DOCUMENT OF INTERNATIONAL MONETARY FUND
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IMMEDIATE ATTENTION

EBS/81/149

CONFIDENTIAL

July 10, 1981

To: Members of the Executive Board

From: The Secretary

Subject: Borrowing by the Fund from the Reserve Bank of Australia

It is not proposed to bring the attached memorandum on borrowing by the Fund from the Reserve Bank of Australia to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Wednesday, July 15, 1981. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Borrowing by the Fund from the Reserve Bank of Australia

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by R.J. Familton

July 10, 1981

1. The Reserve Bank of Australia has expressed its willingness to open a facility in favor of the Fund for the equivalent of SDR 50 million for a commitment period of two years. The terms and conditions proposed for the agreement with the Reserve Bank of Australia are based on the Executive Board Decision on Borrowing from Central Banks and Other Official Entities (Decision No. 6864-(81/81), adopted May 13, 1981).1/ These terms, which are set out in the Attachment in the form of a draft agreement between the Fund and the Reserve Bank of Australia, closely follow the provisions of agreements concluded with other central banks.

2. The Reserve Bank of Australia has asked for the inclusion of a provision to allow for calls of bearer notes.

3. It is proposed that the Executive Board adopt the following decision:

> The Executive Board authorizes the conclusion of a borrowing agreement between the Fund and the Reserve Bank of Australia as set out in the attachment to EBS/81/149.

Attachment

1/ See "Borrowing by the Fund from Central Banks and Other Official Entities", SM/81/109, Supplement 1, Revision 1 (May 15, 1981).

Proposed Borrowing Agreement
with the Reserve Bank of Australia

1. The Reserve Bank of Australia (the "Bank") agrees to open a facility, free of commission, fee or charge, in favor of the International Monetary Fund (the "Fund") for the equivalent of SDR 50 million for a commitment period of two years commencing July [ ], 1981, in accordance with the conditions set out below.

2. (a) A drawing on the facility may be made by the Fund during the commitment period on giving the Bank at least seven days' notice by tested telex.

(b) Each drawing shall have an initial maturity of six months, one year, or two years, as specified by the Bank at the time the drawing is made. The Fund may at its option, by notice to the Bank at least seven days prior to the maturity date of any drawing with an initial maturity of six months or one year, renew such drawing for further successive periods of six months or one year, as specified by the Bank at the time of the renewal; provided that (i) the total period that any drawing remains outstanding shall not exceed two years and (ii) no renewal shall be made after July 31, 1984.

(c) Notwithstanding the provisions of (b) above, in the case of drawings made after January 31, 1983, (i) the Bank will no longer exercise the option to choose a two-year maturity, and (ii) if the Bank opts for a one-year maturity, the Fund shall have the option to renew that drawing once for a further six months.

(d) At the request of the Bank, its commitment to meet drawings, or to renew drawings, may be terminated if (i) the Bank represents that Australia's balance of payments and reserve position does not justify further drawings or renewals under the commitment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing or renewal should be made.

3. Each drawing, or renewal, shall be denominated in special drawing rights, and unless otherwise agreed between the Fund and the Bank, the drawing shall be effected by the Bank by the transfer of U.S. dollars (Federal Funds) to an account of the Fund at the Federal Reserve Bank of New York, New York. The amount of U.S. dollars to be transferred in a drawing shall be determined by applying the special drawing right/U.S. dollar rate established by the Fund on the third business day of the Fund before the value date.

4. The maturity of a drawing or a renewal shall be the prescribed period of six months, one year, or two years from the value date of the drawing or the date of the renewal. If a maturity date on which the

repayment of principal is to be made is not a business day of the Fund on which payments can be made, the value date of the repayment shall be the preceding business day.

5. Repayment of principal and payment of interest under this agreement shall be made in U.S. dollars, provided that the Fund by agreement with the Bank may use currencies other than U.S. dollars, or special drawing rights.

6. (a) Repayments of principal and payments of interest made in (i) U.S. dollars shall be made by the Fund by crediting the U.S. dollar countervalue to an account of the Bank at the Federal Reserve Bank of New York, (ii) currencies other than the U.S. dollar shall be made as agreed between the Fund and the Bank, and (iii) special drawing rights shall be made by crediting the account of Australia in the Special Drawing Rights Department and shall be deemed to meet the Fund's obligations to the Bank under this agreement to the extent of the payment.

(b) The exchange rate for a currency against the special drawing right for the purpose of repayment of principal and payment of interest shall be the rate established by the Fund on the third business day of the Fund before the value date.

(c) If the composition of the special drawing right is changed by the Fund, any repayment of principal or payment of interest due three or more business days of the Fund after the effective date of the change will be made on the basis of the new method of valuation. Nevertheless, if the Bank so requests within 30 days after the adoption of the relevant decision of the Fund but not later than 14 days after the date the change becomes effective, the former method of determining the value of the special drawing right shall continue to apply to outstanding drawings or renewals and their repayment and shall be used in the calculation and payment of the interest rate. If the Bank exercises this option, the Fund shall have the option of terminating the agreement and repaying all amounts due under this agreement upon giving 14 days' notice.

7. (a) The annual rate of interest (i) for a drawing with a maturity of two years shall be calculated and fixed for each three-month period the drawing is outstanding, (ii) for a drawing or renewal with a maturity of six months shall be calculated and fixed for each six-month period the drawing or renewal is outstanding, and (iii) for a drawing or renewal with a maturity of one year shall be calculated and fixed for each twelve-month period the drawing or renewal is outstanding.

(b) The interest rate applicable to each drawing or renewal shall be determined for the period for which the calculation is made on the basis of the interest rates and yields on the instruments listed in paragraphs 8(i), 8(ii) or 8(iii), as appropriate to the maturity of the drawing or renewal, for the third business day before the period for which the rate of interest is to be calculated as reported to the Fund by the central bank in whose currency the instrument is denominated. The calculation shall be made by multiplying the reported interest rate or yield on the listed instrument for each currency by the number of units of that currency used by the Fund to determine the value of the special drawing right on the date for which the interest rates and yields are communicated, and then by multiplying the product by the value of such currency unit in terms of the special drawing right on that date. The resulting products for all the currencies used to determine the value of the special drawing right, rounded to the nearest four decimal places, shall be added together, and the total, rounded up to the nearest one-sixteenth of one per cent, shall be the interest rate to be applied. If the Bank has exercised the option in paragraph 6(c) above, the calculations shall be made on the basis of the former method of determining the value of the special drawing right.

8. The interest rates and yields to be reported to the Fund by each of the five central banks for the purpose of the calculation of interest rate in accordance with paragraph 7 are the following:

(i) for drawings with a maturity of six months:

- six-month U. S. Treasury Bills,
- six-month interbank deposits in Germany,
- six-month interbank loans against private paper in France,
- average rate for newly issued bank CD's in Japan with a maturity of between 150 and 180 days,
- six-month interbank deposits in the United Kingdom.

(ii) for drawings with a maturity of one year:

- the yield to maturity on actively traded U.S. Government securities, determined on the basis of a constant maturity of one-year as published weekly by the Federal Reserve Board in Statistical Release H.15.
- the yield to maturity on notes and bonds of the Federal Republic of Germany, Railways and Post Office with a remaining period to maturity of one year as calculated by the Deutsche Bundesbank on the basis published in the Statistical Supplement (Series 2, Table 8D) to the Bundesbank's Monthly Report.

- the calculated redemption yield on British Government securities, determined for a constant maturity of twelve months, as calculated by the Bank of England on the basis published in its Quarterly Bulletin.

- the mid-point between bid and offered rates for twelve-month interbank loans against private paper in the Paris market.

- the yield to maturity of that Japanese Government bond with a remaining period to maturity closest to one year, based on the closing market price officially published by the Tokyo Stock Exchange.

(iii) for drawings with a maturity of two years the interest rates or yields to be used shall be those on the instruments used by the Fund for the purpose of determining the interest rate on the special drawing right in accordance with Rule T-1 of the Rules and Regulations of the Fund.

9. Interest for drawings with a maturity of six months shall be payable on the date of maturity. Interest for drawings with maturity of one year shall be payable six months from the value date of the drawing and at maturity. Interest for drawings with a maturity of two years shall be paid at intervals of six months from the value date of the drawing. If the date prescribed for the payment of interest is not a business day of the Fund on which payment can be made, the value date for the payment shall be the preceding business day. Interest at the annual rate determined in accordance with paragraphs 7 and 8, shall accrue daily beginning with the value date of the drawing or of the previous payment of interest through the day before the value date for the payment of interest.

10. (a) Except as provided in (b) and (c) below the commitment of the Bank shall be transferable only with the consent of the Fund.

(b) The Bank shall have the right to transfer at any time all or part of any claim on the Fund which results from a drawing outstanding under its commitment that has not less than three months to maturity, to any member, to the central bank or another agency of any member, or to any official entity that has been prescribed as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(c) A transferee of a claim under this paragraph shall be required, as a condition of the transfer, to assume and to be subject to the renewal undertakings of the Bank. The transferee shall have all the rights of the Bank, except that (i) the right to obtain repayment before maturity pursuant to paragraph 11(b) below shall be exercisable by the transferee only if it is a member or the central bank or another agency of a member that at the time of the transfer is in a net creditor position in the

Fund and, in the opinion of the Fund, the member's currency could be used in net sales in the Fund's operational budgets for the foreseeable future and (ii) the right of the Fund to use Australian dollars in repayment of principal or payment of interest shall, if the transferee is a member, or the central bank or another agency of a member, be replaced by the right to use the transferee's currency. If the transferee is not a member, or the central bank, or another agency of a member, this right shall no longer apply.

11. (a) At any time, the Fund may agree with the Bank on repayment before maturity subject to a possible adjustment in the interest rate applicable for the period during which the claim remained outstanding.

(b) The Bank may obtain repayment of a claim on the Fund before maturity if (i) the Bank represents that Australia's balance of payments and reserve position justifies early repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is such a need for early repayment.

12. At the request of the Bank, the Fund shall issue to the Bank an instrument evidencing its claim on the Fund resulting from a drawing outstanding under this agreement.

13. (a) At the request of the Bank received not later than ten days after the date a drawing is made or renewed, the Fund shall issue and deliver to the Bank, in accordance with the provisions of Annex A to Decision No. 6864-(81/81) of the Executive Board of the Fund, bearer notes in an aggregate principal amount not exceeding the principal amount of the drawing. The notes shall be substantially in the form set forth in Annex B to the Decision, or in such other form as may be agreed between the Bank and the Fund.

(b) On delivery of each note, the rights and obligations of the Bank and the Fund under this agreement with respect to an amount of the relevant drawing corresponding to the principal amount of the note shall be cancelled. To the extent that under paragraph 2 of this agreement the Fund would have been entitled to renew the drawing at maturity, it may, on the date on which the principal amount of the note is repaid, make a further drawing under this facility in an equivalent amount, which drawing shall for purposes of this agreement be deemed to be a renewal of the original drawing.

14. If the foregoing proposal is acceptable to the Bank, this communication and your duly authenticated reply accepting the proposal shall constitute an agreement between the Bank and the Fund, which shall enter into force on the date the Fund receives your reply.