

December 11, 1974

To: Members of the Executive Board

From: The Secretary

Subject: Revised Draft Amendments: Payments on Changes in Quotas,  
Charges, Interest, Remuneration, and Distribution of Net  
Income

Attached for consideration by the Executive Directors is a memorandum setting forth revised versions of the draft amendments in the Articles of Agreement on payments in respect of changes in quotas, charges, remuneration, interest on special drawing rights, and distribution of net income, together with a commentary by the staff.

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This subject will be brought to the agenda for discussion on a date to be announced.

INTERNATIONAL MONETARY FUND

Revised Draft Amendments:  
Payments on Changes in Quotas, Charges, Interest,  
Remuneration, and Distribution of Net Income

Prepared by the Legal Department

(In consultation with the Treasurer's and  
Research Departments)

Approved by Joseph Gold

December 9, 1974

I. Redrafted Provisions

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The provisions set forth below are revised versions of the texts in DAA/74/3 that have been prepared as a result of the discussion of that memorandum by the Executive Directors at EBM/74/104 (August 15, 1974). The discussion at EBM/74/151 (December 2, 1974) has also been taken into account. In the revised draft provisions, underlining indicates texts that are new in comparison with the present provisions. The language of the present provisions that is crossed out would be deleted in the amended provisions.

Payments in respect of changes in quota

Article III, Section 4(a)

Each member which consents to an increase in its quota shall, within thirty days after the date of its consent, pay to the Fund twenty-five percent of the increase in [gold or] special drawing rights [or in the currencies of other members specified by the Fund, provided that the Fund shall have consulted these members and provided further that no payment by a member shall raise the Fund's holdings of the currency

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of another member above seventy-five percent of its quota]. and The balance in-its of the increase shall be paid in the member's own currency. If,--however,--on-the-date-when-the-member-consents-to-an-increase,--its monetary-reserves-are-less-than-its-new-quota,--the-Fund-may-reduce-the proportion-of-the-increase-to-be-paid-in-gold-

Alternative A:

[The Fund may permit a member to pay more than seventy-five percent of the increase in its own currency.]

Alternative B:

[In special circumstances, the Fund may permit a member to pay more than seventy-five percent of the increase in its own currency.]

Article III, Section 4(b)

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If a member consents to a reduction in its quota, the Fund shall, within thirty days after the date of the consent, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of gold, or special drawing rights if the Fund so decides and the member is a participant in the Special Drawing Account, as is may-be necessary to prevent the reduction of reducing the Fund's holdings of the currency below seventy-five percent of the new quota. By agreement with the member, the Fund may pay in the currencies of other members, after consultation with them, the portion of the reduction in quota that in the absence of agreement would be payable in gold or special drawing rights.

Charges

Article V, Section 8

(a) (i) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay, in addition to the parity price, a service charge uniform for all members, as determined by the Fund. ~~of not less than one-half percent and not more than one percent, as determined by the Fund, provided that the Fund in its discretion may levy a service charge of less than one-half percent on gold tranche purchases.~~

(ii) The Fund may levy a charge on amounts made available under stand-by or similar arrangements. The charge shall be uniform for all members. The Fund may decide that the charge levied on amounts made available under these arrangements shall be offset against the service charge levied under (i) above on purchases under the arrangements.

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(c) The Fund shall levy charges which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. The Fund shall determine the rates of charge, which shall increase over time and be uniform for all members [ , by a majority of the total voting power]. ~~These charges shall be at the following rates-~~

~~(i) -- On amounts not more than twenty-five percent in excess of the quota --- no charge for the first three months -- one-half percent per annum for the next nine months -- and thereafter an increase in the charge of one-half percent for each subsequent year.~~

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~~(ii) On amounts more than twenty-five percent and not more than fifty percent in excess of the quota, an additional one-half percent for the first year, and an additional one-half percent for each subsequent year.~~

~~(iii) On each additional bracket of twenty-five percent in excess of the quota, an additional one-half percent for the first year, and an additional one-half percent for each subsequent year.~~

(d) If a member fails to make a repurchase required under Section 7 of this Article, the Fund may impose such charges on its holdings of the member's currency in excess of quota as it deems appropriate [by a majority of the total voting power] [after consultation with the member on repurchase].

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~~Whenever the Fund's holdings of a member's currency are such that the charge applicable to any bracket for any period has reached the rate of four percent per annum, the Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (c) above until they reach five percent and failing agreement, the Fund may then impose such charges as it deems appropriate.~~

(e) A member shall pay all charges shall be paid in [gold or] special drawing rights or in the currencies of other members specified by the Fund after consultation with them, provided that no payment shall raise the Fund's holdings of any other member's currency above

seventy-five percent of its quota. If, however, the member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserve bear to one-half of its quota, and shall pay the balance in its own currency.  
The Fund may decide that a member, because of its special circumstances, may pay charges in its own currency.

Remuneration

Article V, Section 9

(a) The Fund shall pay remuneration, at a rate or rates uniform for all members, on the amount by which seventy-five percent of a member's quota exceed exceeded the average daily balances of the Fund's holdings of the member's currency, provided that no account shall be taken of holdings in excess of seventy-five percent of quota. A rate of remuneration shall be determined by the Fund [by a majority of the total voting power]. The rate shall be one and one-half percent per annum, but the Fund in its discretion may increase or reduce this rate, provided that a three-fourths majority of the total voting power shall be required for any increase above two percent per annum or reduction below one percent per annum.

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(b) Remuneration shall be paid in [gold,] special drawing rights[,] or a member's own currency as determined by the Fund.

Interest on special drawing rights

Article XXVI, Section 3

The Fund shall determine the rate of interest, and in making this determination shall pay due regard to the rate or rates of remuneration under Article V, Section 9. The rate of charges shall be equal to the

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rate of interest. ~~interest shall be equal to the rate of charges and shall be one and one-half per cent per annum. The Fund in its discretion may increase or reduce this rate, but the rate shall not be greater than two percent or the rate of remuneration decided under Article V, Section 9, whichever is higher, or smaller than one percent or the rate of remuneration decided under Article V, Section 9, whichever is lower.~~

Distribution of net income

Article XII, Section 6(b)

If any distribution is made pursuant to (a) above, ~~of the net income of any year, there shall first be distributed to members eligible to receive remuneration under Article V, Section 9, for that year an amount by which two percent per annum exceeded any remuneration that has been paid for that year. Any distribution of the net income of that year beyond that amount~~ it shall be made to all members in proportion to their quotas. Payments to each member shall be made in special drawing rights or its own currency as determined by the Fund.

## II. Commentary

### Introduction

A brief commentary on the draft amendments set forth in DAA/74/3 was included in DAA/74/6. The comments made below explain the provisions as they have been redrafted.

### Payments in respect of changes in quota

#### Article III, Section 4(a)

The present Article III, Section 4 provides in subsection (a) that 25 percent of an increase in a member's quota must be paid in gold (referred to below as the "gold" portion of an increase) and the remainder in its currency, but the Fund may reduce the proportion payable in gold for a member that has monetary reserves less than its new quota on the date of its consent to the increase in quota. "Monetary reserves" for this purpose are defined in Article XIX.<sup>1/</sup> In connection with increases in quota resulting from the Fifth General Review of Quotas, members were permitted for the first time to pay reduced amounts of gold under Article III, Section 4(a). At present the Fund has no authority to accept assets other than gold and the currency of the member that has consented to an increase in its quota. The revised draft of Article III, Section 4(a) would entitle a member to use special drawing rights in the payment of 25 percent of the increase in quota.

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A participant would be able to use special drawing rights to pay the "gold" portion of an increase in subscription in special drawing rights without having to meet the requirement of need, because that requirement applies only to transactions under Article XXV, Section 2 and does not apply to operations and transactions in special drawing rights conducted through the General Account.

A participant that wished to pay the "gold" portion of an increase in subscription in special drawing rights might not have sufficient special drawing rights for the purpose. There are various provisions in the present Articles under which the participant might be able to obtain them if it met the conditions of the provision under which it sought to acquire them. Some of these provisions relate to transactions between participants and others to transactions of a participant with the General Account. The various possibilities that exist under the provisions have been examined

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<sup>1/</sup> The three purposes for which the concept of "monetary reserves" is relevant are: calculation of repurchase obligations under Article V, Section 7(b), determination of the portion of charges that a member is permitted to pay in its own currency (Article V, Section 8(f)), and reduction in the proportion of an increased subscription that is payable in gold (Article III, Section 4(a)).

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in SM/74/257 entitled "Payment of the Gold Portion of Quota Increases-- Issues and Techniques" (November 27, 1974). Under the draft provisions that have been set forth in the DAA series, the scope for transactions in special drawing rights would be enlarged beyond those possible under the present Articles.

If the bracketed words "gold or" in the draft were retained, a member would also be entitled to pay 25 percent of the increase in its quota in gold. Moreover, the bracketed words "or in the currencies of other members specified by the Fund, provided that the Fund shall have consulted these members and provided further that no payment by a member shall raise the Fund's holdings of the currency of another member above seventy-five percent of its quota" would entitle a member to pay the "gold" portion of the increase in its quota in the currencies of other members that the Fund had specified for the purpose. The Fund would be able to establish policies on the specification of currencies. It would not be desirable to incorporate policies in the Articles, because they should be adaptable to changing circumstances. The Fund would have to consult members before specifying their currencies, but legally their agreement would not be required. The receipt of currency in payment of the "gold" portion of an increase in subscription under the draft provision would be subject to the principle, established in connection with other receipts, that the consent of the issuer is not necessary.

The balance of the increase in subscription would continue to be payable in the member's currency. Under Alternatives A and B set forth in draft Article III, Section 4(a), however, the Fund would be able to permit a member to pay more than 75 percent of an increase in subscription in its own currency. Under Alternative A the Fund would have full discretion to determine the circumstances in which it could exercise this power, and the amount in excess of 75 percent of an increase that a member would be permitted to pay in its currency. Therefore, Alternative A would permit the Fund to allow all members to pay the full increases in subscriptions in their own currencies.

Under Alternative B, the Fund would be able to permit a member to pay more than 75 percent of an increase in subscription only in special circumstances. The Fund could establish general policies on what it would consider "special circumstances", or it could take ad hoc decisions. The special circumstances could be those of the member that had to pay an increased subscription, e.g., a low level of reserves, or relate to the international monetary system as a whole, or to both.

Under Alternatives A and B it would be possible for the Fund to decide what would be the most appropriate media and proportions of payment for each general review and for each adjustment in quota not resulting from a general review. If the Fund deemed it appropriate to permit members to pay in their own currencies, the Fund might nevertheless adopt decisions that gave members the option to pay in reserve assets, and thereby get a larger gold tranche position.

The organ of the Fund competent to take decisions under Section 4(a) on the media of payment of an increase in subscription not resulting from a general review would be the Executive Directors by way of delegation under Section 15 of the By-Laws, and the decisions would be taken by a majority of the votes cast. Decisions on payments under a general review of quotas would be taken by the Board of Governors by a majority of 85 percent of the total voting power. This conclusion would follow from Article III, Section 4(c) and Article XII, Section 2(b)(ii) of the present Articles. Under the former provision, a majority of 85 percent of the total voting power is required for any decision dealing with the payment, or made with the sole purpose of mitigating the effects of the payment, of increases in quotas proposed as the result of a general review of quotas. Article XII, Section 2(b)(ii) reserves to the Board of Governors the power to take such decisions. This conclusion does not mean that if the possibility of payment in currencies specified by the Fund is retained the Board of Governors would have to specify the currencies in which payment could be made, because only the decision to accept the currencies of other members would be a decision mitigating the effects of payment. The Board of Governors would have to determine what proportion might be paid in currencies but the actual choice of currencies would be an operational task that would be performed by the Executive Directors. Decisions to accept a member's own currency, including the determination of the proportions, would be taken by the Board of Governors.

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Draft Article V, Section 7(d) in DAA/74/2, Supplement 2, requires the Fund to adopt policies on the repurchase of its holdings of members' currencies in excess of 75 percent of quota that are obtained by the Fund not as the result of purchases by members. This provision would apply to currency obtained by the Fund as the result of increases in subscription. The Fund would not be able to refrain from imposing an obligation to repurchase so that the total of a member's obligations to repurchase at any time would require it to reduce the Fund's holdings of its currency to the norm of 75 percent of quota. The Fund would have full discretion to determine when repurchase would have to be made of currency paid in excess of 75 percent of an increase in quota. In addition, it would be possible for the Fund to decide that it would give priority to the sale of currency held in excess of 75 percent of quota as the result of an increase in subscription paid in currency in excess of 75 percent of the increase, whenever this was considered appropriate under policies on the currencies to be used in purchases. Under the draft of Article V, Section 3(e) in DAA/74/4, Supplement 1, the issuer of the currency would have to convert it when sold by the Fund, if conversion were requested by the purchaser of the currency, into a currency convertible in fact on the basis of the rates at which the Fund would sell the currencies involved or, by agreement between the purchaser and the issuer of the currency, into other currency or at other rates consistent with the provisions of the Articles.

If it were thought desirable to exempt from the obligation of repurchase the currency paid by a member in excess of 75 percent of an increase in subscription, and perhaps currency paid in excess of that

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proportion of an original subscription, it would be necessary to reformulate the draft of Article V, Section 7(d) in DAA/74/2, Supplement 2. That draft provision requires the Fund to adopt policies for the repurchase of its holdings in excess of 75 percent of the quotas of members that are not acquired as the result of purchases under Article V, Section 3(b) in DAA/74/4, Supplement 1. The draft of that provision applies to currency paid in excess of 75 percent of an original or increased quota, as well as to currency paid as charges. The substitution of "may" for "shall" in the initial words of the draft provision, which would then read "The Fund may adopt policies for the repurchase", would give the Fund the discretionary power to exempt from the obligation of repurchase the currency paid by a member in excess of 75 percent of an increase in subscription or an original subscription, or of currency paid as charges, or of some or all of these. It would also be necessary to examine what effect, if any, the exemption would have on the 75 percent-25 percent norm that is relevant for many provisions of the Articles.

#### Article III, Section 4(b)

The present Section 4(b) of Article III requires the Fund to pay to a member that consents to a reduction in its quota an amount equal to the reduction. Gold must be paid to the extent necessary to prevent a reduction of the Fund's holdings of the member's currency below 75 percent of the new quota.

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The draft of Section 4(b) would give the Fund the right to pay special drawing rights instead of all or part of the gold payable to a member that is a participant in the Special Drawing Account. In addition, the Fund and the member could agree that the payment would be made in the currencies of other members. The Fund would have to consult these members on the use of their currencies, but their consent would not be required.

If a member that is not a participant in the Special Drawing Account did not agree to receive the currencies of other members, the Fund would be bound to pay gold to the member, unless it were to become an "other holder" under Article XXIII, Section 3. The role of gold in the provision would have to be reexamined if certain amendments in relation to the role of gold in general were agreed.

Two further changes in the second sentence of the present Article III, Section 4(b) are suggested simply in order to improve the text. The phrase "prevent the reduction of" would be substituted for "prevent reducing". The phrase "as is necessary" (to prevent the reduction of the Fund's holdings below the stated limit) is suggested instead of "as may be necessary" in order to make it clear that the Fund would not have any discretion in respect of the amount to be repaid.

ChargesArticle V, Section 8(a)

The present Article V, Section 8(a) provides for the levy of a service charge that may not be less than 1/2 percent and not more than 1 percent, except that the service charge on gold tranche purchases may be below 1/2 percent. The Fund decided by Decision No. 2836-(69/87) (Selected Decisions, p. 51<sup>2/</sup>) not to levy any service charge on gold tranche purchases. For the sake of consistency with draft Section 8(c), the minimum and maximum have been deleted from draft Section 8(a)(i). Instead, the Fund would determine the appropriate rate or rates of the service charge. Under the draft provision, the Fund could exempt gold tranche purchases from the service charge or levy a different rate of charge in respect of these purchases. The decisions adopting the rate or rates of the service charge would be taken by the Executive Directors as a result of the general delegation in Section 15 of the By-Laws.

It might be necessary to reconsider the phrase "parity price" in relation to any amendments that may be agreed on par values and gold.

The provision numbered (ii) would authorize the Fund to levy a charge on stand-by or similar arrangements. The latter would include extended arrangements and any other special arrangements for the use of the Fund's resources that might be developed in the future. It would follow that a charge could be levied in respect of all such arrangements.

At the present time, charges on stand-by arrangements are levied pursuant to Decisions No. 155-(52/57), 270-(53/95) as amended, and 1345-(62/23) as amended (Selected Decisions, pp. 26, 28, and 34). Under paragraph 8 of Decision No. 4377-(74/114), adopted September 13, 1974, extended arrangements are subject to the Fund's decisions and policies on stand-by arrangements, except as otherwise provided in decisions of the Fund. The stand-by charge, therefore, is levied on extended arrangements at the same annual rate and subject to the same rules as apply to stand-by arrangements.

Charges are payable when a stand-by arrangement is entered into or renewed at the rate of 1/4 of 1 percent per annum on the amount made available under the stand-by arrangement. When additional amounts become available in the course of a stand-by arrangement, a further charge is payable at the rate of 1/4 of 1 percent per annum on the basis of these amounts and the unexpired period of the stand-by arrangement. An appropriate portion of the stand-by charge is offset against the service charge levied under Article V, Section 8(a) on a transaction under a stand-by arrangement.

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<sup>2/</sup> All references to Selected Decisions are to the Sixth Issue. For decisions included in that issue, the page numbers are cited in this memorandum but not the date of adoption. For decisions not included in the Sixth Issue, the date of adoption is given.

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Under the draft of subsection (a)(ii) of Article V, Section 8 the Fund would not be required to levy a charge, but any charge it decided to levy would have to be uniform for all members. As a result of the general delegation of powers under Section 15 of the By-Laws, the rate of charge would be determined by the Executive Directors by a majority of the votes cast.

The Fund could decide that when purchases were made under a stand-by arrangement, a part of the charge, proportional to the ratio of the purchase to the amount made available, would be offset against the service charge on the purchase.<sup>3/</sup> The decisions could be similar to those that apply pursuant to Decisions No. 155-(52/57), 270-(53/95) as amended, and 1345-(62/23) as amended (Selected Decisions, pp. 26, 28, and 34 respectively). The Executive Directors would be able to take the decisions, by a majority of the votes cast, to give effect to subsection (a)(ii).

#### Article V, Section 8(c)

The schedule of charges set forth in the present Article V, Section 8(c) has been superseded in practice by schedules adopted by decisions of the Executive Directors. The schedule in the Articles would become operative again, however, if a current schedule were to lapse and a decision could not be taken by the necessary majority of 75 percent of the total voting power to revive it or to adopt another. The rates that apply at this time are set forth in Rule I-4(f) of the Fund's Rules and Regulations. The original schedule is outmoded, and it is therefore deleted from the draft of Section 8(c) in order to prevent its revival. Instead, the Fund would be obligated to levy charges and to determine the appropriate rates.

These decisions would be taken by the Executive Directors as a result of the general delegation in Section 15 of the By-Laws. It could be provided that no more than a majority of the votes cast would be necessary. This majority would be appropriate if the exercise of the power to determine the rates of charge were regarded as no more than a normal aspect of the operations of the Fund. The bracketed words in the second sentence of draft subsection (c) would then be eliminated.

If a special majority of the total voting power were required, the question would arise whether there would be any charges at all if proposed rates of charge failed to be approved by the required majority. At the effective date of the contemplated second amendment, the rates of charge then in operation would continue to apply as Rule I-4(f)(3) does not include a terminal date. If further schedules of charges were

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<sup>3/</sup> The Fund's present practice could be maintained, according to which if a stand-by charge cannot be offset against the service charge because the media of payment are not the same, the Fund repays the stand-by charge and collects the service charge.

adopted without a terminal date, the latest charges would continue in effect until a proposed change was approved by the prescribed majority.

The requirement that the charges be uniform for all members is retained in the draft provision. This requirement has not prevented the Fund from establishing separate rates of charge for different policies on the use of the Fund's resources, provided that the policies are non-discriminatory among members. At present, separate schedules apply for use under the tranche policies, the Oil Facility, and the Extended Facility. Broader powers to establish differentiated charges would require a modification of the draft provision to make it clear that charges need not be uniform for all members under any one policy. Broader powers would also result from a modification of Article V, Section 3 that enabled the Fund to adopt policies on the use of its resources that were not uniform for all members. From the discussions so far, there does not appear to be sufficient support for either of these courses.

The draft of subsection (c) retains the requirement that the charges should increase over time, but does so in general terms that would enable the Fund to establish an appropriate progression for each policy on the use of its resources.

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### Article V, Section 8(d)

Under the present Article V, Section 8(d) and (e) and Rule I-4(g) of the Rules and Regulations, the Fund and a member are required to consult on the reduction of the Fund's holdings of the member's currency when the rate of charge applicable to any segment of the currency held by the Fund has reached a specified rate. At the present time, these consultations are held three years after a purchase in accordance with Decision No. 102-(52/11) or under the Oil Facility, and four years after a purchase under the Extended Facility, and the maximum periods of use are five, seven, and eight years respectively. The Fund would be able to establish other periods under other policies. After the consultation point is reached, the rate must rise to a point at which progress is arrested if agreement on repurchase is reached and observed. If an agreement is not reached or observed, the Fund may impose such charges as it deems appropriate. (For further discussion of the consultation and penalty points, see DAA/74/2, Supplement 2, p. 11.)

In the draft of Section 8(d) certain features of the present provisions have not been retained. The reason for the changes is that under draft Article V, Section 7(c) and (d) as set forth in DAA/74/2, Supplement 2, any increase in the Fund's holdings of a member's currency above 75 percent of quota would give rise to an obligation to repurchase an equivalent amount within periods and in installments provided in the Articles or prescribed by the Fund under them. The obligation of a member to make repurchases in prescribed amounts and at fixed intervals would eliminate the need for consultations on means to reduce the Fund's holdings as a safeguard of the temporary use of the Fund's resources.

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In its revised form, subsection (d) would deal with a member's failure to repurchase an obligatory installment or within an obligatory period. The provision would enable the Fund to impose charges at a rate it deemed appropriate. If it were held desirable to require the Fund to consult with the member regarding the repurchase before determining the rate, the bracketed words at the end of the provision would impose this duty on the Fund.

The present Articles and Rules do not lay down a maximum rate of charge, and it is not proposed to do this in the draft of the amended provisions. The Fund's authority to set rates at the level it deemed appropriate would give the necessary flexibility to establish maximum charges from time to time if it wished.

The decisions under subsection (d) determining appropriate rates of charge would be taken by the Executive Directors as a result of the general delegation in Section 15 of the By-Laws. If it were held desirable that such decisions should be made with the majority that applies to the adoption of rates of charge under draft subsection (c), the words within the brackets would give effect to this choice.

There would be no need to retain subsection (e) of Article V, Section 8 in the present Articles, because authority to change the rates would be incorporated in the draft of subsection (c).

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#### Article V, Section 8(e)

This draft provision would replace the present subsection (f), which sets forth the assets that can now be used in the payment of charges under Section 8, i.e., gold and the paying member's currency if its monetary reserves are less than one-half of its quota. In addition, special drawing rights can be used under decisions<sup>4/</sup> that authorize members to use, at their option, special drawing rights to settle all charges payable to the General Account. These decisions are based on the Fund's authority under Article XXV, Section 7(c) to accept special drawing rights in payment of charges to the extent that it may decide.

The Fund has decided that charges for stand-by arrangements are not within the scope of Article V, Section 8(f) in the present Articles. Stand-by arrangements were unknown when the original Articles were drafted. To ensure greater flexibility, the Fund has decided that charges for stand-by arrangements shall be payable in gold, or U.S. dollars in lieu of gold, or in the member's currency as specified for other charges in the present subsection (f) (Decision No. 270-(53/95) as amended, Selected Decisions, p. 28). There is no longer any reason to differentiate among charges, and therefore all would be governed by draft Section 8(e).

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<sup>4/</sup> Decision No. 2901-(69/122) G/S, reviewed by Decision No. 3188-(70/106) G/S, (Selected Decisions, p. 130), and Decision No. 3835-(72/146) G/S, December 20, 1972.

Under the draft of subsection (e), a member would be entitled to pay in special drawing rights and, if the bracketed words were retained, in gold. A member could use the currencies of other members only if the Fund decided to specify currencies for this purpose. The use of currencies in payment of charges could be permitted even if it were decided not to allow the use of currencies in payments under Article III, Section 4(a), because it would not be advisable to create recurrent problems for members that did not have sufficient special drawing rights. The Fund would be required to consult any member before specifying its currency, and the Fund would be able to accept the currency only to the extent that the payment did not increase the Fund's holdings above 75 percent of the issuer's quota.

The present provision that allows a member to pay charges partly or entirely in its own currency if its monetary reserves are less than one-half of its quota would be replaced by a more flexible rule allowing the Fund to permit a member to pay charges in its own currency because of the special circumstances of the member. A low level of reserves might be considered special circumstances under the draft.

Under draft Article V, Section 7(d) as set forth in DAA/74/2, Supplement 2, the Fund's holdings of a member's currency in excess of 75 percent of quota resulting from the payment of charges would have to be repurchased in accordance with policies established by the Fund.

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The decision to permit a member to pay charges in its own currency would be taken by the Executive Directors pursuant to the delegation in Section 15 of the By-Laws. Under the provision as drafted, the decision would require a majority of the votes cast.

#### Remuneration

##### Article V, Section 9

The principal differences between the present Section 9 and the redrafted provision lie in the deletion of the initial rate of remuneration and the elimination of the special voting majority for changes in the rate of remuneration above or below specified levels.

The deletion of the initial rate is based on the same reasons that have prompted the suggested deletion of the initial schedule of charges in Article V, Section 8(c), i.e., the rate has been superseded in practice by rates adopted by the Fund and it should not be revived automatically. Instead, the Fund would be obligated to pay remuneration and therefore would have to determine a rate or rates for the purpose.

At the present time the Fund pays remuneration at separate rates on two segments of the difference between 75 percent of a member's quota and the Fund's holdings of its currency. The requirement that the rate

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of remuneration be uniform for all members would be retained, but express authority would be created to pay at more than one rate of remuneration. The word "exceed" has been substituted for "exceeded" solely in order to improve the drafting of the provision.

Neither the present Article V, Section 9 nor the draft provides for a minimum or maximum rate of remuneration. Under the draft, all decisions determining the rate of remuneration would be taken by a majority of the votes cast. The bracketed language, however, would require a special majority of [ ] percent of the total voting power for determining the rate. As with the rates of charge under Article V, Section 8(c), the choice between these alternatives would depend on whether the exercise of the authority to determine the rate of remuneration were regarded as a normal aspect of the operations of the Fund. Decisions determining the rate of remuneration would be taken by the Executive Directors pursuant to the general delegation in Section 15 of the By-Laws.

Under draft subsection (b), remuneration could be paid in special drawing rights. Under the existing Articles, special drawing rights can be used for the payment of remuneration under a decision that requires the Fund to offer to pay participants, at their option, in special drawing rights in lieu of any amount of gold or currency, provided that the Fund's holdings of special drawing rights in the General Account at the end of a financial year exceed the amount of remuneration payable for that year (Decision No. 3033-(70/38), April 29, 1970). The decision was adopted under Article XXV, Section 7(f), which authorizes the Fund to use special drawing rights by agreement with a participant in operations and transactions conducted through the General Account other than those expressly referred to in Article XXV.

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If the bracketed word were retained, the Fund could also decide that remuneration would be paid in gold.

#### Interest on special drawing rights

##### Article XXVI, Section 3

Draft Section 3 would break the present legal link between interest on special drawing rights and remuneration, in accordance with which the rate of interest (and consequently the rate of charge) on special drawing rights may be not more than 2 percent or the rate of remuneration, whichever is higher, or not less than 1 percent or the rate of remuneration, whichever is lower. The draft provision would require the Fund, in determining the rate of interest, to pay due regard to the rate or rates of remuneration in effect under Article V, Section 9.

An obligation to pay due regard is included in Schedule G, Paragraph 1(b) of the present Articles and in the draft of Article V, Section 7(b) set forth in DAA/74/2, Supplement 2. The concept of "due regard" in

draft Article XXVI, Section 3 would be the same as in the other two contexts. The Fund would decide what weight it would attribute to the rate or rates of remuneration in determining the rate of interest but would not be bound to apply them.

Decisions determining the rate of interest on special drawing rights would be taken by the Executive Directors as a result of the delegation of powers in Section 15 of the By-Laws. The decisions would be taken by a majority of the votes cast.

#### Distribution of net income or of general reserve

##### Article XII, Section 6(b)

The original Article XII, Section 6(b) required that, in the event of any distribution of net income, a noncumulative payment of 2 percent be made to each member on the amount by which 75 percent of its quota exceeded the Fund's average holdings of its currency during the year. In 1969, this provision was modified because of the introduction of remuneration.

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The present text of Article XII, Section 6(b) provides that if the Fund distributes the net income of any year, it must first distribute to members eligible to receive remuneration for that year an amount by which 2 percent per annum exceeded any remuneration paid for that year. Any further distribution of net income for the year must be made to all members in proportion to their quotas.

Payments to each member are made in its currency in accordance with the present text of Section 6(b), or, at the option of a participant, in special drawing rights under Decision No. 3130-(70/87), September 11, 1970. The decision was adopted under the authority of Article XXV, Section 7(f), which allows the Fund and a participant to agree on the use of special drawing rights in operations and transactions with a participant conducted through the General Account other than those expressly mentioned in Article XXV.

As the rate of remuneration has been raised to more than 2 percent per annum and is not likely to fall below that rate, the draft does not retain the provision for the preferential distribution of net income. Only the principle of the distribution to all members in proportion to their quotas would be preserved. A more detailed explanation of the distribution of net income and of other aspects of the draft of Section 6(b) will be found in DAA/74/10, Supplement 1.

Under the draft of Article XII, Section 6(a) as set forth in DAA/74/10, Supplement 1, the Board of Governors would be able to make distributions not only of the net income of the last year but also of general reserve. The mode of distribution of both would be governed by the draft of

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Section 6(b) as a result of the inclusion in that subsection of the phrase "pursuant to (a) above." The payments to each member involved in a distribution of net income or of general reserve would be made in special drawing rights, if the member is a participant in the Special Drawing Account, or in its own currency, as determined by the Fund. The agreement of the participant to receive special drawing rights would not be required. Decisions under the draft of Section 6(a) would be taken by the Board of Governors in accordance with powers conferred directly on it. Decisions on the mode of distribution under the draft of Section 6(b) would be taken by the Executive Directors under the delegation of powers in Section 15 of the By-Laws.