

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0450

**FOR
AGENDA**

SM/94/216

August 10, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Special Allocation of SDRs - Draft of the
Fourth Amendment of the Articles of Agreement

Attached for consideration by the Executive Directors is a paper on a draft of the fourth amendment of the Articles of Agreement for special allocation of SDRs. This subject, together with the draft report of the Executive Directors to the Interim Committee on access to Fund resources and an allocation of SDRs (SM/94/205, 8/1/94), is tentatively scheduled for discussion on Monday, September 12, 1994.

Mr. Munzberg (ext. 36675) or Mr. Hagan (ext. 37715) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Special Allocation of SDRs - Draft of the
Fourth Amendment of the Articles of Agreement

Prepared by the Legal Department

(In consultation with the Research, Treasurer's and
Policy Development and Review Departments)

Approved by Reinhard Munzberg

August 10, 1994

During the recent discussions on the SDR, the staff was requested to prepare a draft of an amendment of the Articles based on the characteristics of Method III as described in the statement by the Managing Director on "Access Limits, SDRs and Cofinancing Trust Accounts" 1/ and in the Board paper on "SDR Allocation--Illustrative Calculations." 2/ The draft amendment would provide for special allocations of SDRs that are separate and distinct from the general allocations made pursuant to a decision under Article XVIII and, specifically, such allocations would not be based on a finding of "long-term global need." The main features of the draft amendment, the text of which is attached, may be summarized as follows.

1. The draft amendment provides for a special allocation to all existing participants that, as of a specified date, have ratios of net cumulative allocations of SDRs to quotas that are below a certain benchmark ratio, including members of the Fund that became participants after the last allocation of SDRs as well as members that did not participate fully in all allocations made to date. The amount received by such participants would be an amount that would raise their allocations to a level corresponding to that benchmark ratio.

(a) The benchmark ratio has not been specified in the draft amendment. The level to be chosen would effectively determine which existing participants will be eligible to receive allocations and the overall size of the special allocation to these participants.

1/ Buff 94/66 (7/1/94).

2/ SM/94/152 (6/17/94) and Sup. 1 (7/5/94).

(b) The amount to be allocated would be calculated by applying the benchmark ratio to the quota of each participant as of a date to be specified in the amendment ("the specified date"). 1/ The specified date would be no later than the date of the transmittal of the proposed amendment resolution by the Executive Board to the Board of Governors. The setting of a benchmark ratio and its application to quotas as of the specified date has the effect that changes in net cumulative allocations or quotas after the specified date would not affect the special allocation. For instance, a general allocation made subsequent to the specified date and before the effective date of the fourth amendment would be in addition to the special allocation.

(c) Participants would receive the special allocation on the 30th day following the effective date of the amendment, unless they have notified the Fund of their desire not to receive the special allocation.

2. The draft amendment also makes provision for special allocations to countries that become members of the Fund and participants in the SDR Department after the specified date. Regarding such future participants, the following should be noted.

(a) The basis for determining the amount to be allocated to future participants has not yet been discussed in detail by the Executive Board. The draft amendment sets forth a formula that attempts to achieve, to the extent possible, comparability of treatment between existing participants and future participants and would give the future participant the opportunity to "catch up" with general allocations made after the specified date but before the date of its participation. Accordingly, a future participant would receive a special allocation that would result in its ratio of net cumulative allocation to quota being equal to the benchmark ratio applied to existing participants, as adjusted (i) in proportion to the change in the total quotas of existing participants that has occurred since the specified date 2/ and (ii) in proportion to the change in the total

1/ For members that continue to have overdue obligations in the general resources account as of the specified date and, accordingly, are unable to consent to and pay for their increases in quota under the Ninth Review by that time, the ratio would be applied to their quotas in effect prior to any increase under the Ninth Review.

2/ Changes arising from the additional quotas of new members would, for example, not cause an adjustment.

net cumulative allocations of existing participants that are attributable to general allocations made after the specified date. 1/

(b) Future participants would receive a special allocation on the 30th day following the later of (i) the date of their participation or (ii) the effective date of the fourth amendment, unless they have notified the Fund of their desire not to receive the allocation.

3. The draft amendment provides for a third category of eligible recipients of special allocations; namely, countries that may succeed to the former Socialist Federal Republic of Yugoslavia's membership in the Fund and participation in the Special Drawing Rights Department after the specified date. Such countries would succeed retroactively to the former Socialist Federal Republic of Yugoslavia's participation in the Special Drawing Rights Department upon the date on which the Fund takes a decision regarding their succession.

The method to be applied for calculating the amount that such successors would receive would be the same as that applied to future participants. The allocation would be received by the successor on the 30th day following the later of (i) the date on which the Fund takes the succession decision and (ii) the effective date of the fourth amendment, unless the successor has notified the Fund of its desire not to receive the allocation.

4. The special allocation would provide for a one-time "catching up" for eligible participants, not a permanent mechanism for periodic harmonization of net cumulative allocation-to-quota ratios.

5. In addition to the above, the following aspects of the draft amendment should be noted.

(a) Special allocations would not be made on the basis of a finding of "long term global need." Accordingly, they would not be subject to the provisions of Article XVIII insofar as these provisions relate to general allocations. An additional provision would be added to Article XV that would prescribe special allocations in accordance with a new "Schedule M" of the Articles. The special allocation provisions would operate without the necessity of a decision by any organ of the Fund.

1/ The category of existing participants that would be used for purposes of determining the adjustment to be made would be limited to existing participants that have decided to receive all allocations made by the Fund since the specified date. This would ensure that a future participant would not be adversely affected by a decision taken by an existing participant to opt out of allocations (which would reduce the amount by which the total of net cumulative allocations of participants would have otherwise increased and, accordingly, would also reduce the extent of the upwards adjustment).

Conversely, no organ of the Fund would have authority to modify the operation of the provisions.

(b) The characteristics of SDRs allocated pursuant to a special allocation and the rights and obligations that the receipt of such allocations would confer upon the participant would be governed exclusively by the existing provisions of the Articles and would not be affected by the amendment. For example, the allocation received by a participant pursuant to the amendment would be taken into consideration for purposes of calculating the acceptance limits under Article XIX, Section 4, i.e., the limits with respect to the amount of currency which this participant would have to provide if it were designated pursuant to Article XIX, Section 5.

(c) The amendment would also be without prejudice to the application of Article XVIII, Section 2(d), which sets forth the rules regarding the receipt of general allocations by members that become participants after the commencement of a basic period. Under that provision, the Fund may authorize a new participant to receive general allocations made during the remainder of the basic period. Accordingly, if a future member becomes a participant during a basic period when allocations are being made, it may be authorized to receive a general allocation in addition to its special allocation.

Draft of the Proposed Fourth Amendment

1. The text of Article XV, Section 1 shall be amended to read as follows:

(a) To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights in accordance with the provisions of Article XVIII to members that are participants in the Special Drawing Rights Department.

(b) In addition, the Fund shall allocate special drawing rights to members that are participants in the Special Drawing Rights Department in accordance with the provisions of Schedule M.

2. A new Schedule M shall be added to the Articles, to read as follows:

SCHEDULE M

Special Allocations of Special Drawing Rights

1. Subject to 5 below, each member that, as of [specified date], is a participant in the Special Drawing Rights Department and has a net cumulative allocation of special drawing rights that is less than [] percent of its quota, shall, on the 30th day following the effective date of the fourth amendment of this Agreement, receive an allocation of special drawing rights in an amount that will result in its net cumulative allocation of special drawing rights being equal to [] percent of the quota of such participant as of [specified date].

2. Subject to 5 below, each country that becomes a member of the Fund and a participant in the Special Drawing Rights Department after [specified

date] shall receive an allocation of special drawing rights in an amount calculated in accordance with 4 below on the 30th day following the later of: (i) the date on which that member becomes a participant in the Special Drawing Rights Department or (ii) the effective date of the fourth amendment of this Agreement.

3. Subject to 5 below, each country that becomes a member of the Fund and a participant in the Special Drawing Rights Department as a result of a decision taken by the Fund after [specified date] that such country has succeeded to the membership in the Fund and the participation in the Special Drawing Rights Department of a country that ceased to be a member of the Fund and a participant in the Special Drawing Rights Department on or before [specified date] shall receive an allocation of special drawing rights in an amount calculated in accordance with 4 below on the 30th day following the later of: (i) the date of the Fund's decision that the country has succeeded to membership in the Fund and participation in the Special Drawing Rights Department or (ii) the effective date of the fourth amendment of this Agreement.

4. (a) For the purposes of 2 and 3 above, each participant shall receive an amount of special drawing rights that will result in such participant's ratio of net cumulative allocation to quota being equal to [] percent of the quota of such participant as of the date determined under (c) below, as adjusted:

(i) first, by multiplying [] percent by the ratio of the total of quotas as of [specified date] of the participants described in (b) below to the total of quotas of such participants as of the date determined

under (c) below, excluding amounts attributable to increases in quotas after [specified date] under decisions of the Fund adopted before [specified date], and

(ii) second, by multiplying the product of (i) above by the ratio of the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of the participants described in (b) below as of the date determined under (c) below and the allocations received by such participants under 1 above to the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of such participants as of [specified date] and the allocations received by such participants under 1 above.

(b) For the purposes of the adjustments to be made under (a) above, the participants in the Special Drawing Rights Department shall be those participants that (i) have a ratio of net cumulative allocation to quota that is equal to or less than [] percent as of [specified date], (ii) continue to be participants in the Special Drawing Rights Department as of the date determined under (c) below, and (iii) have received all allocations made by the Fund after [specified date].

(c) Except as otherwise specified in (a) and (b) above,

(i) calculations made for the purposes of 2 above shall be made on the basis of the net cumulative allocations and quotas in existence as of the date on which the member becomes a participant in the Special Drawing Rights Department, and

(ii) calculations made for the purposes of 3 above shall be made on the basis of the net cumulative allocations and quotas in existence

as of the date on which the Fund takes the decision regarding the succession of the participant.

5. The Fund shall not allocate special drawing rights under this Schedule to those participants that have notified the Fund in writing prior to the date of the allocation of their desire not to receive the allocation.