of Quotas was to reduce such discrepancies. He could also agree with Mr. Salehkhou that members whose quotas were as out of line as Iran's could provide useful cooperation with the Fund. If Iran's position was to be reflected more accurately, the Eighth Quota Review should contain as large a selective element as possible. However, whatever method was used should be applied uniformly to all member countries. He therefore supported Mr. Erb in the belief that other possible approaches to enable Mr. Salehkhou to achieve his goal should be considered.

Mr. Lovato remarked that, in evaluating the request submitted by Mr. Salehkhou on behalf of the Iranian authorities, a number of conflicting considerations had to be taken into account. The situation was rather unusual. Consequently, instead of basing itself on past practice, the Fund would have to consider the case on its merits. Some factors seemed to indicate a need for caution on the part of the Fund. First, the request was being made very late in the discussions for the Eighth General Review of Quotas, and many authorities might find that they had not had sufficient time to reach a reasonable decision. Second, the effect of the request by Iran would not be to increase its quota under the Seventh Review but to obtain for the country differential treatment

in respect of the Eighth Review. In that connection, one point on which there had been a clear majority of Executive Directors had been the desire that the method chosen for the distribution of quotas under the Eighth Review should be uniform for all members. To grant Iran the requested quota increase at the present moment would be to depart from the principle of uniformity.

On the other hand, Mr. Lovato went on, there could be no doubt that the period for consent to concurrences under the Seventh General Review had coincided with a time of great turmoil in Iran, and it might have been difficult for the authorities to consider the advantages and disadvantages of accepting the quota increase then offered. It was also commendable that the Iranian authorities wished to re-establish a normal relationship with the international community, and he could understand that a request for an increase in quota was a sign of such an intention. Moreover, the Fund, which was devoted to promoting cooperation among members, should certainly look favorably on such a request. However, it was important that a decision in favor of Iran should be supported by a widespread consensus, and he was not certain that it could be reached in the Executive Board at such short notice. If a broad majority of Executive Directors was willing to support the Iranian proposal at the present meeting, he might go along, as a way of expressing appreciation of the intention mentioned by the Iranian authorities to cooperate more fully with the Fund.

Mr. Anson commented that he was concerned about the way in which the request by the Iranian authorities would affect the work of the Interim Committee. He greatly welcomed Mr. Salehkhou's observation to the effect that the request reflected a desire on the part of the Iranian authorities to play a more normal role in the international financial community, and to cooperate more fully with the Fund. Nevertheless, at the present moment, the best interests of the Fund and its membership, and indeed of the international monetary system, dictated that the Executive Board and the Interim Committee should rapidly conclude the Eighth General Review of Quotas. In approaching that goal, many Executive Directors and many members of the Fund had already shown a willingness to compromise in order to achieve a uniform system for approaching the distribution of quotas under the Eighth General Review. If an exception was proposed for a single country, there was a danger that the consensus that had been reached after such long debate would not survive. Before a decision on Mr. Salehkhou's request could be taken, most Executive Directors would have to consult their Ministers, and there hardly seemed time for them to do so before the forthcoming Interim Committee meeting.

Mr. Nimatallah stated that in his capacity as an Executive Director, he too was generally sympathetic to Mr. Salehkhou's request. However, like Mr. Erb and other speakers, he felt that Executive Directors should have some time in which to consider the case on its own merits. The additional time would be helpful, first, to enable Executive Directors to consult with their authorities and, second, to enable the staff to prepare a paper that would assist Executive Directors in coming to a decision.

Mr. Prowse noted, first, that Mr. Salehkhou had acted rapidly in the matter facing the Executive Board since he had become an Executive Director; second, that the Fund's liquidity would benefit from an increase in quota for Iran; and third, that there was a wide discrepancy between Iran's actual quota and its calculated quota, a situation that it had been decided as a matter of principle should be rectified as far as possible in the Eighth General Review of Quotas. Consequently, he was, in principle, sympathetic to Mr. Salehkhou. Indeed, he expected that some of his authorities would support arrangements that could accommodate Iran; like other Executive Directors, he had been unable to ascertain the views of all his countries.

On the other hand, Mr. Prowse went on, he did not see clearly how Mr. Salehkhou's request could be fitted into the procedures for the work of the Interim Committee. He would be grateful if the staff could outline any legal factors that might affect the decision-making process. His own suggestion would be that the Executive Board should try to find a way of considering Mr. Salehkhou's request as soon as seemed reasonably practicable.

Mr. Jaafar stated that his chair could support Mr. Salehkhou's request. He had noted in particular the exceptional circumstances facing Iran throughout the period for consent to an increase in quotas under the Seventh General Review. The circumstances had changed, and, while it was unfortunate that Mr. Salehkhou's request had come so late, any refusal to grant the request would lead to a hardening of the discrepancy between Iran's calculated quota and its actual quota. Ideally, he would have liked to see Iran subscribe to its quota under the Seventh General Review before any other action was taken. However, it seemed to make little practical difference whether the Executive Board granted Mr. Salehkhou's request as it stood or whether it insisted that Iran should take up the additional quota offered under the Seventh General Review before being allowed to use the imputed figures for the purposes of the Eighth Review. He did not consider the timing of the request important; the important thing was to act upon it sympathetically.

Mr. de Maulde said that, like others, he recognized the intrinsic merits of the case put forward by Mr. Salehkhou. However, like Mr. Joyce, Mr. Laske, Mr. Lovato, and Mr. Anson, he found the timing rather difficult. In the circumstances, the Fund should try to meet Mr. Salehkhou's request by using its efficient normal procedures for the purpose.

Mr. Polak commented that he was particularly pleased to learn from Mr. Salehkhou that the Iranian authorities intended to resume the close cooperation with the Fund that they had enjoyed in the past. Iran's current share of quotas was far out of line with its calculated quota, but Iran was not the only country in that position, nor the only country in that position as a result of not accepting past quota increases offered to it. Mr. Salehkhou had raised a number of important issues, not all of which had yet been mentioned by others. One was whether a country should have unlimited time in which to accept a quota increase that had

been offered to it. Another was whether, in trying to adjust quotas more closely to countries' economic positions, which was an important part of the Eighth General Review of Quotas, the Fund should continue to operate on the basis of a single formula based on some combination of calculated quota shares and actual quota shares, or whether it should accept the principle that countries should first be entitled to take up quota increases offered to them in the past that they had not accepted. Third, if, after mature consideration, Executive Directors adopted the latter approach, it would be important to know how many other countries would be eligible for treatment in the same way, and what such treatment would mean for the quota exercise as a whole. All the questions that he had mentioned deserved careful study. It would be unwise to take a snap decision without considering them. He therefore believed that the work of the Interim Committee should be allowed to continue unimpeded, and that the Executive Board should take up Mr. Salehkhou's request thereafter.

Mr. Finaish stated that he too could see the case put forward by Mr. Salehkhou. The special circumstances prevailing in Iran during the period for acceptance and the implications of the request for Iran's future relations with the Fund should be duly considered. Moreover, there could be no doubt that the country's quota was out of line, as indeed were the quotas of some other countries. He would therefore support a proposal to explore possible ways and means of meeting Mr. Salehkhou's request.

Mr. Tvedt commented that he assumed that there was no legal objection to a country's receiving a special increase in quota like that requested by Iran, although in principle increases should take place in connection with general quota reviews. The situation in Iran during the period for acceptance under the Seventh General Review had been rather exceptional; complying with the request by Mr. Salehkhou would not necessarily create a precedent. The Board had earlier agreed to consider a request for an increase in the quota of Iran with sympathy; however, the timing of the present request was rather awkward, and it seemed clear that there would be no broad consensus at the present meeting. Executive Directors should therefore return to the matter at a later date.

Mr. Sangare remarked that he could see no direct opposition to Mr. Salehkhou's request, but he noted that the timing created difficulties for some Executive Directors. Some of his countries were interested in the case because they felt that it was often difficult for a Fund member to accept an increase in quota when offered it. Consequently, when circumstances changed and the country was willing to take up the additional quota, it should not be denied the opportunity to do so. He agreed with Mr. de Maulde's description of the circumstances; he would therefore urge Executive Directors to try to find a way of meeting the request at a suitable moment.

Mr. Senior said that he sympathized with Mr. Salehkhou in his request, but that he understood the difficulties of timing.

Mr. Donoso stated that he could accept the idea of dealing with the request by the Government of Iran as soon as possible. He would be interested in hearing what procedures were available for dealing with the matter if it could not be put before the forthcoming meeting of the Interim Committee.

Mr. Alfidja remarked that the position of his chair on selective increases, whether as part of a general review of quotas or separately, was well known. Nevertheless, he had some sympathy with Mr. Salehkhou and could support his request provided that others would suffer no harm from doing so. It was certainly essential for the Executive Board to try to find some way of dealing with the request from the Government of Iran.

The Treasurer commented that in their report to the Interim Committee on the Eighth General Review of Quotas, the Executive Directors had endorsed the view that the method used to distribute increases in quotas should apply uniformly to all members. Consequently, if Mr. Salehkhou's request was to be dealt with before the meeting of the Interim Committee, Executive Directors would have to consider whether it should not be reflected in their report.

On the technical side, it would of course not be difficult to impute to Iran the difference between Iran's existing quota and the quota that it would have had had it consented to the increase offered under the Seventh General Review to Iran, and the staff could provide tables showing the consequences, the Treasurer observed. There was however the question of whether other countries were in the same position. Iran's situation was different in that its Executive Director had put forward a request; nevertheless, one other member had only taken up part of the quota increase offered to it under the Seventh General Review, and there were certainly others that had not taken up the quota increase offered to them in earlier reviews. There was therefore a question of principle involved: should the Fund permit the imputation of earlier quota increases offered but not taken up? If that principle were admitted, Executive Directors would have to decide whether to confine the principle to the Seventh General Review or to make it applicable to all earlier reviews.

Another relevant consideration, the Treasurer went on, was the extent to which, as a result of failure to take up earlier offered quota increases, countries' quotas were far out of line with their calculated quotas. The quota of the member that had not completely taken up its quota under the Seventh General Review was even more out of line than that of Iran. There did also seem to be members that had not taken up quota increases under the Fifth and Sixth General Reviews whose quotas were as much out of line as that of Iran.

One Executive Director had inquired whether it was possible to have special quota increases not associated with general reviews, the Treasurer recalled. Since the time of the First Amendment of the Articles of Agreement, when quotas had been made the basis for SDR calculations, it had been the general practice to prefer to deal with requests for special

quota increases within the context of a general review. The case of Nigeria in particular came to mind. The authorities of that country had made a request for a special quota increase considerably before the time of a general quota review. Nevertheless, the Executive Board, after long deliberation, had come to the conclusion that it should report to the Board of Governors that the request of Nigeria should be taken up in connection with the next general review.

On the other hand, the Treasurer noted, two special quota increases had taken place between the Seventh General Review and the Eighth General Review. In each of those cases there had been special, if not unique, considerations. Consequently, on the basis of past practice, there was no reason why the request from the Government of Iran could not be dealt with separately after the completion of the Eighth General Review. As to the proposal, put forward by one Executive Director, that Iran should first subscribe to the quota offered to it under the Seventh General Review, it was his understanding that the period for consent had lapsed, and that that course was no longer open.

The Director of the Legal Department explained, first, that a general quota review was concluded by a resolution of the Board of Governors, which normally prescribed a time for consent to the increased quotas. The resolutions also gave the Executive Board the power to extend the period, as had in fact been done in the case of the Seventh General Review. However, that time had expired, and the avenue of acceptance under the Seventh General Review was therefore no longer available. Two other avenues that had been suggested were still open. As a legal matter, it would be possible for the Executive Board to handle the request under the Eighth General Review, which had not yet been concluded because the Board of Governors had not yet adopted a Resolution. An alternative course of action would be, as had also been suggested, for the Executive Board to take up the request after the completion of the Eighth Review. The Fund could examine a request for a special increase at any time. Indeed, once a request for a special increase had been made, it had to be considered, and the Executive Board was obliged to submit a report, with or without a recommendation for a change in the quota, to the Board of Governors.

Mr. Malhotra felt that the Director of the Legal Department was on weak ground in stating that it was legally impossible for the Executive Board to grant an extension of time once an extension previously granted had lapsed. The very fact that the Board had granted one extension imposed that it was competent to allow another. He had found nothing in the Rules and Regulations of the Fund to debar the Executive Board from so acting.

The Director of the Legal Department explained that the authority of the Executive Board was derived from the Board of Governors by way of the Resolution. The Resolution did indeed give the Executive Board the power to extend the period for consent, and that power had been used successively on a number of occasions. However, the request for an

extension had always been made before the period had expired. On the present occasion, the extended period for consent had expired, and the Board of Governors Resolution provided only for extensions of periods for consent, not for the introduction of new periods nearly five years after that expiration. It had moreover been the established practice with respect to Resolutions of the Board of Governors to grant the Executive Board power to extend existing periods, but not to propose new ones once the extended period had expired.

Mr. Malhotra commented that he was not satisfied with the explanation offered by the Director of the Legal Department that the Executive Board had the power only to extend a period of consent that had not expired, but that it did not have the power to introduce a new period of consent thereafter. That took a very limited view of the powers of the Executive Board. Moreover, if the Executive Board in February 1981 had said that it would sympathetically consider a proposal for an increase in the quota of Iran up to the amount available under Board of Governors Resolution No. 34-2 if Iran made a request for the increase before the end of 1981, it could be argued that the Board could still consider such a request and send it to the Board of Governors.

The Director of the Legal Department maintained that the Board of Governors had empowered the Executive Board to grant extensions of periods for consent. In the normal sense of the term, an extension could apply only to prolonging a new period, not to starting one. That was the way in which the Fund had understood and applied the authority to extend a period in respect of resolutions of the type now under discussion or of other types of resolution. So far as the question of sympathetic consideration was concerned, the language did not support Mr. Malhotra. What was referred to, granted, was sympathetic consideration for a special increase in quota for Iran, not an increase under the Seventh General Review.

Mr. Salehkhou stated that he was happy to be able to speak of contributing to the Fund's resources, rather than asking for use of those resources, especially after the unusual circumstances that Iran had been going through in the past two years. Executive Directors might wish to bear in mind that the exceptional circumstances to which he had referred earlier had prevailed not only until the end of 1981 but also perhaps until the moment when he had joined the Executive Board. He had been encouraged by the sympathy and understanding of all those who had spoken. He had brought the matter before the Executive Board only after consulting the Fund staff and management. Moreover, he would not have brought the matter to the Executive Board unless he had been assured that he had a good case, and he had still not been told otherwise.

However, Mr. Salehkhou went on, he had not understood that Iran was not the only country that had not consented to take up the full amount of the additional quota offered under the Seventh General Review. On the other hand, he had understood that the Eighth General Review was still not completed and that, in view of the sympathetic consideration already granted to the request by Iran, the Executive Board could grant it another

period for consent. While the last thing he wished to do was to add to the problems of the Fund at the present time, he believed that the case of Iran was unique. It might well be that if there were other members that had not taken up their quotas under the Seventh General Review, perhaps they had failed to act willingly. He hoped that the Executive Board would not decide to postpone his request until after the conclusion of the Eighth General Review, which would surely be unnecessarily late.

The share of Iran had not yet been redistributed among other members, Mr. Salehkhou observed. One reason why he had made the request before the conclusion of the Eighth Review was that he did not wish to take up a quota share at the expense of other countries. His belief had been that if the increase were granted at the present time, either as part of the Seventh Review or incorporated into the figures for the Eighth Review, the size of the Fund would be increased by exactly the amount of the increase granted to Iran. Then, once the Interim Committee came to a decision about a percentage increase in the overall size of the Fund, the increase granted to Iran would have no impact whatsoever on the shares of other members.

Finally, Mr. Salehkhou remarked, he was asking for an increase in the size of the quota of Iran not only for the benefit of the country itself but also for the sake of developing countries as a whole. His feeling was that the increase would benefit the Fund at large. If the Board could take the line suggested by Mr. Malhotra, he would certainly request an extension. If that course was not open, he would adopt any other that might be suggested by Executive Directors. What counted was for Iran to receive the share to which it was entitled, preferably before the conclusion of the Eighth Quota Review.

The Treasurer commented that if the request by Iran were treated on its merits and the country received a special quota increase before the completion of the Eighth General Review of Quotas, the present share of all other members of the Fund would fall in proportion to the particular increase in the share of Iran. If, however, the proposal put forward by Mr. Salehkhou were followed and the Executive Board decided simply to impute the additional quota to Iran, the outcome would differ, although not perhaps by much, depending on whether the absolute increase in quota to its new size were to be expressed as a percentage, as Mr. Salehkhou assumed, or as an absolute amount.

Mr. Kafka remarked that the actual size of the increase would make hardly any difference to the membership as a whole; the increase would raise Iran's share in total quotas by no more than 0.6 per cent.

The Director of the Legal Department suggested that one way to proceed would be to reconvene the Committee of the Whole, and to allow it to consider whether it wished to make a recommendation for an increase of the size indicated by Mr. Salehkhou. If the Committee of the Whole so decided, the Executive Board could make a recommendation for a Resolution by the Board of Governors. Alternatively, it would be possible to await

the conclusion of the Eighth General Review and then establish an ad hoc committee, as had been done on many other occasions in the past. The ad hoc committee would act on the basis of a staff study and recommend accordingly.

Mr. Malhotra remarked that if it were possible to extend the period for consent and Iran took up the additional amount of quota, the recommendation by the Executive Board to the Interim Committee would not need to be changed in any way. All that would happen would be that the calculations would be changed marginally, as explained by Mr. Kafka. The Committee of the Whole could decide how the matter was to be handled if it was to be included in the Eighth General Review of Quotas. Whatever the overall quota size that was accepted, the allocation to Iran would have the same effect as if Iran had been allowed to take up its additional quota under the Seventh General Review. Another way in which Iran's request could be met without affecting the shares of other countries would be for the Board of Governors to agree that, whatever quota size was agreed to, Iran should be permitted to contribute an additional SDR 400,000 or so.

Mr. Salehkhou commented that the simplest procedure might be for the Executive Board to recommend to the Board of Governors that the size of the Fund should be increased by the amount of whatever increase in quota the Executive Directors agreed should be allotted to Iran, but before the completion of the Eighth General Review.

The Chairman, summarizing the discussion, remarked that the staff could certainly produce any new tables that were required. However, a number of speakers had expressed the fear that Ministers and Governors, who had already considered tables implying specific numbers for each country, might be confused if other figures had now to be put forward. He could well understand that Mr. Salehkhou would prefer the Executive Board to take a decision that Iran's quota under the Seventh General Review should be SDR 1,075 million and that, in the forthcoming meeting of the Interim Committee, Ministers and Governors should consider figures for the Eighth General Review that would include a quota for Iran of SDR 1,075 million. However, there was clearly some opposition to that course. The second possibility was to wait until after the meeting of the Interim Committee and then act under the procedure for a special increase in quotas as a matter of urgency. The advantage of such a course of action would be that it would avoid changing figures immediately before the meeting of the Interim Committee. The difference in terms of quota shares would clearly be small. However, the general feeling of Executive Directors seemed to be that the best procedure would be to establish an ad hoc committee to look into the case on its merits after the meeting of the Interim Committee.

Mr. Salehkhou stated that he would be happy to accept the proposal by the Chairman provided that it was understood that the matter would be taken up after the meeting of the Interim Committee, as a matter of urgency, and before the completion of the Eighth General Review of Quotas.

Executive Directors agreed to act in the way proposed by the Chairman, and concluded their discussion of the request by the Government of Iran for an increase in the quota of Iran to SDR 1,075 million.

APPROVED: July 14, 1983

LEO VAN HOUTVEN
Secretary

Possible Formulations of Paragraph 9(a)

Alternative A

A change in the method of calculating the combined market interest rate shall apply unless the Fund and the participants, by a two thirds majority of participants having three fifths of the total amount of the credit arrangements, decide by the time the change becomes effective, that the change shall not apply.

Alternative B

A change in the method of calculating the combined market interest rate shall apply, except in respect of the Fund's indebtedness to a participant at the time the change becomes effective [and in respect of any additional indebtedness to the participant incurred by the Fund prior to the date of the next renewal of this Decision], if the participant notifies the Fund, by the time the change becomes effective, that it does not wish the change to apply to such indebtedness.

Note: The two alternatives could be combined, with the effect that an individual participant could prevent the application of the change to the Fund's indebtedness to it even though neither the Fund nor the participants, as a group, have exercised the right to prevent the application of the change. However, this right of an individual participant would apply only to the indebtedness outstanding at the date of the change and, if the words in square brackets are included, to new indebtedness incurred prior to the next renewal of the GAB.