INTERNATIONAL MONETARY FUND

Minutes of Executive Board Seminar 97/3

10:00 a.m., April 9, 1997

Contents

Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors	Alternate Executive Directors
A.A. Al-Tuwaijri	S.M. Al-Turki P.M. Fremann, Temporary
	C.X. O'Loghlin M. Askari-Rankouhi, Temporary
	W.-D. Donecker A. Giustiniani, Temporary
D.Z. Guti	J.P. de Morais
D. Kaeser	J. John, Temporary
W. Kiekens	B.S. Newman
A. Mirakhor A.V. Mozhin	A. Vernikov J. Shields
A.S. Shaalan	H.B. Disanayaka B. Andersen
J.J. Toribio E.L. Waterman J. de Beaufort Wijnholds K. Yao	J.-H. Kang
	A. Barro Chambrier H. Ogushi, Temporary M.Z. Maatan, Temporary
Zamani, A.G. Zhang Z. A.G. Zoccali	

R.H. Munzberg, Secretary
M.M. Cuc, Assistant

Also Present

African Department: E.A. Calamitsis, Director. External Relations Department: S.J. Anjaria, Director. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; J.L. Hagan. Policy Development and Review Department: N.L. Happe. Research Department: P. Isard. Secretary's Department: W.S. Tseng, Deputy Secretary. Treasurer's Department: D. Williams, Treasurer; G. Wittich; D. Gupta, Deputy Treasurer; J.C. Corr, R.H. Floyd, C.A. Hatch, T.J. Mast, O. Roncesvalles, T.M. Tran, M.A. Wattleworth. Office of the Managing Director: P.J. McPhillips. Advisors to Executive Directors: M.B. Alemán, J.A. Costa, M. Elhage, M.-H. Mahdavian. Assistants to Executive Directors: M.A. Brooke, M.A. Cilento, A.L. Coronel, D.A.A. Daco, R.J. Heinbuecher, O. Himani, J.P. Leijdekker, I. Moon, L. Palei, L. Pinzani, G.P. Ramdas, S. Simonsen, Zheng H.

1. SPECIAL ONE-TIME ALLOCATION OF SDRS—DRAFT OF PROPOSED FOURTH AMENDMENT OF ARTICLES OF AGREEMENT—FURTHER CONSIDERATION

The Executive Directors considered a staff paper on the draft proposed fourth amendment of the Articles of Agreement to provide for a special one-time allocation of SDRs (EBS/97/58, 4/1/97). They also had before them illustrative calculations of a special allocation of SDRs (SM/97/89, 4/1/97).

Mr. Wijnholds made the following statement:

With only three weeks left before the Spring meeting of the Interim Committee, it is time to make a strong effort to finalize our work on a special allocation of SDRs. I will not refer to the amount of the allocation today, as that matter is being pursued separately, but will focus my remarks entirely on EBS/97/58. In this thorough document the staff has "amended the amendment" to incorporate some of the Board's comments made at our previous meeting on this subject. In the process, the staff has come up with some additional questions. I hope that we can use this occasion to find answers to these questions, thus finalizing the legal instrument. In this way, we can use the remaining time to fill in the brackets where the draft refers to "[ ] percent."

I remain in favor of treating members in arrears like future participants, as has now been incorporated in the staff's Alternative B. In contrast, Alternative A seems at odds with the spirit of the Strengthened Cooperative Strategy with respect to arrears, as well as with the spirit of "equity" central to this amendment. I find it inappropriate to allocate unconditional resources to members with overdue obligations, nor do I see a justification to treat these members differently after becoming current with the Fund. On both counts, Alternative B is clearly more desirable. It provides a more effective incentive structure, by increasing both the carrot as well as the stick.

The staff rightly points out some possible variations of Alternative B, and requests our views. On all these variations, my views follow directly from the general idea behind the proposal I presented in December.

First, staff provides two versions on how to define the quota to which the benchmarks can be applied (paragraphs 7 and 8). The first version seems to me the most straightforward. In the second version, there is a chance that a member which cleared its arrears receives an allocation on the basis of its Eight Review quota. This was not how I envisioned my proposal.

Second, staff asks how we should define "arrears." Should we only consider arrears to the GRA, or should we talk of arrears "to the Fund"? I would opt for the latter, for the sake of consistency. After all, this is the same definition of arrears currently used in the Fund's general arrears policies. This definition includes arrears to the GRA, ESAF Trust and SDR Department, but excludes overdue currency valuation obligations.

Third, staff asks whether the treatment of members in arrears as proposed under Alternative B, should apply to SDR allocations in general. I can see that in terms of consistency, a logical argument could be made along these lines.

The argument for Alternative A rests on the principle of separation between the GRA and SDR Departments. The rationale for the separation was already questioned during the discussions on the Third Amendment. At that time, Directors wondered whether it would not be logical to exclude arrears cases from SDR allocations, and to allow allocating the full amount only after the clearing of arrears. Unfortunately, this issue was not discussed in depth, but was overtaken by other issues during those discussions. The rationale for the separation between the two Departments stems from the 1960s, when the Fund, both in membership and in its operations, was envisioned to be quite separate from the SDR Department. Now, all Fund members are participants in the SDR Department, and the SDR is primarily (if not only) in use in the Fund-related transactions.

During our discussion in December, several Directors pointed out that in this particular case, the rationale for the separation between Departments should be weighed against another principle, namely that of the "unity of the institution." We argued that in the public eye, it would be hard to explain how a member can be treated one way in one Fund Department, and another way in the other. I believe that the principle of the unity of the institution should prevail here. And in fact, on various accounts, the separation between Departments has already deferred to this principle. Let me provide some examples.

First, as was pointed out during our discussion in December, SDRs received in an allocation can be used against arrears to the Fund. Staff rightly points out that the Fund itself cannot enforce this, but the fact remains that the member can certainly use the SDRs to reduce or clear its arrears. This is one example of how policies in the one Department can affect what happens in the other. Using SDRs to clear arrears also has consequences for the quality of the SDR claims among participants, as was pointed out by Mr. Newman. For this reason, I would argue that it is in line with the Fund's role as administrator of the SDR Department to protect its participants against such an event. Alternative B would help in that sense.

Second, if a member's voting and representation rights are suspended as a result of arrears to the GRA, it loses its voice in the Executive Board. As a result, it is effectively excluded from discussions and decisions on SDR-related issues, such as a change in the basket or our current discussions on a new allocation. In this way, a members' arrears to the GRA Department already affects its participation in the SDR Department.

To make this point even clearer, consider a member that has to withdraw from the Fund as a result of arrears to the GRA or ESAF. This member would also be forced to withdraw from the SDR Department. After

all, being a Fund member is a requirement for being a participant in the SDR Department. Again, a certain link is clearly there.

Finally, consider a member that has arrears in the SDR Department, but not to the ESAF Trust or the GRA. This triggers the application of the Strengthened Cooperative Strategy, and as a result blocks the member's access to ESAF or GRA resources. Here too, one can see the link.

The significance of these examples is not just that they illustrate how the Departments are already connected. What is perhaps more relevant, is that the policies illustrated in these examples make sense. Therefore, I believe that in drafting the amendment, on the one-time special SDR allocation, such sensible policy considerations should prevail.

Mr. Mirakhor indicated that he wished to raise three questions. First, in regard to Alternative A, the paper discussed the two alternative bases for calculating the quotas: the Ninth Review versus the Eighth Review. Could the calculations be made on the basis of the Ninth Review, provided the Ninth Review quotas were not consented to, with actual allocations made on the basis of the Eighth Review, with the balance held in a trust account for countries that had qualified for the Ninth Review?

His second question related to Alternative B, Mr. Mirakhor continued, which appeared to affect a number of Articles in the Articles of Agreement. Could the staff address the implications of Alternative B?

Third, he wondered whether it was possible, from a legal point of view, to tighten the language of Alternative A—"The SDRs received under the allocation would automatically reduce or eliminate overdue obligations in the Special Drawing Rights Department"—so as to constrain the use of the proceeds from the allocation for countries in arrears to, in the first instance, the settling of their overdue obligations, Mr. Mirakhor concluded.

The General Counsel said that Mr. Mirakhor's first suggestion represented an interesting compromise, because the countries that had not yet completed the Ninth Quota increase would still qualify for an allocation, but, like all other members, they would receive only the allocation based on their current quotas. The remainder would be frozen until they had completed the process for the Ninth Quota increase. It would be feasible, at least in principle. The suggestion carried the risk that at some point the Fund might terminate its offer under the Ninth General Review of Quotas. At that point, the question would arise as to what should be done with the surplus allocation—should it be canceled, or should it be distributed?

The staff had attempted in its paper to indicate the implications for the Articles of Alternative B the General Counsel remarked. The main problem was whether Alternative B was conceivable by itself without a more comprehensive amendment of the Articles precluding future general allocations of SDRs to members in arrears. It would seem strange to conceive an equity allocation for which members in arrears would not qualify, while allowing the same members to qualify for general allocations. That question would need to be addressed—the logic of Alternative B begged a more comprehensive amendment.

That, of course, would represent a very considerable change in the relationship between the General Department and the SDR Department, the General Counsel continued. A

number of questions raised in the past would be reopened, not only the question of arrears, but also the question of a general provision on the use of assets in the General Department to discharge liabilities in the SDR Department, and vice versa. For example, under the current Articles, the Fund could not effect a transfer from the reserve tranche to discharge a member's arrears in the SDR Department. The current rules on separation of assets and liabilities between the two departments might need to be reconsidered.

Alternative B was based on the assumption that only arrears existing at the time of the allocation would be taken into account, the General Counsel continued. But what about subsequent arrears? What about an allocation to a country that had no arrears and incurred arrears subsequently? Should there not be a suspension of use of SDRs analogous to a suspension of use of Fund resources in the General Department?

In the staff's opinion, it would be very difficult to address Alternative B in its limited scope without considering the questions like set-off or the occurrence of subsequent arrears in the SDR Department, the General Counsel concluded. Even if those questions did not arise in the Board discussion, they would likely have to be addressed during the ratification process.

Mr. Donecker wondered whether the nature and the logic of the one-time special allocation could permit the application of a specific procedure limited exclusively to that allocation without revising the procedures governing general allocations.

The General Counsel replied that, while Alternative B was drafted as a one-time event, the question would inevitably arise, perhaps during the ratification process, as to why similar logic should not apply to general allocations as well.

Mr. Mirakhor suggested that it might be more reasonable to change the procedures in the context of a general allocation, rather than in the context of the one-time special allocation. It would be difficult to explain to national legislatures why it was necessary to modify the Articles—at least three Articles of the Articles of Agreement if Alternative B were adopted—for the sake of the one-time special SDR allocation.

The General Counsel remarked that the allocation to members in arrears in the SDR Department would automatically be used to eliminate, to that extent at least, their arrears in the SDR Department, including the overdue assessments, which were both obligations arising in the SDR Department and claims of the General Department, because of the reimbursement of costs. Beyond that, the Fund would need instructions from the country to use those SDRs to repay the country's arrears in the General Department.

Mr. Kaeser asked the General Counsel to clarify how SDRs would be used automatically to settle the obligations in the SDR Department.

The General Counsel replied that there were two types of arrears: unpaid interest owed by the member when its holdings fell below the level of allocation; and, overdue assessments which were the member's contribution to the cost of managing the SDR Department, which was reimbursed to the General Department. Regarding the overdue interest in the SDR Department—whenever a participant failed to pay interest charges, the creditors' claims would be affected. Technically, interest payments by a member were called charges, while the creditors received interest. If the charges were not paid, the Fund would create SDRs and the stock of SDRs would increase. When the member received the allocation

or otherwise acquired SDRs, the member's holdings of SDRs would be canceled, to the extent of the overdue charges. In that sense, a set-off existed between the SDRs created to pay interest to creditors and unpaid charges by the debtors.

Overdue assessments were treated differently, the General Counsel continued. The SDRs allocated to a member in arrears to the General Department would be credited to the General Department. It was merely an operation on the books of the Fund, which did not involve any currency conversion.

Mr. Yao made the following statement:

I would like to commend the staff for a paper that reflect the thrust of our last discussion on the special allocation of SDR. Mr. Wijnholds useful statement also raises interesting points which may need further clarifications.

According to Mr. Wijnholds and the staff, Alternative B appears to have some merit on the ground of "the unity of the institution," and on the ground of "the strengthening of the Fund's arrears policy."

In my view, the "unity of the institution" raises some interesting questions. Does it mean that the resources of the Fund both own and administered are fungible? In other words can resources in the General Department be used to finance ESAF? Or is "the unity of the institution" limited to both the SDR and GRA Departments? The staff view on these questions would be appreciated.

Mr. Toribio made the following statement:

Regarding the technical issues raised by the document of the staff, let me express my broad agreement with Mr. Wijnholds's position as is explained in his statement and, therefore, my initial support, in principle at least, to Alternative B, which seems to me a little more rational than Alternative A.

I think that the principle of unity of institutions, as Mr. Wijnholds suggests, appears to public eyes, such as mine, easier to understand than the somewhat artificial separation of departments, especially when it leads the Fund to allocate new financial assets to a member which has not yet fulfilled its overdue obligations toward the same institution, and the fact that such rights and obligations may stem from the activity of different departments does not seem to be very relevant from a purely common sense approach.

Even if we consider that arrears in the general account directly affect the Fund whereas overdue obligations in the SDR Department may involve only other members, it would still be clear to me that fulfilling all the rules of the game should be a precondition to enjoy any privilege derived from membership in this institution. This seems to be a good opportunity to amend our Articles in whatever way is deemed necessary to ensure that the operational separation among departments does not cover any breaking of the rules, no matter how partial it may be.

The authors of the paper are right in suggesting that this departure from the principle of separation creates a precedent which may be recalled in future allocation of SDRs whether they are of an equity or a general nature. Thus, it could make sense, from my point of view, to consider the possibility of a general principle that would affect members in arrears from all future SDR allocations, whatever the nature.

I would not endorse, however, the view that SDR allocations should be made on a selective basis after a case-by-case examination about the overall creditworthiness of all participants. In my opinion, going beyond unfulfilled obligations to the Fund to consider also possible arrears in connection with other officials or private creditors may be an overreaction on our part which could be difficult to accept for many of our members.

Finally, I also agree with Mr. Wijnholds about a preference for taking the quotas under the Ninth Review as a basis to calculate the allocations of SDRs to all potential participants. It would be easier and more straightforward than introducing any variations that may exceptionally take quotas resulting from the Eighth Review as the basis for those participants not yet in line with requirements of the Ninth General Review of Quotas.

Mr. Mirakhor made the following statement:

When a compromise on special allocation was reached in September, it was my understanding that the only point remaining for this Board was to decide on the question of the amount. For many of us, that compromise was a very difficult decision, because it involved a question of a principle enshrined in the Articles of Agreement. Nonetheless, we went along, we compromised, in the hope that the industrial countries would, in turn, demonstrate the same spirit of cooperation.

At the time, I understood two things. First, that all members would receive a share of this allocation. This was not only my understanding, it was also that of the Interim Committee. In Paragraph 8 of the Interim Committee communiqué, we read that "the Committee welcomed the consensus reached in the Executive Board that all members should receive an equitable share of cumulative SDR allocations..." We did not think that perhaps this compromise would have some very fine print that some of us did not know of. Second, that, except for the equity character of this allocation, in all other respects the SDRs under this allocation would have same features as any other SDRs and that no other aspects, dimensions, provisions, rules, principles, and operations of the Fund would be affected by this allocation.

While I respect other Directors' views, expressed in Alternative B, as we have just heard from the General Counsel, this Alternative affects in a very fundamental way some major principles enshrined in the Articles of Agreement, including the principle of separation of two departments; SDR and GRA. It has far-reaching implications that I think, at this time, I am not prepared to consider. These changes need to be considered under a future general

allocation, and if there will be changes in the Articles, they have to be made then.

I think that the statement made by Mr. Autheman in the last Board discussion is very apropos here, and I would like to quote him. He said that "it is very important, since we are agreeing on a special allocation, that we agree not to modify the rules governing the SDR Department, that we not legislate by circumstances, and that we not introduce general rules which would apply this time but would not have applied had we followed the avenue of a general allocation."

My feeling is that it is too late to try to make changes in association with the present special allocation that will have serious implications on Fund operations. Since I feel that provisions under which we negotiated, agreed, and reached a compromise and a consensus in the Board on the special allocation no longer hold, at least in my view, I should let the Board know that should Alternative B be considered seriously, I feel compelled to withdraw the support of this chair for the September consensus on the special allocation.

Mr. Zhang made the following statement:

I would like to thank the staff for providing us with updated papers on the technical issues concerning the special allocation of SDRs. I also thank the Managing Director for his strenuous efforts in achieving the consensus on the SDR special allocation. My comments are brief and concentrate on the size of the special allocation and the treatment of arrear members.

First, I notice that the size of the special allocation is not included in the staff paper. However, I would like to again register our support for the Managing Director's proposal that the allocation SDRs at 33 percent of quotas remains unchanged.

Second, on the treatment of arrear members, I still remember Mr. Gianviti's convincing explanation at the last Board meeting on the separation principle of the SDR and GRA departments stipulated in the Articles. I also concur with the staff's analysis that in the case of the SDR Department, the Fund only administers the Department. Moreover, arrears to the GRA do not give rise to sanctions in the SDR Department. In my view, such a principle should remain in tact. Therefore, I support Alternative A which seems consistent with the Fund's present Articles.

As for the allocation of SDRs for those members who are able to consent to, and pay for, the increase in quotas under the Ninth Review, I agree with and support Mr. Mirakhor's view. That the special allocation of SDRs should be done according to the size of the Ninth Review of Quotas and that the difference of allocation between the Ninth and Eighth Review of Quotas can be deposited in a trust account until those members fulfil their Ninth Review obligations.

Finally, I support the two technical revisions on page 2 of EBS/97/58.

Mr. Kaeser made the following statement:

With interest I read the paper on the question of an SDR allocation for equity reason. First, I agree with the technical revisions. As to the treatment of participants with overdue obligations, I wish to recall that the last review of progress under the Fund's arrears strategy has shown that, after considerable progress in the last few years regarding the settlement of overdue financial obligations to the Fund, total overdue obligations were again increasing. Moreover, the number of members with protracted arrears not only failed to be reduced, but even increased. There may therefore be a case for a further strengthening of the Fund's arrears policy.

I am not convinced, however, that an exclusion from a special SDR allocation of participants that have overdue obligations to the Fund would be the adequate instrument to achieve such a strengthening. Some countries are in arrears because of adverse exogenous developments. In this case, a more cooperative strategy, helping the member overcome its problems, would be better suited than simply excluding it from an allocation. The cooperation with some other countries, by contrast, faces difficulties. In such situations, however, we wonder whether an exclusion from the special SDR allocation will be high enough a penalty to induce the member to improve its attitude.

In addition, Alternative B, suggesting this exclusion, is not without problems. It raises for instance the question of maintaining a complete separation of the SDR Department from the General Department. The definition of overdue obligations also poses serious difficulties.

If a solution is to be found for the equity problem in SDR allocation at the next Interim Committee, this issue should not be further complicated. The strengthening of the Fund's arrears policy and the use of new instruments to this aim should be discussed on its own, independently from the SDR problem. Different options should be presented, discussed and assessed in the light of their respective advantages and drawbacks. We are, therefore, in favor of Alternative A, allowing participants with overdue obligations to the Fund to receive a special allocation on the same terms as other participants. I am content with the fact that the SDR allocated would automatically reduce or eliminate overdue obligations in the SDR Department.

Mr. Waterman made the following statement:

In principle, we are attracted to Alternative B, and agree with Mr. Wijnholds that it seems inappropriate to allocate unconditional resources to members with overdue obligations. I also agree that once such members become current, it makes sense to treat these members like future participants, that is, to allow them to receive the special allocation from the one-time amendment.

The staff paper notes that the main issue to consider in adopting Alternative B is that this contradicts the legal separation of the SDR and

General Departments. On that, I think Mr. Wijnholds has made some good points on this issue. The reasons for the separation are interesting, but not compelling enough to necessarily drive our behavior. More generally, I would hope our discussion today on the more technical elements can pave the way to an early agreement on the size of the special allocation.

In terms of some of the details of Alternative B, the staff has commented on the definition of quotas. I am attracted to the use of a participant's proposed quota under the Ninth Review, for reasons of simplicity and equity, but there may be other thoughts on this issue. In terms of defining arrears, I think it makes sense to use the approach adopted for the general arrears strategy, namely overall arrears to the Fund, including arrears to the GRA, ESAF Trust and SDR Department but excluding overdue currency valuation obligations.

Finally, there is the question as to whether or not the treatment of members in arrears to the Fund be specific to this allocation or general. I agree that this amendment could be seen as a precedent and that there is, therefore, a case for applying any policy to all SDR issues. That said, we are open-minded and place a higher priority on securing a broad consensus for the one-time special allocation.

Mr. Zoccali made the following statement:

We can agree with the technical revisions which staff have incorporated into the latest text of the draft amendment of the Articles of Agreement on a Special Allocation of SDRs. The suggestion by Mr. Wijnholds regarding the treatment of participants with overdue obligations discussed last December was favorably received but was neither fully analyzed nor agreed upon. Its presentation now as Alternative B constitutes an additional step forward aimed at reconciling the strengthened arrears strategy with the risk of default in the SDR Department; the logic being that cases of arrears in the GRA increase the probability of default in the SDR Department thus affecting all participants directly.

The approach proposed by staff in EBS/96/183, of not deviating from past practice, implicitly suggests that an SDR allocation to a participant under financial stress could attenuate the likelihood of arrears in the SDR Department while contributing to reducing them in the GRA Department. The fact that the need arose to develop a strengthened arrears strategy and that the Fund may not use SDRs received by a member under an allocation to extinguish its claims in the General Department, however, complicates the maintenance of the policy of separation.

In this context, we tend to share the misgivings expressed by Mr. Wijnholds regarding the appropriateness of the signal that would be conveyed by an allocation of unconditional resources to members with overdue obligations to the Fund. At the same time, although Alternative B would restrict the right of a participant to receive SDRs it would nevertheless preserve its right to use the asset unconditionally.

Therefore, this chair's preliminary preference in principle would be to move in the direction of establishing a clearer and perhaps more effective incentive structure than hitherto, along the lines of the approach under Alternative B, i.e. on the basis of the Ninth Quota Review and a broader definition of arrears to the Fund.

As to the question of a specific or general exception to the principle of separation, we are inclined to favor a general exception since, as staff notes, it would be difficult to ignore the precedent once it has been created thereby increasing the difficulty of making general allocations in the future without a new amendment of the Articles to exclude members in arrears. Further detailed analysis of the modality for eventual "set-off" and likely restrictions, for example, on subsequent use of SDRs would be needed before proceeding. In any event, it should be clear that the definition of arrears that we could accept for distributing SDR allocations would not include arrears to other creditors, official and private, as this would in fact close the door to the concept of a future general allocation.

On point B-5 of the explanatory text, we consider it sufficient to simply state that the characteristics of SDRs allocated will be the same irrespective of whether they are allocated under the provisions of Art. XVIII or those of Schedule M. Consequently, the examples of when or where this general principle would apply as provided in point B-5 are redundant and could give rise to unnecessary ambiguity, should a future case not covered in point B-5 arise.

Finally, we also deem it of paramount importance, as noted by Mr. Mirakhor, not to legislate by circumstance, but rather on the basis of considered analysis, so as not to alter the monetary character of the SDR or as alluded to by Mr. Waterman, upset the consensus for an early "equity" allocation.

Mr. Maatan made the following statement:

I welcome the revisions made to the draft Fourth Amendment of the Articles to allow for the Special Allocation of SDRs. The Alternatives A and B for the allocation generally reflect the Board discussion when it last met on the subject.

With respect to these two alternatives, I do see the merit of imposing some discipline on members with overdue financial obligation to the Fund with respect to special allocation of SDRs. Though I have yet to get feedback from my authorities on a number of issues brought up in the paper, I do not foresee much difficulty in supporting Alternative B, with overdue obligation referred to as arrears "to the Fund." To be realistic in the calculation of estimates for the allocation to members with overdue financial obligation, I support the staff proposal on the use of these members' actual quota at the time of the allocation. Thus, to avoid the possibility of receiving a Special SDR allocation based on the Eighth Quota Review, it would be in the best interest of these

members to clear their arrears and consent to the quota under the Ninth Review prior to the allocation date.

While I can understand the arguments for excluding members with overdue financial obligation from any SDR allocation, a complete exclusion would defeat the purposes of the allocation in the first place, namely for equity or liquidity purpose. In particular, I am not in favor of the proposal that members with arrears should also be excluded from general allocations of SDRs. In such eventuality, members with overdue financial obligation would have suffered double penalty. First, they have not been able to increase their quota under the Ninth Review, which consequently restrict the amount they can borrow from the Fund and the amount of SDRs they could receive under an SDR allocation plan, and most probably reduce their voting strength within the Fund, although it may not be significant. Second, in times when long-term global need to supplement reserve of members calls for a general allocation of SDRs is proven, denying them from the allocation may result in such members undertaking measures which the general allocation intends to avoid in the first place, such as import compression, as other forms of financial assistance or borrowing may not be economically attainable. This could worsen such members' economic situation.

On the last issue, I generally endorse the staff intention to limit the damage that could arise from the default of members in the SDR Department. To ensure transparency and consistency, I support a system of conditional allocations with prespecified criteria to safeguard against unproductive use of the allocated SDRs.

Mr. Fremann made the following statement:

My authorities can go along with Alternative B. Nevertheless, as this chair argued during our last meeting on SDR allocation, we consider that it will not make great sense to have a rule of a general character applying only to this special allocation. Therefore, we favor the adoption of a general rule that would exclude members in arrears, not only from the equity allocation, but also from general allocations.

Mr. Ogushi made the following statement:

On the issue of the treatment of countries in arrears, while we understand the need of many developing countries with weak external positions to receive an SDR allocation soon, at the same time we think Mr. Wijnholds's position is an interesting one in terms of facilitating a solution to the arrears problem. At this stage, my authorities have an open mind on this issue.

Mr. Al-Tuwaijri made the following statement:

We have discussed this issue extensively in December, and on other occasions. I can, therefore, be brief.

I support Alternative A.

At the last meeting this chair saw some merit in the logic of Mr. Wijnholds's proposal, however, we felt that the maintenance of the separation of the General and SDR Departments is critical.

When we agreed on the allocation of SDRs based on an amendment to the Articles, and as mentioned by Mr. Mirakhor, the consensus of this Board was that such an amendment should not change the present character of the SDR. While I understand that allocating SDRs to countries in arrears may create some anomalies, I feel it is of paramount importance to conform to the present legal structure of the Fund.

Furthermore, for mainly practical reasons, I would also not be overly concerned if countries currently in arrears receive an SDR allocation. In this regard, I agree with Mr. Kaeser that it would be difficult to argue that most of these countries are in arrears due to a lack of cooperation with the Fund. Rather they are in arrears due to very unusual circumstances.

Mr. Mozhin made the following statement:

I would like to make only a few points.

First, I do not have any problems with the suggested technical revisions.

Second, although I understand Mr. Wijnholds's concern and agree that it would be rather odd to allocate unconditional resources to members with overdue obligations to the Fund, I would nevertheless opt for Alternative A. As Mr. Gianviti has pointed out, Alternative B could lead to rather significant complications which, I think, would be highly undesirable, especially since we can address the arrears problem by other means.

Third, I would strongly support the principle of making allocations to all existing and future participants on the basis of the Ninth Quota Review. After all, this whole amendment is about equity, and I do not think we would want to create a situation that would leave not only current but also future authorities of any existing participant with a sense of injustice. In particular, I would strongly urge applying this same principle to the Federal Republic of Yugoslavia.

Mr. de Morais made the following statement:

I take note of the valid points raised by Mr Wijnholds and others on the merits of Alternative B. However, I do not think we should seek a further strengthening of the Fund's arrears strategy by excluding members in arrears from SDR allocation. In any case, if an SDR allocation provides a window for a member to clear its arrears to the Fund, I think this would be an achievement rather than a weakening of the Fund's Arrears Strategy and indeed Alternative A would make this possible much earlier than Alternative B.

There is no doubt that we have made headway with the current arrears strategy. This is not to say that we are against any form of further strengthening, but mechanisms that seek to further squeeze and alienate these members from the world community may become counterproductive. I therefore go along with Alternative A as amended by Mr. Mirakhor's changes.

Mr. Giustiniani made the following statement:

Let me express my appreciation for the proposal put forward by Mr. Wijnholds. It has the merit to strengthen and enhance the instruments available to the Fund to prevent and deter overdue obligations. It also underscores the balance between obligations and rights of the membership. Therefore, I can go along with Alternative B of the proposed fourth amendment.

More specifically, as far as the text of the amendment is concerned, I found it more appropriate to refer to the general concept of arrears to the Fund, and as far as the principle of separation between the general and SDR departments is concerned, the arguments put forward by Mr. Wijnholds in his statement seem convincing, and the link between the two departments seems to be established de facto if not de jure. Therefore, further clarification by the staff would be really appreciated. The logical consequence of the approval of Alternative B is to extend the suspension of the right to receive an SDR allocation also to the case of general SDR allocation.

Finally, it is reasonable to limit the exception only to the cases of arrears to the Fund without entering into the uncharted waters of defining the creditworthiness of a member country.

Mr. Newman made the following statement:

The staff's latest draft of a possible SDR "equity" amendment addresses the principal issue raised in the Executive Board's previous discussion last December but also poses several new ones. I will limit my remarks to the treatment of: countries with overdue obligations; the Federal Republic of Yugoslavia (Serbia/Montenegro); and future members.

We continue to support Mr. Wijnholds's proposal that countries with overdue obligations to the Fund in the General Department should not receive the special SDR allocation until the arrears are cleared. The argument that the SDR and General Departments should be treated as entirely separate entities may have had some validity in the past but does not strike us as particularly compelling at the present time. As Mr. Wijnholds notes in his gray, the linkages between the General and SDR Departments are now numerous and substantive. Thus, all members of the General Department are currently participants in the SDR and policies which affect a members rights in the General Department have significant consequences for effective participation in the SDR, including, for example, representation and voting rights. Moreover, the SDR plays an important role in helping to finance operations and transactions in the GRA and the Fund is a net holder of SDRs in the GRA.

In these circumstances, providing SDRs to countries in arrears on their obligations to the General Department would inevitably be perceived as enhancing the risk of holding SDRs and weaken the monetary character of and support for the SDR. Indeed, as staff note, a good case could be made that a country in arrears in the General Department should not be eligible to benefit from a general SDR allocation for many of the same reasons, although we would not go as far as staff in suggesting that arrears to non-IMF creditors should disqualify a member from an SDR allocation. Moreover, we do not believe it is necessary to decide now whether to extend the proposal relating to a special allocation to a general allocation. We would also have serious reservations about the suggestion in footnote 8 on page 5 that the proposed amendment might permit the Fund to use a participant's SDRs to discharge an obligation in the General Department as such a step would in effect transfer risk from the General Department to participants in the SDR.

We would, of course, have no objection to a country with overdue obligations receiving its SDR allocation once the arrears are cleared. We would agree with part of the staff's proposed variation to Alternative B which would provide an allocation based on the 8th review quota or the proposed 9th review quota if the member's quota had been increased. However, the proposal for a notional quota between the 8th and 9th in the event that the member has not consented to the proposed 9th review quota and its quota share declines as a result of the on actual quotas. In these circumstances, it might be more appropriate to provide the allocation based on the 8th review quota rather than a notional 9th quota.

The staff's proposals regarding the treatment of the FRY would provide for an allocation based on its 8th review quota if the period for consents under the 9th review has lapsed before succession is completed. However, the FRY would be treated like a new member if quotas had been increased under the 11th or subsequent reviews before succession. In this case, an anomalous situation could also arise in which the FRY would be allocated SDRs on the basis of a notional 9th review quota which differed from its actual quota pursuant to that review. Therefore, as in the arrears case, it might be preferable to base the allocation on the actual 8th or 9th review quota, whichever applies, rather than a notional quota.

The issue of the appropriate basis for an allocation to arrears countries and the FRY arises in part because the period for consents to quota increases under the 9th review has remained open for more than five years since the conclusion of the review. With decisions on the 11th review fast approaching, the time may have come to close the window for consent under the 9th review; possibly when the Executive Board's recommendations are forwarded to the Board of Governors. This would simplify the treatment of arrears countries and the FRY by using actual quotas on the specified date, either 8th or 9th as appropriate, rather than notional quota.

Finally, we can support the staff's proposals regarding the treatment of future members.

Miss John made the following statement:

We find no need to introduce variations to the original staff 's proposal for the special allocation of SDRs as described in Alternative A, which also reflects the compromise of the Board when discussing this subject earlier.

We are not convinced that Alternative A will conflict in any way with the Strengthened Cooperative Strategy of the Fund. The solution to the arrears problem requires members' willingness to collaborate with the Fund by pursuing sound macroeconomic policies and structural reforms. It does not seem to us, therefore, that a special allocation to members, including those in arrears, would reduce the incentives that countries currently have not only to settle their arrears to the Fund, but also to improve their economic and social conditions in order to secure access to international capital markets. Like Mr. Kaeser, we are not convinced that exclusion would be the adequate instrument to achieve a strengthening of the arrears policy.

The staff is right at pointing out that the exclusion of members in arrears from the special allocation could have implications for their treatment under a future general allocation. This is an additional reason not to complicate issues at this time.

Mr. Askari made the following statement:

We have no difficulties with the technical revisions proposed by the staff.

On the treatment of members with overdue obligations, other speakers have reviewed the pros and cons of the various options before the Board in detail. Let me just say that SDRs are unconditional resources. Giving them to members in arrears provides perverse incentives. I agree with Mr. Wijnholds that in dealing with overdue obligations we have to have a carrot and stick approach. However, I believe the Board has already offered the carrot through the cooperative strategy and the RAP. Treating members in arrears like other members in the case of an SDR allocation would make the carrot too large and soften the stick.

This chair would therefore support Alternative B. The fact that it would set a precedent for future general allocations would only reinforce the message to countries in arrears.

Staff also offers two variations to Alternative B. We support the second variation which would use, as the basis for calculation, actual quotas rather than notional Ninth Review quotas.

Mr. Disanayaka made the following statement:

We do appreciate the merits of Mr. Wijnholds's proposal. It is indeed interesting and creative, but, for two basic reasons, we have a problem in going along with it. We are more inclined to agree with Alternative A. We have two reasons for this. One is on principle; the other one is on amount.

On the principle, we wish to emphasize that many of us were keen to get a general increase of quotas, but as a compromise, after a lot of discussion, we agreed to go on this amendment path. At that time, as Mr. Mirakhor has pointed out, we had no idea that this amendment path would be riddled with many unanticipated difficulties. Now we find that the amendment path is riddled with a lot of difficulties, which are going to shake the foundations of the institution. One is to trigger an erosion of the separate character of the two departments, SDR and General. Another one is with regard to the arrears problem.

We were trying to resolve, through the amendment, the equity problem, and not an arrears problem. Now I find that we are trying to surface, through this amendment path, two things. One is to give away the distinctions that have been existing between the two departments, the SDR and the General Department, on the one hand, and on the other hand to aggravate the distinction that the arrears problem has brought into the picture. We would not, therefore, feel that this is a very good thing, on principle, so we do not agree that it is the best way to set about, by excluding some members from this special allocation.

The other reason for our position is the amounts themselves. The amounts are very insignificant. The total amount that these countries would get is less than 1 percent of their total arrears to the Fund. The new SDR allocation to them would be something like 0.018 billion. That is a very small amount. I am subject to correction. The numbers are very insignificant when you look at their total arrears to the Fund, and the new amount that we will give them is very small. This applies to countries, at least partly, who have problems due to exogenous reasons, as pointed out by Mr. Gianviti and a couple of my colleagues here. So we should give some message to these countries to solve their basic problems. I am not excusing people who deliberately have gotten into trouble through their own actions, but we have to have some way of helping the countries that are in difficulty, and that have been shut out from the Fund assistance for a long time due to reasons beyond their control. We should not use this as an opportunity to shut them out further. On these grounds, I support proposal A.

Mr. Kiekens made the following statement:

I see much merit in Mr. Wijnholds's proposal to suspend SDR allocations to countries with overdue obligations to the Fund until all arrears have been cleared. Mr. Wijnholds has further developed the arguments for this proposal in a well written statement. I can therefore support version B

of the proposed amendment of the Articles of Agreement to permit a special equity allocation of SDRs, which provides for such a suspension.

Nevertheless, if too many Board members continue to view such a proposal as incompatible with an early consensus on an equity allocation of SDRs, I am ready to reconsider my position and switch my support to version A of the proposed amendment, under which SDRs would also be allocated to countries in arrears. However, in order to attract more support to version A, I propose that we examine further whether it would be possible to obtain from countries in arrears an irrevocable commitment, prior to the adoption of the amendment, to use the newly allocated SDRs for reducing any outstanding arrears to the GRA. If such a pragmatic solution would be acceptable, we can make rapid progress.

Whether to allocate SDRs to members with overdue obligations, based on their actual quota resulting from the Eighth Quota Review or based on the notional amount that would have resulted from the Ninth Quota Review from which their arrears excluded them, could be decided on the basis of the willingness of those countries to use their allocated SDRs to reduce their arrears. If we see a constructive attitude, I would be willing to accept an allocation based on the notional amount produced by the Ninth Quota Review. If not, we can go for an allocation based on the actual quota resulting from the Eighth Quota Review. Given the high SDR to quota ratios for countries with overdue obligation, the latter option would give these countries little or nothing in terms of the envisaged special SDR allocation.

Mr. Shields made the following statement:

I support the arguments presented by Mr. Wijnholds, both at the last meeting and in his statement today. It seems to me that Alternative B is the best way forward. The arguments about looking at the unity of the institution rather than being too concerned about rigid separations between the SDR and the general department seem to be correct. I do not think that Alternative B goes against the spirit of previous discussions on the special allocation. It seems right to me that we ought to be sure that, when we agree to the terms of this amendment, we do so in ways which are consistent with other policies that we are pursuing in this Board, and in particular the policy on arrears. We do have total consensus behind the strengthened arrears policy. Nevertheless, I feel that there are some ways in which the arrears policy is not producing the results that we all would hope for. The idea of having something which, as Mr. Wijnholds says, provides both a carrot and a stick seems to me consistent with that and reduces the risk that otherwise part of the policy could be undermined.

On the set of technical issues raised, I can certainly go along with the common use of quotas under the ninth review. There will be some anomalies. Nevertheless, this seems the fairest way forward. I also agree that arrears should be defined in terms of overall arrears to the Fund. I would in principle support a uniform treatment of arrears cases, both in this special equity allocation and in any future general allocations of the SDRs, but I do

appreciate that this has caused a concern amongst other members, and I would not wish to press this point too hard.

Mr. Wijnholds stressed that he had always supported a special SDR allocation which he viewed as separate from the general SDR allocation. By proposing Alternative B, he did not intend to add complications to the initiative. Instead, its rationale was to address directly the issue of treatment of members in arrears which would inevitably arise in national legislatures. He remained undecided on the question of whether to have Alternative B also apply to general allocations of SDRs. Perhaps the treatment of that issue could be postponed.

Mr. Donecker made the following statement:

We welcome the staff's proposals. To be brief, I should like to summarize our views, as follows, on the proposed alternatives and variations.

First, we would favor a procedure of the special allocation along the lines of Alternative B, for the reasons given by the staff, Mr. Wijnholds, and other colleagues. I should like to add here one thing. We have to see the unity of the institution, and we have to protect the credibility and the quality of the SDR.

Secondly, on the issue of whether to allocate SDRs under the special allocation to all arrears countries on the basis of their actual or fictitious ninth review of quotas after they have cleared their arrears, as suggested by Mr. Wijnholds, or to apply the variation, as suggested by the staff, we are open to both options.

Thirdly, employing such a procedure also for future general SDR allocations—that is, delaying the allocation to those members with arrears vis-à-vis the general and/or the SDR department of the Fund until their clearance—seems worth further consideration since it would support our enhanced cooperative strategy against the arrears. Before finally making up our mind on this issue, we would like to hear the respective views of our colleagues, and we would like to think about what they have voiced here today.

Fourthly, in the explanatory text with regard to Alternative B, on page 17(b)(i), the draft text, for the benefit of clarity, precision, and consistency of the text, should also speak of a one-time allocation instead of simply, and somewhat misleadingly, of an allocation of SDRs.

Mr. Shaalan made the following statement:

I shall be very brief. I have very similar concerns to those expressed by Mr. Mirakhor, particularly regarding the legal implications of Alternative B. My position therefore is not to exclude participants with arrears to the general resource account from a special allocation of SDRs, if there was one. I therefore support Alternative A, with the idea that proceeds from the new allocation are applied to reduce arrears in the general resource account.

Mr. Andersen made the following statement:

> The statement distributed by Mr. Wijnholds made my task much easier, and likewise for many of my colleagues, as I can associate myself with the main views and arguments put forward by Mr. Wijnholds, in particular the importance of maintaining the carrot and stick characteristics of his proposals by applying the first version suggested by the staff on how to define a quota to which the benchmarks can be applied and to utilize a broader definition of arrears by referring to arrears to the Fund. Furthermore, I am in principle attracted by a general exception that excludes members in arrears also from general allocation, but, like Mr. Newman and Mr. Wijnholds, I am willing to be open minded on this if this could be helpful in the effort to finalize our work on the special allocation.
>
> Finally, I am somewhat skeptical concerning the appropriateness of an even broader concept that would take into account arrears to other official and private creditors, not least to the extent that such considerations would necessitate a de facto creditworthiness assessment by the Fund.

The General Counsel noted that the Board appeared divided on the matter of earmarking the allocated SDRs for clearing arrears in the General Department. Even among Executive Directors who had supported Alternative B, quite a few were of the opinion that the SDRs should not be put to that use.

Provided that sufficient support for the approach materialized, two courses could be considered, the General Counsel continued. The safer one would be to have a special provision in the amendment. The staff would need to give further thought to another possible course—that of a prescribed operation, which would involve the use of SDRs prescribed by the Fund, with a commitment by the member. That had not been done in the past, because the Articles did not give the Fund the power to prescribe operations or transactions between a participant and the General Resources Account, the only Fund account that could hold SDRs. The more general question of the relationship between the General Department and the SDR Department would inevitably arise: to what extent was the Board prepared to support the idea that arrears in the General Department were relevant, either in the exclusion of members from an allocation, or in the use of the SDRs to clear those arrears. That would need to be further explored.

It was doubtful whether a one-time allocation with a one-time exception to the principle of separation of the two departments would carry no implications for the way future allocations were effected, the General Counsel stated. In future allocations, it would not be possible to disregard the principles enshrined in the ad hoc exception. Alternatively—which was more troublesome—the problem would not be expected to arise if there was no intention to have any further general allocations.

The principle of separation of assets and liabilities had been undermined in certain respects, the General Counsel suggested. There were two sets of policies on arrears for the use of the Fund's resources in the General Department. The first, referred to in the discussion, was the policy of suspending access to the GRA resources when a country was in arrears to the Fund. Under that policy, even arrears in the SDR Department were taken into account. The basis for the policy was not a particular provision in the Articles but related rather to the

policy on establishing adequate safeguards for the use of the general resources, Article V, Section 3(a). When assessing a potential debtor's creditworthiness, the Fund would first examine the debtor's arrears to the Fund, including those in the SDR Department.

The second set of policies concerned arrears to other creditors: arrears to the World Bank, to the Paris Club and others, the General Counsel continued. Those arrears were also taken into account, but not in the same way, and the staff paper had raised the issue for the Board's consideration.

While the discussion focused on qualification to receive an allocation of SDRs, the qualification to use SDRs was likely to arise in the future as well, the General Counsel said. The policies on arrears in the General Department applied to the use of resources. In the SDR Department, there was no similar policy, except when a country was in breach of its obligations in the SDR Department. The discussion dealt with a suspension of the allocation; at some point, the issue of suspension of use would need to be addressed as well. It might arise if some countries that were not in arrears at the time of the allocation and would therefore receive the allocation later fell into arrears. Unless Fund policies were modified, those countries would be able to use their SDRs although they were in arrears to the General Department. Once the Board began questioning the separation of the two departments in the context of the allocation, the same question would need to be addressed in the context of the use of SDRs.

Mr. Donecker suggested that it should be feasible to establish a principle with respect to arrears cases that would apply only to the one-time special allocation. The unity of the institution would serve as the overriding principle; the SDR's credibility and quality would need to be safeguarded as well. The Fund should be able to adopt a text that made it clear that, in cases of members who were in protracted arrears in the GRA, the Fund insisted that members clear their arrears before receiving the special SDR allocation.

Mr. Mirakhor recalled that the language of the Interim Committee communiqué referred to the consensus reached in the Executive Board that all members should have an equitable share. The reference to all members implied that the members in arrears were included. Attempts to revise the conditions under which the consensus had been reached would undermine the fundamental points of agreement. It would also mean that a consensus on the special allocation of SDR did not exist any more. It would be unacceptable to subject to discriminatory treatment those members that were in arrears through no fault of their own.

Mr. Donecker stressed that the intention was not to exclude any member from receiving the special SDR allocation, but the member had to fulfill its obligations to the Fund. It was not acceptable when, in the case of members with protracted arrears in the SDR Department, the Fund was forced to create SDRs without the consent of the Board of Governors in order to keep the system intact. The Fund had given many opportunities and much technical and other assistance to the members with the most protracted arrears, and yet they had not met their obligations.

Mr. Mirakhor pointed out that countries like Afghanistan and Somalia had fallen into arrears owing to factors outside their control. Furthermore, serious implications in the proposal would create problems for the Fund by disregarding the content of some key passages of the Articles of Agreement. More time to discuss those implications was needed.

He was not opposed to Alternative B, but, given its broader implications, it was more appropriate to discuss it in the context of a general allocation.

Mr. Wijnholds remarked that the reference to "all" in the Interim Committee communiqué had been meant to reflect the evolution in the concept of equity allocation, a move from a pure equity allocation to a more general allocation. Initially, it had been viewed as an allocation only to those members who had not benefited from past allocations.

Mr. Askari remarked that Alternative B did not exclude any members; it only suspended their allocation until they cleared their arrears.

The General Counsel, in response to a question from Mr. Newman, said that a member in arrears could use its reserve tranche, unless it had been declared ineligible for a breach of obligation. By itself, the existence of arrears did not preclude the use of the reserve tranche. Similarly, SDRs could be used by a member even when the member was in arrears.

Mr. Newman remarked that, since the SDR was comparable to a reserve tranche in that respect, the distinction between allocation and use did not seem to apply—a country could use its SDRs, even if it subsequently fell into arrears.

The General Counsel said that the Board was now focusing on the question of members in arrears at the time of allocation. Sooner or later, however, the question of a member in arrears after the allocation would need to be addressed as well. The only way of preventing a member in arrears from using its SDRs would be to suspend the use of the SDRs, in the same way as the use of general resources beyond the reserve tranche was suspended. By allowing a member to continue using its SDRs while in arrears to the General Department, the Fund would seem to suggest that the existence of arrears did not affect the member's creditworthiness. In that case, it would not be apparent why an allocation would not be possible. If the use did not create a problem, why prevent the allocation? The allocated SDRs were meant to be used, not to be held.

Mr. Wijnholds disagreed with the General Counsel's statement that the SDRs were to be used. On the contrary, the SDRs were to be held.

The General Counsel pointed out that the Articles of Agreement contained several provisions for the use of SDRs.

Mr. Donecker expressed support for Mr. Wijnholds's comment—SDRs were primarily meant to be held. Otherwise, if all members tried to use SDRs, who would take them?

The Acting Chairman considered that that aspect would be best left aside at the present stage. The General Counsel had been making a legal, as opposed to an economic, point—namely, that the SDRs had a purpose. A member was allowed to use them under certain circumstances. They were not being given to be spent; they were being given because they were usable in certain conditions.

The Board had now reached a stage where neither Alternative A nor Alternative B commanded 85 percent support, the Acting Chairman noted, and it would have to begin exploring ways of reaching a compromise. He wondered whether Mr. Kiekens could restate the main features of his compromise proposal.

Mr. Kiekens stated that, according to his proposal, the Fund would allocate the SDRs, while preventing countries in arrears from using the SDRs for purposes other than clearing their arrears to the Fund. Inevitably, such an allocation would shift, to a certain extent, the risk from the GRA Department toward the SDR Department. It should be noted that the creditors in the SDR Department and the creditors in the GRA Department were somewhat different. But the amounts involved were relatively small, and therefore the implications to individual creditor countries would be limited.

Mr. Toribio indicated his support for Mr. Kiekens's pragmatic proposal.

In response to a question from Mr. Wijnholds, the General Counsel said that an 85 percent majority calculated on the basis of the votes in the SDR Department, rather than a simple majority, was required for an amendment of the special allocation, because an amendment of the Articles was at issue.

Mr. Kiekens said that, in making his proposal, he noted that Mr. Mirakhor and others had not rejected, in principle, Mr. Wijnholds's proposal. Rather, they made it clear that the Board could revisit Mr. Wijnholds's proposal in the future, perhaps in the context of a new general allocation.

Mr. Mirakhor indicated that he was awaiting the General Counsel's determination as to whether or not Alternative B could be put in the language of the amendment itself. He did not object to Alternative B, but he did not consider it appropriate in the context of the equity allocation.

A simple majority might be sufficient for approving a report to the Interim Committee, Mr. Mirakhor continued. However, if it contained Alternative B, he would feel compelled to submit a minority report to his Governors in the Interim Committee indicating that the Board no longer had a consensus on the special allocation, because he could not support the special allocation on such terms.

The General Counsel indicated that Alternative B would be incorporated as a special provision, or an ad hoc amendment, in the special equity allocation amendment. Another approach would involve a more comprehensive review that would address not only the issue of allocations to members in arrears, but also the relationship between the SDR and General Departments.

The Acting Chairman observed that the meeting had provided the Board with the opportunity to discuss all relevant issues. The Board would now have to reconsider ways of generating a consensus which had so far eluded it. More thinking on the part of all Directors was necessary, and further efforts were needed to reach a compromise on the issue. The next few days would provide the opportunity to explore ways of moving forward.

REINHARD H. MUNZBERG
Secretary