

December 10, 1974

To: Members of the Executive Board
From: The Secretary
Subject: Draft Report to the Interim Committee on Amendment of the
Articles of Agreement

The attached draft report of the Executive Directors to the Interim Committee on amendment of the Articles of Agreement is scheduled for discussion on Wednesday, December 18, 1974.

DRAFTAmendment of the Articles of Agreement of the International Monetary Fund:
Report of the Executive Directors to the Interim Committee
of the Board of Governors on the International Monetary SystemConclusions

This Report of the Executive Directors concludes that there is broad agreement in principle on a number of the topics for amendment set forth in Paragraphs 37 and 41 of the Outline, although there remain a substantial number of technical issues connected with these topics that the Executive Directors would have to resolve before recommending texts. The topics on which there is broad agreement in principle include the establishment of the Council, the use of the Fund's resources, repurchase, payments to and by the General Account, including payments resulting from increases in quota, investment, and improvements in the characteristics and use of special drawing rights.

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The questions on amendment to which the Interim Committee may wish to address itself, apart from those posed in the separate report on future arrangements for gold, are these:

1. Should the Executive Directors pursue their efforts to reach agreement on proposed amendments on all the topics set forth in Paragraphs 37 and 41 of the Outline?
2. If the answer to question 1 is in the negative, on which topics should the Executive Directors attempt to agree on proposed amendments in the near future?
3. If certain topics are selected pursuant to question 2, should the Executive Directors continue their efforts to reach agreement on proposed amendments on the other topics after agreement is reached on the selected topics?

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4. If floating is among the topics on which the Executive Directors are to continue their efforts, which view with respect to the position of par values and floating rates in the system, as described in paragraph 18 of this Report, should be incorporated in the Articles?
5. Should there be a transitional period before the amended provisions agreed pursuant to question 4 become operative?
6. Should there be a "link", and, if it were to be adopted, what form should it take?

Part I. Introduction

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Topics for possible amendment

1. Paragraph 41 of the Outline of Reform of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (hereinafter referred to as the Committee of Twenty) dealt as follows with the preparation of draft amendments of the Articles of Agreement of the International Monetary Fund that could be adopted as immediate steps:

"The Executive Board is asked to prepare draft amendments of the Articles of Agreement, as needed to give effect to this Part of the Outline or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular, draft amendments should be prepared on the following proposals:

- (a) to establish the Council referred to in paragraph 31;
- (b) to enable the Fund to legalize the position of countries with floating rates during the interim period;

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- (c) to give permanent force to the voluntary pledge described in paragraph 36 concerning trade or other current account measures for balance of payments purposes;
- (d) to authorize the Fund to establish, as and when agreed, a Substitution Account;
- (e) to amend the present provisions concerning gold;
- (f) to authorize the Fund to implement a link between development assistance and SDR allocation; and
- (g) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas, i.e., by February 1975."

Other references to amendment in Outline

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2. It is appropriate to quote, in addition, the following sub-paragraphs of Paragraph 37 of the Outline:

"(b) The Fund will also give consideration to substitution arrangements and examine whether an amendment of the Articles of Agreement would be desirable in this connection.

(c) There will be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform."

Possible amendments in relation to SDRs

3. The inclusion in Paragraph 41(g) of improvements in the characteristics of and rules governing the use of the SDR can be taken to refer to Paragraph 27 of the Outline, which reads as follows:

"In the light of the agreed objective that the SDR should become the principal reserve asset, consideration will be given to revising the rules governing its use with a view to relaxing existing constraints. The suggestions for relaxation that have been made include:

- (a) abolition of the limits on acceptance obligations and of the reconstitution obligation;

- (b) some relaxation of the requirement of need for the use of SDRs;
- (c) authority for willing partners to enter into transactions in SDRs without designation by the Fund;
- (d) authorization for the General Account to accept or use SDRs in all transactions and operations in which it can accept or use gold or currencies;
- (e) authorization for the Fund to designate any official international or regional institution of a financial character as a holder of SDRs;
- (f) authorization for the Fund to permit additional types of transactions and operations in SDRs; and
- (g) authorization for the Fund to modify the provisions on opting out of decisions to allocate SDRs.

Consideration will be given to other aspects of the SDR, including its name, with a view to promoting public understanding."

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Resolution of Board of Governors on amendment

4. Paragraph 9 of the Fourth Resolution of the Composite Resolution of the Board of Governors on the Work of the ad hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action (Resolution No. 29-10) reads as follows:

"9. Amendments to the Articles of Agreement

The Board of Governors notes that certain of the immediate steps recommended in Part II of the Outline require amendment of the Articles of Agreement, and that, following the Committee's recommendation in paragraph 41 of the Outline, the Executive Directors have begun their consideration of draft amendments of the Articles of Agreement to give effect to this Part of the Outline or as otherwise desired.

The Board requests the Executive Directors to transmit any draft amendments that they prepare pursuant to paragraph 41 of the Outline to the Interim Committee for consideration in accordance with paragraph 3(ii) of the Second Resolution and, if agreed, for presentation to the Board of Governors for its approval."

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Relevance of February 9, 1975

5. It may be useful to preface consideration of the substantive aspects of possible amendments with an explanation, in paragraphs 5 to 8 of this Report, of certain preliminary matters. The first of these matters is the date in the last sentence of Paragraph 41 of the Outline. The current quinquennial period for the general review of quotas, the sixth review, which is required by Article III, Section 2,^{1/} ends on February 9 1975, and therefore the Board of Governors should adopt a resolution on the review by that date. Many members would have to seek legislative authority in order to consent to increases in their quotas as a result of the review. In connection with these increases, there was a widespread feeling in the Committee of Twenty that it might be necessary or desirable to amend the Articles with respect to the portion of subscription payable in gold under Article III, Section 4(a) on an increase in quota,^{2/} and

3611/ "Section 2. Adjustment of quotas"

The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. An eighty-five percent majority of the total voting power shall be required for any change in quotas proposed as the result of a general review and a four-fifths majority of the total voting power shall be required for any other change in quotas. No quota shall be changed without the consent of the member concerned."

2/ "Section 4. Payments when quotas are changed"

(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 and the balance in its 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."

that a resolution of the Board of Governors concluding the sixth review with a recommendation to increase quotas might also recommend an amendment of Article III, Section 4(a). It might be opportune, therefore, for the Board of Governors, when adopting a resolution on the sixth general review of quotas, to recommend to members at the same time that they accept the amendment of other provisions in addition to Article III, Section 4(a). This procedure would enable members that needed legislative approval in order to accept proposed amendments and to consent to increases in their quotas to approach their legislatures only once for these purposes.

Resolution of Board of Governors on quotas

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6. If it should prove impossible to reach decisions on all aspects of the sixth general review of quotas by February 9, 1975, the Board of Governors could adopt a resolution by that date, or as soon thereafter as is administratively feasible, setting forth all the aspects of the review on which agreement had been reached, whether in full detail or in principle only, and requesting the Executive Directors to submit to the Board of Governors proposals on the remaining aspects or on the further refinement of any aspects agreed in principle. Any additional proposals that were made in accordance with this procedure would be submitted through the Interim Committee and would be part of the conclusions of the sixth general review. It would follow that further work of the Executive Directors on amendment might be completed by the date that these additional proposals were made in connection with the sixth general review.

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Procedure for adoption of amendments

7. Under Article XVII(a),^{3/} a proposal to amend may be made by the Executive Directors, who take the decision to make a proposal by a majority of the votes cast. In accordance with Paragraph 41 of the Outline, and Paragraph 3(ii) of the Second Resolution of the Composite Resolution of the Board of Governors on the Establishment of an Interim Committee of the Board of Governors on the International Monetary System (Resolution No. 29-8), any proposals by the Executive Directors to amend the Articles would be considered by the Interim Committee as part of its duty to advise and report to the Board of Governors with respect to the functions of the Board. Proposals are communicated to the Board of Governors, which can approve them by a majority of the votes cast. Amendments become effective at a prescribed date after they have been accepted by a double majority of the membership: three-fifths of the members, which means at least 76 members on the basis of the present 126 members, and

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^{3/} "(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members."

four-fifths of the total voting power of all members.^{4/} Each member decides for itself what domestic legislative or other steps it must take in order to accept a proposed amendment. If the double majority is attained, the Articles are amended as proposed, and the amendment binds all members whether or not they have accepted it by that date.

Combined or individual proposals for amendment

8. Finally, on any occasion when more than one amendment is proposed, the Board of Governors may submit the proposals for acceptance as a whole, or individually, or in specified separate combinations. The Resolution of the Board of Governors on the Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and
364 Modifications in the Rules and Practices of the Fund, which approved a broad range of proposed amendments, submitted the proposals for acceptance as a whole.

^{4/} Article XVII(b) requires acceptance by all members before proposals with respect to three specific amendments can become effective, but these amendments are not involved in Paragraph 41 of the Outline:

"(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Fund (Article XV, Section 1);
- (ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);
- (iii) the provision 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))."

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Part II. Draft AmendmentsPurposes of topics for amendment

9. The topics included in Paragraph 41 of the Outline were intended to achieve six 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, and possibly to contribute to a future comprehensive reform;

(b) in view of the agreed objective that the special drawing right should become the principal reserve asset, to improve the characteristics of and relax restraints on the use of the special drawing right;

(c) to establish as much legality as possible;

(d) 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, and in this way to facilitate the operations and transactions of the Fund and resolve certain problems relating to undischarged obligations payable in gold;

(e) to strengthen the Fund and its ability to deal effectively with the current problems of the international monetary system; and

(f) to promote an increasing net flow in the transfer of real resources to developing countries.

Preparation of draft amendments

10. In preparing documents for the Executive Directors, the staff has been guided by Paragraphs 27, 37, and 41 of the Outline. A series of

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memoranda has been prepared for consideration by the Executive Directors setting forth and commenting on the texts of possible amendments of the Articles on all but two of the topics in Paragraph 41 of the Outline. These two topics are a Substitution Account (sub-paragraph (d)) and the present provisions concerning gold (sub-paragraph (e)). The staff is preparing the drafts of possible amendments on these two topics for examination by the Executive Directors in due course.

Arrangements for gold

366 11. Gold has a central status in the present Articles. This status is reflected in numerous provisions that deal explicitly with gold or are implicitly based on the role of gold. No amendments have been drafted so far of the provisions that establish the central status of gold. The draft amendments of many of the provisions that have been prepared involve certain aspects of gold, but no modifications have been drafted in connection with those aspects. Instead, discussions have been proceeding in the Executive Directors on future arrangements for gold, and draft amendments will be prepared when sufficient progress has been made. The Executive Directors are submitting a separate report to the Interim Committee on the discussions that have been held to date.

Discussions of draft amendments by Executive Directors

12. The memoranda prepared by the staff have been considered by the Executive Directors in a number of meetings, in the course of which directors expressed preliminary and often personal views on the issues raised by the drafts. On the basis of this first round of discussion, the staff has prepared revised versions of many of the original memoranda and will

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complete revised versions of these memoranda in the near future. The Executive Directors do not expect to be able to complete a second round of discussion on the basis of the revised versions before the meeting of the Interim Committee in January 1975.

The Council

13. The creation of a Council composed of governors of the Fund, ministers, or others of comparable rank would strengthen the Fund both in its structure and in its functioning. The establishment of a Council is not regarded as controversial in itself, although one view that has been expressed is that amendment for this purpose is not urgent because of the existence of the Interim Committee and because of the benefits that could be obtained from experience in the operation of the Committee. According to this view, the fact that the Interim Committee is an advisory body, whereas the Council would take decisions in the exercise of powers, would not be reason enough to amend in order to establish the Council, because the advice of the Committee will carry great weight with members and the Fund.

14. The main issue that has arisen in connection with an amendment to establish the Council relates to the distribution of powers among the Board of Governors, the Council, and the Executive Directors. The Outline does not contemplate a radical extension of the powers of the Fund as one of the immediate steps, and therefore if certain powers were to be conferred directly and exclusively on the Council, for the most part they would have to be carved out of the present powers of the Board of Governors or the Executive Directors or both. Opposition has been expressed to an amendment that would have this effect, because it would diminish the authority of the Board of Governors and the Executive Directors. If powers were not transferred

from these two organs to the Council, the question then arises whether powers that are at present powers of the Board of Governors should be subject to delegation by the Board. The delegation of powers to the Council would mean that they would be exercisable by the Council without depriving the Board of Governors of its authority to exercise the delegated powers if it should see fit. Under the present Articles, some powers of the Board of Governors are subject to delegation to the Executive Directors and others are not. The drafts prepared by the staff have proposed only a limited delegability of the powers that are now exercisable solely by the Board of Governors. Some directors have opposed the delegation to the Council of any of these powers, on the ground that there were good reasons to confine the exercise of these powers to the Board of Governors as the plenary organ. Another view, however, has been that many of the reasons for the present reservation of powers to the Board of Governors were political and that the Council is meant to be a body with political responsibilities. It has been argued, therefore, in accordance with this line of thought, that many powers that cannot be delegated to the Executive Directors under the present Articles should be delegable to the Council.

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15. There remains the question of delegation to the Council of the powers of the Board of Governors that can be delegated to the Executive Directors under the present Articles. The Board of Governors has made the maximum delegation to the Executive Directors. The issue, therefore, is whether some of the powers that have been included in this delegation to the Executive Directors should be withdrawn from them and delegated to the Council instead. There has been opposition to this course because

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it would weaken the authority of the Executive Directors. The staff has proposed, as an alternative, concurrent powers for the Council and the Executive Directors. The occasions for the exercise of these powers would be determined, however, by different criteria for the two organs. For this reason, and also because there would be consultation and collaboration between the Council and the Executive Directors, conflicting decisions would be unlikely. The exercise of powers by the Executive Directors would be guided by Article XII, Section 3(a)^{5/} of the present Articles, under which the Executive Directors are responsible for the conduct of the general operations of the Fund. The exercise of powers by the Council would be guided by the text of a proposed provision according to which the Council would supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection would review developments in global liquidity and the transfer of real resources to developing countries.

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16. Another issue that has arisen in connection with the Council is whether each councillor should be able to cast his votes only as a unit or should be authorized to cast separately the votes allotted to each member country in his constituency. Executive directors are not able to split their votes although they are able to record the individual views of the member countries that elected them. It has been argued by some directors that the Council is closer in spirit to the Board of Governors than to the Executive Directors, and that for this reason split voting

^{5/} "(a) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors."

should be adopted because each governor casts his votes separately in the Board of Governors.

Legalization of floating

17. The reference to amendments on floating rates in sub-paragraph (b) of Paragraph 41 of the Outline is an outstanding example of the desire to establish legality. The draft amendments prepared by the staff would prescribe general margins for exchange transactions but empower the Fund to change these margins without further amendment, and would enable members to adopt floating rates in particular situations. The staff suggested that, in view of the generalized floating that now exists, it would be incompatible with the spirit of the draft provisions to legalize floating for each member of the Fund under them as soon as they became effective. For this reason, the staff proposed a transitional period during which the proposed provisions on exchange rates would not apply and during which floating would not be in violation of the Articles. The Fund would be authorized to adopt rules on the subject matter of the provisions during the transitional period.

18. The main issue in connection with floating remains the difference of opinion on the relative emphasis to be placed on effective par values and floating. This difference was reflected in two versions of an amendment prepared by the staff. Under the first version, floating would be viewed as an exception to the rule of effective par values and would be permitted, under ad hoc or general approval, only as a temporary measure and subject to conditions intended to ensure a return to an effective par value. Under the second version, members would be free to let their currencies float, for as long as they desired, without having to obtain the

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approval of the Fund, provided that they acted consistently with guidelines adopted by the Fund. Two variants were prepared of the second version. One variant would authorize the Fund to define the situations in which members would be able to allow their currencies to float. According to the second variant, members would have general authority for this purpose and not simply authority confined to situations as defined by the Fund. The second version, in either of the two variants, would put effective par values and floating coupled with the observance of guidelines on the same plane of legality.

19. Some directors did not favor the proposed transitional period on the ground that it would free members from the restraints of the provisions proposed for the post-transitional period. This criticism was made by directors who favor the first version on the legalization of floating as described in paragraph 18 above. As pointed out in paragraph 17 above, however, members would not be free from all restraints, because the Fund would be authorized to adopt rules during the transitional period.

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Trade measures for balance of payments reasons

20. The first discussion of the draft amendment by which members could undertake to seek a finding from the Fund that measures imposed by them on trade and other current international transactions for reasons related to the balance of payments were indeed justified for those reasons, was devoted largely to the technical issues raised by the draft. Some directors, most of whom were appointed or elected by developed members, reiterated their support of the proposal. Other directors, who were reserved in their attitude to the principle of the proposal as well as

to the draft, pointed out that it was premature to consider an amendment at a time when the declaration on trade measures in the Appendix to the Outline had not yet become effective because not enough members had subscribed to it. Moreover, it would be advisable, according to these directors, to delay further consideration of the draft even after the declaration became effective so that drafting could proceed with the benefit of experience. Some directors believed that the jurisdictional competence of the Fund should not extend further into the field of trade.

The "link"

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21. Paragraph 39 of the Outline states that the Committee of Twenty was not unanimous on the question of establishing a link between development assistance and the allocation of special drawing rights. It was agreed, therefore, that the Interim Committee should reconsider "simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link."

22. Draft amendments were prepared in two versions. The first would empower the Fund, when taking decisions on basic periods, to allocate special drawing rights to participants in the Special Drawing Account at different percentages of quota instead of the same percentage as

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required by the present text of Article XXIV, Section 2(a), (b), and (c).^{6/}

The other version would empower the Fund, in its decisions on basic periods, to allot special drawing rights to those international development finance organizations that would be specified as recipients by the Fund. The two versions were not exclusive of each other. That is to say, both could be adopted without conflict. A number of directors have expressed a preference, however, for the first version. The differences of opinion on the link that were expressed in the Committee of Twenty have been repeated in the discussions of the Executive Directors.

6/ "Allocation and cancellation

(a) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(b) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(c) In its decision for any basic period the Fund may provide, notwithstanding (a) and (b) above, that:

- (i) the duration of the basic period shall be other than five years; or
- (ii) the allocations or cancellations shall take place at other than yearly intervals; or
- (iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel."

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Improvements in the General Account

23. Use of Fund's resources. The present provisions on the use of the Fund's resources are outmoded in many respects. They take no account, for example, of the policies developed by the Fund to ensure a broad use of currencies in transactions. A large measure of agreement was expressed by directors on the content of the draft amendments prepared by the staff, although on this topic, as on most, there were many shades of opinion on technical questions. Most of the draft amendments were intended to modernize the provisions and facilitate the transactions of members with the Fund, but one aspect is of sufficient importance to deserve special mention. Hitherto, it has been the accepted view that if a member's currency is purchased from the Fund, the member has no direct obligation under the Articles to convert it for the benefit of the purchasing member. Most members have been willing, however, to convert their currencies, at satisfactory rates of exchange, when purchased from the Fund, but there have been problems. Moreover, the absence of an established obligation to convert has meant that members have been able to exercise a de facto veto on the inclusion of their currencies in currency budgets. The draft amendments propose, therefore, that when, in accordance with its policies, the Fund sold a member's currency, the member should have an obligation to convert it at satisfactory rates at the request of the purchasing member. The importance of such an obligation has been stressed in connection with two current issues: possible special increases in the quotas of some members and the possible use of a member's own currency in payment of the "gold" portion of a subscription payable as the result of an increase in quota.

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24. Use of non-Fund resources. Various suggestions have been made that would involve the administration or disposition by the Fund of resources that were not subject to the present provisions of the Articles. These resources could emanate from special loans or grants by members or from other operations and transactions. It should be noted that, at the moment the Fund would be able to administer special resources on behalf of members provided that they did not become part of the Fund's own resources, provided that operations and transactions in these special resources were not on the account of the Fund, and provided that the operations and transactions were consistent with the purposes of the Fund. The staff is studying the questions connected with special resources.

25. Repurchase. The present provisions on repurchase by a member of its currency from the Fund are cumbersome and rigid, although they may have the advantage in certain circumstances of accelerating repurchase. The provisions must be applied each year even though they result in a smaller volume of repurchases than those that are discharged under a second and more flexible system of repurchase that the Fund has developed by decision and practice in order to mitigate the inadequacies of the Articles. The draft amendments on repurchase would replace the present provisions with provisions based substantially on this second system. The proposals have met with much support. The main issue, which is largely technical, has been the determination of general principles that should be included in the Articles to govern repurchase if the fixed and detailed formulae of the present provisions were eliminated.

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26. Accrued obligations payable in gold. A number of repurchase obligations, and another obligation, to pay gold to the Fund have accrued but have been postponed several times because of the reluctance of members to use gold at the Fund's present valuation. There is no technique short of amendment by which these obligations could be discharged with some asset other than gold so as to put an end to the present stalemate. The draft amendments would permit members to use special drawing rights to discharge outstanding obligations to pay gold.

27. Payments by and to General Account. Members make a number of payments to the Fund, including repurchases, charges on the Fund's holdings of currency in excess of quota, other charges, and subscriptions on in-

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creases in quota. (Subscriptions are considered in the next paragraph.) The Fund makes a number of payments to members, including remuneration and the distribution of net income. All these payments are made in operations and transactions conducted through the General Account. Special drawing rights may be used to make some but not all of the payments. The draft amendments would permit the use of special drawing rights to make all payments by or to the Fund. The proposals have not been controversial on the whole, although a number of technical issues have been discussed and would have to be resolved.

28. "Gold" portion of increased subscriptions. Under Article III, Section 4(a) of the present Articles, a member must pay in gold 25 percent of the subscription resulting from an increase in quota. The opportunities to give relief from this obligation, which members are reluctant to incur at the present time, are limited and unsatisfactory for legal and other reasons. The draft

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amendments prepared by the staff would enable members to pay the "gold" portion of an increased subscription in special drawing rights. Some members might not have the necessary special drawing rights, and for this and other reasons the drafts have proposed that the Fund be authorized to specify the currencies of other members as assets that a member might use to pay the "gold" portion of its increased subscription. Payments with these currencies would not be allowed to create repurchase obligations for the issuers. Furthermore, the Fund would be empowered, under the drafts, to permit members to pay the "gold" portion in their own currencies. It was contemplated as a variant of this authority that it might be confined to special circumstances, of which the Fund would be the judge. In the discussions of the Executive Directors, there was general support for the use of special drawing rights, and some support for the use of the currencies of other members and a member's own currency. There was also opposition, however, to the use of currency. The objection advanced by some directors to the use of the currencies of other members was that it would diminish their super-gold tranche positions, although it was pointed out that there is no principle under the Articles that entitles a member to have the holdings of its currency by the Fund maintained at any level below 75 percent of quota. There are indeed many receipts by the Fund under express and implied authority that affect super-gold tranche positions. The objection to the use of a member's own currency was based on the proposition that an increase in quota should involve some payment of reserve assets to the Fund and on the further proposition that the Fund's liquidity might be adversely affected.

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29. Investment. The Fund has sustained substantial deficits in recent years. The continuance of this situation might have an inhibiting effect on the Fund's activities and might lessen confidence in the Fund as a financial institution. The Fund maintained an investment program at one time in the past under an implied power and subject to restrictive conditions. The draft amendments have proposed an express power to sell gold in any market in order to obtain proceeds up to the amount of the Fund's reserves for investment in the securities of members or international development finance organizations. The consent of the issuer would be required for investment in its securities. The assets representing the investment or its proceeds could be segregated from the Fund's other holdings of currencies so as not to affect the rights and obligations of members that are determined by the level of the Fund's holdings of their currencies in relation to quota. In addition, the assets could be insulated from the provisions of the Articles that require members to maintain the gold value of the Fund's assets. There was broad support among directors for a power to invest. There was some reservation, however, with respect to the sale of gold for this purpose, in part because the power was considered an aspect of the more extensive problem of the future arrangements for gold. It was suggested that the staff should consider amendments based on the investment of a portion of the Fund's holdings of currency not exceeding the amount of the reserves, and drafts have been prepared to give effect to this technique. There was considerable support for the propositions that the segregation of the assets representing the investment and its proceeds, and their insulation from the provisions on the maintenance of value, should be mandatory and not at the option of the Fund.

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Improvements in the characteristics of special drawing rights

30. In order to enhance the qualities of special drawing rights, draft amendments have been prepared to make it possible to use them to discharge various payments to and by the Fund; abolish the obligation of reconstitution according to which members must hold a prescribed average balance of special drawing rights over a defined period of time; provide for the relaxation of the requirement of need for the use of special drawing rights; expand the freedom of participants to enter into transactions by agreement, i.e., without designation by the Fund; enable the Fund to permit operations and transactions in special drawing rights that are not now possible, such as the direct discharge of obligations or the use of special drawing rights as collateral; modify the provision under which participants may opt out of allocations of special drawing rights; increase the obligation of members to accept special drawing rights; enlarge the categories of other holders and the operations and transactions in which they may engage among themselves and with participants or with the General Account; cut the tie between the rate of remuneration and the rate of interest on special drawing rights; and simplify the concept of currency convertible in fact. The principle that the qualities of special drawing rights should be improved met with general support. There was similar support for most of the proposed amendments by which this objective could be achieved. There were some reservations, however, principally in connection with the obligation of acceptance and on opting out, and in addition a number of technical issues have been raised.

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Part III. Principal IssuesGeneral reactions

31. Various opinions have been expressed by executive directors on the general question of amendment. These opinions are summarized below, but it must be observed that individual directors who have declared their preference for one position have often expressed their willingness to concur in another position if the possibility should develop of general agreement on it:

(i) There should be no amendments at all. The reasons for this reaction vary. For example, amendments short of a comprehensive reform of the international monetary system might deter further efforts at such a reform. Again, it has been doubted that there is a truly compelling necessity for any amendment, because temporary pragmatic procedures might be devised.

(ii) There should be no amendments, except for an amendment that would enable members to pay the gold portion of increases in their subscriptions in some other way.

The two opinions described above do not command broad support as a first preference.

(iii) All of the topics set forth in Paragraphs 37 and 41 of the Outline should be the subject of amendments.

(iv) All of the topics set forth in Paragraphs 37 and 41 of the Outline, with specific exceptions, should be the subject of amendments.

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- (v) As many amendments should be adopted as can be the subject of agreement. Some directors who have expressed this opinion have stated that their willingness to concur in many amendments did not imply that they felt any urgency about amendment.

The three opinions in (iii) to (v) above do not command broad support as a first preference.

- (vi) There should be a limited number of amendments. The principles suggested for making a choice have varied. Some directors have emphasized a choice based on the urgency of attaining a certain objective in the short run. Most directors agree that it is urgent to amend in order to facilitate increases in quotas as a result of the sixth general review, but some directors also regard it as urgent to establish as much legality and to deal with as many current problems as possible. Some directors have referred to a balance among the primary interests of all members as a criterion for the choice of amendments.

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The opinion described in (vi) has the broadest support as a first or second preference, but it must not be inferred from this generalization that there is equal agreement on the specific amendments that should be included in a limited choice. This aspect of the discussion is examined in the next paragraph.

Combinations of amendments

32. A considerable range of possible combinations has been suggested in the discussions of the Executive Directors. The following are some of the combinations:

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- (i) subscriptions, arrangements for gold, and investment;
- (ii) the link, subscriptions, arrangements for gold, and the status of the special drawing right;
- (iii) legalization of floating, the link, and subscriptions;
- (iv) the link and subscriptions;
- (v) legalization of floating, the Council, trade measures for balance of payments reasons, subscriptions, and arrangements for gold.

It must be repeated that combinations such as these have been the second preference of some directors whose first preference would be more extensive amendment, but who would support a narrower range if agreement could not be reached on broader amendment. The Executive Directors have not attempted to reach a consensus on a selection of amendments because of the broader mandate they have been given by the Board of Governors on the basis of the Outline. It should be noted, moreover, that in sum the various combinations that have been suggested are almost as extensive as the topics listed in the Outline.

Main general issues

33. (i) A fundamental issue at the present time is whether the Executive Directors should continue to attempt to reach agreement on all the topics set forth in Paragraphs 37 and 41 of the Outline. Agreement for this purpose would include agreement on the proposed texts of amendments.
- (ii) If the Executive Directors were to concentrate on only some of the topics, it would be necessary to determine which those topics should be.

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- (iii) If a selection of topics were made as the basis for amendments to be proposed in the near future, the question would arise whether the Executive Directors should persevere with the remaining topics in order to see whether further proposals could be agreed at a later date for a second round of amendments.

Specific issues

34. It has been seen from the discussion of individual topics for amendment in earlier paragraphs that amendments on certain topics are regarded, on the whole, as uncontroversial or are the subject of broad agreement in principle. Although many technical questions would have to be resolved, the topics to which this conclusion can reasonably be applied are the establishment of the Council, use of the Fund's resources, repurchase, payments to and by the Fund, including the payment of subscriptions on increases in quota, investment, and improvements in the characteristics and uses of special drawing rights. It has also been seen that certain fundamental issues have emerged in connection with some topics. Those that have been mentioned can be summarized as follows:

- (i) The nature of future arrangements for gold.
- (ii) The distribution of powers among the Board of Governors, the Council, and the Executive Directors; and split voting in the Council.
- (iii) The place of par values and floating in new exchange arrangements; and the creation of a transitional period to legalize the present generalized floating before the new exchange arrangements become operative.
- (iv) The introduction and form of a link.

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The Executive Directors believe that in further discussions they might be able to resolve the problems related to (ii) above as well as all other problems referred to in this Report that have not been listed in this paragraph. The Interim Committee may wish, therefore, to address itself to paragraph 33 above and to sub-paragraphs (i), (iii), and (iv) in this paragraph 34.