

August 8, 1974

To: Members of the Executive Board  
From: The Secretary  
Subject: Draft Amendment on Investment

Attached for consideration by the Executive Directors is a memorandum setting forth three versions of a draft amendment on investment.

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

## INTERNATIONAL MONETARY FUND

Draft Amendment on Investment

Prepared by the Legal Department

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

Approved by Joseph Gold

August 6, 1974

Under all three versions of the draft amendment attached hereto, the Fund would have the power to sell a part of its holdings of gold in order to invest the proceeds in securities issued by members or by inter-governmental development finance organizations. The amount of the investment could not exceed at any time the amount of the Fund's reserve. The investment of resources obtained from the sale of gold would avoid some of the effects of an investment with the Fund's holdings of currencies. The investment of currencies would affect the levels of those currencies in the Fund and therefore the rights and obligations of the issuing members.

Drafts A and B have the same effect except in one respect. Under Draft A the securities would be expressly excepted from the effect of Article IV, Section 8 (Maintenance of Gold Value of the Fund's Assets), although their value would be maintained if the Fund were able to negotiate terms under which the securities were denominated in special drawing rights. Under Draft B the Fund would be empowered to invest in securities only if they were denominated in special drawing rights. The reason for the inclusion of subsection (d)(iii) would disappear because the securities could not be regarded as holdings of the currency of any member.

The difference between Drafts A and B, on the one hand, and Draft C, on the other hand, lies primarily in the extent to which the Fund's holdings of currencies could be insulated from the effects of the investment. Under Drafts A and B, the currencies representing the income of the investment and the proceeds of disinvestment, but not the currencies received on a sale of gold for investment, would be included in the Fund's holdings in the same way as all other receipts. (The Fund would be able, however, to reinvest by using its holdings of the currencies received on disinvestment.) Draft C would empower the Fund to insulate the Fund's holdings of currencies more thoroughly from the effects of an investment. Under this draft amendment, the Fund would be able to hold the assets

relating to the investment (i.e., the securities, the proceeds of disinvestment, and the currencies in which the income of the investment is received) in separate investment accounts and would be able to use these assets to meet the expenses of conducting the business of the Fund. The power of the Fund to establish separate investment accounts would include the power to terminate these accounts at any time. The Fund would adopt decisions on the procedures and accounting techniques that would be used for these purposes when it began an investment program.

Under Drafts A and B, the Fund would be able to use the currencies obtained by the sale of gold or from disinvestment to acquire other currencies that it might need for the purposes of the investment. Under Draft C, the Fund would have the same power with respect to all currencies in the separate investment accounts in order to obtain the currencies needed for investment and for meeting expenses of the Fund.

Under all three drafts, the present special reserve (representing the income of the Fund's past investment) would be merged into the general reserve. Any distribution of the reserve would be made to all members in proportion to quotas on the date of distribution.

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Under all three drafts, the income of the investment would be taken into account when determining the net income of the Fund for a year. This would not prevent the use of the currencies received as income of the investment in order to meet current expenses if Draft C were accepted and the Fund decided to establish separate investment accounts.

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Draft AArticle XII

Section 6. Reserves ~~and~~, distribution of net income, and investment

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to general reserve and what part, if any, shall be distributed. Net income shall be calculated by taking into account the income of any investment pursuant to (d) below. The Board of Governors may decide at any time to distribute any part of the general reserve.

(b) If any distribution is made ~~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~~ pursuant to (a) above 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.<sup>1/</sup>

(c) ~~The Fund may make transfers to general reserve from any special reserve.~~ The special reserve existing at the time the second amendment of this Agreement enters into force shall be merged into the general reserve.

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<sup>1/</sup> The text of paragraph (b) is different from the text set forth in DAA/74/3, page 5 in that the words "of the net income of any year," have been deleted and the words "pursuant to (a) above" have been inserted.

(d) (i) The Fund may invest in income-earning securities issued by intergovernmental development finance organizations or by members an amount in currencies not exceeding its general reserve. No investment shall be made without the consent of the issuer of the securities.

(ii) Investment shall be made with currencies derived from the sale of gold, from holdings attributable to disinvestment, and from the sale of currencies derived from the sale of gold or attributable to disinvestment. For the purpose of investment the Fund may sell gold in any market. <sup>2/</sup>

(iii) Any securities in which the Fund invests shall not be subject to the provisions of Article IV, Section 8, or be deemed to be  
266 holdings of the currency of any member in any computations for the purpose of applying the provisions of this Agreement.

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2/ This provision would have to be reconsidered in relation to other provisions that deal with gold.

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Draft BArticle XIISection 6. Reserves and, distribution of net income, and investment

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to general reserve and what part, if any, shall be distributed. Net income shall be calculated by taking into account the income of any investment pursuant to (d) below. The Board of Governors may decide at any time to distribute any part of the general reserve.

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amount of assets not exceeding its general reserve. No investment shall be made without the consent of the issuer of the securities.

(ii) The assets to be invested shall be the proceeds of the sale of gold, which the Fund may sell for this purpose in any market, the proceeds of disinvestment, and the currencies received as income of the investment.<sup>2/</sup>

(iii) Any securities in which the Fund invests shall not be subject to the provisions of Article IV, Section 8, or be deemed to be holdings of the currency of any member in any computations for the purpose of applying the provisions of this Agreement.

(iv) The Fund may establish separate investment accounts and hold assets in these accounts in order to minimize the effects of the investment on computations for the purpose of applying the provisions of this Agreement. Assets held in these accounts shall not be subject to the provisions of Article IV, Section 8. The Fund may use assets in these accounts to meet the expenses of conducting the business of the Fund.

(v) The Fund may obtain with assets in the investment accounts the currencies it needs for the purposes of (ii) above and the last sentence of (iv) above.

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