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CONFIDENTIAL

September 8, 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 draft of an amendment of the Articles based on the proposal made by Mr. Evans and Ms. Lissakers in their memorandum of July 28, 1994. This subject is tentatively scheduled for discussion on Monday, September 12, 1994.

Mr. Gianviti (ext. 38329) or Mr. Munzberg (ext. 36675) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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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 and Treasurer's Departments)

Approved by François Gianviti

September 8, 1994

The staff has been requested to prepare a draft of an amendment of the Articles based on the proposal made by Mr. Evans and Ms. Lissakers in their memorandum of July 28, 1994. This amendment would provide for a one-time SDR allocation to present members (and future members upon membership) without a finding of long-term global need. With respect to the attached draft, which reflects this proposal, the following should be noted:

1. Under the amendment, existing participants would receive an allocation that is equal to the larger of: (i) an amount that will result in a participant's ratio of net cumulative allocation to quota being equal to a specified benchmark ratio (the "benchmark ratio amount") or (ii) a specified percentage of each participants's quota (the "minimum ratio amount"). Under Example 1 of Mr. Evans' and Ms. Lissakers' memorandum, the benchmark ratio would be 20 percent of quota and the minimum ratio amount would be 6 percent of quota. ^{1/} Accordingly, while participants with ratios of net cumulative allocation to quota equal to or less than 14 percent would receive the benchmark ratio amount, participants with ratios greater than 14 percent would receive the minimum ratio amount. ^{1/} For example, a participant with a ratio of 13 percent would receive an allocation equal to 7 percent of quota, and a participant with a ratio of net cumulative allocation to quota of 15 percent would receive an allocation equal to 6 percent of quota. As described in SM/94/216, calculations would be made on the basis of quotas and net cumulative allocations in existence as of a specified date, such date to be no later than the date on which the Executive Board transmits the proposed amendment resolution to the Board of Governors.

2. As in the amendment described in SM/94/216, a future participant would also receive an allocation upon becoming a participant. For purposes of achieving comparability of treatment, the amount it would receive would be equal to the benchmark ratio, as adjusted for quota increases and general allocations that may occur after the specified date but prior to the date of

^{1/} For illustrative purposes, these figures have been inserted in square brackets in the text of the amendment.

its participation. For purposes of determining this adjustment, the category of existing participants to be utilized would be limited, *inter alia*, to those participants that received the benchmark ratio amount. 1/

Draft of the Proposed Fourth Amendment

1. The text of Article XV, Section 1 shall be amended to read as follows: 2/

(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 4 below, each member that, as of [specified date], is a participant in the Special Drawing Rights Department 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 equal to the greater of: (i) [6] percent of its quota as of [specified date] or (ii) an amount that will result in its net cumulative allocation of special drawing rights being equal to [20] percent of its quota as of [specified date].

1/ Following the approach set forth in SM/94/216, countries that may succeed to the membership in the Fund and the participation in the Special Drawing Rights Department of the former Socialist Federal Republic of Yugoslavia are identified as a separate category of beneficiaries. Under the existing draft, these participants would receive an allocation that is equal to the minimum ratio amount since, under either of the examples set forth in the memorandum of Ms. Lissakers and Mr. Evans, this amount would be larger than the benchmark ratio amount for these countries. The calculation would be made on the basis of the quota in existence as of the date on which the Fund takes the succession decision. This quota will be based on the Eighth Review, unless the period for the payment of an increase under the Ninth Review is extended through the date of the succession decision and the successor makes such payment on that date.

2/ Additions to the existing text are underscored.

2. (a) Subject to 4 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 (b) 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.

(b) For the purposes of (a) above, each participant shall receive an amount of special drawing rights equal to [20] percent of the quota of such participant as of the date on which the member becomes a participant, as adjusted:

(i) first, by multiplying [20] percent by the ratio of the total of quotas as of [specified date] of the participants described in (c) below to the total of quotas of such participants as of the date on which the member becomes a participant, 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 sum of the net cumulative allocations of special drawing rights received under Article XVIII by the participants described in (c) below as of the date on which the member becomes a participant, plus the allocations received by such participants under 1 above, to the sum of the net cumulative allocations of special drawing rights received under Article XVIII by such participants as of [specified date], plus the allocations received by such participants under 1 above.

(c) For the purposes of the adjustments to be made under (b) 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 [14] percent as of [specified date], (ii) continue to be participants in the Special Drawing Rights Department as of the date on which the member becomes a participant, and (iii) have received all allocations made by the Fund after [specified date].

3. (a) Subject to 4 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 the former Socialist Federal Republic of Yugoslavia shall receive an allocation of special drawing rights in an amount calculated in accordance with (b) below on the 30th day following the later of: (i) the date of the Fund's decision that the country has succeeded to participation in the Special Drawing Rights Department or (ii) the effective date of the fourth amendment of this Agreement.

(b) For the purposes of (a) above, each participant shall receive an amount of special drawing rights in an amount equal to [6] percent of its quota as of the date on which it succeeds to participation, as adjusted by multiplying [6] percent by the ratio of the sum of the net cumulative allocations of special drawing rights received under Article XVIII by the participants described in (c) below as of the date on which the country succeeds to participation, plus the allocations received by such participants under 1 above, to the sum of the net cumulative allocations of special drawing rights received under Article XVIII by such participants as of [specified date], plus the allocations received by such participants under 1 above.

(c) For the purposes of the adjustments to be made under (b) 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 greater than [14] percent as of [specified date], (ii) continue to be participants in the Special Drawing Rights Department as of the date on which the country succeeds to participation, and (iii) have received all allocations made by the Fund after [specified date].

4. 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.