

September 28, 1974

To: Members of the Executive Board
From: The Secretary
Subject: Objectives of Draft Amendments Already Issued

The attached background paper on the objectives of draft amendments already issued has been prepared by the staff for the information of Executive Directors

INTERNATIONAL MONETARY FUND**Objectives of Draft Amendments Already Issued**

Prepared by the Legal Department

Approved by Joseph Gold

September 27, 1974

The draft amendments under consideration by the Executive Directors on the basis of the memoranda in the DAA series issued so far are intended to achieve the following five broad purposes:

(a) To promote a better working of the adjustment process in such circumstances as those now prevailing, in which members are unable to observe provisions of the Articles on exchange rates.

(b) In view of the agreed objective that the SDR should become the principal reserve asset, to improve the characteristics and relax the restraints on the use of the SDR.

(c) To improve the functioning of the General Account by introducing certain changes that are necessary or desirable in view of past experience and developments in the international monetary system.

(d) To strengthen the Fund and its ability to deal effectively with the current problems of the international monetary system.

(e) To promote the transfer of real resources to developing countries.

The draft amendments issued so far to achieve these five purposes can be summarized as follows:

I. Adjustment

The draft amendments related to this subject are intended to:

1. Authorize the Fund to establish general margins for exchange transactions in lieu of those that would be prescribed in the Articles of Agreement.

2. Enable the Fund to permit floating in particular situations.

3. Establish a transitional period during which the provisions of the Articles on exchange rates would not apply.

4. Liberalize the authority of the Fund to suspend the operation of certain provisions because of an emergency or unforeseen circumstances.

5. Provide for an undertaking by members that they would not impose restrictions on trade or other current account transactions for balance of payments purposes without the approval of the Fund.

II. Special Drawing Rights

Draft amendments on this subject would:

1. Abolish the obligation of reconstitution.

2. Provide for the relaxation of the requirement of need for the use of the SDRs.

3. Make it possible for participants to enter more freely into transactions in SDRs by agreement, i.e., without designation by the Fund.

4. Enable the Fund to permit transactions in SDRs that are not now possible, e.g., to discharge obligations or to pledge SDRs as collateral.

5. Modify the provisions relating to the limits on acceptance obligations.

6. Modify the provisions on opting out from decisions to allocate SDRs.

7. Extend the use of SDRs in transactions and operations so that the General Account can accept or use SDRs in circumstances in which gold is now used (i.e., in discharge of that part of an increase of subscription that is payable in gold, and in payment of charges and remuneration).

8. Enlarge the categories of entities that could be prescribed as other holders.

9. Simplify the concept of currency convertible in fact, and authorize the Fund to determine which currencies shall be regarded as currency convertible in fact.

III. The General Account

These draft amendments would:

1. Simplify the provisions on the repurchase obligations of members, bring them into conformity with the Fund's policies, and make them more flexible.

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2. Permit the discharge with SDRs or currency of undischarged repurchase obligations that have accrued and are payable in gold, and to refund certain payments in gold that have been made by members in the recent past.

3. Authorize the Fund to accept SDRs or currencies in lieu of gold in discharge of various other payments to the Fund.

4. Simplify and make more flexible the provisions on charges levied by the Fund on its holdings of currencies in excess of quota.

5. Simplify and make more flexible the provisions on remuneration.

6. Cut the tie between the rate of remuneration and the rate of interest payable on SDRs.

7. Improve the functioning of the provisions on the use of the Fund's resources and related operations.

8. Simplify the provisions governing the Fund's reserves.

IV. Strengthening the Fund

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These draft amendments would:

1. Establish a permanent and representative Council at the ministerial level endowed with the necessary decision-making power to supervise the management and adaptation of the international monetary system.

2. Enable the Fund to sell gold in amounts not exceeding its reserves for the purpose of investing the proceeds in income-producing securities of members or development finance organizations, and to establish separate investment accounts that would not be subject to the provisions on the maintenance of value and would not affect the positions of members in the Fund.

3. Grant the Fund authority in connection with restrictions on trade and other current account transactions for balance of payments purposes.

V. Transfer of Real Resources to Developing Countries

The draft amendments related to this subject would:

1. Empower the Fund to establish a link between development assistance and allocations of SDRs.

2. Include this subject in the terms of reference of the Council.