

DAA/74/15

October 8, 1974

To: Members of the Executive Board
From: The Secretary
Subject: Special Majorities and Participations for the
Adoption of Decisions

The attached memorandum, which was promised in the last sentence of DAA/74/13, surveys the position under the Articles as they now stand of special majorities and special participations for the adoption of decisions.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Special Majorities and Participations for the
Adoption of Decisions

Prepared by the Legal Department

Approved by Joseph Gold

September 30, 1974

On a number of occasions during the discussion of memoranda in the DAA series, the desirability of special majorities and special participations for the adoption of decisions under amended provisions has been discussed. The present memorandum surveys the position under the Articles as they now stand.

Introduction

The basic rule of the Articles is that decisions of both the Board of Governors and the Executive Directors are taken by a majority of the votes cast (Article XII, Section 5(d)). For the purpose of this rule, votes not cast as a result of abstention or because no executive director casts the votes of a member are ignored and not treated as negative votes.

345

The objective of the basic rule was to ensure that the Fund would be able to operate effectively as both a financial and regulatory organization. The original Articles required special proportions of "the total voting power" for some categories of decisions, i.e., majority, two-thirds, three-fourths, and four-fifths. A unanimous vote was required for a further category of decisions. In addition, two provisions prescribed a special participation for the adoption of certain decisions: one required a majority of the total voting power and a majority of governors, and the other a majority of the total voting power and the approval of each member that had 10 per cent or more of the total of quotas.

The amendment of the Articles that took effect on July 28, 1969 modified some of the provisions requiring special majorities of the total voting power in the Board of Governors or the Executive Directors and introduced new requirements. The special proportions of the total voting power now required for various categories of decisions are majority, two-thirds, three-fourths, four-fifths, and 85 per cent. A unanimous vote is required for two categories of decisions. The provision requiring a majority of the total voting power and a majority of governors has been retained, but the other provision requiring a special participation has been abrogated.

It is not possible to explain with certainty why a particular proportion of the total voting power was chosen as the requirement for some decisions or why different proportions were adopted for different categories. Under some provisions the proportion of voting power may have been adopted as the result of a compromise between those who supported a higher percentage and those who supported a lower. One special majority was chosen because it was required already and it was thought to be a precedent that should be followed. Whenever special majorities are provided for in the present Articles, they are majorities of the total voting power of all members.

Special Majorities

(1) Majority of Total Voting Power

A majority of the total voting power is a special majority because the basic rule enables decisions to be taken by a majority of the votes cast.

346 Under Article XVI, Section 1, it is possible to suspend the operation of certain other provisions in the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund. The Executive Directors are authorized to terminate a suspension at any time by a majority of the total voting power. They have this power even though the decision to bring about the initial suspension requires a unanimous vote on their part and even though the maximum initial suspension can be extended only by a decision of the Board of Governors taken by a majority of four-fifths of the total voting power.

The provision authorizing the Executive Directors to act by a smaller majority to terminate the operation of a decision that had been taken by the Board of Governors by a larger majority seems to be based on the idea that suspension of the operation of certain provisions should not be prolonged once members representing a majority of the total voting power believe that it is no longer justified.

The precedent in the original Articles allowing a decision to be terminated by a smaller majority than the one required for its adoption has been followed in the amended Articles in Article XXIX, Section 1.

(2) Two-Thirds Majority of Total Voting Power

Two-thirds of the total voting power is required for one category of decisions. Article XII, Section 8 provides that the Fund may decide to publish a report that has been made to a member regarding its monetary or economic conditions and developments that directly tend to produce a serious disequilibrium in the international balance of payments of members. The power to publish the report has been delegated to the Executive Directors by the general delegation made by the Board of

- 3 -

Governors in Section 15 of the By-Laws. A report cannot be published unless the decision is supported by a two-thirds majority of the total voting power. The publication of a report could put considerable pressure on a member, and one of the prescribed safeguards for members is that the decision must be supported by the special majority. Although there is no record to explain why the proportion was chosen, it may be assumed that it was thought to be high enough to be a safeguard without being so high that it would be impractical to think of assembling the necessary majority.

(3) Three-Fourths Majority of Total Voting Power

For decisions under two provisions of the Articles a majority of three-fourths of the total voting power is required. Article V, Section 8(e) in both the original and the amended Articles requires this majority for a change in the periodic charges payable by a member on the Fund's holdings of the member's currency in excess of its quota. The power to change these rates has been delegated to the Executive Directors by Section 15 of the By-Laws.

This special majority was a compromise that was reached because of opposition to a proposal at the Bretton Woods Conference that would have permitted an increase in the scale of charges by a majority of the votes cast, but would have made an amendment necessary for a decrease. ^{1/} Symmetry was achieved by requiring a special majority for decisions to alter charges in either direction. It may be assumed that the majority of 75 per cent was chosen in order to make it reasonably certain that a decision to change any rates of charge would have the support of both members using the Fund's resources and members that had subscribed the currencies sold by the Fund to make this use possible. This majority, however, would not make it necessary to have such widespread support that a small proportion of the total voting power could block decisions that a substantial majority thought desirable for conducting the operations of the Fund.

The other provision that requires a majority of three-fourths of the total voting power was adopted as one of the amendments of the Articles. Under Article V, Section 9 the Fund pays remuneration on the amount by which 75 per cent of a member's quota exceeds the Fund's average holdings of the member's currency, and the rate is to be 1 1/2 per cent per annum.

^{1/} Proceedings and Documents of the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1-22, 1944 (Dept. of State Publication 2866, International Organization and Conference Series I, 3, Washington, 1948), p. 442.

The Fund has a discretion to alter this rate of remuneration by a majority of the votes cast, but for a decision to move the rate outside a band of 1 to 2 per cent per annum a three-fourths majority of the total voting power is required. The authority to make any change in the rate of remuneration has been delegated to the Executive Directors. The authority of the Board of Governors to make this delegation, the requirement of a special majority, and the choice of the necessary proportion of the total voting power were modeled on the provision that deals with changes in the rates of periodic charges on the Fund's holdings of currency.

Although a three-fourths majority is necessary for a change in the rate of remuneration, decisions to move the rate of charges and interest on special drawing rights to conform with the rate of remuneration can be taken by a majority of the votes cast (Article XXVI, Section 3). The provision was intended to facilitate an equivalence of the rate of charges and interest with the rate of remuneration, without insisting on equality, by making it easy to move to the rate of remuneration.

(4) Four-Fifths Majority of Total Voting Power

348 The original Articles provided in Article III, Section 2 that a quota could be adjusted by a decision of the Board of Governors taken by a four-fifths majority of the total voting power. The original Articles required the same majority for the adjustment of a quota whether or not it resulted from the general review of all quotas that the Fund had to make at intervals of five years. The amendment of Article III, Section 2 has made a change by increasing the majority necessary for decisions to permit the adjustment of quotas as the result of a general review to 85 per cent of the total voting power, while retaining the majority of four-fifths of the total voting power for adjustments of quotas that do not result from a general review.

The Executive Directors decide, by a majority of the votes cast, the recommendations on the adjustment of quotas that they make to the Board of Governors. The special majorities apply to decisions by the Board of Governors to permit the adjustment of a member's quota. A special majority is required for adjustment even though original quotas are determined by membership resolutions adopted by the Board of Governors by a majority of the votes cast.

A majority of four-fifths of the total voting power is required for decisions under two other provisions. First, under Article XII, Section 3(b) the Board of Governors may decide to increase the number of elected executive directors if countries that are not included in Schedule A of the Articles have joined the Fund. Second, under Article XVI, Section 1 and Article XXIX, Section 1 if the Executive Directors have brought about a suspension of the operation of certain provisions of the Articles,

- 5 -

which they are empowered to do for a period of not more than 120 days, this period may be extended for not more than an additional 240 days by a decision of the Board of Governors taken by a majority of four-fifths of the total voting power.

(5) Eighty-Five Per Cent Majority of Total Voting Power

The amendment of the Articles introduced a new special majority of 85 per cent of the total voting power for a number of decisions under new provisions dealing with special drawing rights as well as for certain decisions that had called for different majorities in the original Articles. One reason for the majority was the theory that certain decisions under the new provisions should reflect the collective judgment of the membership of the Fund. Another reason for the introduction of the new special majority was the increase in the economic and financial strength of certain members of the Fund.

The decisions for which a majority of 85 per cent of the total voting power is required can be gathered into three groups: (1) The first group includes the decisions with respect to special drawing rights for which the support of virtually all participants was considered desirable, or the decisions that should not be taken in opposition to the views of participants with a sizable proportion of the total voting power (Article XXIII, Section 3; Article XXIV, Section 4(d); Article XXV, Sections 2(b)(ii) and 6(b)). (2) The second group consists of the decisions that were thought to have sufficient similarity to the creation of international liquidity by means of the allocation of special drawing rights to warrant the requirement of the same majority (Article III, Sections 2 and 4(c); Article IV, Sections 7 and 8(d)). (3) The third group consists of decisions that were not selected for the reason that unifies the second group but because it was thought desirable to have the safeguard of the agreement of a substantial segment of the total voting power (Article V, Section 7(d); Article XVIII(b)).

All decisions for which a majority of 85 per cent of the total voting power is required are taken pursuant to powers reserved to the Board of Governors.

(6) Unanimous Vote

There are two provisions under which the Executive Directors can take a decision only by "unanimous vote." The requirement of a unanimous vote is, of course, equivalent to negating the effect of weighted voting power. The first of the provisions (Article XVI, Section 1) was included in the original Articles, which empowered the Executive Directors to suspend the operation of certain specified provisions for not more than 120 days in the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund.

The second provision (Article XXIX, Section 1) applies to special drawing rights and has been modeled on Article XVI. In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the Executive Directors by unanimous vote may suspend for a period of not more than 120 days the operation of provisions relating to special drawing rights.

Article XVI was accepted as a compromise by those negotiators at Bretton Woods who wanted the organs of the Fund to be able to amend certain provisions without going through the procedure of the acceptance of amendments by members. A unanimous vote was required because of the novelty of the Fund and because it was thought that an organ consisting of twelve directors would not find it too difficult to take a unanimous vote.

Special Participations and Conditions

Decisions subject to special participation

350 Some decisions cannot be taken unless the voters that constitute the necessary majority include a prescribed participation. Before the Articles were amended, Article IV, Section 7 authorized the Board of Governors to decide by a majority of the total voting power that there should be uniform proportionate changes in the par values of the currencies of all members, provided, however, that the decision was approved by each member that had 10 per cent or more of the total of the quotas. Only two members, the United States and the United Kingdom, had ever had 10 per cent or more of the total of the quotas. The quota of the United Kingdom, however, fell below the level of 10 per cent after the fifth general review of quotas. It was agreed that the provision should be amended by requiring a majority of 85 per cent of the total voting power for a decision to make uniform proportionate changes in the par values of all currencies, but without the need for any special participation.

Under Article XV, Section 2(b), the Board of Governors can decide to compel a member to withdraw only by a majority of the total voting power and a majority of the governors. The latter requirement is a majority of all governors and not simply a majority of the governors who vote on a proposed decision. The modesty of the special majority in terms of voting power was probably inspired by the conviction that it should not be too difficult to withdraw the benefits of a cooperative enterprise from a member that was thought to be uncooperative by members with a large, but not overwhelming, proportion of the total voting power. Compulsory withdrawal can provoke serious political reactions, and therefore it was thought desirable that the majority based on weighted voting power should be accompanied by a majority of governors, in which requirement all members have equal weight.

- 7 -

Decisions subject to conditions

A distinction must be made between provisions that establish the majority or the participation that must be achieved in order that a decision may be taken and provisions that prescribe the conditions that must be satisfied in order that a decision duly taken may become operative. For example, under Article III, Section 2 the Fund may decide by 80 per cent or by 85 per cent of the total voting power that a member's quota may be adjusted, but there will be no adjustment unless the member formally consents to the adjustment.

The Executive Directors can decide by a simple majority of the votes cast to recommend an amendment of the Articles to the Board of Governors, and the Board of Governors can approve the recommendation by a similar majority, but a proposed amendment thus recommended and approved will not enter into force unless it is accepted by members that number three-fifths of the total membership and have four-fifths of the total voting power (Article XVII(a) and (c)). The drafters of the Articles concluded that a small number of members with a large proportion of the voting power should not be in a position to face the membership at large with the choice between accepting revision of the Articles and withdrawing from the Fund. At the same time, it was felt that a large coalition of members with relatively small voting power should not be able to confront members with large quotas with the same predicament.

351

The basic rule for the entry into force of proposed amendments was designed to create certain safeguards, but it was also agreed that not even these safeguards would suffice for certain proposals. For these proposals, nothing short of acceptance by every member would provide adequate protection for all members. Acceptance by all members is necessary, therefore, for entry into force of proposals to modify (1) the right to withdraw from the Fund (Article XV, Section 1); (2) the rule that no change may be made in a member's quota without its consent (Article III, Section 2); and (3) the rule that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5(b)).*

* More detailed information on the topics discussed in this memorandum can be found in Voting and Decisions in the International Monetary Fund: An Essay on the Law and Practice of the Fund, by Joseph Gold (Washington, 1972), pp. 123-65.

Summary

The special majorities required for the adoption of decisions by the Board of Governors and the Executive Directors, and the special participations and conditions required under some provisions of the Articles, are summarized below:

A. Board of Governors

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>
III	2	Adjustment of individual quotas	four-fifths
III	2	Adjustment of quotas as result of general review	85 per cent
III	4(c)	Payment or mitigation of effects of payment of quota increases following general review	85 per cent
IV	7	Uniform changes in par values	85 per cent
IV	8(d)	Waiving maintenance of value of Fund's assets when par values changed uniformly	85 per cent
V	7(d)	Revising and supplementing certain limits and rules with respect to repurchase	85 per cent
XII	3(b)	Increasing number of elected executive directors	four-fifths
XV	2(b)	Compulsory withdrawal of a member	majority of governors representing majority of total voting power
XVI	1(c)	Extending temporary suspension of operation of provisions	four-fifths

- 9 -

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>
XVIII(b)		Overruling decision of Committee on Interpretation	85 per cent
XXIII	3	Prescribing "other holders" and terms and conditions for operations and trans- actions with these holders	85 per cent
XXIV	4(d)	Allocating or canceling special drawing rights, determining basic period, or changing rates or inter- vals of allocation (except decreasing rates of allo- cation), or changing length of basic period or starting new basic period	85 per cent
XXV	2(b)(ii)	Prescribing additional categories of transactions without designation	85 per cent
XXV	6(b)	Adopting, modifying, or abrogating rules for reconstitution	85 per cent

Note For decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Account, only the votes of governors appointed by members that are participants are counted (Article XXVII(a)(ii)).

B. Executive Directors

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>
V	8(e)	Changing rates of charges on Fund's holdings of a member's currency in excess of its quota	*three-fourths
V	9(a)	Changing rate of remuneration to above 2% or below 1% per annum	*three-fourths
XII	8	Publishing report on a member's monetary or economic conditions and developments	*two-thirds
XVI	1(a)	Temporary suspension of operation of certain provisions	unanimous vote
XVI	1(d)	Terminating suspension under Art. XVI, Sec. 1(a)	majority of total voting power
XXIX	1	Suspending operation of certain provisions relating to SDRs	unanimous vote

* The authority to take decisions has been delegated to the Executive Directors by the Board of Governors.

Note For decisions by the Executive Directors on matters pertaining exclusively to the Special Drawing Account, only directors appointed or elected by at least one member that is a participant will be entitled to vote and they cast only the number of votes allotted to participants (Article XXVII(a)(iii)).

- 11 -

C. Special Participations and Conditions*

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Participation Required</u>
III	2	Adjustment of quotas	consent of member
XV	2(b)	Compulsory withdrawal of a member	majority of governors rep- resenting majority of total voting power
XVII(a)		Acceptance of amendments of the Articles	three-fifths of members having four-fifths of total voting power
XVII(b)		Acceptance of certain amendments of the Articles	all members

355

* See also Article XX, Sections 1 and 4(h) and
Article XXIII, Section 1.