

March 22, 1976

To: Members of the Executive Board

From: The Secretary

Subject: Proposed Second Amendment to the Articles of Agreement
Report by the Executive Directors to the Board of Governors

Attached for consideration by the Executive Directors is the Report by the Executive Directors to the Board of Governors on the Second Amendment of the Articles of Agreement, revised in the light of the recent discussions in the Executive Board. The document contains the following sections:

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- Part I: Introduction
- Part II: Commentary, with an Annex on special majorities and an Appendix comparing the proposed and present Articles
- Part III: Procedure
- Part IV: Draft Resolution, with the proposed amended Articles attached.

This matter and the draft decision of the Executive Directors (DAA/76/10, 3/19/76) will be brought to the agenda for approval as soon as possible.

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FOR RELEASE

Thursday,
April 8, 1976
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Proposed Second Amendment to the
Articles of Agreement of the
International Monetary Fund

A REPORT BY THE EXECUTIVE DIRECTORS
TO THE BOARD OF GOVERNORS

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INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
March 1976

DAA/76/11

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Proposed Second Amendment to the
Articles of Agreement of the
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A Report by the Executive Directors
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International Monetary Fund
Washington, D. C.
March 1976

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PART I: INTRODUCTION

In the Report to the Board of Governors by the Ad Hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty), dated June 14, 1974, to which an Outline of Reform was attached, it was noted that in the conditions that had developed it had been recognized that priority should be given to certain aspects of reform. The Committee regarded it as of the highest importance that immediate steps should be taken to begin an evolutionary process of reform. Part II of the Outline sets out the immediate steps on which the Committee was agreed. Among them was the preparation of draft amendments of the Articles of Agreement of the International Monetary Fund.

In the Fourth Resolution (No.29-10) 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, Paragraph 9 requested that the consideration of possible amendments to the Articles of Agreement should be pursued with a view to the presentation of draft amendments to the Board of Governors in due course.

The Executive Directors began to consider possible draft amendments in mid-summer 1974 and have continued to work on them since that time. They have submitted reports on the progress of this work to the Interim Committee of the Board of Governors on the International Monetary System and have received guidance on a number of topics. As stated in the Communiqué issued by the Committee on January 8, 1976 after its fifth meeting, in Kingston, Jamaica, the Committee had considered and reached agreement on the remaining issues on which the Executive Directors had sought guidance. The Committee requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee, and to submit a Comprehensive Draft Amendment for the approval of the Board of Governors, together with a Report. The numerous changes in the Proposed Amendment will make it necessary for the Executive Directors to review the By-Laws, Rules and Regulations, and general decisions of the Fund to ensure that they are compatible with the revised Articles and that they provide the necessary operating principles and procedures.

The rest of this Report consists of three parts. Part II is a Commentary on the Proposed Amendment of the Articles of Agreement. For the most part, the Commentary follows the order of the provisions in the proposed text. It should be noted that the sequence of provisions is slightly changed so that the Articles can follow a more logical order. An Annex is attached to the Commentary in Part II that sets forth in tabular form the special majorities of voting

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power that would be required for certain decisions under the amended Articles and the organs of the Fund that could take those decisions. Part III of this Report describes the procedure to be followed in order to give effect to the Proposed Amendment.

Part IV of this Report sets forth a proposed Resolution that the Executive Directors recommend for adoption by the Board of Governors. Annexed to the Resolution is the proposed text of the amended Articles of Agreement. In the Appendix to Part II, this text is shown in the left-hand column of the pages of the Appendix. The right-hand column sets forth the corresponding provisions of the present Articles, in an order therefore that does not follow the sequence of the present Articles.

The proposed modifications of the Articles are extensive, but the main themes can be summarized under six headings.

(a) Exchange arrangements of each member's choice; the possible adoption of particular general arrangements; and the possible adoption of a system of par values that members will have an option to participate in subject at all times to general obligations and firm surveillance by the Fund (Chapter C).*

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The provisions on exchange arrangements recognize that the essential purpose of the international monetary system is to provide a framework that both facilitates the exchange of goods, services, and capital among countries and sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability. Members undertake a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates. Members must perform this obligation by observing certain specified undertakings with respect to domestic and external economic and financial policies.

The general obligation and specified undertakings apply to all members at all times. Members are free, however, to apply the exchange arrangements of their choice. The Fund will be able, by decisions taken with an eighty-five percent majority of the total voting power, to recommend exchange arrangements that accord with the development of the international monetary system, but members will continue to have the right to choose their own arrangements.

The Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations.

* References in the Introduction to chapters are to chapters in Part II of this Report.

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The Fund may determine, by the majority already referred to, that international economic conditions permit the introduction of a system based on stable but adjustable par values, whereupon provisions governing such a system will apply. Each member will then establish a par value unless it intends to apply other arrangements.

(b) A reduction in the role of gold, including the disposition of the Fund's own holdings of gold (Chapter I).

The most important changes under this heading are as follows:

- (i) the elimination of the function of gold as the common denominator of the par value system and as the unit of value of the special drawing right (Chapter I, section 2);
- (ii) the abolition of the official price of gold (Chapter I, section 3);
- (iii) the abrogation of obligatory payments in gold by members to the Fund and by the Fund to members (Chapter I, section 4), and elimination of authority for the Fund to accept gold except under decisions taken with a high majority of the total voting power (Chapter I, section 8(d));
- (iv) the requirement that the Fund complete the disposition of fifty million ounces of gold (Chapter I, sections 5-7);
- (v) the authorization of the Fund to dispose of the remainder of its gold holdings in various ways by sale on the basis of prices in the market or at the official price in effect before the second amendment (Chapter I, section 8);
- (vi) "profits" on the sale of gold on the basis of prices in the market would be placed in a special account for use in the ordinary operations and transactions of the Fund or for other uses, including those for the special benefit of members with low per capita income (Chapter I, section 8(b) and section 13);
- (vii) the requirement that the Fund, in its dealings in gold, avoid the management of the price, or the establishment of a fixed price, in the gold market (Chapter I, section 10); and

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- (viii) the undertaking of members to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets will be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system (Chapter I, section 10).

Many of the powers that the Fund may exercise under this heading (b) are subject to a majority of eighty-five percent of the total voting power.

- (c) Changes in the characteristics and expansion of the possible uses of the special drawing right so as to assist it to become the principal reserve asset of the international monetary system (Chapter Q).

Numerous changes have been made in the provisions dealing with the special drawing right in order to modify its characteristics and extend its usability. Some of the most important modifications are listed below:

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- (i) Participants will be able to enter into transactions by agreement without the necessity for decisions by the Fund (Chapter Q, section 2(v)), and a participant transferring special drawing rights in such a transaction need not observe the requirement of need that is included in the Articles (Chapter Q, section 2(viii)).
- (ii) The Fund may authorize operations between participants that are not otherwise provided for by the Articles, subject to appropriate safeguards (Chapter Q, section 2(vii)).
- (iii) The Fund may review the rules for reconstitution of participants' holdings of special drawing rights at any time and may adopt, modify, or abrogate the rules by a lower majority of the total voting power than is necessary at present (seventy instead of eighty-five percent) (Chapter Q, section 2(xiii)).
- (iv) The possible uses of special drawing rights in operations and transactions conducted through the General Department of the Fund have been expanded (Chapter Q, sections 2(i) and 3).

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- (v) The Fund may broaden the categories of other holders of special drawing rights, although not beyond official entities, and the operations and transactions in which they may engage (Chapter Q, section 2(ii) and (iii)).

(d) Simplification and expansion of the types of the Fund's financial operations and transactions, particularly those conducted through the General Department (Chapters D, E, F, G, H, J, and L).

The opportunity has been taken to incorporate in the Articles certain policies and practices that experience has proved to be useful. A leading example is the Fund's policy on repurchase, which is designed to ensure that the use of the general resources will not extend beyond three to five years, unless a longer period is permitted under a special policy on use. The detailed formulae of the present Articles on repurchase and on the calculation of monetary reserves that governed the accrual of repurchase obligations and distribution among reserves have been deleted (Chapter E, section 1).

Provisions have been adopted to ensure that the Fund's holdings of the currencies of all members will be usable by the Fund in its operations and transactions in accordance with its policies. Similarly, members will be able to obtain the currencies of other members when they have been specified by the Fund for repurchase. Appropriate safeguards are adopted for members (Chapter D, sections 11-15, and Chapter E, section 2(x)).

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Among other changes in relation to the use of the general resources of the Fund is the more extensive authority it will have to permit members to engage in transactions under special policies without at the same time foregoing their reserve tranche positions (formerly gold tranche positions) (Chapter D, section 9).

(e) The possible establishment of the Council as a new organ of the Fund (Chapter P).

The Board of Governors may decide, by an eighty-five percent majority of the total voting power, to call a new organ of the Fund, the Council, into being if this action is deemed appropriate. This organ would resemble the present Interim Committee of the Board of Governors in composition and terms of reference. It would differ from the Committee in that it would have powers of decision and not solely advisory authority. If the Board of Governors were to decide that the Council should be established, detailed provisions governing the Council would begin to apply.

(f) Certain improvements in organizational aspects of the Fund (Chapter O).

The provisions governing the election of Executive Directors have been brought up to date by the incorporation of the present number of elective Executive Directors in the Articles, together with authority to modify the number by a high majority of the total voting power. In addition, a member entitled to appoint an additional Executive Director in certain circumstances may decide to participate in the election of Executive Directors instead of making an appointment. It is also provided that if the member does make an appointment, it may arrange with individual members in its former "constituency" to have the Executive Director it appoints cast the number of votes allotted to them (Chapter O, section 2(b)).

Other major improvements under this heading are the clarification and simplification of the distribution and delegability of powers among the organs of the Fund and the reduction of the categories of special majorities to seventy percent and eighty-five percent (and in one instance an absolute majority). Special majorities would apply to a wide range of decisions beyond those that have been noted already under (b) above (Annex).

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The complete text of the Articles incorporating the proposed revisions, rather than a series of proposed amendments of particular provisions, is attached to the Resolution. The reason for adopting this technique is that, although the amendment does not represent a total revision of the Articles, the second amendment is an extensive one, affecting many provisions of the Articles. Nevertheless, the proposed revision is an amendment of the existing Articles and does not constitute a new international treaty.

Various changes in nomenclature in use in the Fund have been made. Some of the changes are intended to convey more clearly the structure of the Fund, which will consist of the General Department and the Special Drawing Rights Department. There will be three Accounts in the General Department: the General Resources Account, the Special Disbursement Account, and the Investment Account. These changes do not involve changes of substance in the legal or operational organization of the Fund (Chapter A, section 1).

Part II

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PART II: COMMENTARY ON THE PROPOSED AMENDMENT
OF THE ARTICLES OF AGREEMENT

A. Structure of the Fund (Introductory Article and Article I)

1. In view of the creation of the Special Disbursement Account (see Article V, Section 12(f)) and the Investment Account (see Article XII, Section 6(f)), it has been thought appropriate to improve the nomenclature relating to the structure of the Fund, without however changing that structure. The General Account is renamed the General Department, and the Special Drawing Account is renamed the Special Drawing Rights Department. The General Department will consist of three Accounts, the General Resources Account, the Special Disbursement Account, and the Investment Account. The resources that are at present held by the Fund for use in the operations and transactions conducted through the General Account will be held in the General Resources Account. These resources are referred to in Article I and elsewhere as the general resources of the Fund. "Profits" on the sale of the Fund's gold will be held after the date of the second amendment in the Special Disbursement Account for use in accordance with the provisions governing that Account. The resources used for and resulting from investment will be held in the Investment Account. The resources of the three Accounts will be kept separate from each other.

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2. The Introductory Article declares that membership in the Fund gives the right to participation in the Special Drawing Rights Department, and that all operations and transactions authorized by the Articles of Agreement shall be conducted through the General Department, except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. These operations and transactions are conducted through both Departments, however, if the Fund is a party to an operation or transaction involving special drawing rights.

3. "Transactions" of the Fund are defined in Article XXX(h) for the purposes of the Agreement as exchanges by the Fund of monetary assets for other monetary assets, and "operations" are defined as other uses or receipts of monetary assets by the Fund. "Transactions" in special drawing rights means exchanges of them for other monetary assets, and "operations" in special drawing rights means other uses of them (Article XXX(i)).

4. The Fund is authorized by Article V, Section 2(b) to administer resources on behalf of members consistently with the purposes of the Fund, but operations and transactions in these resources are not conducted through the General Department as they are not on the account of the Fund. Special arrangements would be made for the administration of these resources, as have been made in connection with the Trust Fund and the Subsidy Account.

B. Membership and Subscriptions (Articles II and III)

1. The second sentence in Section 2 of Article II expresses the principle that the terms for membership should not be discriminatory. An applicant's quota should be in the same range as the quotas of members of the Fund considered by the Fund to be in a comparable situation, and the other terms for membership should not discriminate in other respects between applicants and existing members in similar circumstances. Moreover, a basic objective of the provision is to preserve the principle that membership resolutions must not create permanent rights and obligations that vary among members. One purpose of the sentence is to ensure the continuation of the established practice that a new member pays an appropriate part of its original subscription in reserve assets. Therefore, as in the past, the Fund will take into account the size of an applicant's reserves in determining the portion of the subscription to be paid in reserve assets. Under Article III, Section 1, as under the present Articles, the quotas of new members are determined by the Board of Governors, and the subscriptions of members, which are equal to their quotas, must be paid in full. The board of Governors must decide the amount to be paid in an applicant's own currency and the amount to be paid in reserve assets (special drawing rights or the currencies of other members), but this latter amount could not exceed twenty-five percent of quota in view of the last clause of Article II, Section 2. The level of the Fund's holdings of a new member's currency below which the Fund will pay remuneration is fixed by Article V, Section 9(b)(i). The Board of Governors may wish to take into account the effect of a payment in reserve assets on the remuneration that might be payable to the member. If the percentage payable by a new member in its own currency resulted in holdings below the level relevant for remuneration under Article V, Section 9(b)(i), the Fund would have to pay remuneration to the new member at once. The balance of the subscription beyond the part paid in reserve assets is payable in the member's currency.

2. The reference to "government" in the corresponding provisions of the present Articles is deleted and "country" is used instead. This change is intended to reflect the fact that countries, and not governments, are members of the Fund.

3. The last sentence of Article III, Section 1, in equating subscriptions with quotas, states a principle that applies to all members. Inclusion of the sentence makes it possible to delete Article III, Section 3 of the present Articles, which applied solely to the initial subscriptions of original members. In keeping with Article V, Section 10(a), which requires all accounts of the Fund to be expressed in terms of the special drawing right, Article III, Section 1 now requires that quotas be expressed in terms of special drawing rights.

4. The words "the Board of Governors" in Article II, Section 2 and Article III, Section 1 have been substituted for "the Fund" in order to

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provide that the prescription of the terms of membership, including determination of the quotas of new members, is a power of the Board of Governors that may not be delegated to other organs of the Fund.

Adjustment of Quotas (Article III, Section 2)

5. Article III, Section 2(d) provides that, as at present, a member's quota in the Fund can be changed only with the member's consent. A second prerequisite has been adopted for all changes in quota: an adjustment in quota cannot become effective until payment has been made of the amount of the difference between the old subscription and the new subscription. The provision applies to both increases and decreases in quota, and, therefore, applies to payments both by members and by the Fund. This requirement incorporates in the Articles the principle that has been applied in practice in connection with increases in quotas pursuant to general reviews. The rule, which would also apply to increases by installments if they were permitted by a resolution of the Board of Governors, prevents an increase in potential uses of the general resources of the Fund before the resources themselves are increased. In connection with reductions in quota, the rule prevents the Fund from enjoying a temporary advantage by retaining assets for a time after a reduction in quota has occurred.

6. The words "the Fund" in Section 2(a) are replaced by "the Board of Governors" in order to specify that a general review and the proposal of an adjustment of the quota of a member, whether as the result of a general or an individual review, are among the powers of the Board of Governors that may not be delegated to other organs of the Fund.

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7. Article III, Section 2(b) enables the Fund to propose increases in quotas equivalent to the "profits" on sales of gold transferred from the Special Disbursement Account to the General Resources Account of the Fund. The Special Disbursement Account is the account in which, according to Article V, Section 12(f), the Fund will hold the excess it receives over the present official price of gold when it sells gold under Article V, Section 12(c).

8. If the Fund decides under Article V, Section 12(f)(i) or (j) to transfer assets from the Special Disbursement Account to the General Resources Account for immediate use in the ordinary operations and transactions of the Fund as authorized by the Articles, the Fund may decide then or at a later date to "capitalize" the amount of the transfer or transfers by offering increases in quotas to members. The offer will be made to all members that were members of the Fund on August 31, 1975 and in proportion to their quotas on that date. No member will be required to accept an increase. If a member consents, the increase will take effect on consent, under Article III, Section 3(b), and its additional subscription will be deemed to have been paid. The decision to "capitalize" transfers may be

taken by the Executive Board if this power is delegated to it by the Board of Governors. All decisions to permit the adjustment of quotas, whether resulting from a general or an individual review, and whether taken by the Board of Governors, or by the Executive Board under Article III, Section 2(b), will be taken by a majority of eighty-five percent of the total voting power. Under the present Articles, this proportion of the total voting power is required for adjustments proposed as the result of a general review, but eighty percent of the total voting power is required for adjustments that are proposed as the result of individual reviews. There is no provision in the present Articles corresponding to Article III, Section 2(b) under which "capitalization" can take place.

Payments when Quotas are Changed (Article III, Section 3)

9. The requirement under the present Articles that an increase in subscription must be paid within thirty days after consent to an increase in quota has been replaced by the requirement that the payment must be made within a period determined by the Fund. This change is intended to provide flexibility for arranging payment.

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10. Under Article III, Section 3(a), the portion of an increase in quota now payable in gold, equivalent to twenty-five percent of the increase, is payable in special drawing rights, but the Board of Governors can prescribe, in connection with any review, that payment may be made in whole or in part in the currencies of other members, with the concurrence of these members, or in the member's own currency. Any prescription of the mode of payment must apply to all members on the same basis. This principle is subject to the qualification that non-participants in the Special Drawing Rights Department are permitted to pay the portion of the increase that must be paid by participants in special drawing rights in the currencies of other members specified by the Fund with the concurrence of these members. If the currencies of other members are specified as a means of payment by members, the proportion of each currency need not be the same for all members, but each member must pay the same total proportion of the increase in the currencies of other members.

11. If the Board of Governors prescribes that payment may be made in the currencies of other members, the particular currencies may be specified by the Executive Board by a majority of the votes cast under a delegated power. The Executive Board will be able to adopt policies with respect to the currencies that can be used for the payment of increases in subscriptions. In formulating these policies, the Fund would take into account the policies it had adopted under Article V, Sections 3(d), 6(c), 7(i), and 12(c). Payment in the currency of another member cannot be permitted if the Fund's holdings would be increased above the level at which charges would be payable by the member under Article V, Section 8(b)(ii). This level would be the quota, unless purchases

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were outstanding under floating facilities, in which circumstances the level would be the quota plus the amount of the member's currency obtained by the Fund in these purchases. Under Article V, Section 12(d), the Fund, by an eighty-five percent majority of the total voting power, could permit a member to pay the increase in its quota in gold at a price agreed between the Fund and the paying member on the basis of prices in the market.

12. Article III, Section 3(c), which deals with a reduction in quota, is designed to correspond to some extent to the provisions dealing with an increase in quota. Under the provision, the period for the payment by the Fund of the reduction in quota is sixty days after the consent to the reduction by the member. The payment must be made in the member's currency to the maximum extent possible, but without reducing the Fund's holdings of the currency below the new quota in any but exceptional circumstances. Examples of such exceptional circumstances might be the meagerness of the Fund's holdings of special drawing rights or the fact that the member to be repaid was neither a participant nor an other holder of special drawing rights and it was not possible or advisable to use the currencies of other members. To the extent that the Fund did not make a payment in the member's own currency, payment would be made in special drawing rights or in the currencies of other members that concurred in this use. The Executive Board would specify the currencies of other members for this purpose by a majority of the votes cast under a delegated power.

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Substitution of Securities for Currency (Article III, Section 4)

13. Any currency held by the Fund in the General Resources Account will be subject to Article III, Section 4. A member is able, therefore, to substitute nonnegotiable, noninterest-bearing notes or similar obligations issued by the member or by the depository designated by it under Article XIII, Section 2 for these holdings to the extent that the Fund does not currently need them for use in accordance with the provisions of the Articles. Article III, Section 4 does not apply to any cash balances in the Special Disbursement Account or the Investment Account. The reason for this limitation is that these holdings may be transitory. A member's currency in these Accounts, however, may be invested by the Fund only with the member's concurrence.

14. The words "face value" are substituted for the words "par value" in this section in order to avoid the confusion that might be created by the different meanings of the expression "par value."

C. Exchange Arrangements (Article IV and Schedule C: Article VIII, Sections 2(a) and 4)

General provisions

1. The provisions on exchange arrangements are based on the recognition that the essential purpose of the international monetary system is to provide a framework that both facilitates the exchange of goods, services, and capital among countries and sustains sound economic growth, and that a principal objective of the system is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability. The members of the Fund undertake, in Article IV, Section 1, a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates.

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2. Members must perform their general obligation by observing, in particular, the undertakings with respect to domestic and external economic and financial policies set forth in Article IV, Section 1(i), (ii), (iii), and (iv). The particular undertakings referred to are general in scope and applicability. There is recognition, however, of the relevance of the circumstances of members in the formulation of the undertakings according to which members must "endeavor" or "seek" to pursue certain courses, as well as in the clause "with due regard to its circumstances" in Article IV, Section 1(i). The phrase "with due regard to its circumstances" does not represent a dilution of members' general obligations under the Articles of Agreement, but refers to the differing economic needs and circumstances of members and the nature of the problems they face and the priorities they choose in the pursuit of their objectives consistently with the Articles of Agreement.

3. The obligations of members under Article IV, Section 1 apply to all members at all times and whatever their exchange arrangements may be. Under Article IV, Section 2(b) members may choose the exchange arrangements they wish to apply. This freedom of choice will continue to exist for all members even after the Fund has determined that conditions permit the introduction of a system of exchange arrangements based on par values and has notified members of the application of the provisions of Schedule C. In those circumstances, as explained in 6 to 13 below, Schedule C will apply to the exchange arrangements of members.

4. Section 2(b) describes two of the principal types of exchange arrangements, and refers in a general way to all others as arrangements that members may apply in an international monetary system like the one prevailing at the beginning of 1976. The provision refers to the system as it existed on January 1, 1976 in recognition of the fact that it may

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develop in new directions thereafter. In the context of a different international monetary system, members may find it necessary or convenient to apply exchange arrangements other than those referred to in Section 2(b) (i) or (ii). Section 2(c) enables the Fund, by an eighty-five percent majority of the total voting power, to recommend general exchange arrangements that accord with the development of the system. This action of the Fund, however, could not limit in any way the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations of members under Section 1.

5. Under Section 3(a), the Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations under Section 1. Each member is required to notify the Fund under Section 2(a) of the exchange arrangements it intends to apply in fulfillment of these obligations, and of any changes in its exchange arrangements. Section 3(b) emphasizes the functions of the Fund under Section 3(a) by directing it to exercise firm surveillance over the exchange rate policies of members, and to adopt specific principles for the guidance of all members with respect to those policies whatever exchange arrangements a member may apply. The principles may be adapted from time to time in the light of experience and the development of the international monetary system. The principles will have to be based on, and respect, the general obligations of members under Section 1 regarding, for example, the pursuit of orderly economic growth and reasonable price stability, and must be consistent with the freedom of members to choose their exchange arrangements. In this connection, as well as in Section 2(b), there is special reference to cooperative arrangements by which the values of currencies are maintained between or among members. The principles must also respect the domestic social and political policies of members. In applying these principles, the Fund is required to pay due regard to the circumstances of members.

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Par values

6. Section 4 authorizes the Fund to make a determination, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a par value system, that is a widespread system of exchange arrangements based on stable but adjustable par values. The criteria that the Fund must take into account for making that determination are set forth in Section 4. If the Fund makes a determination, it must notify members that the provisions of Schedule C apply, and Schedule C is then operational. On the date of the second amendment, par values in existence under the present Articles will cease to be in effect for the purposes of the Articles of Agreement.

7. Application of the provisions of Schedule C will require a member to establish a par value for its currency unless it intends to apply other exchange arrangements. If it chooses the latter course, it must consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1. A member wishing to establish a par value under the provisions of Schedule C can at any time propose a par value to the Fund,

whether initially under Schedule C, paragraph 2 or subsequently under Schedule C, paragraph 4. The proposed par value will take effect if the Fund concurs in it. It is provided that the Fund shall not object because of the domestic social or political policies of the member proposing the par value.

2480 8. Under Schedule C, paragraph 5, the margin for spot exchange transactions between currencies for which par values are maintained is four and one-half percent on either side of parity. Members can maintain narrower margins consistently with this provision if they wish to do so. The Fund will be able, by an eighty-five percent majority of the total voting power, to establish a different margin, which might be either wider or narrower than four and one-half percent, for all spot exchange transactions, or to permit, for example, the application of one margin for the currencies of members participating in a multi-currency intervention system and another margin for spot exchange transactions between these currencies and other currencies. The authority of the Fund under the present Articles to establish specific margins for other exchange transactions, including forward exchange transactions, has been eliminated. In view of the greater width of margins, it has been made clear that the Fund's jurisdiction over multiple currency practices and discriminatory currency arrangements applies to rates within or outside margins observed by members under Article IV or prescribed by or under Schedule C, paragraph 5 (Article VIII, Section 3). The Fund will be able to develop a body of principles on what practices are to be regarded as multiple currency practices or discriminatory arrangements, subject to the practices authorized by the provisions of the Articles. This is the way in which these concepts have been applied under the present Articles.

9. A change in the par value of a member's currency for the purposes of the Articles of Agreement may occur only if the member proposes the change in order to correct, or prevent the emergence of, a fundamental disequilibrium and if the Fund concurs in the change. The concept of preventing the emergence of a fundamental disequilibrium goes beyond the text of the present Articles. If a change in par value is proposed by a member, the Fund must concur in or object to it within a reasonable period. The Fund must concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. As in the present Articles, it is provided, in Schedule C, paragraph 7, that the Fund shall not object because of the domestic social or political policies of the member proposing the change. It will continue to be possible, therefore, for the Fund to object because of other policies. If the Fund does object, the proposed change will not take effect for the purposes of the Articles. If nevertheless the member were to make the change, the Fund would be able to apply the measures of Article XXVI, Section 2 against the member, i.e., ineligibility to use the general resources of the Fund and compulsory withdrawal. The Fund is not required to apply these measures.

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10. Only the member is authorized to propose a change in the par value of its currency, which is the position under the present Articles. Although the Fund is not authorized to propose a change, it is required to discourage the maintenance of an unrealistic par value by a member.

11. A par value ceases to exist for the purposes of the Articles of Agreement if the member terminates it or if the Fund finds that the member is not maintaining rates for a substantial volume of exchange transactions in accordance with Schedule C, paragraph 5. These provisions eliminate the principle under the present Articles that a par value continues to exist for the purposes of the Articles even though it has been completely out of touch with actual rates for many years and there is no prospect that the par value will be made effective again. The Fund may object to the termination of a par value, but only by a decision taken by eighty-five percent of the total voting power. The member may terminate the par value for its currency despite the objection of the Fund, but such an action will make the member subject to the application by the Fund of the measures included in Article XXVI, Section 2.

12. If the par value of the currency of a member ceases to exist, the member has the same choice as upon the initial application of Schedule C. It can establish a new par value or apply other exchange arrangements (Schedule C, paragraphs 9 and 10). If it does not have an effective par value, it must consult the Fund and must ensure that its exchange arrangements are consistent with the purposes of the Fund and adequate to fulfill its obligations under Article IV, Section 1.

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13. Under Schedule C, paragraph 1, the Fund will choose the common denominator of the par value system under that Schedule. It may be the special drawing right or some other common denominator except gold or a currency. If the special drawing right were chosen as the common denominator, the Fund might wish from time to time to make uniform proportionate changes in par values. For this purpose Schedule C, paragraph 11 authorizes the Fund to decide, by a seventy percent majority of the total voting power, to make uniform proportionate changes in all par values if the changes will not affect the value of the special drawing right. These changes would not be made in order to increase or decrease global liquidity, because this effect could be achieved by the allocation or cancellation of special drawing rights, but in order to bring par values into line with the values of the currencies in terms of the value of the special drawing right in transactions as determined under Article XV, Section 2. A member will have the right, which it has under the present Articles, to decide that the par value of its currency will not be changed, but it must give the Fund notice of this decision within seven days after the Fund's action.

Convertibility under Article VIII

14. Article VIII, Section 2(a) constitutes what has become the basic convertibility provision of the Articles of Agreement. The mechanism of convertibility under this provision is available to all parties, whether

private or governmental, and under it holders of currency balances recently acquired as a result of current transactions must be allowed to transfer those balances through the exchange markets.

15. The basic convertibility mechanism of Article VIII, Section 2(a) was supplemented, in the original Articles, by another form of convertibility under Article VIII, Section 4 to which the monetary authorities of members, and only those authorities, could have recourse. This supplemental mechanism for monetary authorities was provided for by the drafters of the original Articles on the basis of certain assumptions about the character and operation of the monetary system after 1944, which has, however, developed in other directions. They assumed, for example, that conversions through the market might be moderate, but that governments might centralize all foreign exchange receipts, with the result that official balances might be enormous and conversion impossible without the use of the Fund's resources.

2482 16. The obligation of members to convert under Article VIII, Section 4 is a closely defined obligation and subject to certain conditions. One important condition is that the balances presented for conversion have been recently acquired as a result of current transactions, or that conversion of the balances is needed for making payments for current transactions. Another important condition is that the member asked to convert must be entitled to use the Fund's resources. The theory of Section 4 is convertibility of official balances through the mechanism of the Fund, and a member is under no obligation to convert official balances of its currency, whether through the use of the Fund's resources or with other assets, unless it can purchase from the Fund the currency of the member requesting conversion.

17. The world has not developed along the lines expected by the drafters of Article VIII, Section 4, and the convertibility mechanism envisaged in that provision has never been applied. Section 2(a) of Article VIII, and not Section 4, has provided the mechanism for conversion, and the Fund has supported this form of convertibility with its resources.

18. The second amendment has been agreed on the understanding that the situation as described above will continue to prevail, so that no obligation will be applied for a member so long as exchange markets for the currency held normally serve this function. Members are, of course, free to agree to convert balances of their currency held by other members, as they have done on occasions in the past, or can, by agreement, transfer special drawing rights to other members for this purpose. It has been considered unnecessary, therefore, to attempt to modify the provision at this time, taking into account the fact that circumstances similar to those that the drafters of the original Articles had in mind might possibly emerge, thus justifying more reliance on the provisions of Article VIII, Section 4. Any study of a possible future modification of the provision could be undertaken more usefully in the light of developments in connection with exchange arrangements under Article IV.

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D. Use of Fund's General Resources (Article V, Sections 2, 3, 4, 5, and 6; Article XXX(c))

1. The provisions of the Articles dealing with the use of the Fund's general resources (Article V, Sections 2 to 6) are revised, largely in order to give expression to the practices, including those relating to the selection of currencies for use in the transactions of members with the Fund, that have evolved in the course of the years on the basis of the present provisions. The new provisions, however, are not confined to the modernization of the Articles but also introduce improvements in them, for example with respect to the usability of the Fund's holdings of currencies in the General Resources Account.

2. Under Section 2(a) the Fund's authority to enter into operations and transactions on its own account is limited to those included in the Articles. Special mention is made of the sale to a member, on its initiative, of special drawing rights or the currencies of other members held in the General Resources Account for the member's own currency. Under Section 2(b) the Fund, if requested, may decide to perform financial or technical services that are not on the account of the Fund, provided that they are consistent with its purposes. Decisions under this provision would be taken by a majority of the votes cast in the Executive Board. The technical services include technical assistance within the Fund's sphere of interest. It is expected that the Fund would not make its services available to assist members to conduct their transactions in gold. The financial services include the administration of resources contributed by members or by others. The Trust Fund, and the Subsidy Account established in 1975 to assist members that were most seriously affected by the prevailing situation to meet the cost of using the Fund's oil facility, are examples of this kind of service. Operations and transactions involved in the performance of these financial services would not be on the account of the Fund. That is to say, the assets in the Accounts of the General Department or any assets in the Special Drawing Rights Department would not be available to meet obligations or liabilities incurred in the course of these services. The assets administered by the Fund under this provision might be owned by the Fund if certain legal techniques, such as a trust, were employed, and, therefore, to take one example, the assets would be assets of the Fund for the purposes of the immunities and privileges of Article IX even though they would not be held within the General Department (Article XVI, Section 2). Services rendered by the Fund under Article V, Section 2(b) cannot impose obligations on a member unless it agrees to assume them. As in the past, the Fund would be able to absorb the administrative costs of the services or agree with members on some other arrangement.

3. Article V, Section 3(a) refers to "stand-by or similar arrangements." The concept of the "stand-by arrangement," which is defined in Article XXX(b), is an important development in the practice of the Fund but is not referred to in the present Articles. An example of a

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"similar arrangement" would be an extended arrangement granted by the Fund under its decision establishing the "Extended Fund Facility" (Decision No. 4377-(74/114), September 13, 1974). Article V, Section 3(a) directs the Fund to adopt policies on the use of its general resources, including use under stand-by or similar arrangements. The Fund would continue to be able to adapt its policies with respect to stand-by or similar arrangements, and to adopt special policies for the use of its resources, subject to the provisions of the Articles, including the requirements with respect to the majorities for decisions.

2484 4. The entitlement of members to use the Fund's general resources is not formulated in terms of particular currencies, subject to the exception in the last clause of Article V, Section 3(d). The particular currencies to be sold to a member making a purchase would be selected by the Fund in accordance with policies and procedures to be adopted by the Fund (Section 3(d)). These policies and procedures must take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions among members in the Fund. Developments in the exchange markets have been included because they may signal an improving or deteriorating payments position. Section 3(d) will provide an express legal basis for currency budgets comparable to the designation plans for special drawing rights under Article XIX, Section 5. The Fund will apply similar criteria in the preparation of both the budgets and the plans. Under the exception in the last clause of Section 3(d), however, a member will be entitled to purchase a specific currency if it represents that it needs that currency in order to redeem an equivalent amount of its own currency held by another member and offered by the holder for redemption. This exception is subject in turn to the qualification that a member will not be entitled to purchase the currency of another member under Section 3(d) if the Fund has given notice under Article VII, Section 3 that its holdings of the currency have become scarce.

5. In order to be entitled to make a purchase, a member must satisfy four conditions:

- (i) The member's use of the resources in the General Resources Account would be in accordance with the Articles and the Fund's policies.
- (ii) The member represents that it has a need to make the purchase because of its balance of payments or reserve position or because of developments in its reserves.

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- (iii) The proposed purchase would be a reserve tranche purchase or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota.
- (iv) The Fund has not declared the member ineligible to use the Fund's general resources under any of the provisions under which the Fund can take this action.

6. With respect to condition (i), the Fund is directed to examine a request for a purchase in order to determine that the request is in all respects in conformity with the Articles and with the Fund's policies (Article V, Section 3(d)). If the Fund decides that, for whatever reason, the condition is not met, the Fund will refuse to comply with the request, subject to the qualification that the Fund cannot refuse a request for a reserve tranche purchase by a member that is eligible to use the Fund's general resources (see 9 below).

7. The Fund will continue to be able to challenge for good cause a member's representation of need under condition (ii). The provision relating to the requirement of "need" has been formulated in a manner that brings it into line with the comparable requirement of "need" under Article XIX, Section 3(a) for the use of special drawing rights by participants. Under the concept of "need" in Article V, Section 3(b)(ii), a member will be able to purchase the currencies of other members from the Fund if its balance of payments position or its reserve position is unfavorable, or if there is an unfavorable development in its reserves, e.g., because of an impending discharge of liabilities, even though it does not have a deficit in its balance of payments according to accepted definitions of the balance of payments.

8. In condition (iii), the limit on purchases formulated in the present Articles in terms of an increase in the Fund's holdings of a member's currency equivalent to twenty-five percent of quota has been deleted. The needs of members have necessitated frequent waivers of this limit under Article V, Section 4 of the present Articles even though the drafters of the provision appear to have contemplated that waivers would be uncommon. The Fund's policies on the use of its resources have been more adequate safeguards of the Fund's resources than the deterrence implied in the necessity for waivers. The limit of two hundred percent of quota has been retained. This limit refers to the Fund's total holdings of a currency. That is to say, holdings obtained under a special policy are not deducted, so that a waiver is necessary for any proposed purchase, other than a reserve tranche purchase, that would increase the Fund's holdings in the General Resources Account above two hundred percent of quota.

9. In condition (iii), the concept of "gold tranche purchase" has been replaced by the concept of "reserve tranche purchase" in order to

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reflect more accurately the character of the right of members to make purchases that are not subject to challenge by the Fund. A "reserve tranche purchase" is defined in Article XXX(c) as a purchase by a member of special drawing rights or another member's currency in exchange for the member's own currency if the Fund's holdings of the member's currency in the General Resources Account will not be increased above its quota. For this purpose, however, the Fund, by a general decision taken by a majority of the votes cast, may calculate holdings by excluding currency obtained as a result of purchases under the facility for the compensatory financing of export fluctuations or under the facility for the financing of contributions to international buffer stocks of primary products. The Fund will be able to exclude purchases under other policies on the use of its general resources but only by decisions taken by an eighty-five percent majority of the total voting power. If the Fund makes an exclusion in respect of purchases under a particular policy, a member will be able to make a purchase under that policy without losing any part of a reserve tranche position that is available to it. Under the present Articles, this result is possible only with respect to purchases under the compensatory financing facility. With respect to purchases under other policies, it has been possible only to ensure that they do not affect the purchases that can be made under the credit tranche policies. The Fund will continue to have this authority under the amended Articles.

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10. Article V, Section 4 enables the Fund to waive conditions (iii) and (iv) in Article V, Section 3(b). It is made clear that the Fund cannot waive the condition that requires the consistency of a request with the Articles and with the policies of the Fund and the condition that the member must have a need to make the purchase it requests. The Fund may accept collateral security to safeguard its interests when granting a waiver. Particular types of collateral are no longer mentioned. There is a general reference to "acceptable assets," which would include, for example, special drawing rights. The provision, therefore, would authorize members to use, and the Fund to accept, special drawing rights for this purpose. The Fund's practice, however, has been not to require collateral. It is not expected that this practice will be changed.

11. In order to make it possible for the Fund to use all currencies held in the General Resources Account in transactions conducted through that Account in accordance with the Fund's policies, Article V, Section 3(e) sets forth certain provisions intended to ensure that a member purchasing another member's currency from the Fund will be able to use it, directly or indirectly, to meet its balance of payments needs. These provisions supplement Article V, Section 3(d), which empowers the Fund to select the currencies to be sold to members making purchases from the Fund. Article V, Section 3(e) gives expression in the form of an obligation of members to a practice that hitherto has rested solely on the collaboration of members. Members must perform this obligation, as well as the parallel obligation imposed by Article V, Section 7(j), to the satisfaction of the

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Fund. Article V, Section 3(d) reflects the consensus that the ability of the Fund to use all its general resources for the benefit of members should be based on a clear legal foundation. In accordance with the purpose of this provision, members must perform all necessary steps promptly. The Fund will make arrangements designed to ensure that all steps can be carried out on the same day or, if this is not practicable, as expeditiously as possible.

12. A member whose currency is not a freely usable currency has the obligation to ensure that balances of its currency purchased from the Fund can be exchanged for a freely usable currency selected by the member whose currency is purchased at an exchange rate between the two currencies corresponding to their values in terms of the special drawing right under Article XIX, Section 7(a). This obligation applies only if the purchasing member requests the exchange at the time of the purchase. The purchasing member must make the exchange with the monetary authorities of the issuing member, unless the two members agree on some other procedure. The provision means, therefore, that either of the two members involved can insist on an official exchange. If the currency purchased from the Fund is a freely usable currency and the purchasing member wishes to exchange it for another freely usable currency, the purchasing member is not entitled to demand an official exchange, but it must exchange the currency purchased from the Fund with the monetary authorities of the issuer of the currency if the issuer so requests. In that event, the issuer also has the choice of the freely usable currency that it will deliver, and the exchange must be made at an exchange rate between the two currencies corresponding to their values in terms of the special drawing right under Article XIX, Section 7(a). Under the collaboration clause, discussed in 13 below, it is expected that the issuer would take into account the preference that the purchasing member may express for a particular freely usable currency.

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13. In addition, each member, whether its currency is or is not a freely usable currency, is required to collaborate with the Fund and other members to enable balances of its currency that another member holds as the direct or indirect result of a purchase from the Fund to be exchanged, at the time of the purchase, for the freely usable currencies of other members. This provision assists a purchasing member in either of two ways in the situation in which the freely usable currency selected by the member whose currency is purchased is not the currency that the purchaser wants. The purchaser can ask the issuer to collaborate by exchanging its currency into a currency that the purchaser does want, or the purchaser can accept the currency selected and ask the issuer of that currency to collaborate in the exchange of that currency for another freely usable currency. Whichever course is adopted, the obligation applies only if the exchange is sought at the time of the purchase. The obligation of collaboration is not the same as an obligation to provide the currency wanted by the purchasing member through an official exchange, but instead members must do what can reasonably be expected of them. The Fund would be able to decide whether a member was performing the obligation of

collaboration, and in this connection the Fund will consult with members in order to reach understandings on ways in which collaboration would be made effective.

14. The definition of a freely usable currency is set forth in Article XXX(f). This definition and all other definitions in Article XXX are designed for the purpose of applying the provisions of the Articles. A currency that does not fall under Article XXX(f) for the Fund's purposes because it is not widely used for international payments may nevertheless be freely exchangeable for other currencies in some of the principal exchange markets. Under the definition in Article XXX(f), a member's currency will be regarded as freely usable by the Fund only if the Fund determines that the currency meets two criteria: (a) the currency is, in fact, widely used to make payments for international transactions, and (b) it is widely traded in the principal exchange markets. The Fund will apply this definition and establish which currencies are to be deemed freely usable for the purposes of the Articles. The Fund would be able to add to or subtract from the list should changing circumstances make these modifications necessary. It can be expected that the Fund would consult a member before placing its currency on the list or removing it, but the final decision would rest with the Fund.

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15. The concept of freely usable currency appears in the following provisions:

Article V, Sections 3(e) and 7(j);
Article XIX, Section 4(a);
Article XX, Section 5;
Article XXIV, Sections 3, 5, and 6;
Article XXX(f);
Schedule G, paragraph 1(a)(iv);
Schedule H, paragraphs 1 and 2;
Schedule I, paragraph 1;
Schedule J, paragraphs 2 and 4.

16. The Fund may agree to provide a member, if it is a participant in the Special Drawing Rights Department, with special drawing rights held in the General Resources Account, instead of the currencies of other members, in return for the purchasing member's currency. Article V, Section 3(f) requires the Fund to adopt policies and procedures for these transactions. On the basis of this authority, the Fund may give general approval for purchases of special drawing rights by participants under general policies, or may limit its agreement to specific cases. The agreement of the Fund is required for various reasons. For example, the Fund might wish to retain its holdings of special drawing rights in order to replenish its holdings of currency under Article VII, Section 1(ii), or because the Fund's holdings of special drawing rights in the General Resources Account might be inadequate to meet all requests.

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17. Under Article V, Section 6, the Fund can provide a member with the currencies of other members in return for special drawing rights. Similarly, the Fund can provide a participant, at its request, with special drawing rights held in the General Resources Account for an equivalent amount of the currencies of other members. These transactions cannot be entered into without agreement between the Fund and the member. It was concluded that the Fund should be empowered to enter into these transactions because participants will be able to enter into similar transactions between themselves under Article XIX, Section 2(b). Neither kind of transaction under Article V, Section 6 is a "credit" transaction comparable to the transactions, other than reserve tranche purchases, in which a member makes purchases under Article V, Section 3 in return for its own currency. Therefore, there is no condition that the member must have a need to enter into the transaction. There are, however, certain limitations on transactions under Article V, Section 6:

- (a) The Fund's holdings of a member's currency that it receives in the General Resources Account must not be increased above the level at which the member would have to pay charges on them under Article V, Section 8(b)(ii).
- (b) The Fund may not enter into a transaction unless the member whose currency is provided or accepted by the Fund concurs in the use of the currency.
- (c) The currencies provided or accepted by the Fund must be in accordance with policies of the Fund, and these policies must take account of the principles set forth in Article V, Section 3(d) for the selection of currencies in transactions under Article V, Section 3(t).

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E. Repurchase (Article V, Section 7 and Schedule B, Paragraphs 1 to 5)

General Provisions

2490 1. The provisions on repurchase in the amended Articles differ substantially from the provisions of the present Articles under which members incur repurchase obligations on the basis of complex and rigid rules that determine the amounts to be repurchased, the assets with which repurchases are to be made, and the timing of the repurchases. The accrual of repurchase obligations under the present Articles depends to a large extent on a definition of types of assets held by the central and official authorities of members that no longer accords with actual practice. In spite of the complexity of the provisions, repurchase obligations have not accrued in sufficient amounts to ensure that members would always make a temporary use of the Fund's resources. Sometimes, repurchase obligations have accrued at inconvenient times. In order to ensure temporary use, the Fund has had to augment the provisions with policies on repurchase, although it has not been possible to make the policies obligatory in all circumstances. The policies have been simpler and more effective, but concurrent application of both the provisions and the policies has created complications. It has not been possible to resolve them by the waiver of the provisions, because the Fund has no authority to take that action. Article V, Section 7 of the amended Articles eliminates the formulae of the present Articles that govern the accrual of repurchase obligations and the calculation of monetary reserves on the basis of which the obligations arise. The provision largely reflects the supplementary policies on repurchase that the Fund has developed over the years, but it retains certain of the principles underlying the provisions of the present Articles, such as the duty to repurchase on the basis of increases in reserves.

2. The new rules in Article V, Section 7, which apply only to currency held in the General Resources Account, are as follows:

(i) Under subsection (a), a member is entitled, as it is under the present Section 7(a), to repurchase at any time the Fund's holdings of its currency that are subject to periodic charges under Article V, Section 8(b). In this way, a member can be certain that it will be able at any time to terminate its obligation to pay charges. This right may be exercised in respect of holdings of a member's currency that result from purchases or from any other operation or transaction.

(ii) Under subsection (b), a member that has made a purchase will be expected normally to repurchase the Fund's holdings that result from the purchase and are subject to charges under Article V, Section 8 as its balance of payments and reserve position improves. The repurchase should keep pace with the improvement and should not await total recovery from the problem for which the purchase was made. The word "normally" indicates that there may be exceptional circumstances that the Fund will

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recognize as justification for not repurchasing according to the criterion of improvement in the balance of payments and reserve position. That criterion is a combined one that can be satisfied if the improvement in one element compensates for a slower improvement in the other. The expectation that repurchase will be made according to the criterion is not an obligation, but observance of it would be relevant to the member's relations with the Fund. If, in the opinion of the Fund, the member has failed to repurchase in accordance with the criterion, the Fund, after consultation with the member, may represent to the member that it should repurchase, whereupon the member will be under an obligation to make the repurchase. The representation would be made in accordance with general policies adopted by the Fund with respect to repurchase.

(iii) In addition to the expectation and obligation with respect to repurchase as a member's balance of payments and reserve position improves, the member has an obligation under subsection (c) to repurchase not later than five years from the date of a purchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Article V, Section 8. This period for repurchase is the one that the Fund has regarded as basic for many years. The Fund may prescribe that repurchase shall be made in installments beginning three years, and ending five years, after the purchase. A member must discharge its obligation under subsection (c) even if its balance of payments and reserve position has not improved. The Fund, by an eighty-five percent majority of the total voting power, may change the maximum period for repurchase by all members under subsection (c), either by lengthening or by shortening it. The Fund may decide, by the same high majority, that all members shall repurchase by installments beginning sooner, or later, than three years after a purchase. The Fund may determine the installments in which repurchase shall be made during the period of three to five years, or within a different period substituted for this period, by a majority of the votes cast. The Fund may adopt general policies on the spacing of installments within the general periods. These policies may permit different schedules of installments for different circumstances, including the different circumstances of particular members, as is the present practice.

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(iv) Subsection (c) applies to the Fund's policies on the use of its resources in the credit tranches. Under subsection (d), the Fund may decide, by an eighty-five percent majority of the total voting power, that the periods for repurchase under special policies on the use of its resources shall be other than the three to five years, or the periods substituted for them, that apply to the credit tranche policies. The periods may differ as among special policies, but they must be the same for all members under any one policy. Examples of special policies on the use of the Fund's resources are the oil facility and the extended Fund facility, for which repurchase periods different from those that apply to the credit tranche policies are already in effect.

(v) Article V, Section 7 does not prescribe a period for the repurchase by members of the Fund's holdings of their currencies that are not acquired as a result of purchases (e.g., as a result of the payment of charges) and are subject to charges under Article V, Section 8(b)(ii). Instead, the Fund is required by subsection (e) to adopt policies on the repurchase of these holdings. These policies can be adopted by a seventy percent majority of the total voting power. The policies need not be the same for all the ways in which currency is acquired, but the policies adopted for any particular kind of acquisition will be applicable in the same way to all members.

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(vi) Subsection (f) provides that if the Fund prescribes a period for repurchase in respect of the use of its resources under its credit tranche policies that is shorter than the period in effect under subsection (c), the new period can be applied only to holdings obtained by the Fund under the policies after the effective date of the decision adopting the new period. If the period is longer, the Fund may apply it to holdings already acquired under the policies. These principles apply whether the change is made in the date at which the first installment is payable or in the period by which repurchase must be completed. The same principles apply to changes in periods for repurchase in effect under subsection (d) in respect of purchases under special policies. Subsection (f) protects members against the application of more stringent repurchase obligations to purchases already made, but the Fund is authorized to give members the benefit of more lenient repurchase obligations by applying them to outstanding purchases.

(vii) Under subsection (g) the Fund is authorized to postpone, on the request of a member, the date for the discharge by the member of a repurchase obligation or any installment that is due. Under this authority, the Fund, by a majority of the votes cast, can extend the period for the discharge of a member's repurchase obligation incurred in respect of a purchase, but not beyond the maximum period for repurchase in respect of the purchase under subsection (c) or (d), as the case may be, or under the Fund's policies for the repurchase of balances not acquired by purchase (subsection (e)). The Fund can postpone the date of the discharge of a repurchase obligation with respect to purchases beyond the maximum period under the applicable subsection only if the Fund determines that discharge on the due date would result in exceptional hardship for the member and if the longer period for repurchase would be consistent with the temporary use of the general resources of the Fund. A decision to postpone in these circumstances requires a seventy percent majority of the total voting power.

(viii) The Fund may adopt policies supplementing those adopted under Article V, Section 3(d) for the sale of those holdings of a member's currency that have not been repurchased in accordance with the member's obligation (subsection (h)). The Fund must consult with the member before

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any such sale in order to enable the member to explain the delay and possibly arrange a new date for the repurchase that is overdue. The member cannot veto the sale of the member's currency if the Fund decides to sell it more promptly than would be justified according to the criteria in Article V, Section 3(d). The sale is without prejudice to other actions that are available to the Fund because of the member's failure to perform its repurchase obligation. These actions include the imposition under Article V, Section 8(c) of higher charges on the holdings that should have been repurchased and a declaration, under Article V, Section 5 or Article XXVI, Section 2(a), of ineligibility to use the Fund's general resources.

(ix) Subsection (i) provides that repurchases must be made with special drawing rights or with the currencies of other members specified by the Fund. The selection of currencies to be used in repurchase will be based on policies and procedures that the Fund will have to adopt. The policies and procedures must take account of the principles governing the selection of currencies to be used in purchases under Article V, Section 3(d). These principles take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions among members in the Fund. No distinction will be made between the currencies of members that have accepted the obligations of Article VIII, Sections 2, 3, and 4 and the currencies of members that have not yet done so. The Fund's holdings of the currency of a member that is used in repurchase may not be increased by repurchase above the level at which they would be subject to charges under Article V, Section 8(b)(ii).

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(x) Under subsection (j), which parallels the provisions of Article V, Section 3(e) on the exchange of currencies purchased from the Fund, the issuer of a currency that has been specified by the Fund for use in a repurchase and is not a freely usable currency has the obligation to ensure that the repurchasing member can obtain the necessary amounts of the currency in exchange for a freely usable currency selected by the issuer of the currency at a rate of exchange between the currencies that is consistent with Article XIX, Section 7(a). This obligation applies only if the repurchasing member requests the exchange at the time of the repurchase. A repurchasing member wishing to obtain the currency of a member that is not freely usable for use in repurchase must obtain it from the issuer of that currency, unless the two members agree on some other arrangement. If the currency to be used in repurchase is freely usable, the repurchasing member must obtain it from the issuing member only if requested to do so by the issuing member. The exchange will be made at a rate of exchange that is consistent with Article XIX, Section 7(a). The Fund will adopt regulations to determine which currency should be made available by a repurchasing member in exchange for a freely usable currency to be used in repurchase. It may be expected that the regulations will provide that the two members involved would be able to agree on the

currency to be made available by the repurchasing member and that the Fund would be called upon for a determination only if the two members could not agree. All exchanges that are requested pursuant to Article V, Section 7(j) must be carried out promptly, as explained in Chapter D, section 11. In addition to the obligation as described above, each member whose currency has been specified by the Fund for use in a repurchase by another member, whether the currency is freely usable or not, must collaborate with the Fund and other members to enable the repurchasing member to obtain, at the time of repurchase, the necessary amounts of the specified currency in exchange for the freely usable currencies of other members.

(xi) Members are not permitted to repurchase with gold unless the Fund, by an eighty-five percent majority of the total voting power, decides to accept gold in repurchases (Article V, Section 12(d)). Any such payment would have to be at a price agreed for each transaction on the basis of prices in the market.

Transitional provisions on repurchase

2494 3. The transitional provisions of paragraphs 1 to 5 of Schedule B deal with the repurchase of currency acquired by the Fund under the present Articles and held by it on the date of the second amendment. Repurchase obligations that have accrued under Article V, Section 7(b) of the present Articles before the date on which the second amendment takes effect, but remain undischarged at that date, must be discharged not later than the dates that apply to them under the provisions of the present Articles that gave rise to these obligations. Currency held by the Fund in excess of seventy-five percent of quota on the date of the second amendment resulting from purchases made before that date but not subject to accrued obligations under Article V, Section 7(b) of the present Articles must be repurchased in accordance with the policy under which the purchase was made. Other holdings in excess of that level and not subject to accrued obligations, such as holdings that result from the payment of charges by a member in its own currency, must be repurchased not later than four years after the date of the second amendment. The provisions with respect to the calculation of repurchase obligations under the present Articles will not apply to currency held at the date of the amendment that are not the subject of accrued obligations at that date. The transitional arrangements are designed to deal equitably among all members in connection with the repurchase of holdings subject to repurchase under the present Articles.

4. With respect to the assets to be used in making the repurchases referred to in 3 above, it is provided that repurchase obligations that accrued in gold shall be discharged with special drawing rights, but the Fund may prescribe that payment can be made, in whole or in part, in

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the currencies of other members specified by it on the basis of SDR 35 per ounce of fine gold and the value of currencies in terms of the special drawing right at the date of discharge. A nonparticipant in the Special Drawing Rights Department may discharge a repurchase obligation that accrued in gold with the currencies of other members specified by the Fund. Other repurchases must be made in the assets acceptable to the Fund in repurchase under the amended Articles.

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F. Charges (Article V, Section 8)

1. Article V, Section 8 of the present Articles makes express provision for three types of charges: a service charge on the purchase by a member of currencies of other members in exchange for its own currency, a handling charge that may be levied on purchases of gold from, or sales of gold to, the Fund, and periodic charges on a member's currency held by the Fund in excess of quota. In addition, the Fund levies, under decisions it has adopted, a commitment charge in respect of stand-by arrangements and extended arrangements, which, however, is credited against service charges on purchases under these arrangements. Under Article XXV, Section 7(g) of the present Articles the Fund has authority to impose reasonable charges uniform for all participants on operations and transactions in special drawing rights conducted through the General Resources Account, but the Fund has not levied charges under this provision. Under Article XXV, Section 7(f) of the present Articles the Fund, by agreement with a participant, may use special drawing rights held in the General Resources Account in any operations or transactions authorized by the Articles. This provision enables the Fund to sell special drawing rights to a participant when the Fund can sell the currency of another member to the participant under Article V, Section 3(a). In these transactions, the Fund has levied a service charge under Article V, Section 8(a).

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2. Under the present Articles, a member buying the currency of another member from the Fund in exchange for its own currency is required to pay, in addition to the parity price, a service charge of not less than one-half of one percent and not more than one percent as the Fund may determine. The present service charge is one-half of one percent. The Fund has the power to reduce the service charge to a level below one-half of one percent, including the level of zero, on gold tranche purchases. Under a decision adopted in 1969, the Fund has reduced the service charge to zero on these purchases.

3. Under Article V, Section 8(a)(i) of the amended Articles a service charge is levied at a uniform rate on the purchase by members of special drawing rights as well as on the purchase of another member's currency held in the General Resources Account in exchange for the purchaser's own currency. This provision corresponds in effect to the practice under the present Articles, but is simpler in relation to sales of special drawing rights because these sales do not rest on the assumption that the transaction is substituted for a sale of currency. The Fund has no authority under the amended Articles to levy charges on other operations or transactions of the Fund involving special drawing rights.

4. The Fund has authority to determine the rate of the service charge subject only to one limitation: the charge on reserve tranche purchases may not exceed one-half of one percent. The Fund continues to be able to levy a service charge on reserve tranche purchases that is lower than the charge on other purchases or to dispense altogether with a service charge

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on reserve tranche purchases. The service charge on purchases of special drawing rights in return for the purchasing member's currency must be the same as that levied on purchases of currencies.

5. Under Article V, Section 8(a)(ii), the Fund is expressly authorized to levy a charge for stand-by and similar arrangements. The levy of such a charge is discretionary. In addition, it is left to the Fund's discretion to offset this charge against the service charge levied on purchases under the arrangement.

6. There is no provision in the amended Articles authorizing the Fund to levy a handling charge on purchases of gold from it or on sales of gold to it, because any transactions in gold that the Fund may undertake pursuant to Article V, Section 12(c) or (d) will be at prices agreed for each transaction on the basis of prices in the market. A handling charge, therefore, can be incorporated in the price.

7. The provisions of the amended Articles dealing with the charges that the Fund must levy on its average daily balances of members' currencies held in the General Resources Account in excess of a certain level differ from the corresponding provisions of the present Articles. Under the present Article V, Section 8(c), the Fund is required to levy periodic charges on the average daily balances of a member's currency in excess of quota. The rates are those set forth in the Articles or prescribed by the Fund under a decision taken by a seventy-five percent majority of the total voting power. Under Article V, Section 8(b) of the amended Articles, the Fund is required to levy charges on its average daily balances of a member's currency in the General Resources Account, but this provision does not apply to holdings of currency in the Special Disbursement Account or in the Investment Account. Charges must be levied on holdings in the General Resources Account to the extent that these balances (i) have been acquired under a special policy on the use of the Fund's resources that has been the subject of a decision under Article XXX(c), i.e., holdings that are excluded when determining whether a purchase is a reserve tranche purchase, or (ii) exceed the member's quota after deducting holdings acquired by the Fund under a policy that has been the subject of a decision under Article XXX(c). In other words, charges must be levied on holdings acquired as a result of the special policies that are referred to in Article XXX(c) and on other holdings to the extent that they are in excess of a member's quota. Article XXX(c) allows the Fund to take decisions to exclude holdings resulting from purchases under the compensatory financing or buffer stock financing facilities, as well as holdings resulting from purchases under other policies that the Fund decides, by an eighty-five percent majority of the total voting power, to treat in the same way.

8. One consequence of the provisions referred to in 7 above is that charges will be payable on balances of a member's currency acquired by the Fund as a result of purchases under a policy that is the subject of an exclusion under Article XXX(c) even though the Fund's total holdings in the

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General Resources Account are less than the member's quota. A deduction for an amount equal to the balances subject to exclusion will be made, however, from the currency held above the member's quota when determining the balances above quota that are subject to charges under Article V, Section 8(b)(ii).

9. Article V, Section 8 requires that "normally" the rates of charge on balances of currency should rise during the period in which the balances are held. The word "normally" indicates that the Fund can determine, in some circumstances, rates of charge that would not progress over time. That is to say, it is not mandatory that there shall be a progression of the periodic rates over time, as is required under the present provisions, although it is assumed that a progression will be the normal practice. There is no requirement that the rates of charge must progress according to the proportion by which the Fund's holdings of a member's currency exceed its quota. This progression was a feature of the Fund's practice for many years, but it was eliminated in 1974. It continues to be a requirement of the Articles that the rates of charge must be uniform for all members under a policy on the use of the Fund's resources. A seventy percent majority of the total voting power is necessary for the determination of rates of charge, instead of the seventy-five percent majority required by the present Articles.

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10. Under Article V, Section 8(c), if a member fails to make a repurchase in accordance with its obligations, the Fund may decide, by a seventy percent majority of the total voting power, to impose such charges as it deems appropriate on its holdings of the member's currency that should have been repurchased. Before imposing such charges, the Fund must consult with the member on the reduction of the Fund's holdings of its currency. Any charges that the Fund may impose under this provision are not subject to the requirement of uniformity. This provision of the amended Articles represents a simplification of the rules of the present Articles with regard to the charges that the Fund may apply if a member makes an unjustifiably protracted use of the Fund's resources. Under the present Articles, the Fund may apply such charges as it deems appropriate, which normally means charges at levels that provide an incentive for the member to repurchase, only when, through progression over time, the rates of charge have reached certain levels. Under the amended Articles, the power to apply charges that will encourage a member to repurchase is tied not to any rate of charge but to a failure to repurchase at the proper time. The power enables the Fund to provide an incentive for repurchase by means of higher charges.

11. The Fund has no power to levy charges on transactions in which it agrees under Article V, Section 6 to buy or sell special drawing rights in transactions with a member in return for the currency of another member. These transactions involve no element of "credit" for the member engaging in the transaction.

12. All charges must be paid in special drawing rights, but in exceptional circumstances the Fund can permit a member to pay in the currencies of other members specified by the Fund after consultation with them,

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or in the member's own currency. The concurrence of other members is not required, because it is necessary to be sure that charges can and will be paid with reserve assets. Examples of exceptional circumstances may be the inability of a member to pay in special drawing rights because it is not a participant or a prescribed other holder, or because it has an insufficient amount of special drawing rights. The Fund may not accept payment of charges by a member in the currency of another member in an amount that would increase the Fund's holdings of that currency above the level at which the other member would have to pay charges. Gold is eliminated as an obligatory medium for the payment of charges, but under Article V, Section 12(d) the Fund may decide, by an eighty-five percent majority of the total voting power, to accept gold instead of special drawing rights or currency in payment of charges if a member wishes to pay in gold. The payments made in gold would be made at a price agreed for each operation on the basis of prices in the market.

13. The provisions of the amended Articles with regard to charges apply to all balances of currency held by the Fund after the effective date of the amendment that fall within the two categories subject to charges under Article V, Section 8(b), whether these balances were acquired as a result of transactions that took place before or after the effective date of the amendment. Therefore, a member will have to pay charges on balances of its currency acquired by the Fund before the effective date of the amendment as a result of purchases in respect of which an exclusion is made under Article XXX(c) even if the total amount of the Fund's holdings of that currency in the General Resources Account is less than the member's quota. It also follows that a member will no longer be subject to charges on balances of its currency acquired by the Fund as a result of reserve tranche purchases made before the amendment, whether or not the Fund's holdings exceed the member's quota. Charges are payable at the rates in effect on the date of the amendment until they are changed by decisions taken under the amended Articles (Schedule B, paragraph 6). The Fund will have to take prompt action to determine rates of charge on holdings that have been acquired under a policy that is the subject of an exclusion under Article XXX(c) but have not been subject to charges under the present Articles because the Fund's total holdings of a member's currency have not exceeded its quota.

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C. Remuneration (Article V, Section 9)

1. There are important differences between the provisions on remuneration in the present Articles and those in the amended Articles. Under the existing provisions, remuneration is paid on the amount by which seventy-five percent of a member's quota exceeds the average daily balances of the member's currency held by the Fund. The rate is set in the present Articles at one and one-half percent per annum, but the Fund is able to increase or reduce this rate, subject to the condition that an increase above or a decrease below specified limits requires a three-fourths majority of the total voting power. Remuneration is payable in gold or in a member's own currency, as determined by the Fund, but the Fund and a participant may agree that payment may be made in special drawing rights.

2. Under the provisions of Article V, Section 9 of the amended Articles, remuneration is payable on the amount by which a specified percentage of a member's quota, which could be between seventy-five and one hundred percent of quota, exceeds the average daily balances of the member's currency held in the General Resources Account of the Fund, other than balances of that currency acquired under a policy that has been the subject of a decision on exclusion under Article XXX(c).

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3. Balances of a currency acquired as a result of "excluded" purchases under Article XXX(c) do not enter the calculation of holdings on which remuneration is paid in order to prevent the inequitable treatment of the member that would result from the requirement, under the amended Articles, that it must pay charges on balances acquired by the Fund as a result of "excluded" purchases even though the Fund's total holdings of the member's currency in the General Resources Account are less than the member's quota. If the exclusion from holdings were not made for the purpose of the calculation under Article V, Section 9, the member would receive a reduced amount of remuneration because of the balances resulting from these purchases, while at the same time it would be paying charges on these balances.

4. Under Article V, Section 9(b) remuneration will be payable to a member if the average daily balances of the member's currency held in the General Resources Account (other than those that are excluded) are below a percentage of the member's quota determined as follows:

(a) For each member that joined the Fund before the amendment, the applicable percentage will correspond to

- (i) seventy-five percent of its quota on the date of the amendment; plus
- (ii) the amounts that the member has paid to the Fund in its own or another currency or in special drawing rights as subscriptions on increases in its quota under Article III, Section 3(a) after the amendment; and minus

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- (iii) any amounts that it has received from the Fund in its own or another currency or in special drawing rights in connection with a reduction in its quota under Article III, Section 3(c) after the amendment.

(b) For a member that joined the Fund after the date of the amendment, the determination will be made on the same basis as for other members, with the exception that the seventy-five percent of quota referred to in (a)(i) above will be replaced by a percentage based on a weighted average of the percentages of quotas that are applicable to the other members on the date on which the member joined the Fund.

5. The Fund, acting by a seventy percent majority of the total voting power, can raise the latest percentage of quota that is being applied for the purpose of computing remuneration to a new level not in excess of one hundred percent of quota. Under this power, the Fund may increase a percentage to a higher percentage for each member according to a formula or principle that may result in different levels among members, provided that these new percentages of quota for individual members are determined on the basis of the same criteria for all members. An example of a criterion for this purpose would be the determination of a higher level by taking into account that portion of the amounts of currency paid by members in exchange for gold sold to them by the Fund under Article V, Section 12(c) or (e) that represents the capital value of the gold. The Fund may also prescribe one hundred percent of quota as the applicable percentage of quota for all members. The power of the Fund to raise, but not to lower, the applicable percentage of quota and also to set it irreversibly at the quota level for all members suggests the possibility that eventually the same level as is applicable for other purposes under the amended Articles may apply to the calculation of remuneration. The reason why the level of quota is not adopted at once is that such a solution would impose too heavy a financial burden on the Fund for an indeterminate period ahead.

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6. The rate of remuneration must be the same for all members and on all portions of a member's reserve tranche position on which remuneration is paid. The rate may not be more than the rate of interest on holdings of special drawing rights, nor less than four-fifths of that rate. In determining the rate of remuneration, the Fund is required to take into account the rates of periodic charge on the Fund's holdings of currencies, but there is no fixed relationship between the rate of remuneration and the rates of charge. Remuneration is payable in special drawing rights, but either the Fund or the member may decide on payment in the member's own currency. Gold may not be used to pay remuneration, and the Fund has no discretionary authority in this respect, because Article V, Section 12(d) enables the Fund to accept payments in gold by an eighty-five percent majority of the total voting power, but not to make payments in gold.

7. Under paragraph 6 of the transitional provisions of Schedule B, the rate of remuneration at the time of the amendment will remain in effect until modified by a decision taken under the amended Articles. The calculations for determining whether and in what amounts remuneration will be payable will be made, however, on the basis of the percentages of quota specified by or under Article V, Section 9(b) or (c) of the amended Articles and on the basis of the average daily balances of currency in the General Resources Account to be taken into account pursuant to Article V, Section 9(a).

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H. Rates for Computations and Maintenance of Value (Article V, Sections 10 and 11)

1. Under Article IV, Section 1 of the present Articles, all computations involving the currencies of members for the purpose of applying the provisions of the Articles must be made on the basis of par values, i.e., the values of currencies in terms of gold. This rule applies to all calculations under the present Articles, including those relating to exchange rates and margins around parity for exchange transactions, as well as those relating to the operations and transactions of the Fund. If the par value of any currency is not being maintained, the Fund determines the gold value of the currency in accordance with Article IV, Section 8 for the purpose of applying the provisions of the Articles. This value is the rate at which the Fund accounts for its holdings of the currency and makes all calculations for conducting its operations and transactions in that currency. In the last few years, the rates applicable under Article IV, Section 8 have been based on the gold value of the special drawing right as specified by Article XXI, Section 2 (i.e., 0.888 671 gram of fine gold per special drawing right) and the rate of each currency in terms of the special drawing right on the basis of Rule 0-3 of the Rules and Regulations. This way of determining gold value for the purpose of applying the provisions of the Articles was adopted by the Fund when members ceased to maintain effective par values for their currencies and there was no longer any member that bought and sold gold freely for the settlement of international transactions.

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2. The provision on computations in the amended Articles (Article V, Section 10) is different in two respects: First, it declares expressly that computations must be made in terms of the special drawing right on the basis of the rates for each currency determined for the purposes of transactions in special drawing rights. This aspect of the rule is in conformity with the objective of reducing the role of gold and making the special drawing right the principal reserve asset in the international monetary system. Second, the provision does not apply to computations relating to exchange rates and margins for exchange transactions under Article IV and Schedule C. One reason for this exception is that under the provisions relating to par values the common denominator need not be the special drawing right. The basic rule in the provision applies, however, to all other computations under the Articles, such as those relating to quotas, subscriptions, operations and transactions of the Fund, and maintenance of the value of the currencies of members held in the General Resources Account.

3. In line with the role of the special drawing right and its use for computations under the amended Articles, Section 10(a) of Article V

provides that the value of the assets of the Fund in the General Department must be expressed in terms of the special drawing right. This provision means that all assets that have a monetary value, including gold, must be accounted for by the Fund in terms of special drawing rights.

4. Article V, Section 11(a) provides that the value of the currencies of members held in the General Resources Account, i.e., all currencies held in the General Department except those held in the Special Disbursement Account and in the Investment Account, must be maintained in terms of the special drawing right in accordance with rates under Article XIX, Section 7(a). This requirement creates an obligation of adjustment for members when a currency depreciates, and for the Fund when a currency appreciates, in terms of the special drawing right. The members will pay more of their currency to the Fund on a depreciation, and the Fund will return some of their currency on an appreciation. The requirement of maintenance of value will continue to apply to (a) securities that have been substituted for currency in the General Resources Account under Article III, Section 4, and (b) accounts receivable or payable by the Fund in connection with its General Resources Account, i.e., amounts in currency that are due and payable, which will be deemed to be currency held in the General Resources Account for the purposes of maintenance of value.

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5. The calculations for determining whether an adjustment is necessary in order to maintain the value of the Fund's holdings of a currency in the General Resources Account will be made on the basis of the exchange rates for that currency in terms of the special drawing right as determined in accordance with Article XIX, Section 7(a) for the purposes of transactions. If any such calculation shows that the value of the Fund's holdings of a currency has decreased or increased, the obligation of adjustment referred to in 4 above will have to be discharged by the payment of currency to or by the Fund.

6. Under Section 11(b) an adjustment in the Fund's holdings of a member's currency in the General Resources Account will have to be made immediately on the occasion of the use of the currency in an operation or transaction between the Fund and another member (e.g., a sale of the currency or its use in repurchase). The Fund is authorized to decide on adjustments on other occasions, for example when it repays a loan to a non-member with a member's currency, and adjustments will be made at any time at the member's request. The adjustment is made with respect to all of the Fund's holdings of that currency in the General Resources Account. The purpose of this requirement is to ensure that the Fund's holdings of a member's currency are valued at a realistic rate when that currency is used in an operation or transaction involving another member, and in order to ensure that the Fund does not suffer an exchange loss or make an exchange profit with respect to its holdings of currencies in the General Resources Account.

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7. Adjustment of the rate at which the Fund accounts for a currency in accordance with Section 11 will establish a claim of the Fund for additional currency or a claim of a member for the return of currency, and will have to be followed by settlement within a reasonable period. What constitutes a reasonable period will be determined by the Fund.

8. The amended Articles do not contain a provision similar to Article IV, Section 8(d) of the present Articles, under which the Fund can decide not to call for additional amounts of currency or not to return amounts of currency on the occasion of uniform proportionate changes in the par values of all currencies. A provision of this kind is no longer necessary because, under the amended Articles, maintenance of the value of the Fund's holdings of currencies in the General Resources Account will be determined on the basis of the exchange rates used for transactions involving special drawing rights. Furthermore, the Fund may make uniform proportionate changes in all par values under Schedule C, paragraph 11 if the special drawing right is the common denominator and the changes do not affect the value of the special drawing right (Chapter C, section 13).

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I. Gold (Article V, Sections 11 and 12; Article VIII, Section 7; Schedule B, paragraphs 2, 3, and 7; Schedule C, paragraph 1; Schedule K, paragraphs 1 and 2)

1. The role of gold in the international monetary system has been both central and pervasive under the present Articles of Agreement. The amendment makes numerous changes and contains a comprehensive set of new provisions that in combination are designed to achieve the objective of the gradual reduction of the role of gold in the system. The most important changes in the Articles, which are discussed in detail below, are:

- (a) the elimination of the function of gold as the common denominator of the par value system and as the unit of value of the special drawing right;
- (b) the abolition of the official price of gold;
- (c) the abrogation of obligatory payments in gold by members to the Fund and by the Fund to members, and the necessity for decisions taken with a high majority of the total voting power to enable the Fund to accept gold in payments;
- (d) the requirement that the Fund complete the disposition of fifty million ounces of gold;
- (e) the authorization of the Fund to dispose of the remainder of its gold holdings and to place the "profits" in a special account;
- (f) the requirement that the Fund, in its dealings in gold, avoid the management of the price, or the establishment of a fixed price, in the gold market; and
- (g) the undertaking of members to collaborate with the Fund and with other members with respect to reserve assets so that better international surveillance of international liquidity and the role of the special drawing right as the principal reserve asset in the international monetary system will be promoted.

In addition, consequential or related changes are made in various other provisions.

2. Under Article IV, Section 1(a) of the present Articles, gold is the common denominator in terms of which the par values of the currencies of members must be expressed. Under the amended Articles

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there will be no par values unless the Fund determines in accordance with Article IV, Section 4 that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. When the Fund takes that decision, par values will be expressed in terms of the special drawing right or such other common denominator as the Fund may prescribe, but neither gold nor a currency can be prescribed as the common denominator (Schedule C, paragraph 1). Similarly, the definition of the unit of value of the special drawing right in terms of gold in the present Articles has been eliminated. The Fund is authorized to adopt decisions on the method of valuation of the special drawing right (Article XV, Section 2).

3. The amended Articles, unlike the present Articles, do not prescribe the price at which members may deal in gold, and therefore the limitations in Article IV, Section 2 and Article V, Section 6 of the present Articles on the freedom of members to enter into gold transactions among themselves or in the market are abrogated. Both the Fund and members are subject, however, to requirements reflecting continued international concern with official dealings in gold, as described in 8 below. The objective set forth in Article V, Section 12(a) of avoiding the establishment of a fixed price for gold is recognized in the last sentences of Article V, Section 12(c) and (d), under which sales of gold by the Fund to a member, or the acceptance by the Fund of payments in gold by a member, would be voluntary on both sides, and would have to take place at a price agreed for each operation or transaction on the basis of prices in the market. The reference to "price ... on the basis of prices in the market" in these provisions, and the requirement under Article V, Section 12(a) that the Fund be guided by the objective of avoiding the management of the price of gold, impose on the Fund the duty, when entering into operations or transactions in gold, to seek to follow and not to set a direction for prices in the gold market.

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4. Obligatory payments of gold by members to the Fund, and by the Fund to members, are abrogated, with the exception that the Fund is required to sell a specified quantity of gold to members at the present official price under the transitional arrangements described in 6 below and with the exception of the distribution of gold under the provisions on the liquidation of the Fund. The abrogation is achieved by the deletion of references to gold from all other provisions of the existing Articles in which such obligations appear, and by the transitional provisions set forth in Schedule B, paragraphs 2 and 3 under which accrued obligations to pay gold to the Fund must be discharged with special drawing rights, or in the currencies of other members if the Fund prescribes them for this purpose. The computation for determining the amount of special drawing rights or currencies to be paid is to be made on the basis of the gold value of

the special drawing right under the present Articles, i.e., one special drawing right equals 0.888 671 gram of fine gold, and the value of the currencies in terms of the special drawing right on the date of payment.

5. In accordance with the understandings reached in the Interim Committee of the Board of Governors on the International Monetary System (paragraph 6(3) of the Press Communiqué issued by the Committee on August 31, 1975 and paragraph 4 of the Communiqué of June 12, 1975), the Fund is expected to make arrangements, before the effective date of the amendment, that is, on the basis of the present Articles, for the disposal of fifty million ounces of its gold, as follows: (a) one half of this amount will be transferred against payment at the present official price to all members that were members on August 31, 1975 in proportion to their quotas on that date and (b) the other half of this amount will be sold for the benefit of developing members that were members on that date.

6. If the disposal of the fifty million ounces of the Fund's gold referred to in 5 above is not completed by the effective date of the amendment, the Fund is required by a provision of the amended Articles to complete the disposition of the balance. The Fund is bound to make arrangements for this purpose, and a further decision will not be necessary. The provision referred to is Schedule B, paragraph 7, which directs the Fund to dispose of any balance by

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- (a) selling up to twenty-five million ounces, at the present official price, to those members that were members on August 31, 1975, in proportion to their quotas on that date and in exchange for their currencies, and
- (b) selling up to another twenty-five million ounces at a price based on prices in the market and using the proceeds in excess of the capital value (i.e., the balance over the official price of 0.888 671 gram of fine gold per special drawing right under the present Articles) for the benefit of developing members that were members on August 31, 1975. The Fund must transfer directly to developing members a part of the profits or surplus value of the gold that represents the proportion of a developing member's quota on August 31, 1975 to all quotas on that date. The reference to profits or surplus value will enable the Fund to make the transfers required by this provision in an appropriate manner. The profits from the sale of this second twenty-five million ounces that have not been transferred directly to developing members are to be used to provide balance of payments assistance on concessionary terms to developing members with low per capita income.

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7. It is expected that the assistance on concessionary terms to be provided to the developing members with low per capita income from the profits of the sale of a part of the Fund's gold (see last sentence of 6(b) above) will be channeled through temporary arrangements adopted before amendment, such as a Trust Fund administered by the Fund. If, upon termination of these arrangements and the satisfaction of all debts and liabilities of the Trust Fund, any assets remain that could be disposed of by the Fund, these assets will be transferred to the Special Disbursement Account that is described in 8 and 13 below.

8. Under article V, Section 12(c), (d), (e), (f), and (g), the Fund is given a range of powers with respect to gold that it can exercise by an eighty-five percent majority of the total voting power (except for the power in (b)(i) below). The powers include those set forth below.

- (a) The Fund will be able to sell at the present official price any part of the balance of the gold held on the date of the amendment, that is, the gold left after the disposition of the fifty million ounces referred to in 5 and 6 above, to those members that were members on August 31, 1975, in proportion to their quotas on that date and in exchange for their currencies (Section 12(e)). Sales under subsection (e) and distributions under subsection (f)(iii) to a member would be suspended while the member was ineligible under Article V, Section 5 to use the resources in the General Resources Account, unless the Fund decided otherwise.
- (b) The Fund will be able to sell any part of the balance of the gold held on the date of the amendment to members or to others at a price based on prices in the market (Section 12(c)), to transfer a part of the proceeds in excess of the capital value to the Investment Account (Section 12(g)) for investment in accordance with the provisions of Article XII, Section 6(f), and to place the remainder of the proceeds in excess of the capital value in a Special Disbursement Account until used for any or all of the following purposes:
 - (i) to make transfers to the General Resources Account for use in the operations and transactions authorized by the other provisions of the Articles, but these transfers must be for immediate use in order that they will not affect the positions of members as calculated for various purposes under the Articles (Section 12(f)(i));
 - (ii) for the benefit of members in need, on a uniform basis, by using the assets in the Special Disbursement Account in operations and transactions other than those

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authorized by other provisions, provided that the operations and transactions are consistent with the Fund's purposes and are for balance of payments assistance. The Fund may make assistance available, however, on special terms to developing members in difficult circumstances. When making this latter assistance available, the Fund will have to take into account the level of the per capita income of developing members, and may take into account other appropriate criteria as well (Section 12(f)(ii)). Balance of payments assistance on concessionary terms can include, for example, subsidies for the payment of charges levied in connection with the use of the resources in the General Resources Account;

- (iii) if the Fund intends to use any of the assets in the Special Disbursement Account in accordance with (ii) above, it may decide to distribute directly to developing members a portion of the assets that the Fund intends to devote to the purpose under (ii) above, on the basis of the relationship that the quota of a developing member bears to the quotas of all members on August 31, 1975 (Section 12(f)(iii)).

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- (c) Instead of making a distribution to developing members of currency in the Special Disbursement Account in accordance with Section 12(f)(iii), the Fund will have the power under Article V, Section 12(e) to sell to these members, at the present official price, a part of the gold held on the effective date of the amendment that, if sold at a price based on market prices, would produce the same amount of profits as would be distributable to these members under Section 12(f)(iii). The Fund will be able to sell the gold to developing members under Section 12(e) only if the Fund has decided that a sale of gold under Section 12(c) is for the purpose of raising proceeds to be utilized under Section 12(f)(ii). If sales have been made under Section 12(c) without the specific intention of raising proceeds for the purpose of Section 12(f)(ii), but the Fund decides later to devote the proceeds to purposes authorized by Section 12(f)(ii), the Fund will be able to transfer currency to developing members under Section 12(f)(iii) but not gold.
- (d) The Fund will have the power to accept payments from a member in gold (Section 12(d)), and to sell the gold so acquired at a price based on prices in the market (Section 12(c)).

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This gold would not be gold held by the Fund on the date of the amendment. Any profits or losses on sales of this gold would be taken into account in determining the Fund's annual income.

Decisions of the Fund to use the profits derived from the sales of gold held on the date of the amendment for the regular operations and transactions of the Fund will require a seventy percent majority of the total voting power, while decisions to use the profits for any of the other purposes described in (b) above will be subject to an eighty-five percent majority of the total voting power (see last sentence of Article V, Section 12(f) and subsection (g)).

9. Before the Fund sells gold under Article V, Section 12(c), it must consult the member for whose currency the gold is sold. If the sale would increase the holdings of the member's currency in the General Resources Account above the level at which they would be subject to charges under Article V, Section 8(b)(ii), the member's concurrence must be obtained before the sale can take place. The member may concur in the retention of its currency in excess of that level in the General Resources Account, or it may require the Fund to exchange for the currency of another member such part of the currency received in the sale as would prevent the increase above the level at which charges would be payable. Any such exchange may be made only after consultation with the member whose currency would be obtained in the exchange (Section 12(c)) and only if the exchange would not increase the holdings of that currency in the General Resources Account above the level at which charges would be payable under Article V, Section 8(b)(ii). The Fund's choice of currency for an exchange would take into account the principles under Article V, Section 7(i) for the selection of currencies to be received in repurchase.

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10. Under Article V, Section 12(a), the Fund must be guided in all its policies and decisions regarding its operations and transactions in gold by the objectives of:

- (a) promoting better international surveillance of international liquidity,
- (b) making the special drawing right the principal reserve asset in the international monetary system, and
- (c) avoiding the management of the price, or the establishment of a fixed price, in the gold market.

Members undertake on their part, pursuant to Article VIII, Section 7, to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets (including gold,

special drawing rights, and currencies held in monetary reserves) will be consistent with the objectives set out in (a) and (b) above.

11. Under Article V, Section 11, the value of the currencies held by the Fund in its General Resources Account must be maintained in terms of the special drawing right. Under the present Article IV, Section 8, that value must be maintained in terms of gold.

12. Gold held by the Fund at the time of liquidation would continue to be used as an asset of the Fund for meeting the Fund's liabilities at a value based on prices in the market (Schedule K, paragraph 1). After the discharge of the Fund's liabilities, the Fund would distribute its holdings of gold as follows:

- (a) An amount of gold corresponding to any unrealized appreciation on any gold remaining of the Fund's holdings on August 31, 1975 would be distributed to those members that were members on that date in proportion to their quotas on that date (Schedule K, paragraph 2(a)(i)). The appreciation would be calculated by comparing the value of the gold at the present official price and its value on the date of liquidation. Any such distribution would be separate from, and would not affect, any other distribution in respect of amounts due to members (Schedule K, paragraph 2(d)(i)).
- (b) The remaining gold holdings of the Fund would be distributed to members whose currencies in the General Resources Account and in the Investment Account (Article XII, Section 6(f)(vii)) were held by the Fund in total amounts less than their quotas, in proportion to, but not in excess of, the amounts by which their quotas exceed the Fund's holdings of their currencies in the two accounts (Schedule K, paragraph 2(b) and Article XII, Section 6(f)(vii)). Assets other than currency held in the Investment Account would be treated as currency according to rules adopted by the Fund under Article XII, Section 6(f)(vi).
- (c) If there should remain any gold holdings of the Fund after these distributions, they would be divided, together with the remainder of the Fund's currency holdings, among all members in proportion to, but not in excess of, the amounts due to them (Schedule K, paragraph 2(d)(i)). If there should remain any gold in the hands of the Fund after all these steps had been completed, the assets (including gold) would be distributed to all members in proportion to their quotas (Schedule K, paragraph 2(d)(i)).

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For the purposes of all the distributions referred to above, gold would be valued in accordance with a price determined by the Fund on the basis of prices in the market (Schedule K, paragraph 9).

13. Under Article V, Section 12(f), a Special Disbursement Account will be established as the financial framework for the disposition of the gain realized upon the sale of gold under Article V, Section 12(c). This account will be operated as follows:

- (a) Any gain realized upon the sale of any part of the gold held by the Fund on August 31, 1975 will be placed in the Special Disbursement Account, with the exception of any amounts that the Fund may decide to transfer to the Investment Account pursuant to Article V, Section 12(g). The realized gain will be the difference between the book value of the gold in terms of the special drawing right under the present Articles (i.e., one special drawing right per 0.888 671 gram of fine gold) and its realized value at the time of sale. The Special Disbursement Account will be established in the General Department, and, therefore, the institutional provisions of the Articles that apply to the Fund in general, and to the General Department in particular, will apply to it. The assets in the Special Disbursement Account, however, will be kept separate from the other assets of the General Department, so that the assets in the Special Disbursement Account will not affect computations for the purpose of determining the levels of the Fund's holdings of currencies under the provisions based on those levels (Article V, Section 10). Furthermore, there will be no obligation under Article V, Section 11 to maintain the value of the assets in the Special Disbursement Account in terms of the special drawing right. Members will not be entitled to substitute non-negotiable, non-interest bearing notes under Article III, Section 4 for currency held in the Account.
- (b) When currency held in the Special Disbursement Account is used in accordance with Article V, Section 12(f)(i), that is, for transfer to the General Resources Account for immediate use in the regular operations and transactions of the Fund, the transfer will not affect the level of that currency held in the General Resources Account because of the pre-arranged immediate use. The transfer, however, will provide a basis for capitalization by means of increases in the quotas of members pursuant to Article III, Section 2(b).
- (c) When the assets in the Special Disbursement Account are used in accordance with Article V, Section 12(f)(ii), that is, for

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special operations and transactions, any resulting loan claims will be included in the resources of the Special Disbursement Account, and will produce a flow of repayments and payments of interest to that Account that can be used by the Fund in accordance with the provisions regulating the use of the resources held in the Account.

- (d) Pending use of the assets held in the Special Disbursement Account, the Fund may invest them in accordance with Article V, Section 12(h). The investment can be made in income-producing and marketable obligations of members or of international financial organizations. No investment can be made without the concurrence of the member whose currency is used to make the investment. The obligations must be denominated in special drawing rights or in the currency used to make the investment. The purpose of the investment will be to secure a reasonable return, to be placed in the Special Disbursement Account, and not to give financial assistance to members or to international financial organizations, or, unlike the purpose of the Investment Account, to produce income to meet possible deficits in the operation of the General Resources Account. The income of investment could be used, as in (c) above, in accordance with the provisions regulating the use of the resources held in the Special Disbursement Account.
- (e) Expenses of administration of the Special Disbursement Account will be paid normally from the General Resources Account, which will be reimbursed from time to time by transfers from the Special Disbursement Account on the basis of a reasonable estimate of such expenses. This technique is comparable to the rules for reimbursement that apply under Article XVI, Section 2 with respect to the expenses of the Special Drawing Rights Department.
- (f) The Special Disbursement Account can be terminated at any time by a decision taken by a seventy percent majority of the total voting power, and it would be terminated necessarily on the liquidation of the Fund. If the Special Disbursement Account were terminated on the liquidation of the Fund, the assets held in it at that time would be distributed to those members of the Fund that were members on August 31, 1975, in proportion to their quotas on that date. The distribution of each type of asset would be made in proportion to the quotas of those members on that date (Schedule K, paragraph 2(a)(ii)). If the Special Disbursement Account is terminated while the Fund continues in operation, the assets in the account will be added gradually to the General

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Resources Account for immediate use, as under (b) above. The Special Disbursement Account would be kept in existence solely in order to permit transfers to be made to the General Resources Account. The Special Disbursement Account would be closed when no assets remained in it. If the Investment Account is terminated or the amount of the investment is reduced prior to the termination of the Special Disbursement Account and the liquidation of the Fund, a portion of the assets available for disposition, in the proportion that the cumulative transfers of funds to the Investment Account under Article V, Section 12(g) bears to the total assets transferred to the Investment Account, will be placed in the Special Disbursement Account.

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J. Replenishment (Article VII, Section 1)

The provisions of the amended Articles on replenishment of the Fund's holdings of currencies in the General Resources Account differ from the provisions of the existing Articles in a number of respects.

1. In order to make it clear that the criterion for replenishment is not the "scarcity" of the currency to be replenished in the sense of the other provisions of Article VII but the Fund's need to obtain additional amounts of a currency for use in present or prospective transactions, the order of Sections 1 and 2 of the present Article VII has been reversed, and the word "scarce" has been omitted from the heading of Section 1 of the new Article VII. In addition, the heading of Article VII has been changed to "Replenishment and Scarce Currencies."

2. The text of what is now Section 1(ii) reflects the change in the roles of gold and the special drawing right under the Articles. The Fund will no longer have the authority to use gold for replenishment. It will have only the power to require a participant to sell to the Fund its currency in exchange for special drawing rights held in the General Resources Account, a power that it has under Article XXV, Section 7(d) of the present Articles. The Fund's authority under the new provision is less extensive than the Fund's power under the present Article VII, Section 2(ii) in various respects:

(a) Only a participant can be required to sell its currency to the Fund in replenishment. The Fund will not be able to require a non-participant to make its currency available in replenishment when that currency is needed in connection with the transactions of the Fund.

(b) A participant's obligation to sell its currency for replenishment is subject to the acceptance limit in Article XIX, Section 4, which requires a participant to accept special drawing rights only up to the point at which its holdings are three times its net cumulative allocation or up to such higher point as may be agreed between the participant and the Fund. Although a participant cannot be required to do so, it is able, if it wishes, to accept special drawing rights, and provide currency, in excess of either limit.

(c) The Fund is required to pay due regard to the principles of designation in or under Article XIX, Section 5 and Schedule F. This does not mean, however, that the Fund is legally precluded from replenishing the currency of a participant that could not be designated at the time of replenishment.

3. The Fund will not have to consult with a participant on alternative ways of replenishment, which is mandatory under the present Article XXV, Section 7(d), before requiring the participant to sell its currency for special drawing rights.

4. The Fund will continue to be able to borrow currency for replenishment under Article VII, Section 1(i).

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K. Immunities and Privileges (Article IX, Section 8)

1. Article IX, Section 3 is revised in the light of developments involving international organizations since the present provision became effective. In connection with immunities and privileges, the general tendency has been to cover most or all of the persons involved in the substantial business of an international organization. The provision also takes into account the existence of Committees of the Board of Governors and the provisions authorizing the establishment of the Council. The change consists of broadening the categories of persons who have the benefit of immunities and privileges under the Articles, but without any change in the content of the immunities and privileges.

2. The new categories of persons to whom Article IX, Section 8 applies are members of committees of the Fund, representatives appointed by members under Article XII, Section 3(j), their advisors, and the advisors of Governors, Executive Directors, and Alternates. The rationale of the change is to provide the same immunities and privileges in relation to the Fund's functions for all persons whose attendance at meetings of the Fund is required for the effective operation of the Fund. If the Council is established, Schedule D, paragraph 5(d) would add Councillors, their Alternates and Associates, and any other persons that would have the right to attend a meeting of the Council. They would be entitled to immunities and privileges without the need for further decision by the Fund.

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L. Distribution of Net Income, Reserves, and Investment
(Article XII, Section 6)

1. Article XII, Section 6 of the amended Articles deals with the disposition of the net income of the General Resources Account, the establishment and uses of the general reserve and the special reserve, and the investment of certain assets by the Fund.

2. The present Articles require the Board of Governors to determine annually what part of the Fund's income shall be placed to reserve and what part, if any, shall be distributed to members. 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 two 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 at the end of the year in which the net income was earned. Payments to each member are made in its currency or, at the option of a participant, in special drawing rights under a decision adopted by the Fund under the authority of Article XXV, Section 7(f) of the present Articles, which allows the Fund and a participant to agree on the use of special drawing rights by the Fund in operations and transactions with a participant conducted through the General Resources Account.

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3. Under Article XII, Section 6(a) of the amended Articles, the Fund must make a determination with respect to the net income earned during each year following the end of that year, as is required under the present provisions. The reference in the existing Article XII, Section 6(a) to "reserve" has been replaced by a reference to "general reserve or special reserve" in order to make it clear that net income may be placed to either the general reserve or the special reserve. As is explained in 11 below, a major difference between the two reserves is that the general reserve can be distributed to members but the special reserve can not.,

4. As the rate of remuneration has been raised in practice to more than two percent per annum and it seemed unlikely that it would be reduced below that rate, the provision for the preferential distribution of net income to bring the total of remuneration and distribution up to two percent is not retained. Only the principle of the distribution to all members in proportion to their quotas has been preserved. Under Article XII, Section 6(a) and (d), the Fund is able to make distributions to members not only of the net income of the immediately preceding year, but also of the general reserve, which consists of the accumulation of the Fund's undistributed net income of the General Resources Account earned in earlier years. The general reserve is available for meeting operational or administrative losses or expenses, as well as for making distributions.

5. Under the present Articles, members that had had positions in a past year that would have entitled them to a preferential distribution of net income but for the fact that the Fund did not make a preferential distribution or a full preferential distribution for that year, retained the right

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to the preferential distribution if the Fund were to decide on a later date to distribute the net income of the earlier year. This preferential right is not retained under the amended Articles, so that it becomes unnecessary to determine what remains of the undistributed net income of each of the preceding years. This determination would have been difficult if it had ever been necessary, because various amounts have been charged against the general reserve without allocating the resulting reductions in the reserve against the net income of specific years.

6. Any distribution of net income or of the general reserve will be made on the basis of quotas at the time of distribution. The assets in which distributions must be made are governed by Section 6(e). The payments to each member under a distribution must be made in special drawing rights, but a member or the Fund may decide that the payment to the member will be made in its currency. This power would enable the Fund to make a distribution in currency to a member that is not a participant, or to all members, if, for example, the Fund considered that the amount of special drawing rights it held in the General Resources Account should not be depleted.

7. Decisions regarding the disposition of the Fund's net income or the distribution of the general reserve are no longer reserved to the Board of Governors, as they are under the existing Articles. The decisions can be taken by the Executive Board. Decisions to make distributions from the general reserve require a seventy percent majority of the total voting power (Section 6(d)). Decisions to place net income to either reserve or to distribute net income that has not yet been placed to reserve may be taken by a majority of the votes cast.

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8. The special reserve is available for all but one of the uses that can be made of the general reserve, e.g., to meet administrative or operational expenses of the Fund, including the expenses involved in the payment of remuneration. The exception is distribution to members (Section 6(b)).

9. In 1956, faced with a continuous excess of the Fund's expenditure over income, the Fund initiated an investment program under a decision of the Executive Board based on an interpretation of the Articles under the present Article XVIII. According to this interpretation, the Fund had an implied power to sell part of its gold and invest the proceeds in United States Government securities in order to make good the impairment of capital that had resulted from an accumulation of administrative deficits. Gold was used for the purpose of the investment because this use would not change the Fund's holdings of currencies and therefore would not affect the rights and obligations of members that are determined by the levels of the Fund's holdings. Certain legal difficulties arising under the present Articles impeded the investment of the Fund's holdings of currencies. Investment of the proceeds of the sale of gold was subject to certain conditions, such as the necessity for the Fund to retain the right to reacquire the gold.

10. After the elimination of the deficit, the Executive Board amplified the original decision on investment in order to provide a reserve against possible future deficits of the same character. Under the new decision, the income of the investment was placed to a special reserve. Any administrative deficit for any fiscal year of the Fund was to be written off first against this reserve. Although the amount of income was placed to a special reserve, the United States dollars received as income of the investment were not kept separate from the Fund's other holdings of dollars, and therefore they affected the position of the United States in the Fund under various provisions.

11. Under the decisions governing the investment, the income was credited directly to the special reserve and did not enter into the calculation of the Fund's "net income." As a result, it could not be distributed under Article XII, Section 6(b) of the present Articles.

12. Article XII, Section 6(f) of the amended Articles, in creating express authority for the Fund to undertake investment, avoids the difficulties occasioned by the legal limitations of the present Articles. Investment under the provision is distinct from the investment of currencies held in the Special Disbursement Account, which the Fund may undertake pursuant to Article V, Section 12(h).

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13. Article XII, Section 6(f)(i) authorizes the Fund to establish an Investment Account in the General Department. The decision to establish this Account can be taken by a majority of the votes cast. The assets in the Investment Account must be held separately from the General Resources Account. Therefore, the assets of the Investment Account will not be usable in any of the operations and transactions of the Fund, except those provided for in Section 6(f), and their value will not be covered by the provision on maintenance of value in terms of the special drawing right (Article V, Section 11). Under Article III, Section 4, members will not be entitled to substitute non-negotiable, non-interest bearing notes or similar obligations for the currency in the Investment Account that, in the judgment of the Fund, is not needed for the purpose of investment or for use in meeting the expenses of conducting the business of the Fund in accordance with Section 6(f)(iv). It is improbable, however, that there would be substantial amounts of currency that would not be needed for investment or expenses for more than a brief period, although, as noted below, investment cannot be made without the concurrence of the member whose currency is to be used for investment (Article XII, Section 6(f)(iii)). The assets held in the Investment Account, together with all other assets of the Fund, will be covered by the provisions on the immunities and privileges of the Fund in relation to its property and assets.

14. Under Section 6(f)(ii) and (iv), the assets that can be used for investment can be derived from the following sources:

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- (a) the portion of the profits from the sale of the Fund's gold that the Fund may decide to transfer to the Investment Account in accordance with Article V, Section 12(g) by an eighty-five percent majority of the total voting power;
- (b) currencies held in its General Resources Account that the Fund may decide, by a seventy percent majority of the total voting power, to transfer to the Investment Account for immediate investment;
- (c) the income of investment; and
- (d) the proceeds of matured or liquidated investments.

15. No transfer from the profits of gold sales or from the General Resources Account can be made if at the time of the decision to make the transfer the total amounts already transferred from these two sources exceed the total amount of the general reserve and the special reserve. The income of the investment is not taken into account in applying this limit. If the total amount of the investment has been reduced and any of the proceeds returned to the source from which they were obtained originally, as is possible under Section 6(f)(vi), a deduction must be made for the sums returned when establishing how much may be transferred to the Investment Account at any given time. A reduction in the total value of the general and special reserves after the date of transfer does not require a corresponding reduction in the amount of the investment. If, however, the amount of the investment had been reduced at an earlier date, and it was decided at a later date to increase it, the total of the reserves at that later date would determine the maximum amount that could be transferred to the Investment Account.

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16. Investments may be made only in income-producing and marketable obligations of international financial organizations, such as the World Bank or the regional development banks, or of the members whose currencies are used for the investment, including the obligations of their central banks and official agencies. Whether an obligation is marketable is a determination to be made by the Fund. Obligations acquired with a currency must be denominated in that currency or in special drawing rights. As noted already, no investment may be made without the consent of the member whose currency is invested. Investments may be renewed or sold before maturity, however, without the consent of the issuer of a currency.

17. Income from investment may be invested, held in the Investment Account, or used to meet current expenses of the Fund, including both operational and administrative expenses. To enable the Fund to use the income to meet expenses, Section 6(f)(v) authorizes the exchange of the currencies held in the Account for the currencies needed for this purpose. The use of the income in this way would reduce or prevent any deficits that the Fund might otherwise incur, or would increase the net income of

the Fund and, therefore, the amounts available as net income for distribution to all members on the basis of quotas under Article XII, Section 6(a).

18. Article XII, Section 6(f)(vi), (vii), (viii), and (ix) govern the disposition of the assets in the Investment Account if the amount of the investment is reduced or the Investment Account is terminated. Under Section 6(f)(vi), the Fund, by a seventy percent majority of the total voting power, may decide to reduce the amount of the investment or terminate the Investment Account, and by the same majority it may adopt rules and regulations to supplement the basic principles of disposition described below. The Investment Account must be terminated on the liquidation of the Fund, in which event the provisions of Schedule K apply. For the purposes of these provisions, a portion of the assets of the Investment Account corresponding to the proportion of the assets previously transferred to it from the profits on the sale of the Fund's gold to the total assets transferred to the Investment Account will be distributable in accordance with paragraph 2(a)(ii) of Schedule K, as if they were assets of the Special Disbursement Account, to members that were members on August 31, 1975, in proportion to their quotas on that date. Distribution of this portion of the assets will be made to these members in accordance with Schedule K, paragraph 2(a)(ii) even if the Special Disbursement Account had been terminated. Upon an earlier termination of the Investment Account or reduction in the amount of the investment, the amount available for disposition will be apportioned. The portion that corresponds to the proportion of the amounts transferred to the account under Article V, Section 12(g) to the total of the assets transferred to the account will be placed in the Special Disbursement Account if it has not been terminated, or, if the Special Disbursement Account has been terminated, will be treated as part of the residue referred to in the next sentence. The residue will go gradually to the General Resources Account for immediate use in operations and transactions. The Fund will adopt rules and regulations for the administration of the Investment Account by a seventy percent majority of the total voting power.

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M. Distribution and Delegation of Powers in the Fund
(Article XII and Schedule D)

1. Two major changes are made in the amended Articles in connection with the distribution and delegation of powers in the Fund. The first is the clarification of the distribution and delegability of powers under the Articles. They can be classified as follows:

- (a) Powers expressed as directly conferred on
 - (i) the Board of Governors
 - (ii) the Council if established
 - (iii) the Executive Board (so renamed in order to eliminate confusion between the organ and the individual Executive Directors)
 - (iv) the Managing Director
- (b) Powers not expressed as directly conferred on any organ but expressed as powers of the Fund.

The consequences of this classification are as follows:

- (a)(i) Powers directly conferred on the Board of Governors are exercisable solely by the Board of Governors and cannot be delegated to any other organ of the Fund.
- (a)(ii), (iii), (iv) Powers directly conferred on these organs cannot be delegated by them to some other organ of the Fund. Because the powers are not delegated by the Board of Governors, the powers cannot be withdrawn by the Board of Governors.
- (b) Powers not expressly conferred on any organ are vested in the Board of Governors so that it can decide whether and to which organs to delegate them. The Board of Governors can delegate any of these powers to the Executive Board exclusively or to the Council exclusively or to the two concurrently. The Board of Governors can change a delegation of powers whenever it sees fit. Delegations are made by a majority of the votes cast.

2. The second major change is based on the Fund's experience in connection with the exercise of powers and the desirability of maximum operating efficiency. Therefore, the powers exercisable exclusively by the Board of Governors are confined to those that have a special institutional importance in the Fund. As a result, most of the powers under the amended Articles are subject to delegation. The nondelegable powers of the Board of Governors that are subject to special majorities are shown in the last column of the Annex to the Commentary in Part II of this Report. The

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following powers of the Board of Governors are not subject to special majorities but are also directly conferred on the Board of Governors:

- (a) admission of new members and determination of the conditions of their admission (Article II, Section 2);
- (b) liquidation of the Special Drawing Rights Department (Article XXV(a));
- (c) liquidation of the Fund (Article XXVII, Section 2(b));
- (d) approval of proposed amendments (Article XXVIII(a)); and
- (e) delegation of authority to the Council (Schedule D, paragraph 3(a)) or to the Executive Board (Article XII, Section 2(b)).

In addition, the Board of Governors will have certain directly conferred organizational powers (see Article XII, Section 2(a), (c), (f), (g), (i), and (j); and Article XXIX(b)).

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N. Special Majorities for Adoption of Decisions and for AmendmentDecisions

1. The basic rule in the present Articles that decisions of the Fund are taken by a majority of the votes cast remains unchanged (Article XII, Section 5(c)). In accordance with this provision, votes not cast because of abstention or because, in the Executive Board, no Executive Director is entitled to cast the number of votes allotted to a member continue to be excluded from the calculation and are not treated as negative votes.

2. A special majority, i.e., a majority other than a majority of the votes cast, is necessary only when expressly required by a provision. The categories of special majority in the present Articles have been reduced. Subject to one exception and one qualification, only two special majorities are required: seventy percent and eighty-five percent of the total voting power. The tendency has been to confine the smaller majority to operational decisions that are not routine but are nevertheless not of the same importance as the decisions for which the larger majority is required. This distinction has not been applied with mechanical precision because of the necessity for compromise on certain provisions, and in any event opinions may differ in some instances about the application of the distinction. The exception referred to is the requirement of an absolute majority (that is, a majority of the total voting power) under Article XXVII, Section 1(c) (termination of the suspension of the operation of certain provisions). The qualification is the requirement not only of an eighty-five percent majority of the total voting power but also a majority of the Governors for the compulsory withdrawal of a member under Article XXVI, Section 2(b). In the present Articles, the special majorities, although confined to fewer categories of decision, are absolute majority, two-thirds, three-fourths, four-fifths, and eighty-five percent, of the total voting power, and a unanimous vote under two provisions. In these two provisions in the amended Articles, Article XXIII, Section 1 and Article XXVII, Section 1(a), eighty-five percent of the total voting power has been substituted for the requirement of a unanimous vote. No change has been made in the principle that when a decision pertains exclusively to the Special Drawing Rights Department, only the voting power of participants is taken into account.

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3. The special majorities under the amended Articles are tabulated in the Annex to the Commentary in Part II of this Report.

Amendment

4. The acceptance of proposed amendments is not covered by the provisions described in 2 and 3 above, because it is an action of members and not of an organ of the Fund. The requirements for amendment, however, involve the acceptance of proposals by members having certain proportions

of the total voting power as well as acceptance by a certain proportion of members. For proposals to amend all but three provisions, acceptance by three-fifths of the members, having eighty-five percent of the total voting power, is necessary under Article XXVIII(a). The requirement of eighty-five percent of the total voting power represents an increase over the eighty percent of the present Article XVII(a). The change has been made to correlate the majority based on voting power with the special majority for certain decisions of organs of the Fund. For proposals to amend the three exceptional provisions specified in the present Article XVII(b), acceptance by all members continues to be necessary under Article XXVIII(b) of the amended Articles.

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0. Organizational Matters (Article XII and Schedules D and E)

1. Certain changes have been incorporated in the Articles with respect to organizational aspects of the Fund. The following changes affect the Board of Governors:

- (a) Each Governor and each Alternate will serve until a new appointment is made (Article XII, Section 2(a)). The present Article XII, Section 2(a) provides for a term of five years subject to the pleasure of the member appointing the Governor or the Alternate, and the possibility of reappointment. The provision is changed because the stipulation of a specific term of office has been found unnecessary and sometimes inconvenient.
- (b) Under the present Articles the Board of Governors must hold annual meetings and may provide for other meetings. In addition, the Executive Board may call meetings of the Board of Governors. The Council, also, if established under the amended Articles, would be able to call meetings of the Board of Governors under Schedule D, paragraph 5(a). It is expected that the Board of Governors will continue the established practice of holding annual meetings, but it will no longer be required to hold them.
- (c) Meetings of the Board of Governors must be called under the amended Articles whenever requested by fifteen members of the Fund or by members having one quarter of the total voting power. Five members suffice for this purpose under the present Articles. The change recognizes the great increase in the Fund's membership since the original Articles became effective.
- (d) The Fund will no longer be required under Article XII, Section 2(h) to pay Governors and Alternates reasonable expenses incurred in attending meetings of the Board of Governors, but the Fund will be authorized to continue these payments. The change is designed to make the provision more flexible.

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2. Various changes have been made in the provisions with respect to the Executive Board.

(a) The present Article XII, Section 3(b) prescribes that the number of Executive Directors shall be not fewer than twelve, of whom five must be appointed by the five members having the largest quotas, two must be elected by the American Republics not entitled to appoint Executive Directors, and five must be elected by the other members not entitled to appoint Executive Directors. Under the last sentence of the provision,

the Fund, acting by a four-fifths majority of the total voting power, may increase the numbers of Executive Directors to be elected by the American Republics and by the other members beyond the numbers stated in the provision when members not listed in Schedule A enter the Fund. Under Article XII, Section 3(d) of the present Articles, the Fund must issue regulations changing the proportion of votes required to elect Executive Directors when the numbers are increased beyond those in the Articles.

In exercising its powers under the provisions referred to above, the Fund has been guided by the objectives of ensuring that the size of the Executive Board will contribute to the effective despatch of its business, that a desirable balance will be maintained in the composition of the Executive Board, that the size of constituencies will not place undue burdens on Executive Directors and hinder the efficient conduct of the business of the Executive Board, that members will be as free as possible within the provisions of the Articles and the regulations for the elections to form the constituencies of their choice, and that a relative equilibrium will be achieved in the voting power of the constituencies electing Executive Directors. Some of these objectives and considerations were made explicit in the Report of the Executive Board to the Board of Governors of July 24, 1972 entitled Size and Structure of the Executive Board, which was noted by the Board of Governors, with particular reference to paragraphs 2 and 6, in Resolution No. 27-12 of the Board of Governors, adopted August 31, 1972. For the future, the objectives and considerations referred to will be relevant not only for the composition of the Executive Board but also for the Interim Committee and the Council on its establishment.

The Executive Board has agreed that the objectives and considerations referred to above should continue to guide the Fund. The Executive Board has concluded that the present number of elective Executive Directors, i.e., fifteen, gives effect to these objectives and considerations under present circumstances, and has agreed that this number of elective Executive Directors should be incorporated in the amended Articles in order to reflect the existing balance of areas and interests in the Executive Board.

Under the amended Article XII, Section 3(b) all members eligible to elect Executive Directors will participate in one election of all fifteen elective Executive Directors because the distinction made between the elections under Section 3(b)(iii) and (iv) of Article XII of the present Articles has been eliminated. The Board of Governors may increase or decrease the number of fifteen elective Executive Directors by an eighty-five percent majority of the total voting power. The exercise of this power is not limited by any criteria, such as the entry of new members into the Fund, in view of the broad objectives and considerations described above, by which the Fund would continue to be guided.

(b) The provisions of the present Articles require the appointment of one or two additional Executive Directors in certain circumstances. The five members having the largest quotas in the Fund are required to appoint

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Executive Directors, but if these members do not include the two members that have made available the largest absolute amounts of resources utilized by the Fund, on the average over the two years preceding a regular election of Executive Directors, these two members also are required to appoint Executive Directors. The obligation of a member to appoint an additional Executive Director if it qualifies can create inconvenience for the member and for other members because the consequence may be the disbandment of a constituency for the next biennial period or the necessity for the other members to refrain from participating in the election so as not to have to join another constituency with which they may have no community of interest. The present Articles do not permit an appointed Executive Director to cast the number of votes allotted to any member other than the member appointing him. The new text of Article XII, Section 3(c), while preserving the existing privilege of a member to appoint an additional Executive Director if it qualifies, will grant the member the option of not appointing an Executive Director and of participating instead in the election of Executive Directors. If the member participates in the election, the Executive Director elected by the constituency to which the member belongs will cast the number of votes allotted to all members in that constituency. If the member decides to appoint an Executive Director, however, it will be possible under the amended provisions for the member to agree with individual members in the constituency to have the appointed Executive Director cast the number of votes allotted to these other members. The five members having the largest quotas will continue to have the duty to appoint Executive Directors.

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(c) Under Article XII, Section 3(b), when one or two Executive Directors are appointed under Article XII, Section 3(c), the total number of Executive Directors will be maintained by reducing by one or two, as the case may be, the number of Executive Directors to be elected. In order to avert, however, the impact that such a reduction might have on other members in the constituency to which the appointing member formerly belonged, or on other members, Article XII, Section 3(b) authorizes the Board of Governors to prevent a reduction if the Board concludes that the reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board. The decision of the Board of Governors would require an eighty-five percent majority of the total voting power.

(d) In view of the objectives and considerations referred to in (a) above, and the authority referred to in (c) above, the Executive Board has agreed that if one or two additional Executive Directors were appointed under Article XII, Section 3(c) for the period of two years between any two regular elections, and the appointment were to threaten to upset a desirable balance in the Executive Board or to expand unduly the size of constituencies, it would recommend action under Article XII, Section 3(b) to prevent a reduction in the number of elective Executive Directors during the two-year period

(e) Schedule E (which replaces the present Schedule C) has been revised to accord with the change of the number of elective Executive Directors in Article XII, Section 3(b). The percentages of the eligible votes for the purposes of election, i.e., four and nine, are based on the present situation with respect to the fifteen elective Executive Directors. These percentages can be changed, however, by the Board of Governors by a majority of the votes cast for the purpose of any regular election of Executive Directors.

(f) Article XII, Section 3(c) of the present Articles has given rise to the need for a number of interpretations and conventions with respect to the calculation that determines whether a member has achieved the right to appoint an additional Executive Director. The problems result from the complexity of the Fund's operations and transactions. It is intended that existing interpretations and conventions would continue to apply.

(g) In the light of the changes in nomenclature that have been made in order to convey more clearly the structure of the Fund (Chapter A, section 1), a reference to the General Resources Account has been included in Article XII, Section 3(c).

2530 3. The present Articles refer only to the authority of the Executive Board to appoint committees. The amended Articles make it explicit that the Board of Governors, the Council if established, and the Executive Board have this authority (Article XII, Section 2(j)).

P. The Council (Article XII, Section 1 and Schedule D)

1. The Board of Governors will be authorized by Article XII, Section 1 to establish the Council by a decision, taken by an eighty-five percent majority of the total voting power, declaring that the provisions of Schedule D shall begin to be applied. This decision can be taken at any time. The establishment of the Council will, in effect, continue the Interim Committee of the Board of Governors on the International Monetary System, which is an advisory body, in the form of a permanent organ of the Fund composed of persons of ministerial or comparable rank with decision-making authority under powers almost all of which would be delegated to it by the Board of Governors.

2. The Council will be composed of the same number of Councillors as there are Executive Directors, because each member that appoints and each group of members that elects an Executive Director will appoint one Councillor under Schedule D, paragraph 1(a). A Councillor must be a Governor of the Fund, Minister in the government of a member, or person of comparable rank, such as the head of a member's central bank. In addition, each member or group of members that appoints a Councillor can appoint up to seven Associates, and must appoint an Alternate, who will have full power to act for the Councillor when the Councillor is not present (Schedule D, paragraph 1(b)). A Councillor and an Associate serve until a new appointment is made or until the next regular election of Executive Directors, whichever is sooner. The next election is chosen as the terminal date because the composition of the groups of members electing Executive Directors may change. A Councillor, however, may be reappointed. The number of Associates who may be appointed can be increased or decreased at any time by the Board of Governors by an eighty-five percent majority of the total voting power. Executive Directors, or, if they are not present in that capacity, their Alternates will be entitled to attend meetings of the Council, except when the Council decides to hold a restricted session.

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3. The Council will be able to exercise two categories of powers: powers directly conferred on it by Schedule D, paragraph 2 and paragraph 5(a) and (c); and powers delegated to it by the Board of Governors under Schedule D, paragraph 3(a). Paragraph 2(a) defines the general functions of the Council as the supervision and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity; and in this connection the Council must review developments in the transfer of real resources to developing countries. The reference to adjustment, which appears also in Article IV, Sections 1 and 4 and in Article XVIII, Section 1(b), makes it explicit that effective balance of payments adjustment is an important objective of the Fund. Similarly, the reference to developing members makes it apparent that their interests are of special concern. Schedule D, paragraph 2(b) provides that a function of the Council will be the consideration of proposals for amendment of the Articles.

4. The Executive Board would propose to the Board of Governors a revision of the present Section 15 of the By-Laws dealing with the delegation of authority in order to provide for the delegation of appropriate powers to the Council when the establishment of the Council by the Board of Governors was in view. Any powers of the Board of Governors that are not directly conferred on it could be delegated to the Council. Powers could be delegated exclusively to the Council or concurrently to both the Council and the Executive Board. The exercise of powers by the Council is governed by the scope of its competence as defined in Schedule D, paragraph 2(a). Delegations of authority by the Board of Governors could be changed from time to time. The Council will not be able to delegate any powers to the Executive Board, but the Executive Board would prepare the work of the Council in the same way that it prepares the work of the Board of Governors. Schedule D, paragraph 3(c) regulates the concurrent exercise of authority by organs of the Fund by providing that the Council must not take any action pursuant to delegated powers that is inconsistent with any action taken by the Board of Governors, and by providing further that the Executive Board must not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by either the Board of Governors or the Council.

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5. Decisions of the Council will be taken by the procedure of weighted voting according to which each Councillor is entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. On matters pertaining exclusively to the Special Drawing Rights Department, a Councillor will be able to cast the number of votes allotted to the participants in his constituency. A Councillor appointed by a single member must cast the number of votes allotted to the member as a single block, but a Councillor appointed by a group of members may cast separately the number of votes allotted to each member in the group (Schedule D, paragraph 3(b)). This is a departure from the principle that applies to the Executive Board. The rationale of "split voting" by a Councillor appointed by a group of members is that the Council is conceived of as an organ composed of persons with political responsibility. It is closer in character, therefore, to the Board of Governors, in which Governors vote individually. For this reason it has been concluded that the voting procedure in the Council should approximate the procedure in the Board of Governors.

6. Schedule D, paragraph 3(b) enables a member whose votes did not count toward the election of an Executive Director to agree on arrangements with a Councillor for casting the number of votes allotted to the member. This principle also differs from the principle applicable to the Executive Board. A member whose votes did not count toward the election of an Executive Director may request an Executive Director to represent its interests, but that Executive Director cannot cast the number of votes allotted to the member. In this respect also, the intention is to make the situation in the Council resemble the situation in the Board of Governors, in which all

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Governors may vote even though the member appointing a Governor does not have the number of votes allotted to it cast by an Executive Director in the Executive Board. The Council will adopt regulations to provide for the orderly conduct of its business. It is assumed that the regulations will take account of the fact that a Councillor may need to be in contact with members that are not in its constituency if the Councillor casts the number of votes allotted to these members. It is assumed, further, that the arrangements for these contacts would not be allowed to impede the Council in the exercise of its functions.

7. The Council is authorized by Schedule D, paragraph 5(c) to establish a procedure for voting on a specific question without meeting when in the judgment of the Executive Board an action must be taken by the Council that should not be postponed until the next meeting of the Council and that does not warrant the summoning of a special meeting. The Executive Board is authorized to call meetings of the Council, and the Council itself may establish additional rules according to which a meeting of the Council may be called. It is apparent that the normal business of the Council must be conducted in session and that decisions without meeting should not become routine. The procedure for voting without meeting will be similar to the established practice under Section 13 of the By-Laws, which provides for voting by the Board of Governors without meeting. A Councillor appointed by a group of members will be free to make his own arrangements to canvass the views of the group before any such voting.

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8. The Council may adopt the regulations that it deems necessary or appropriate for the performance of its functions and may determine any aspect of its procedure. It must select a chairman, who must be a Councillor. He will not have a deciding vote in case of an equal division of votes, as has the Managing Director as chairman of the Executive Board (see Article XII, Section 4(a)).

Q. Special Drawing Rights (Articles XV, XVII, XIX, XX, XXI and XXII)

1. In the amended Articles, the unit of value of the special drawing right is no longer defined in terms of gold. The Fund is empowered to determine the method of valuation. It may do so by the double majority of seventy percent of the total voting power of both members and participants, but a double eighty-five percent majority is required for a change in the principle of valuation or a fundamental change in the application of the principle in effect at the time of the change (Article XV, Section 2 and Article XXI(a)(iii)). A special majority is not prescribed for deciding whether a proposed change requires the lower or the higher majority, and therefore the decision can be taken by a majority of the votes cast. With this rule, there is virtual assurance that a decision on classification can always be taken. The method of valuation in effect at the date of the amendment will continue in effect unless it is decided at some time thereafter to change it (Schedule B, paragraph 6). The amended Articles require the value of the Fund's assets to be expressed (Article V, Section 10(a)), and the currency holdings in the General Resources Account to be maintained, in terms of the special drawing right (Article V, Section 11). Most computations involving currencies must be made at rates at which the Fund accounts for them in relation to the special drawing right (Article V, Section 10(b)).

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2. The general obligation of participants to collaborate with the Fund and with each other to facilitate the operation of the Special Drawing Rights Department and the proper use of special drawing rights has been broadened by adding the objective of making the special drawing right the principal reserve asset of the international monetary system (Article VIII, Section 7; Article XXII). The principles for the allocation and cancellation of special drawing rights remain unchanged, but a number of changes have been made in the characteristics and usability of special drawing rights:

- (i) The Fund is able under the amended Articles to engage in operations and transactions through the General Resources Account with prescribed other holders of special drawing rights, whereas under the present Articles it can do so only with participants (Article XVII, Section 2).
- (ii) The categories of possible other holders that the Fund can prescribe have been enlarged by the addition of the general class of official entities (Article XVII, Section 3(i)). A majority of eighty-five percent of the total voting power is still necessary for the prescription of other holders.

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- (iii) The Fund may permit prescribed holders to enter into operations and transactions with other prescribed holders, as well as with participants, whereas under the present Articles other holders can be permitted to enter into operations and transactions only with participants (Article XVII, Section 3(ii) and (iii)).
- (iv) The majority for the prescription of terms and conditions on which prescribed holders may engage in operations and transactions in special drawing rights and on which the Fund and participants may enter into operations and transactions with them has been reduced from eighty-five percent of the total voting power to a majority of the votes cast (Article XVII, Section 3(ii) and (iii)).
- (v) Under the present Articles, a participant can enter into a transaction in special drawing rights by agreement with another participant, i.e., without designation, only if the transferor of special drawing rights is exchanging them for its own currency held by the transferee or if the Fund authorizes the transaction. The Fund can authorize other transactions by agreement by a majority of the votes cast if they fall into certain limited categories, and by an eighty-five percent majority of the total voting power if they fall outside these categories. One of the most important extensions in the use of special drawing rights under the amended Articles is the freedom of participants to enter into transactions by agreement in all circumstances without the necessity for authorization by the Fund (Article XIX, Section 2(b)).
- (vi) The transactions referred to in (v) above must be conducted at rates of exchange compatible with the principle of equal value in Article XIX, Section 7(a). The Fund is authorized, however, to adopt policies, by a majority of eighty-five percent of the total voting power, under which in exceptional circumstances it can permit transactions by agreement at other exchange rates. The Fund can apply these policies to specific transactions by a majority of seventy percent of the total voting power (Article XIX, Section 7(b)).
- (vii) The Fund can decide by a majority of seventy percent of the total voting power to prescribe operations in special drawing rights entered into by agreement between participants that are not otherwise expressly authorized by

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the Articles. Only "operations" (i.e., dealings that do not involve the exchange of special drawing rights for currency) can be prescribed. "Transactions," which involve such an exchange (see Article XXX(i)), are not included because they may be entered into freely by agreement. Participants entering into these operations must observe any terms and conditions that the Fund adopts in prescribing the operations. The Fund may make representations to a participant that enters into any of these operations (or into the transactions by agreement referred to in (v) above) if the effect may be prejudicial to the process of designation or inconsistent with the effective functioning of the Special Drawing Rights Department. If the participant persists in entering into such operations (or transactions by agreement), the Fund may suspend the participant's right to use the special drawing rights that it acquires after the Fund's decision on suspension (Article XIX, Section 2(c) and (d), Article XXIII, Section 2(b)).

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- (viii) A participant using special drawing rights in a transaction by agreement with another participant ((v) above) is not subject to the expectation that it will comply with the requirement of need in Article XIX, Section 3(a) when using its special drawing rights in these transactions. This provision considerably enhances the freedom of participants to engage in transactions by agreement, because they are subject to neither the necessity for designation by the Fund nor the requirement of need. They remain subject, however, to the general obligations of collaboration under Article XXII.
- (ix) The formulation of the requirement of need in Article XIX, Section 3(a) has been simplified without changing its substance.
- (x) The provisions of the present Articles on the Fund's power to waive the requirement of need are substantially unchanged, but the limited scope of the power is less constricting because of the broad power of participants to enter into transactions by agreement without being subject to the requirement of need. In transactions in which the Fund designates the transferee of special drawing rights, the transferor is still expected to observe the requirement of need, but the Fund may waive the expectation that the requirement will be observed in

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a limited number of categories of transactions that contribute in a particular way to the more effective functioning of the Special Drawing Rights Department. In the light of experience, the amended Articles (Article XIX, Section 3(c)) do not refer to one category mentioned in the present Articles (Article XXV, Section 3(c)).

- (xi) Under the present Articles, in transactions involving designation, the designated transferee of special drawing rights is required to supply "currency convertible in fact," and the issuer of the currency supplied might be required in certain circumstances to convert the currency into another currency desired by the transferor of the special drawing rights. The definition of currency convertible in fact is complex. Moreover, the system of conversion contemplated by the Articles has not been operating in recent years. The provision with respect to the currency to be supplied (Article XIX, Section 4) has been simplified by the adoption of a new concept, "freely usable currency" (Article XXX(f)), in place of the present definition of currency convertible in fact. The new concept applies in both the General Department and the Special Drawing Rights Department, whereas under the present Articles "currency convertible in fact" applies only in the Special Drawing Rights Department. Article V, Section 3(e) and Section 7(j) deal with the exchange of freely usable currencies in connection with the transactions of members with the Fund through the General Resources Account. It is hoped that participants in the Special Drawing Rights Department will collaborate regarding the exchange of freely usable currencies provided in transactions with designation, as would be normal practice pursuant to Article XXII.
- (xii) The Fund may review and change the rules for designation at any time, and not solely at the end of each basic period (Article XIX, Section 5(c)).
- (xiii) The Fund may review the rules for the reconstitution of participants' holdings of special drawing rights and may adopt, modify, or abrogate rules as a result of the review at any time, and not solely at the end of a basic period. Decisions with respect to the rules for reconstitution can be taken by a seventy percent, instead of an eighty-five percent, majority of the total voting power (Article XIX, Section 6(b)).

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- (xiv) The rate of remuneration no longer limits the rate of interest and charges on special drawing rights, which the Fund may now determine by a majority of seventy percent of the total voting power (Article XX, Section 3), but the rate of interest now controls the rate of remuneration (Article V, Section 9).

3. Certain changes in the usability of special drawing rights in operations and transactions conducted through the General Resources Account have been mentioned in 2 above. In addition, certain changes, including the uses listed below, have been referred to elsewhere in this Report. Under the amendment, special drawing rights may be used:

- (a) by participants to pay part of the subscriptions payable upon increases in quota (Article III, Section 3(a));
- (b) by the Fund to make payments to participants on decreases in quotas (Article III, Section 3(c));
- (c) by the Fund in sales to participants for the currencies of other members (Article V, Section 6(b));
- (d) by participants in purchasing the currencies of other members from the Fund (Article V, Section 6(a));
- (e) by the Fund to replenish its holdings of needed currency, without any implication that other forms of replenishment under the Articles should be canvassed first (Article VII, Section 1(ii)); and
- (f) by the Fund in distributions of net income or of the general reserve, even without the agreement of the recipient, unless the recipient decides that the payment to it shall be made in its own currency (Article XII, Section 6(e)).

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Some of these uses are new; others involve modifications of uses that could be made under the present provisions.

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R. Temporary Suspension of Operation of Provisions (Article XXIII and XXVII)

1. Experience with the provisions on suspension of the operation of certain provisions has shown the possible usefulness of suspension but also the desirability of making it somewhat easier to bring about a suspension of one or more of the provisions subject to suspension if there is an emergency or the development of unforeseen circumstances threatening the activities of the Fund or of the Special Drawing Rights Department. Under the present Articles, a unanimous vote of the Executive Board is required for an initial decision to suspend. This requirement has been reduced to a majority of eighty-five percent of the total voting power in the amended Articles. A suspension by the Executive Board can be extended under the present Articles by a subsequent decision taken by the Board of Governors by an eighty percent majority of the total voting power. This majority has been increased to eighty-five percent in order to limit the number of different special majorities required for various decisions.

2. A possible purpose of the suspension of the operation of a provision is to give time to consider the desirability of the amendment of the provision. Therefore, the periods for suspension have been modified because experience has shown that the total period of three hundred and sixty days under the present Articles may be inadequate to enable agreement to be reached on an amendment of the Articles and to make it effective. The maximum period of one hundred and twenty days for which the Executive Board may suspend the operation of a provision has been extended to one year. The maximum period of prolongation by the Board of Governors has been extended from two hundred and forty days to two years.

3. Under the present Articles, when the Executive Board decides to suspend the operation of a provision, it must simultaneously call a meeting of the Board of Governors at the earliest practicable date. This requirement has been eliminated because the Executive Board will now be able to decide on a suspension for as long as one year, during which, according to present practice, the Board of Governors would hold its annual meeting.

4. No substantive change has been made in the scope of the provisions that are subject to suspension, although some have been renumbered in accordance with the sequence of provisions in the amended Articles. The insertion of the words "operations and transactions" in Section 1 of Article XXIII is intended to make it explicit that suspension of the operation of provisions relating to special drawing rights is possible only in respect of those provisions that deal with operations and transactions in special drawing rights and not in respect of other provisions that relate to them.

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5. Article XXVII, Section 1(d) makes it explicit that the Fund has authority to adopt substitute rules on the subject matter of a provision while its operation is suspended. This authority has been derived by implication under the present Articles.

6. No change has been made in the provision of the present Articles according to which the Executive Board can terminate a suspension by a majority of the total voting power whether it is in effect under a decision of the Board of Governors or of the Executive Board(Article XXVII, Section 1(c)).

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S. Transitional Provisions (Schedule B)

Transitional provisions are set forth in Schedule B with respect to repurchase, payment of additional subscriptions, gold, and certain operational matters. These provisions are necessary because there are certain substantive differences between the provisions of the present and the amended Articles relating to these matters.

1. Repurchase (Paragraphs 1-5).

(i) The transitional provisions of paragraphs 1 to 5 of Schedule B deal with the repurchase of currency acquired by the Fund under the present Articles and held by it on the date of the second amendment. Under these provisions of Schedule B, repurchase obligations that have accrued under Article V, Section 7(b) of the present Articles before the date on which the amendment takes effect, but that remain undischarged at that date, must be discharged not later than the dates at which they must be discharged under the present Articles. Currency held by the Fund in excess of seventy-five percent of quota on the date of the amendment as the result of purchases, but not subject to accrued obligations under Article V, Section 7(b) of the present Articles, must be repurchased in accordance with the policy under which the purchase was made. Other holdings in excess of that level and not subject to accrued obligations, such as holdings that result from the payment of charges by a member in its own currency, must be repurchased not later than four years after the date of the amendment. These transitional arrangements are designed to deal equitably among members in connection with the Fund's holdings of all currencies that are subject to repurchase under the present Articles.

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(ii) It is provided by paragraph 2 of Schedule B that repurchase obligations that have accrued in gold must be discharged with special drawing rights, but the Fund may prescribe that payment may be made, in whole or in part, in the currencies of other members specified by it, on the basis of 0.888 671 gram of fine gold per special drawing right and the value of currencies in terms of the special drawing right at the date of discharge. A nonparticipant would discharge any such obligation in the currencies of other members. Other repurchases must be made in assets acceptable to the Fund in repurchase in accordance with the amended Articles.

2. Rates of charge, remuneration, and interest (Paragraph 6).

(i) Under Schedule B, paragraph 6, charges on balances of currency held by the Fund remain payable at the rates in effect on the date of the amendment until they are changed in accordance with the provisions of the amended Articles.

(ii) The provisions of the amended Articles with regard to the imposition of charges on the Fund's holdings of currency apply, however, to all balances held by the Fund after the date of the amendment that fall into the two categories subject to charges under Article V, Section 8(b). That provision applies, therefore, to balances acquired as a result of operations and transactions that take place before the date of the amendment. Some of these balances are not subject to periodic charges under the present Articles, and for this reason there are no rates in existence. It will be necessary, therefore, to take decisions on the rates of charge on these balances that will begin to apply as from the effective date of the amendment.

(iii) The rates of the service charge for transactions conducted through the General Resources Account and of the commitment charge for stand-by arrangements and arrangements under the extended Fund facility will also continue in effect until they are changed in accordance with the provisions of the amended Articles. Under a decision in effect at the present time, a service charge is not levied on what are now called gold tranche purchases but will be called reserve tranche purchases under the amended Articles. The transactions that qualify as reserve tranche purchases will be determined, however, on the basis of the amended Articles. The effect may be to increase the reserve tranche if a purchase has been made under a facility that becomes the subject of an exclusion under Article XXX(c) of the amended Articles. For example, a purchase under the buffer stock facility reduces a gold tranche under the present Articles, but because these purchases may be excluded from the calculation of the reserve tranche under Article XXX(c), a reserve tranche may be created or enlarged by a decision to exclude them under the amended Articles if such a purchase is outstanding.

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(iv) The rate of remuneration at the time of the amendment remains in effect until modified in accordance with the amended Articles. The calculations for determining whether and in what amounts remuneration will be payable will be made, however, on the basis of the percentages of quota specified by or under Article V, Section 9(b) or (c) of the amended Articles and on the basis of the average daily balances of currency to be taken into account pursuant to Section 9(a) of that Article.

(v) The rate of interest and charge on the special drawing right in effect on the date of the amendment will continue in effect until it is changed in accordance with the new provisions.

3. Rules and regulations and decisions (Paragraph 6).

Under paragraph 6 of Schedule B all rules and regulations and all decisions adopted under the present Articles that are not inconsistent

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with the new Articles will remain in effect on the date of the second amendment until they are changed in accordance with the amended Articles. The rules and regulations and decisions with respect to the method of valuation of the special drawing right are among those to which this provision will apply.

4. Gold (Paragraph 7).

(i) In accordance with the understandings reached in the Interim Committee of the Board of Governors on the International Monetary System, the Fund is expected to make arrangements, on the basis of the present Articles, for the disposal of fifty million ounces of its gold (paragraph 6(3) of the Press Communiqué issued by the Committee on August 31, 1975 and paragraph 4 of the Communiqué of June 12, 1975). To the extent that the disposition of the two amounts of twenty-five million ounces that constitute this total is not completed at the date of the amendment, the Fund is required by the amended Articles to take action to dispose of the balance. In view of this requirement in the Articles, a further decision by the Fund in order to proceed with the disposition will not be necessary.

(ii) Paragraph 7 of Schedule B requires the Fund to complete the disposition of twenty-five million ounces by selling the balance of that amount at the present official price to those members that were members on August 31, 1975 and agree to buy it, in proportion to their quotas on that date. The Fund must complete the disposition of another twenty-five million ounces by selling the balance of that amount at a price based on prices in the market and must use the proceeds in excess of the capital value (i.e., the balance over the official price of 0.888 671 gram of fine gold per special drawing right under the present Articles) for the benefit of developing members that were members on August 31, 1975. The Fund is required, however, to transfer directly to developing members a part of the profits or surplus value of the gold that is to be disposed of for the benefit of developing members corresponding to the proportion of their quotas to all quotas. The reference in Schedule B, paragraph 7(b) to "profits or surplus value" will enable the Fund to make the transfers required by this provision in an appropriate way. The profits from the sale of the remaining part of the second twenty-five million ounces are to be used to provide balance of payments assistance on concessionary terms to developing members with low per capita income.

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T. Settlement of Accounts with Members Withdrawing (Schedule J)

1. Schedule J, paragraph 1 has been revised, in view of the fact that under the amended Articles there would be three Accounts in the Fund's General Department. Schedule J continues to be the code for settlement with a withdrawing member that applies if agreement between it and the Fund is not reached promptly. Settlement with respect to the General Resources Account, if made under Schedule J, would be made according to the rules in paragraphs 1 to 6 of that Schedule. For the purpose of payments that the Fund is obligated to make to the withdrawing member in a settlement with respect to this Account, the Fund could transfer to the General Resources Account holdings of the member's currency in the other two Accounts in exchange for an equivalent amount of the currencies of other members in the General Resources Account selected by the Fund with the concurrence of these other members.

2. Settlement with respect to the Special Disbursement Account would be based on the principle that a member's indebtedness to the Fund as the result of transactions conducted through that Account must be discharged in accordance with the terms of the indebtedness (Schedule J, paragraph 7). Therefore, withdrawal would not accelerate the maturity of indebtedness unless the terms of the indebtedness provided for acceleration.

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3. The Fund is authorized by Schedule J, paragraph 8 to sell in an orderly manner in any market the holdings of the withdrawing member's currency in the Special Disbursement Account that remain after the transfer described in 1 above. The sales may be made for the currencies of other members. The same procedure applies with respect to holdings of the withdrawing member's currency in the Investment Account.

4. The Fund is authorized by Schedule J, paragraph 9 to continue to hold until the date of maturity any investments in a withdrawing member's obligations that the Fund may hold either in the Special Disbursement Account or in the Investment Account, or to dispose of them sooner. The authority to hold such investments until the date of maturity enables the Fund to avoid the loss that might be incurred by disposition of them before maturity.

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Annex to Commentary on
Proposed Amendment

Special Majorities

The special majorities and participation required for the adoption of decisions by the Board of Governors, the Council when established, and the Executive Board under the amended Articles are summarized below. The majorities are shown according to the order in which they appear in the Articles. All other decisions are taken by a majority of the votes cast.

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities</u> (Proportion of Total Voting Power)	<u>Directly</u> <u>Conferred</u> <u>on</u>
III	2(c)	Adjustment of quotas	85 percent	Board of Governors (except Article III, Section 2(b))
III	3(a), (d)	Prescription of medium of payment for additional subscription	70 percent	Board of <u>2545</u> Governors
IV	2(c)	Provision for general exchange arrangements	85 percent	
IV	4	Introduction of system of exchange arrangements based on par values	85 percent	
V	7(c)	Changes in period for repurchase	85 percent	
V	7(d)	Adoption of periods for repurchase of holdings acquired under special policy on use of Fund's general resources	85 percent	
V	7(e)	Adoption of policies on repurchase of holdings not acquired as a result of purchases	70 percent	
V	7(g)	Postponement of repurchase beyond maximum period	70 percent	

Annex to Commentary on
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<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>	<u>Directly Conferred on --</u>
V	8(a), (d)	Determination of service charge for purchases	70 percent	
V	8(b), (d)	Determination of rates of charge on holdings of currencies	70 percent	
V	8(c), (d)	Imposition of charges deemed appropriate on failure to repurchase	70 percent	
V	9(a)	Determination of rate of remuneration	70 percent	
V	9(c)	Increase in percentage of quota as level for remuneration	70 percent	
<u>2546</u>	V	12(b), (c)	Sale of gold	85 percent
	V	12(b), (d)	Acceptance of gold instead of special drawing rights or currency in payments to Fund	85 percent
	V	12(b), (e)	Sale of gold at present official price	85 percent
	V	12(f)(i)	Transfer of assets of Special Disbursement Account to General Resources Account	70 percent
	V	12(f)(ii), (iii)	Use of assets of Special Disbursement Account for operations and transactions not authorized by other provisions and for distribution to developing members	85 percent
	V	12(g)	Transfer of proceeds of sale of gold to Investment Account	85 percent

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<u>Annex to Commentary on Proposed Amendment</u>				
<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>	<u>Directly Conferred on</u>
V	12(j)	Termination of Special Disbursement Account prior to liquidation of Fund	70 percent	
		Adoption of rules and regulations for administration of Special Disbursement Account	70 percent	
XII	1	Application of Schedule D	85 percent	Board of Governors
XII	3(b)	Increase or decrease in number of elective Executive Directors	85 percent	Board of Governors
XII	3(b)	Maintenance of number of elective Executive Directors	85 percent	Board of Governors <u>2547</u>
XII	6(d)	Distribution from general reserve	70 percent	
XII	6(f)(ii)	Transfer to Investment Account of currencies held in General Resources Account for immediate investment	70 percent	
XII	6(f)(vi)	Termination of Investment Account or reduction of amount of investment prior to liquidation of Fund	70 percent	
		Adoption of rules and regulations regarding administration of Investment Account	70 percent	
XII	8	Publication of report on member's monetary or economic conditions and developments	70 percent	

			<u>Annex to Commentary on Proposed Amendment</u>	
<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>	<u>Directly Conferred on</u>
XV	2	Determination of method of valuation of special drawing right other than a change in principle or a fundamental change in application of principle in effect	70 percent	
		Change in principle of valuation or fundamental change in application of principle in effect	85 percent	
XVII	3(1)	Prescription of other holders of special drawing rights	85 percent	
XVIII	2(a), 4(a), (d)	Allocation or cancellation of special drawing rights	85 percent	Board of Governors
<u>2548</u>	XVIII	2(b), 4(a), (d)	85 percent	Board of Governors
XVIII	2(c), 4(a), (d)	Determination of duration of basic period, intervals for allocations or cancellations, and dates as of which quotas and net cumulative allocations are to be basis for allocations or cancellations	85 percent	Board of Governors
XVIII	3, 4(a), (d)	Change in rates or intervals of allocation or cancellation or in length of basic period, or starting new basic period	85 percent (except decrease in rates of allocation)	Board of Governors
XIX	2(c)	Prescription of operations in which participant may engage in agreement with another participant	70 percent	
XIX	6(b)	Adoption, modification, or abrogation of rules for reconstitution	70 percent	

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<u>Annex to Commentary on Proposed Amendment</u>				
<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>	<u>Directly Conferred on</u>
XIX	7(b)	Adoption of policies to authorize participants to agree on exchange rates other than those applicable under Article XIX, Section 7(a)	85 percent	
		Authorization of individual participants, under these policies, to agree on exchange rates other than those applicable under Article XIX, Section 7(a)	70 percent	
XX	3	Determination of rate of interest on special drawing rights	70 percent	
XXIII	1	Temporary suspension of operation of certain provisions relating to special drawing rights for not more than one year	85 percent	Executive Board (Council)
XXVI	2(b)	Compulsory withdrawal of member	Majority of Governors having 85 percent	Board of Governors
XXVII	1(a)	Temporary suspension of operation of certain provisions for not more than one year	85 percent	Executive Board (Council)
XXVII	1(b)	Extension of temporary suspension of operation of provisions	85 percent	Board of Governors
XXVII	1(c)	Termination of suspension under Article XXIII, Section 1 or Article XXVII, Section 1(a)	Absolute majority	Executive Board

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Proposed Amendment

<u>Article</u>	<u>Section</u>	<u>Subject</u>	<u>Special Majorities (Proportion of Total Voting Power)</u>	<u>Directly Conferred on</u>
XXIX	(b)	Overrule of decision of Committee on Interpretation	85 percent	Board of Governors
XXX	(c)(iii)	Exclusion of purchases and holdings under policies on use of Fund's general resources for purpose of calculating a member's reserve tranche	85 percent	

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<u>Schedule</u>	<u>Paragraph</u>			
C	5	Adoption of margin or margins for spot exchange trans- actions	85 percent	
C	8	Objection to termination of par value by member	85 percent	
C	11	Uniform proportionate changes in par values	70 percent	
D	1(a)	Change in number of Associates in Council	85 percent	Board of Governors

Appendix

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AMENDED ARTICLES OF AGREEMENT

ARTICLES OF AGREEMENT
OF THE
INTERNATIONAL MONETARY FUND

The Governments on whose behalf the present Agreement is signed agree as follows:

INTRODUCTORY ARTICLE

2562

- (1) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted and subsequently amended.
- (ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Department and a Special Drawing Rights Department. Membership in the Fund shall give the right to participation in the Special Drawing Rights Department.
- (iii) Operations and transactions authorized by this Agreement shall be conducted through the General Department, consisting in accordance with the provisions of this Agreement of the General Resources Account, the Special Disbursement Account, and the Investment Account; except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department.

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PRESENT ARTICLES OF AGREEMENTARTICLES OF AGREEMENT
OF THE INTERNATIONAL MONETARY FUND

The Governments on whose behalf the present Agreement is signed agree as follows:

INTRODUCTORY ARTICLE

- (i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted, and as subsequently amended in order to institute a facility based on special drawing rights and to effect certain other changes.
- (ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Account and a Special Drawing Account. Membership in the Fund shall give the right to participation in the Special Drawing Account.
- (iii) Operations and transactions authorized by this Agreement shall be conducted through the General Account except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account.

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ARTICLE I

PURPOSES

The purposes of the International Monetary Fund are:

- 2564
- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
 - (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
 - (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
 - (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
 - (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
 - (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

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ARTICLE I

PURPOSES

The purposes of the International Monetary Fund are:

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

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ARTICLE II

MEMBERSHIP

Section 1. Original members

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945.

Section 2. Other members

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

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ARTICLE II

MEMBERSHIP

Section 1. Original members

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2(e).

Section 2. Other members

Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

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ARTICLE III

QUOTAS AND SUBSCRIPTIONS

Section 1. Quotas and payment of subscriptions

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.

Section 2. Adjustment of quotas

2568 (a) The Board of Governors 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.

(b) The Fund may at any time propose an increase in the quotas of those members of the Fund that were members on August 31, 1975 in proportion to their quotas on that date in a cumulative amount not in excess of amounts transferred under Article V, Section 12(f)(i) and (j) from the Special Disbursement Account to the General Resources Account.

(c) An eighty-five percent majority of the total voting power shall be required for any change in quotas.

(d) The quota of a member shall not be changed until the member has consented and until payment has been made unless payment is deemed to have been made in accordance with Section 3(b) of this Article.

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ARTICLE III

QUOTAS AND SUBSCRIPTIONS

Section 1. Quotas

Each member shall be assigned a quota. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2(e), shall be those set forth in Schedule A. The quotas of other members shall be determined by the Fund.

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.

2569Section 3. Subscriptions: time, place, and form of payment

(a) The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the member becomes eligible under Article XX, Section 4(c) or (d), to buy currencies from the Fund.

(b) Each member shall pay in gold, as a minimum, the smaller of

(i) twenty-five percent of its quota; or

(ii) ten percent of its net official holdings of gold and United States dollars as at the date when the Fund notifies members under Article XX, Section 4(a) that it will shortly be in a position to begin exchange transactions.

Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars.

(c) Each member shall pay the balance of its quota in its own currency.

(d) If the net official holdings of gold and United States dollars of any member as at the date referred to in (b)(ii) above are not

Section 3. Payments when quotas are changed

(a) Each member which consents to an increase in its quota under Section 2(a) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence, by the Fund, or in the member's own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(b)(ii), as a result of payments by other members under this provision.

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(b) Each member which consents to an increase in its quota under Section 2(b) of this Article shall be deemed to have paid to the Fund an amount of subscription equal to such increase.

(c) If a member consents to a reduction in its quota, the Fund shall, within sixty days, 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 special drawing rights or the currencies of other members specified, with their concurrence, by the Fund as is necessary to prevent the reduction of the Fund's holdings of the currency below the new quota, provided that in exceptional circumstances the Fund may reduce its holdings of the currency below the new quota by payment to the member in its own currency.

(d) A seventy percent majority of the total voting power shall be required for any decision under (a) above, except for the determination of a period and the specification of currencies under that provision.

Section 4. Substitution of securities for currency

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources Account which in the judgment of the Fund is not needed for its operations and transactions, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their face value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund and to be placed in the General Resources Account.

ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4(c) or (d), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (b) above, and the balance of the member's subscription shall be paid in the member's currency, subject to appropriate adjustment between the member and the Fund when the net official holdings have been ascertained.

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.

(b) 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 as may be necessary to prevent reducing the Fund's holdings of the currency below seventy-five percent of the new quota.

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(c) A majority of eighty-five percent of the total voting power shall be required for any decisions 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.

Section 5. Substitution of securities for currency

The Fund shall accept from any member in place of any part of the member's currency which in the judgment of the Fund is not needed for its operations, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their par value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund.

ARTICLE IV

OBLIGATIONS REGARDING EXCHANGE ARRANGEMENTS

Section 1. General obligations of members

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

- (i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;
- (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;
- (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and
- (iv) follow exchange policies compatible with the undertakings under this Section.

Section 2. General exchange arrangements

(a) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfillment of its obligations under Section 1 of this Article, and shall notify the Fund promptly of any changes in its exchange arrangements.

(b) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

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ARTICLE IV

PAR VALUES OF CURRENCIES

Section 1. Expression of par values

(a) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

Section 2. Gold purchases based on par values

The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

2573Section 3. Foreign exchange dealings based on parity

The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

- (i) in the case of spot exchange transactions, by more than one percent; and
- (ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Section 4. Obligations regarding exchange stability

(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold

(c) To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.

Section 3. Surveillance over exchange arrangements

(a) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

2574 (b) In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

Section 4. Par values

The Fund may determine, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. The Fund shall make the determination on the basis of the underlying stability of the world economy, and for this purpose shall take into account price movements and rates of expansion in the economies of members. The determination shall be made in light of the evolution of the international monetary

within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

Section 5. Changes in par values

(a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection,

(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests,

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(d) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (c) above.

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Section 6. Effect of unauthorized changes

If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2(b).

system, with particular reference to sources of liquidity, and, in order to ensure the effective operation of a system of par values, to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective, and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances. Upon making such determination, the Fund shall notify members that the provisions of Schedule C apply.

Section 5. Separate currencies within a member's territories

(a) Action by a member with respect to its currency under this Article shall be deemed to apply to the separate currencies of all territories in respect of which the member has accepted this Agreement under Article XXXI, Section 2(g) unless the member declares that its action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(b) Action by the Fund under this Article shall be deemed to relate to all currencies of a member referred to in (a) above unless the Fund declares otherwise.

Section 7. Uniform changes in par values

Notwithstanding the provisions of Section 5(b) of this Article, the Fund by an eighty-five percent majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Section 8. Maintenance of gold value of the Fund's assets

(a) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(c) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.

Section 9. Separate currencies within a member's territories

A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2(g). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

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ARTICLE V

OPERATIONS AND TRANSACTIONS OF THE FUND

Section 1. Agencies dealing with the Fund

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.

Section 2. Limitation on the Fund's operations and transactions

(a) Except as otherwise provided in this Agreement, transactions on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with special drawing rights or the currencies of other members from the general resources of the Fund, which shall be held in the General Resources Account, in exchange for the currency of the member desiring to make the purchase.

(b) If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent.

Section 3. Conditions governing use of the Fund's general resources

(a) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.

(b) A member shall be entitled to purchase the currencies of other members from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions:

- (i) the member's use of the general resources of the Fund would be in accordance with the provisions of this Agreement and the policies adopted under them;
- (ii) the member represents that it has a need to make the purchase because of its balance of payments or its reserve position or developments in its reserves;
- (iii) the proposed purchase would be a reserve tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota;

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ARTICLE V

TRANSACTIONS WITH THE FUND

Section 1. Agencies dealing with the Fund

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

Section 2. Limitation on the Fund's operations

Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

Section 3. Conditions governing use of the Fund's resources

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;
- (ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;
- (iii) The proposed purchase would be a gold tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase or to exceed two hundred percent of its quota;
- (iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2(a), that the member desiring to purchase is ineligible to use the resources of the Fund.

(b) A member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

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- (iv) the Fund has not previously declared under Section 5 of this Article, Article VI, Section 1, or Article XXVI, Section 2(a) that the member desiring to purchase is ineligible to use the general resources of the Fund.

(c) The Fund shall examine a request for a purchase to determine whether the proposed purchase would be consistent with the provisions of this Agreement and the policies adopted under them, provided that requests for reserve tranche purchases shall not be subject to challenge.

(d) The Fund shall adopt policies and procedures on the selection of currencies to be sold that take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions in the Fund, provided that if a member represents that it is proposing to purchase the currency of another member because the purchasing member wishes to obtain an equivalent amount of its own currency offered by the other member, it shall be entitled to purchase the currency of the other member unless the Fund has given notice under Article VII, Section 3 that its holdings of the currency have become scarce.

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- (e) (i) Each member shall ensure that balances of its currency purchased from the Fund are balances of a freely usable currency or can be exchanged at the time of purchase for a freely usable currency of its choice at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(a).
- (ii) Each member whose currency is purchased from the Fund or is obtained in exchange for currency purchased from the Fund shall collaborate with the Fund and other members to enable such balances of its currency to be exchanged, at the time of purchase, for the freely usable currencies of other members.
- (iii) An exchange under (i) above of a currency that is not freely usable shall be made by the member whose currency is purchased unless that member and the purchasing member agree on another procedure.
- (iv) A member purchasing from the Fund the freely usable currency of another member and wishing to exchange it at the time of purchase for another freely usable currency shall make the exchange with the other member if requested by that member. The exchange shall be made for a freely usable currency selected by the other member at the rate of exchange referred to in (i) above.

(f) Under policies and procedures which it shall adopt, the Fund may agree to provide a participant making a purchase in accordance with this Section with special drawing rights instead of the currencies of other members.

(c) A member's use of the resources of the Fund shall be in accordance with the purposes of the Fund. The Fund shall adopt policies on the use of its resources that will assist members to solve their balance of payments problems in a manner consistent with the purposes of the Fund and that will establish adequate safeguards for the temporary use of its resources.

(d) A representation by a member under (a) above shall be examined by the Fund to determine whether the proposed purchase would be consistent with the provisions of this Agreement and with the policies adopted under them, with the exception that proposed gold tranche purchases shall not be subject to challenge.

Section 4. Waiver of conditions

The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3(b)(iii) and (iv) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's general resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

Section 5. Ineligibility to use the Fund's general resources

Whenever the Fund is of the opinion that any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its general resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the general resources of the Fund or may, after giving reasonable notice to the member, declare it ineligible to use the general resources of the Fund.

Section 6. Other purchases and sales of special drawing rights by the Fund

(a) The Fund may accept special drawing rights offered by a participant in exchange for an equivalent amount of the currencies of other members.

(b) The Fund may provide a participant, at its request, with special drawing rights for an equivalent amount of the currencies of other members. The Fund's holdings of a member's currency shall not be increased as a result of these transactions above the level at which the holdings would be subject to charges under Section 8(b)(ii) of this Article.

(c) The currencies provided or accepted by the Fund under this Section shall be selected in accordance with policies that take into account the principles of Section 3(d) or 7(i) of this Article. The Fund may enter into transactions under this Section only if a member whose currency is provided or accepted by the Fund concurs in that use of its currency.

Section 7. Repurchase by a member of its currency held by the Fund

(a) A member shall be entitled to repurchase at any time the Fund's holdings of its currency that are subject to charges under Section 8(b) of this Article.

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Article V
Sections 4, 5, 6, and 7Section 4. Waiver of conditions

The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3(a) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

Section 5. Ineligibility to use the Fund's resources

Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

2583Section 6. Purchases of currencies from the Fund for gold

(a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

Section 7. Repurchase by a member of its currency held by the Fund

(a) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota.

(b) A member that has made a purchase under Section 3 of this Article will be expected normally, as its balance of payments and reserve position improves, to repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(b) of this Article. A member shall repurchase these holdings if, in accordance with policies on repurchase that the Fund shall adopt and after consultation with the member, the Fund represents to the member that it should repurchase because of an improvement in its balance of payments and reserve position.

(c) A member that has made a purchase under Section 3 of this Article shall repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(b) of this Article not later than five years after the date on which the purchase was made. The Fund may prescribe that repurchase shall be made by a member in installments during the period beginning three years and ending five years after the date of a purchase. The Fund, by an eighty-five percent majority of the total voting power, may change the periods for repurchase under this subsection, and any period so adopted shall apply to all members.

(d) The Fund, by an eighty-five percent majority of the total voting power, may adopt periods other than those that apply in accordance with (c) above, which shall be the same for all members, for the repurchase of holdings of currency acquired by the Fund pursuant to a special policy on the use of its general resources.

(e) A member shall repurchase, in accordance with policies that the Fund shall adopt by a seventy percent majority of the total voting power, the Fund's holdings of its currency that are not acquired as a result of purchases and are subject to charges under Section 8(b)(ii) of this Article.

(f) A decision prescribing that under a policy on the use of the general resources of the Fund the period for repurchase under (c) or (d) above shall be shorter than the one in effect under the policy shall apply only to holdings acquired by the Fund subsequent to the effective date of the decision.

(g) The Fund, on the request of a member, may postpone the date of discharge of a repurchase obligation, but not beyond the maximum period under (c) or (d) above or under policies adopted by the Fund under (e) above, unless the Fund determines, by a seventy percent majority of the total voting power, that a longer period for repurchase which is consistent with the temporary use of the general resources of the Fund is justified because discharge on the due date would result in exceptional hardship for the member.

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Article V
Section 7

(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with each type of monetary reserve, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

- (i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to the following changes that have occurred during the year: one-half of any increase in the Fund's holdings of the member's currency, plus one-half of any increase, or minus one-half of any decrease, in the member's monetary reserves, or, if the Fund's holdings of the member's currency have decreased, one-half of any increase in the member's monetary reserves minus one-half of the decrease in the Fund's holdings of the member's currency. This rule shall not apply when a member's monetary reserves have decreased during the year by more than the Fund's holdings of its currency have increased.

- (ii) If after the repurchase described in (i) above (if required) has been made, a member's holdings of another member's currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

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(h) The Fund's policies under Section 3(d) of this Article may be supplemented by policies under which the Fund may decide after consultation with a member to sell under Section 3(b) of this Article its holdings of the member's currency that have not been repurchased in accordance with this Section 7, without prejudice to any action that the Fund may be authorized to take under any other provision of this Agreement.

(i) All repurchases under this Section shall be made with special drawing rights or with the currencies of other members specified by the Fund. The Fund shall adopt policies and procedures with regard to the currencies to be used by members in making repurchases that take into account the principles in Section 3(d) of this Article. The Fund's holdings of a member's currency that is used in repurchase shall not be increased by the repurchase above the level at which they would be subject to charges under Section 8(b)(ii) of this Article.

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- (j) (i) If a member's currency specified by the Fund under (i) above is not a freely usable currency, the member shall ensure that the repurchasing member can obtain it at the time of the repurchase in exchange for a freely usable currency selected by the member whose currency has been specified. An exchange of currency under this provision shall take place at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(a).
- (ii) Each member whose currency is specified by the Fund for repurchase shall collaborate with the Fund and other members to enable repurchasing members, at the time of the repurchase, to obtain the specified currency in exchange for the freely usable currencies of other members.
- (iii) An exchange under (j)(i) above shall be made with the member whose currency is specified unless that member and the repurchasing member agree on another procedure.
- (iv) If a repurchasing member wishes to obtain, at the time of the repurchase, the freely usable currency of another member specified by the Fund under (i) above, it shall, if requested by the other member, obtain the currency from the other member in exchange for a freely usable currency at the rate of exchange referred to in (j)(i) above. The Fund may adopt regulations on the freely usable currency to be provided in an exchange.

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Article V
Section 7

(c) None of the adjustments described in (b) above shall be carried to a point at which

- (i) the member's monetary reserves are below one hundred fifty percent of its quota, or
- (ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or
- (iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned, or
- (iv) the amount repurchased exceeds twenty-five percent of the quota of the member concerned.

(d) The Fund by an eighty-five percent majority of the total voting power may revise the percentages in (c)(i) and (iv) above and revise and supplement the rules in paragraph 1(c), (d), and (e) and paragraph 2(b) of Schedule B.

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Section 8. Charges

(a) (i) The Fund shall levy a service charge on the purchase by a member of special drawing rights or the currency of another member held in the General Resources Account in exchange for its own currency, provided that the Fund may levy a lower service charge on reserve tranche purchases than on other purchases. The service charge on reserve tranche purchases shall not exceed one-half of one percent.

(ii) The Fund may levy a charge for stand-by or similar arrangements. The Fund may decide that the charge for an arrangement shall be offset against the service charge levied under (i) above on purchases under the arrangement.

(b) The Fund shall levy charges on its average daily balances of a member's currency held in the General Resources Account to the extent that they

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(i) have been acquired under a policy that has been the subject of an exclusion under Article XXX(c), or

(ii) exceed the amount of the member's quota after excluding any balances referred to in (i) above.

The rates of charge normally shall rise at intervals during the period in which balances are held.

(c) If a member fails to make a repurchase required under Section 7 of this Article, the Fund, after consultation with the member on the reduction of the Fund's holdings of its currency, may impose such charges as the Fund deems appropriate on its holdings of the member's currency that should have been repurchased.

(d) A seventy percent majority of the total voting power shall be required for the determination of the rates of charge under (a) and (b) above, which shall be uniform for all members, and under (c) above.

(e) A member shall pay all charges in special drawing rights, provided that in exceptional circumstances the Fund may permit a member to pay charges in the currencies of other members specified by the Fund, after consultation with them, or in its own currency. The Fund's holdings of a member's currency shall not be increased as a result of payments by other members under this provision above the level at which they would be subject to charges under (b)(ii) above.

Section 8. Charges

(a) 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 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.

(b) The Fund may levy a reasonable handling charge on any member buying gold from the Fund or selling gold to the Fund.

(c) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. 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.
- (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) 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) The rates referred to in (c) and (d) above may be changed by a three-fourths majority of the total voting power.

(f) All charges shall be paid in gold. 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 reserves bear to one-half of its quota, and shall pay the balance in its own currency.

Section 9. Remuneration

(a) The Fund shall pay remuneration on the amount by which the percentage of quota prescribed under (b) or (c) below exceeds the Fund's average daily balances of a member's currency held in the General Resources Account other than balances acquired under a policy that has been the subject of an exclusion under Article XXX(c). The rate of remuneration, which shall be determined by the Fund by a seventy percent majority of the total voting power, shall be the same for all members and shall be not more than, nor less than four-fifths of, the rate of interest under Article XX, Section 3. In establishing the rate of remuneration, the Fund shall take into account the rates of charge under Article V, Section 8(b).

(b) The percentage of quota applying for the purposes of (a) above shall be:

(i) for each member that became a member before the second amendment of this Agreement, a percentage of quota corresponding to seventy-five percent of its quota on the date of the second amendment of this Agreement, and for each member that became a member after the date of the second amendment of this Agreement, a percentage of quota calculated by dividing the total of the amounts corresponding to the percentages of quota that apply to the other members on the date on which the member became a member by the total of the quotas of the other members on the same date; plus

(ii) the amounts it has paid to the Fund in currency or special drawing rights under Article III, Section 3(a) since the date applicable under (b)(i) above; and minus

(iii) the amounts it has received from the Fund in currency or special drawing rights under Article III, Section 3(c) since the date applicable under (b)(i) above.

(c) The Fund, by a seventy percent majority of the total voting power, may raise the latest percentage of quota applying for the purposes of (a) above to each member to:

(i) a percentage, not in excess of one hundred percent, that shall be determined for each member on the basis of the same criteria for all members, or

(ii) one hundred percent for all members.

(d) Remuneration shall be paid in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

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Article V
Section 9Section 9. Remuneration

(a) The Fund shall pay remuneration, at a rate uniform for all members, on the amount by which seventy-five percent of a member's quota exceeded the average 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. 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.

(b) Remuneration shall be paid in gold or a member's own currency as determined by the Fund.

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Section 10. Computations

(a) The value of the Fund's assets held in the accounts of the General Department shall be expressed in terms of the special drawing right.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement, except Article IV and Schedule C, shall be at the rates at which the Fund accounts for these currencies in accordance with Section 11 of this Article.

(c) Computations for the determination of amounts of currency in relation to quota for the purpose of applying the provisions of this Agreement shall not include currency held in the Special Disbursement Account or in the Investment Account.

Section 11. Maintenance of value2592

(a) The value of the currencies of members held in the General Resources Account shall be maintained in terms of the special drawing right in accordance with exchange rates under Article XIX, Section 7(a).

(b) An adjustment in the Fund's holdings of a member's currency pursuant to this Section shall be made on the occasion of the use of that currency in an operation or transaction between the Fund and another member and at such other times as the Fund may decide or the member may request. Payments to or by the Fund in respect of an adjustment shall be made within a reasonable time, as determined by the Fund, after the date of adjustment, and at any other time requested by the member.

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[Article IV]

Section 1. Expression of par values

(a) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

[Article IV]

Section 8. Maintenance of gold value of the Fund's assets

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(a) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(c) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.

Section 12. Other operations and transactions

(a) The Fund shall be guided in all its policies and decisions under this Section by the objectives set forth in Article VIII, Section 7 and by the objective of avoiding the management of the price, or the establishment of a fixed price, in the gold market.

(b) Decisions of the Fund to engage in operations or transactions under (c), (d), and (e) below shall be made by an eighty-five percent majority of the total voting power.

2594 (c) The Fund may sell gold for the currency of any member after consulting the member for whose currency the gold is sold, provided that the Fund's holdings of a member's currency held in the General Resources Account shall not be increased by the sale above the level at which they would be subject to charges under Section 8(b)(ii) of this Article without the concurrence of the member, and provided that, at the request of the member, the Fund at the time of sale shall exchange for the currency of another member such part of the currency received as would prevent such an increase. The exchange of a currency for the currency of another member shall be made after consultation with that member, and shall not increase the Fund's holdings of that member's currency above the level at which they would be subject to charges under Section 8(b)(ii) of this Article. The Fund shall adopt policies and procedures with regard to exchanges that take into account the principles applied under Section 7(i) of this Article. Sales under this provision to a member shall be at a price agreed for each transaction on the basis of prices in the market.

(d) The Fund may accept payments from a member in gold instead of special drawing rights or currency in any operations or transactions under this Agreement. Payments to the Fund under this provision shall be at a price agreed for each operation or transaction on the basis of prices in the market.

(e) The Fund may sell gold held by it on the date of the second amendment of this Agreement to those members that were members on August 31, 1975 and that agree to buy it, in proportion to their quotas on that date. If the Fund intends to sell gold under (c) above for the purpose of (f)(ii) below, it may sell to each developing member that agrees to buy it that portion of the gold which, if sold under (c) above, would have produced the excess that could have been distributed to it under (f)(iii) below. The gold that would be sold under this provision to a member that has been declared ineligible to use the general resources of the Fund under Section 5 of this Article shall be sold to it when the ineligibility ceases, unless the Fund decides to make the sale sooner. The sale of gold to a member under this subsection (e) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold.

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(f) Whenever under (c) above the Fund sells gold held by it on the date of the second amendment of this Agreement, an amount of the proceeds equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and, except as the Fund may decide otherwise under (g) below, any excess shall be held in the Special Disbursement Account. The assets held in the Special Disbursement Account shall be held separately from the other accounts of the General Department, and may be used at any time:

- (i) to make transfers to the General Resources Account for immediate use in operations and transactions authorized by provisions of this Agreement other than this Section;
- (ii) for operations and transactions that are not authorized by other provisions of this Agreement but are consistent with the purposes of the Fund. Under this subsection (f)(ii) balance of payments assistance may be made available on special terms to developing members in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income;
- (iii) for distribution to those developing members that were members on August 31, 1975, in proportion to their quotas on that date, of such part of the assets that the Fund decides to use for the purposes of (ii) above as corresponds to the proportion of the quotas of these members on the date of distribution to the total of the quotas of all members on the same date, provided that the distribution under this provision to a member that has been declared ineligible to use the general resources of the Fund under Section 5 of this Article shall be made when the ineligibility ceases, unless the Fund decides to make the distribution sooner.

Decisions to use assets pursuant to (i) above shall be taken by a seventy percent majority of the total voting power, and decisions pursuant to (ii) and (iii) above shall be taken by an eighty-five percent majority of the total voting power.

(g) The Fund may decide, by an eighty-five percent majority of the total voting power, to transfer a part of the excess referred to in (f) above to the Investment Account for use pursuant to the provisions of Article XII, Section 6(f).

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(h) Pending uses specified under (f) above, the Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or in marketable obligations of international financial organizations. The income of investment and interest received under (f)(ii) above shall be placed in the Special Disbursement Account. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

(i) The General Resources Account shall be reimbursed from time to time in respect of the expenses of administration of the Special Disbursement Account paid from the General Resources Account by transfers from the Special Disbursement Account on the basis of a reasonable estimate of such expenses.

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(j) The Special Disbursement Account shall be terminated in the event of the liquidation of the Fund and may be terminated prior to liquidation of the Fund by a seventy percent majority of the total voting power. Upon termination of the account because of the liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K. Upon termination prior to liquidation of the Fund, any assets in this account shall be transferred to the General Resources Account for immediate use in operations and transactions. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations for the administration of the Special Disbursement Account.

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ARTICLE VI

CAPITAL TRANSFERS

Section 1. Use of the Fund's general resources for capital transfers

(a) A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund.

(b) Nothing in this Section shall be deemed:

- (i) to prevent the use of the general resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking, or other business; or
- (ii) to affect capital movements which are met out of a member's own resources, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

2600Section 2. Special provisions for capital transfers

A member shall be entitled to make reserve tranche purchases to meet capital transfers.

Section 3. Controls of capital transfers

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3(b) and in Article XIV, Section 2.

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ARTICLE VI

CAPITAL TRANSFERS

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(b) Nothing in this Section shall be deemed

- (i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or
- (ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

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ARTICLE VII

REFPLENISHMENT AND SCARCE CURRENCIES

Section 1. Measures to replenish the Fund's holdings of currencies

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency in the General Resources Account needed in connection with its transactions, take either or both of the following steps:

- (i) propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the concurrence of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to concur in the borrowing of its currency by the Fund from any other source;
- (ii) require the member, if it is a participant, to sell its currency to the Fund for special drawing rights held in the General Resources Account, subject to Article XIX, Section 4. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Article XIX, Section 5.

2602Section 2. General scarcity of currency

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 3. Scarcity of the Fund's holdings

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 2 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

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ARTICLE VII

SCARCE CURRENCIES

Section 1. General scarcity of currency

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 2. Measures to replenish the Fund's holdings of scarce currencies

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

- (i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.
- (ii) Require the member to sell its currency to the Fund for gold.

Section 3. Scarcity of the Fund's holdings

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

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(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV and Schedule C, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question, and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. Administration of restrictions

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Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3(b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. Effect of other international agreements on restrictions

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

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Article VII
Sections 3, 4, and 5

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

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ARTICLE VIII

GENERAL OBLIGATIONS OF MEMBERS

Section 1. Introduction

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. Avoidance of restrictions on current payments

(a) Subject to the provisions of Article VII, Section 3(b) and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any discriminatory currency arrangements or multiple currency practices, whether within or outside margins under Article IV or prescribed by or under Schedule C, except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force, the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 3 of that Article shall apply.

Section 4. Convertibility of foreign-held balances

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents:

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in special drawing rights, subject to Article XIX, Section 4, or in the currency of the member making the request.

ARTICLE VIII

GENERAL OBLIGATIONS OF MEMBERS

Section 1. Introduction

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. Avoidance of restrictions on current payments

(a) Subject to the provisions of Article VII, Section 3(b), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

2607Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

Section 4. Convertibility of foreign held balances

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

- (b) The obligation in (a) above shall not apply when:
- (i) the convertibility of the balances has been restricted consistently with Section 2 of this Article or Article VI, Section 3;
 - (ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;
 - (iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;
 - (iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(a); or
 - (v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

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Section 5. Furnishing of information

(a) The Fund may require members to furnish it with such information as it deems necessary for its activities, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

- (i) official holdings at home and abroad of (1) gold, (2) foreign exchange;
- (ii) holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange;
- (iii) production of gold;
- (iv) gold exports and imports according to countries of destination and origin;
- (v) total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin;
- (vi) international balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items;

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Article VIII
Sections 4 and 5

- (b) The obligation in (a) above shall not apply
- (i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or
 - (ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or
 - (iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or
 - (iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(a); or
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- (ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.
- (iii) Production of gold.
- (iv) Gold exports and imports according to countries of destination and origin.
- (v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.
- (vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.

- (vii) international investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information;
- (viii) national income;
- (ix) price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices;
- (x) buying and selling rates for foreign currencies;
- (xi) exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur; and
- (xii) where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

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(b) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable and, so far as possible, to avoid mere estimates.

(c) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

Section 6. Consultation between members regarding existing international agreements

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements shall consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

- (vii) International investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.
- (viii) National income.
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2611

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Section 7. Obligation to collaborate regarding policies on
reserve assets

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

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ARTICLE IX

STATUS, IMMUNITIES, AND PRIVILEGES

Section 1. Purposes of Article

To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities, and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2. Status of the Fund

The Fund shall possess full juridical personality, and in particular, the capacity:

- (i) to contract;
- (ii) to acquire and dispose of immovable and movable property; and
- (iii) to institute legal proceedings.

Section 3. Immunity from judicial process

The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4. Immunity from other action

Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation, or any other form of seizure by executive or legislative action.

Section 5. Immunity of archives

The archives of the Fund shall be inviolable.

Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the activities provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls, and moratoria of any nature.

Section 7. Privilege for communications

The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

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Section 8. Immunities and privileges of officers and employees

All Governors, Executive Directors, Alternates, members of committees, representatives appointed under Article XII, Section 3(j), advisors of any of the foregoing persons, officers, and employees of the Fund:

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity;
- (ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements, and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members; and
- (iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials, and employees of comparable rank of other members.

2616**Section 9. Immunities from taxation**

(a) The Fund, its assets, property, income, and its operations and transactions authorized by this Agreement shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to Executive Directors, Alternates, officers, or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because of its origin; or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10. Application of Article

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

Section 8. Immunities and privileges of officers and employees

All governors, executive directors, alternates, officers and employees of the Fund

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity,
- (ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members,
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ARTICLE X

RELATIONS WITH OTHER INTERNATIONAL
ORGANIZATIONS

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XXVIII.

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RELATIONS WITH OTHER INTERNATIONAL
ORGANIZATIONS

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII.

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ARTICLE XI

RELATIONS WITH NON-MEMBER COUNTRIES

Section 1. Undertakings regarding relations with non-member countries

Each member undertakes:

- (i) not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;
- (ii) not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and
- (iii) to cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

Section 2. Restrictions on transactions with non-member countries

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

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Each member undertakes:

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- (ii) Not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and
- (iii) To cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

2621Section 2. Restrictions on transactions with non-member countries

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

ARTICLE XII

ORGANIZATION AND MANAGEMENT

Section 1. Structure of the Fund

The Fund shall have a Board of Governors, an Executive Board, a Managing Director, and a staff, and a Council if the Board of Governors decides, by an eighty-five percent majority of the total voting power, that the provisions of Schedule D shall be applied.

Section 2. Board of Governors

(a) All powers under this Agreement not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors. The Board of Governors shall consist of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made. No Alternate may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as chairman.

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(b) The Board of Governors may delegate to the Executive Board authority to exercise any powers of the Board of Governors, except the powers conferred directly by this Agreement on the Board of Governors.

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ARTICLE XII

ORGANIZATION AND MANAGEMENT

Section 1. Structure of the Fund

The Fund shall have a Board of Governors, Executive Directors, a Managing Director, and a staff.

Section 2. Board of Governors

(a) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

- (i) Admit new members and determine the conditions of their admission.
- (ii) Approve a revision of quotas, or to decide on the payment, or on the mitigation of the effects of payment, of increases in quotas proposed as the result of a general review of quotas.
- (iii) Approve a uniform change in the par values of the currencies of all members, or to decide when such a change is made that the provisions relating to the maintenance of gold value of the Fund's assets shall not apply.
- (iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).
- (v) Determine the distribution of the net income of the Fund.
- (vi) Require a member to withdraw.
- (vii) Decide to liquidate the Fund.
- (viii) Decide appeals from interpretations of this Agreement given by the Executive Directors.

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(c) The Board of Governors shall hold such meetings as may be provided for by the Board of Governors or called by the Executive Board. Meetings of the Board of Governors shall be called whenever requested by fifteen members or by members having one-quarter of the total voting power.

2624 (d) A quorum for any meeting of the Board of Governors shall be a majority of the Governors having not less than two-thirds of the total voting power.

(e) Each Governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Board, when it deems such action to be in the best interests of the Fund, may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

(g) The Board of Governors, and the Executive Board to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and Alternates shall serve as such without compensation from the Fund, but the Fund may pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and their Alternates and the salary and terms of the contract of service of the Managing Director.

(j) The Board of Governors and the Executive Board may appoint such committees as they deem advisable. Membership of committees need not be limited to Governors or Executive Directors or their Alternates.

(ix) Revise the provisions on repurchase or to revise and supplement the rules for the distribution of repurchases among types of reserves.

(x) Make transfers to general reserve from any special reserve.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

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(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

(g) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and alternates shall serve as such without compensation from the Fund, but the Fund shall pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the Managing Director.

Section 3. Executive Board

(a) The Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors.

(b) The Executive Board shall consist of Executive Directors with the Managing Director as chairman. Of the Executive Directors:

(i) five shall be appointed by the five members having the largest quotas; and

(ii) fifteen shall be elected by the other members.

2626 For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above. The number of Executive Directors in (ii) above shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below, unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board.

(c) If, at the second regular election of Executive Directors and thereafter, the members entitled to appoint Executive Directors under (b)(i) above do not include the two members, the holdings of whose currencies by the Fund in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right, either one or both of such members, as the case may be, may appoint an Executive Director.

(d) Elections of elective Executive Directors shall be conducted at intervals of two years in accordance with the provisions of Schedule E, supplemented by such regulations as the Fund deems appropriate. For each regular election of Executive Directors, the Board of Governors may issue regulations making changes in the proportion of votes required to elect Executive Directors under the provisions of Schedule E.

(e) Each Executive Director shall appoint an Alternate with full power to act for him when he is not present. When the Executive Directors appointing them are present, Alternates may participate in meetings but may not vote.

Section 3. Executive Directors

(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.

(b) There shall be not less than twelve directors who need not be governors, and of whom

- (i) five shall be appointed by the five members having the largest quotas;
- (ii) not more than two shall be appointed when the provisions of (c) below apply;
- (iii) five shall be elected by the members not entitled to appoint directors, other than the American Republics; and
- (iv) two shall be elected by the American Republics not entitled to appoint directors.

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For the purposes of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they become members in accordance with Article XX or in accordance with Article II, Section 2. When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

(c) If, at the second regular election of directors and thereafter, the members entitled to appoint directors under (b)(i) above do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

(d) Subject to Article XX, Section 3(b) elections of elective directors shall be conducted at intervals of two years in accordance with the provisions of Schedule C, supplemented by such regulations as the Fund deems appropriate. Whenever the Board of Governors increases the number of directors to be elected under (b) above, it shall issue regulations making appropriate changes in the proportion of votes required to elect directors under the provisions of Schedule C.

(f) Executive Directors shall continue in office until their successors are appointed or elected. If the office of an elected Executive Director becomes vacant more than ninety days before the end of his term, another Executive Director shall be elected for the remainder of the term by the members that elected the former Executive Director. A majority of the votes cast shall be required for election. While the office remains vacant, the Alternate of the former Executive Director shall exercise his powers, except that of appointing an Alternate.

(g) The Executive Board shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Board shall be a majority of the Executive Directors having not less than one-half of the total voting power.

- (i) (i) Each appointed Executive Director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.
- (ii) If the votes allotted to a member that appoints an Executive Director under (c) above were cast by an Executive Director together with the votes allotted to other members as a result of the last regular election of Executive Directors, the member may agree with each of the other members that the number of votes allotted to it shall be cast by the appointed Executive Director. A member making such an agreement shall not participate in the election of Executive Directors.
- (iii) Each elected Executive Director shall be entitled to cast the number of votes which counted towards his election.
- (iv) When the provisions of Section 5(b) of this Article are applicable, the votes which an Executive Director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which an Executive Director is entitled to cast shall be cast as a unit.

(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint an Executive Director under (b) above may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration.

Section 4. Managing Director and staff

(a) The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. The Managing Director shall be chairman of the Executive Board, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Board so decides.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund.

(e) Each director shall appoint an alternate with full power to act for him when he is not present. When the directors appointing them are present, alternates may participate in meetings but may not vote.

(f) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the members who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(g) The Executive Directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5(b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

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(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(k) The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

Section 4. Managing Director and staff

(a) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. Voting

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.

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(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(b) and (f) up to the date when the vote is taken,

provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

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

(a) The Fund shall determine annually what part of its net income shall be placed to general reserve or special reserve, and what part, if any, shall be distributed.

(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of his functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. Voting

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above, adjusted:

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(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken,

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8(d) of that Article.

(d) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

Section 6. Reserves and distribution of net income

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(b) The Fund may use the special reserve for any purpose for which it may use the general reserve, except distribution.

(c) If any distribution is made of the net income of any year, it shall be made to all members in proportion to their quotas.

(d) The Fund, by a seventy percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas.

(e) Payments under (c) and (d) above shall be made in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

(f) (i) The Fund may establish an Investment Account for the purposes of this subsection (f). The assets of the Investment Account shall be held separately from the other accounts of the General Department.

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(ii) The Fund may decide to transfer to the Investment Account a part of the proceeds of the sale of gold in accordance with Article V, Section 12(g) and, by a seventy percent majority of the total voting power, may decide to transfer to the Investment Account, for immediate investment, currencies held in the General Resources Account. The amount of these transfers shall not exceed the total amount of the general reserve and the special reserve at the time of the decision.

(iii) The Fund may invest a member's currency held in the Investment Account in marketable obligations of that member or in marketable obligations of international financial organizations. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

(iv) The income of investment may be invested in accordance with the provisions of this subsection (f). Income not invested shall be held in the Investment Account or may be used for meeting the expenses of conducting the business of the Fund.

(v) The Fund may use a member's currency held in the Investment Account to obtain the currencies needed to meet the expenses of conducting the business of the Fund.

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Article XII
Section 6

(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 shall be made to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

(c) The Fund may make transfers to general reserve from any special reserve.

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- (vi) The Investment Account shall be terminated in the event of liquidation of the Fund and may be terminated, or the amount of the investment may be reduced, prior to liquidation of the Fund by a seventy percent majority of the total voting power. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations regarding administration of the Investment Account, which shall be consistent with (vii), (viii), and (ix) below.
- (vii) Upon termination of the Investment Account because of liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K, provided that a portion of these assets corresponding to the proportion of the assets transferred to this account under Article V, Section 12(g) to the total of the assets transferred to this account shall be deemed to be assets held in the Special Disbursement Account and shall be distributed in accordance with Schedule K, paragraph 2(a)(ii).
- (viii) Upon termination of the Investment Account prior to liquidation of the Fund, a portion of the assets held in this account corresponding to the proportion of the assets transferred to this account under Article V, Section 12(g) to the total of the assets transferred to the account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the assets held in the Investment Account shall be transferred to the General Resources Account for immediate use in operations and transactions.
- (ix) On a reduction of the amount of the investment by the Fund, a portion of the reduction corresponding to the proportion of the assets transferred to the Investment Account under Article V, Section 12(g) to the total of the assets transferred to this account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the reduction shall be transferred to the General Resources Account for immediate use in operations and transactions.

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Section 7. Publication of reports

(a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its operations and transactions and its holdings of special drawing rights, gold, and currencies of members.

(b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

Section 8. Communication of views to members2636

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a seventy percent majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Section 3(j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

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Article XII
Sections 7 and 8Section 7. Publication of reports

(a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its transactions and its holdings of gold and currencies of members.

(b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

Section 8. Communication of views to members

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an executive director, it shall be entitled to representation in accordance with Section 3(j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

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ARTICLE XIII

OFFICES AND DEPOSITORIES

Section 1. Location of offices

The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. Depositories

2638 (a) Each member shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Board may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. Guarantee of the Fund's assets

Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

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ARTICLE XIII

OFFICES AND DEPOSITORIES

Section 1. Location of offices

The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. Depositories

(a) Each member country shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Directors may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. Guarantee of the Fund's assets

Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

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ARTICLE XIV

TRANSITIONAL ARRANGEMENTS

Section 1. Notification to the Fund

Each member shall notify the Fund whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept these obligations.

Section 2. Exchange restrictions2640

A member that has notified the Fund that it intends to avail itself of transitional arrangements under this provision may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which it became a member. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund, and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the promotion of a stable system of exchange rates. In particular, members shall withdraw restrictions maintained under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the general resources of the Fund.

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ARTICLE XIV

TRANSITIONAL PERIOD

Section 1. Introduction

The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2. Exchange restrictions

In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

2641Section 3. Notification to the Fund

Each member shall notify the Fund before it becomes eligible under Article XX, Section 4(c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Section 4. Action of the Fund relating to restrictions

Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other

Section 3. Action of the Fund relating to restrictions

The Fund shall make annual reports on the restrictions in force under Section 2 of this Article. Any member retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4 shall consult the Fund annually as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XXVI, Section 2(a).

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Article XIV
Sections 4 and 5

articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2(a).

Section 5. Nature of transitional period

In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

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ARTICLE XV

SPECIAL DRAWING RIGHTS

Section 1. Authority to allocate special drawing rights

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Rights Department.

Section 2. Valuation of the special drawing right

The method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect.

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ARTICLE XXI

SPECIAL DRAWING RIGHTS

Section 1. Authority to allocate special drawing rights

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Account.

Section 2. Unit of value

The unit of value of special drawing rights shall be equivalent to 0.888 671 gram of fine gold.

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ARTICLE XVI

GENERAL DEPARTMENT AND SPECIAL DRAWING RIGHTS DEPARTMENT

Section 1. Separation of operations and transactions

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. All other operations and transactions on the account of the Fund authorized by or under this Agreement shall be conducted through the General Department. Operations and transactions pursuant to Article XVII, Section 2 shall be conducted through the General Department as well as the Special Drawing Rights Department.

Section 2. Separation of assets and property

2646 All assets and property of the Fund, except resources administered under Article V, Section 2(b), shall be held in the General Department, provided that assets and property acquired under Article XX, Section 2 and Articles XXIV and XXV and Schedules H and I shall be held in the Special Drawing Rights Department. Any assets or property held in one Department shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Department, except that the expenses of conducting the business of the Special Drawing Rights Department shall be paid by the Fund from the General Department which shall be reimbursed in special drawing rights from time to time by assessments under Article XX, Section 4 made on the basis of a reasonable estimate of such expenses.

Section 3. Recording and information

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Rights Department. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

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ARTICLE XXII

GENERAL ACCOUNT AND SPECIAL DRAWING ACCOUNT

Section 1. Separation of operations and transactions

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account. All other operations and transactions of the Fund authorized by or under this Agreement shall be conducted through the General Account. Operations and transactions pursuant to Article XXIII, Section 2, shall be conducted through the General Account as well as the Special Drawing Account.

Section 2. Separation of assets and property2647

All assets and property of the Fund shall be held in the General Account, except that assets and property acquired under Article XXVI, Section 2, and Articles XXX and XXXI and Schedules H and I shall be held in the Special Drawing Account. Any assets or property held in one Account shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Account, except that the expenses of conducting the business of the Special Drawing Account shall be paid by the Fund from the General Account which shall be reimbursed from time to time by assessments under Article XXVI, Section 4, made on the basis of a reasonable estimate of such expenses.

Section 3. Recording and information

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Account. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

ARTICLE XVII

PARTICIPANTS AND OTHER HOLDERS OF
SPECIAL DRAWING RIGHTSSection 1. Participants

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Rights Department in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Rights Department as of the date the instrument is deposited, except that no member shall become a participant before the provisions of this Agreement pertaining exclusively to the Special Drawing Rights Department have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

2648Section 2. Fund as a holder

The Fund may hold special drawing rights in the General Resources Account and may accept and use them in operations and transactions conducted through the General Resources Account with participants in accordance with the provisions of this Agreement or with prescribed holders in accordance with the terms and conditions prescribed under Section 3 of this Article.

Section 3. Other holders

The Fund may prescribe:

- (i) as holders, non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities;
- (ii) the terms and conditions on which prescribed holders may be permitted to hold special drawing rights and may accept and use them in operations and transactions with participants and other prescribed holders; and
- (iii) the terms and conditions on which participants and the Fund through the General Resources Account may enter into operations and transactions in special drawing rights with prescribed holders.

An eighty-five percent majority of the total voting power shall be required for prescriptions under (i) above. The terms and conditions prescribed by the Fund shall be consistent with the provisions of this Agreement and the effective functioning of the Special Drawing Rights Department.

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ARTICLE XXIII

PARTICIPANTS AND OTHER HOLDERS
OF SPECIAL DRAWING RIGHTSSection 1. Participants

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Account as of the date the instrument is deposited, except that no member shall become a participant before Articles XXI through XXXII and Schedules F through I have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. General Account as a holder

The Fund may accept and hold special drawing rights in the General Account and use them, in accordance with the provisions of this Agreement.

Section 3. Other holders

The Fund by an eighty-five percent majority of the total voting power may prescribe:

- (i) as holders, non-members, members that are non-participants, and institutions that perform functions of a central bank for more than one member;
- (ii) the terms and conditions on which these holders may be permitted to accept, hold, and use special drawing rights, in operations and transactions with participants; and
- (iii) the terms and conditions on which participants may enter into operations and transactions with these holders.

The terms and conditions prescribed by the Fund for the use of special drawing rights by prescribed holders and by participants in operations and transactions with them shall be consistent with the provisions of this Agreement.

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ARTICLE XVIII

ALLOCATION AND CANCELLATION OF
SPECIAL DRAWING RIGHTSSection 1. Principles and considerations governing allocation
and cancellation

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

2650Section 2. 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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ARTICLE XXIV

ALLOCATION AND CANCELLATION OF
SPECIAL DRAWING RIGHTSSection 1. Principles and considerations governing allocation
and cancellation

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

2651Section 2. Allocation and cancellation

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(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.

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

(i) the Governor for the participant did not vote in favor of the decision; and

(ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

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(f) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. Unexpected major developments

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. Decisions on allocations and cancellations

(a) Decisions under Section 2(a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.

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Article XXIV
Sections 2, 3, and 4

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

- (i) the governor for the participant did not vote in favor of the decision; and
- (ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

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(f) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. Unexpected major developments

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. Decisions on allocations and cancellations

(a) Decisions under Section 2(a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Directors.

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(a) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1(b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Rights Department as he is so satisfied.

(c) The Managing Director shall make proposals:

(i) not later than six months before the end of each basic period;

(ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (b) above have been met;

(iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or

(iv) within six months of a request by the Board of Governors or the Executive Board;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (b) above, he shall report to the Board of Governors and to the Executive Board.

(d) An eighty-five percent majority of the total voting power shall be required for decisions under Section 2(a), (b), and (c) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

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Article XXIV
Section 4

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(a) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1(b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Account as he is so satisfied.

(c) The Managing Director shall make proposals:

- (i) not later than six months before the end of each basic period;
- (ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (b) above have been met;
- (iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or
- (iv) within six months of a request by the Board of Governors or the Executive Directors;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (b) above, he shall report to the Board of Governors and to the Executive Directors.

(d) A majority of eighty-five percent of the total voting power shall be required for decisions under Section 2(a), (b), and (c) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

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ARTICLE XIX

OPERATIONS AND TRANSACTIONS IN
SPECIAL DRAWING RIGHTSSection 1. Use of special drawing rights

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. Operations and transactions between participants

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights to obtain an equivalent amount of currency from the other participant.

(c) The Fund, by a seventy percent majority of the total voting power, may prescribe operations in which a participant is authorized to engage in agreement with another participant on such terms and conditions as the Fund deems appropriate. The terms and conditions shall be consistent with the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement.

(d) The Fund may make representations to a participant that enters into any operation or transaction under (b) or (c) above that in the judgment of the Fund may be prejudicial to the process of designation according to the principles of Section 5 of this Article or is otherwise inconsistent with Article XXII. A participant that persists in entering into such operations or transactions shall be subject to Article XXIII, Section 2(b).

Section 3. Requirement of need

(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves.

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ARTICLE XXV

OPERATIONS AND TRANSACTIONS
IN SPECIAL DRAWING RIGHTSSection 1. Use of special drawing rights

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. Transactions between participants

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights:

- (i) to obtain an equivalent amount of its own currency held by the other participant; or
- (ii) to obtain an equivalent amount of currency from the other participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in Section 3(a) of this Article; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations. The Fund by an eighty-five percent majority of the total voting power may prescribe additional transactions or categories of transactions under this provision. Any transactions or categories of transactions prescribed by the Fund under this subsection (b)(ii) shall be consistent with the other provisions of this Agreement and with the proper use of special drawing rights in accordance with this Agreement.

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(c) A participant that provides currency to a participant using special drawing rights shall receive an equivalent amount of special drawing rights.

Section 3. Requirement of need

(a) In transactions under Section 2 of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only to meet

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIII, Section 2(b).

(c) The Fund may waive the expectation in (a) above in any transactions in which a participant uses special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; or offset the effect of a failure by the other participant to fulfill the expectation in (a) above.

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Section 4. Obligation to provide currency

(a) A participant designated by the Fund under Section 5 of this Article shall provide on demand a freely usable currency to a participant using special drawing rights under Section 2(a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund.

(b) A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

Section 5. Designation of participants to provide currency

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

- (i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

balance of payments needs or in the light of developments in its official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund, and not for the sole purpose of changing the composition of the foregoing as between special drawing rights and the total of gold, foreign exchange, and reserve position in the Fund.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIX, Section 2(b).

(c) Participants may use special drawing rights without fulfilling the expectation in (a) above to obtain an equivalent amount of currency from another participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in (a) above; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations.

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Section 4. Obligation to provide currency

A participant designated by the Fund under Section 5 of this Article shall provide on demand currency convertible in fact to a participant using special drawing rights under Section 2(a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

Section 5. Designation of participants to provide currency

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

- (i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(a) of this Article, to reduce negative balances in holdings of special drawing rights, or to offset the effect of failures to fulfill the expectation in Section 3(a) of this Article.

(iii) In designating participants the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. Reconstitution

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

(b) The rules for reconstitution may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of review shall continue to apply. A seventy percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(a) of this Article; to reduce negative balances in holdings of special drawing rights; or to offset the effect of failures to fulfill the expectation in Section 3(a) of this Article.

(iii) In designating participants the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation shall be reviewed before the end of the first and each subsequent basic period and the Fund may adopt new rules as the result of a review. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

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Section 6. Reconstitution

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

(b) The rules for reconstitution shall be reviewed before the end of the first and each subsequent basic period and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of the review shall continue to apply. An eighty-five percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. Operations and transactions through the General Account

(a) Special drawing rights shall be included in a member's monetary reserves under Article XIX for the purposes of Article III, Section 4(a), Article V, Section 7(b) and (c), Article V, Section 8(f), and Schedule B, paragraph 1. The Fund may decide that in calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), no account shall be taken of any increase or decrease in those monetary reserves which is due to allocations or cancellations of special drawing rights during the year.

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Section 7. Exchange rates

(a) Except as otherwise provided in (b) below, the exchange rates for transactions between participants under Section 2(a) and (b) of this Article shall be such that participants using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

(b) The Fund, by an eighty-five percent majority of the total voting power, may adopt policies under which in exceptional circumstances the Fund, by a seventy percent majority of the total voting power, may authorize participants entering into transactions under Section 2(b) of this Article to agree on exchange rates other than those applicable under (a) above.

(c) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(d) For the purpose of this provision the term participant includes a terminating participant.

- (b) The Fund shall accept special drawing rights:
- (i) in repurchases accruing in special drawing rights under Article V, Section 7(b); and
 - (ii) in reimbursement pursuant to Article XXVI, Section 4.
- (c) The Fund may accept special drawing rights to the extent it may decide:
- (i) in payment of charges; and
 - (ii) in repurchases other than those under Article V, Section 7(b), in proportions which, as far as feasible, shall be the same for all members.
- (d) The Fund, if it deems such action appropriate to replenish its holdings of a participant's currency and after consultation with that participant on alternative ways of replenishment under Article VII, Section 2, may require that participant to provide its currency for special drawing rights held in the General Account subject to Section 4 of this Article. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Section 5 of this Article.
- (e) To the extent that a participant may receive special drawing rights in a transaction prescribed by the Fund to promote reconstitution by it under Section 6(a) of this Article, prevent or reduce a negative balance, or offset the effect of a failure by it to fulfill the expectation in Section 3(a) of this Article, the Fund may provide the participant with special drawing rights held in the General Account for gold or currency acceptable to the Fund.
- (f) In any of the other operations and transactions of the Fund with a participant conducted through the General Account the Fund may use special drawing rights by agreement with the participant.
- (g) The Fund may levy reasonable charges uniform for all participants in connection with operations and transactions under this Section.

Section 8. Exchange rates

- (a) The exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.
- (b) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.
- (c) For the purpose of this provision the term participant includes a terminating participant.

ARTICLE XX

SPECIAL DRAWING RIGHTS DEPARTMENT
INTEREST AND CHARGESSection 1. Interest

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. Charges

2664 Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. Rate of interest and charges

The Fund shall determine the rate of interest by a seventy percent majority of the total voting power. The rate of charges shall be equal to the rate of interest.

Section 4. Assessments

When it is decided under Article XVI, Section 2 that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. Payment of interest, charges, and assessments

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

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ARTICLE XXVI

SPECIAL DRAWING ACCOUNT
INTEREST AND CHARGESSection 1. Interest

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. Charges

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. Rate of interest and charges2665

The rate of interest shall be equal to the rate of charges and shall be one and one-half percent 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.

Section 4. Assessments

When it is decided under Article XXII, Section 2, that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. Payment of interest, charges, and assessments

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

ARTICLE XXI

ADMINISTRATION OF THE GENERAL DEPARTMENT
AND THE SPECIAL DRAWING RIGHTS DEPARTMENT

(a) The General Department and the Special Drawing Rights Department shall be administered in accordance with the provisions of Article XII, subject to the following provisions:

- (i) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Rights Department only requests by, or the presence and the votes of, Governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.
- (ii) For decisions by the Executive Board on matters pertaining exclusively to the Special Drawing Rights Department only Executive Directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these Executive Directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of Executive Directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority. For the purposes of this provision, an agreement under Article XII, Section 3(i)(ii) by a member that is a participant shall entitle an appointed Executive Director to vote and cast the number of votes allotted to the member.
- (iii) Questions of the general administration of the Fund, including reimbursement under Article XVI, Section 2, and any question whether a matter pertains to both Departments or exclusively to the Special Drawing Rights Department shall be decided as if they pertained exclusively to the General Department. Decisions with respect to the method of valuation of the special drawing right, the acceptance and holding of special drawing rights in the General Resources Account of the General Department and the use of them, and other decisions affecting the operations and transactions conducted through both the General Resources Account of the General Department and the Special Drawing Rights Department shall be made by the majorities required for decisions on matters pertaining exclusively to each Department. A decision on a matter pertaining to the Special Drawing Rights Department shall so indicate.

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ARTICLE XXVII

ADMINISTRATION OF THE GENERAL ACCOUNT
AND THE SPECIAL DRAWING ACCOUNT

(a) The General Account and the Special Drawing Account shall be administered in accordance with the provisions of Article XII, subject to the following:

- (i) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board with respect to special drawing rights except those under Article XXIII, Section 3, Article XXIV, Section 2(a), (b), and (c), and Section 3, the penultimate sentence of Article XXV, Section 2(b), Article XXV, Section 6(b), and Article XXXI(a).
- (ii) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Account only requests by or the presence and the votes of governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.
- (iii) 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 shall be entitled to vote. Each of these directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority.

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(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Rights Department shall be submitted to the Executive Board pursuant to Article XXIX(a) only on the request of a participant. In any case where the Executive Board has given a decision on a question of interpretation pertaining exclusively to the Special Drawing Rights Department only a participant may require that the question be referred to the Board of Governors under Article XXIX(b). The Board of Governors shall decide whether a Governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Rights Department.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Rights Department or between the Fund and any participant during the liquidation of the Special Drawing Rights Department with respect to any matter arising exclusively from participation in the Special Drawing Rights Department, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XXIX(c).

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Article XXVII

(b), (c), and (d)

- (iv) Questions of the general administration of the Fund, including reimbursement under Article XXII, Section 2, and any question whether a matter pertains to both Accounts or exclusively to the Special Drawing Account shall be decided as if they pertained exclusively to the General Account. Decisions with respect to the acceptance and holding of special drawing rights in the General Account and the use of them, and other decisions affecting the operations and transactions conducted through both the General Account and the Special Drawing Account shall be made by the majorities required for decisions on matters pertaining exclusively to each Account. A decision on a matter pertaining to the Special Drawing Account shall so indicate.

(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

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(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Account shall be submitted to the Executive Directors pursuant to Article XVIII(a) only on the request of a participant. In any case where the Executive Directors have given a decision on a question of interpretation pertaining exclusively to the Special Drawing Account only a participant may require that the question be referred to the Board of Governors under Article XVIII(b). The Board of Governors shall decide whether a governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Account.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Account or between the Fund and any participant during the liquidation of the Special Drawing Account with respect to any matter arising exclusively from participation in the Special Drawing Account, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XVIII(c).

ARTICLE XXII

GENERAL OBLIGATIONS OF PARTICIPANTS

In addition to the obligations assumed with respect to special drawing rights under other articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement and with the objective of making the special drawing right the principal reserve asset in the international monetary system.

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ARTICLE XXVIII

GENERAL OBLIGATIONS OF PARTICIPANTS

In addition to the obligations assumed with respect to special drawing rights under other Articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with this Agreement.

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ARTICLE XXIII

SUSPENSION OF OPERATIONS AND TRANSACTIONS IN
SPECIAL DRAWING RIGHTSSection 1. Emergency provisions

In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund with respect to the Special Drawing Rights Department, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the provisions relating to operations and transactions in special drawing rights, and the provisions of Article XXVII, Section 1(b), (c), and (d) shall then apply.

Section 2. Failure to fulfill obligations

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XIX, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise decides.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant's obligation to provide currency in accordance with Article XIX, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligations under Article XIX, Section 6(a) shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's general resources under Article V, Section 5, Article VI, Section 1, or Article XXVI, Section 2(a). Article XXVI, Section 2 shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

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ARTICLE XXIX

SUSPENSION OF TRANSACTIONS IN SPECIAL DRAWING RIGHTS

Section 1. Emergency provisions

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 one hundred twenty days the operation of any of the provisions relating to special drawing rights, and the provisions of Article XVI, Section 1(b), (c), and (d), shall then apply.

Section 2. Failure to fulfill obligations

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XXV, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise determines.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant's obligation to provide currency in accordance with Article XXV, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligation under Article XXV, Section 6(a), shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's resources under Article IV, Section 6, Article V, Section 5, Article VI, Section 1, or Article XV, Section 2(a). Article XV, Section 2, shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

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ARTICLE XXIV

TERMINATION OF PARTICIPATION

Section 1. Right to terminate participation

(a) Any participant may terminate its participation in the Special Drawing Rights Department at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Rights Department.

Section 2. Settlement on termination

(a) When a participant terminates its participation in the Special Drawing Rights Department, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Rights Department. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable despatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. Interest and charges

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates prescribed under Article XX. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with a freely usable currency to pay charges or assessments in a transaction with a parti-

ARTICLE XXX

TERMINATION OF PARTICIPATION

Section 1. Right to terminate participation

(a) Any participant may terminate its participation in the Special Drawing Account at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Account.

Section 2. Settlement on termination

(a) When a participant terminates its participation in the Special Drawing Account, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Account. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable dispatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. Interest and charges

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates prescribed under Article XXVI. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with currency convertible in fact to pay charges or assessments in a transaction with a participant specified by the Fund or by agreement from any other holder, or to dispose of special

participant specified by the Fund or by agreement from any other holder, or to dispose of special drawing rights received as interest in a transaction with any participant designated under Article XIX, Section 5 or by agreement with any other holder.

Section 4. Settlement of obligation to the Fund

Currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

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Section 5. Settlement of obligation to a terminating participant

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XIX, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or a freely usable currency to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, a freely usable currency, or any other asset from any holder, if the Fund so permits.

Section 6. General Resources Account transactions

In order to facilitate settlement with a terminating participant, the Fund may decide that a terminating participant shall:

- (i) use any special drawing rights held by it after the setoff in Section 2(b) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Resources Account to obtain its own currency or a freely usable currency at the option of the Fund; or
- (ii) obtain special drawing rights in a transaction with the Fund conducted through the General Resources Account for a currency acceptable to the Fund to meet any charges or installment due under an agreement or the provisions of Schedule H.

Article XXX
Sections 4, 5, and 6

drawing rights received as interest in a transaction with any participant designated under Article XXV, Section 5, or by agreement with any other holder.

Section 4. Settlement of obligation to the Fund

Gold or currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the gold or currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

Section 5. Settlement of obligation to a terminating participant

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency or gold provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XXV, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or currency convertible in fact or gold to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, currency convertible in fact, or gold from any holder, if the Fund so permits.

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Section 6. General Account transactions

In order to facilitate settlement with a terminating participant the Fund may decide that a terminating participant shall:

- (i) use any special drawing rights held by it after the setoff in Section 2(b) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Account to obtain its own currency or currency convertible in fact at the option of the Fund; or
- (ii) obtain special drawing rights in a transaction with the Fund conducted through the General Account for a currency acceptable to the Fund or gold to meet any charges or installment due under an agreement or the provisions of Schedule H.

ARTICLE XXV

LIQUIDATION OF THE SPECIAL DRAWING RIGHTS DEPARTMENT

(a) The Special Drawing Rights Department may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Special Drawing Rights Department may be necessary, it may temporarily suspend allocations or cancellations and all operations and transactions in special drawing rights pending decision by the Board of Governors. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Department and the Special Drawing Rights Department.

2678 (b) If the Board of Governors decides to liquidate the Special Drawing Rights Department, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Rights Department shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XX, Article XXI(d), Article XXIV, Article XXIX(c), and Schedule H, or any agreement reached under Article XXIV subject to paragraph 4 of Schedule H, and Schedule I.

(c) Upon liquidation of the Special Drawing Rights Department, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders, and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Rights Department.

(d) Liquidation of the Special Drawing Rights Department shall be administered in accordance with the provisions of Schedule I.

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ARTICLE XXXI

LIQUIDATION OF THE SPECIAL DRAWING ACCOUNT

(a) The Special Drawing Account may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Special Drawing Account may be necessary, they may temporarily suspend allocations or cancellations and all transactions in special drawing rights pending decision by the Board. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Account and the Special Drawing Account.

(b) If the Board of Governors decides to liquidate the Special Drawing Account, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Account shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XVIII(c), Article XXVI, Article XXVII(d), Article XXX and Schedule H, or any agreement reached under Article XXX subject to paragraph 4 of Schedule H, Article XXXII, and Schedule I.

(c) Upon liquidation of the Special Drawing Account, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Account.

(d) Liquidation of the Special Drawing Account shall be administered in accordance with the provisions of Schedule I.

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ARTICLE XXVI

WITHDRAWAL FROM MEMBERSHIP

Section 1. Right of members to withdraw

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. Compulsory withdrawal

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. Settlement of accounts with members withdrawing

When a member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule J shall apply to the settlement of accounts.

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ARTICLE XV

WITHDRAWAL FROM MEMBERSHIP

Section 1. Right of members to withdraw

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. Compulsory withdrawal

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. Settlement of accounts with members withdrawing

When a member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.

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ARTICLE XXVII

EMERGENCY PROVISIONS

Section 1. Temporary suspension

(a) In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the following provisions:

- (i) Article V, Sections 2, 3, 7, 8(a)(i) and (e);
- (ii) Article VI, Section 2;
- (iii) Article XI, Section 1;
- (iv) Schedule C, paragraph 5.

(b) A suspension of the operation of a provision under (a) above may not be extended beyond one year except by the Board of Governors which, by an eighty-five percent majority of the total voting power, may extend a suspension for an additional period of not more than two years if it finds that the emergency or unforeseen circumstances referred to in (a) above continue to exist.

(c) The Executive Board may, by a majority of the total voting power, terminate such suspension at any time.

(d) The Fund may adopt rules with respect to the subject matter of a provision during the period in which its operation is suspended.

Section 2. Liquidation of the Fund

(a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Fund may be necessary, it may temporarily suspend all operations and transactions, pending decision by the Board of Governors.

(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XXIX (c), in Schedule J, paragraph 7, and in Schedule K.

(c) Liquidation shall be administered in accordance with the provisions of Schedule K.

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ARTICLE XVI

EMERGENCY PROVISIONS

Section 1. Temporary suspension

(a) In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

- (i) Article IV, Sections 3 and 4(b)
- (ii) Article V, Sections 2, 3, 7, 8(a) and (f)
- (iii) Article VI, Section 2
- (iv) Article XI, Section 1

(b) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(c) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(d) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

Section 2. Liquidation of the Fund

(a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Fund may be necessary, they may temporarily suspend all transactions, pending decision by the Board.

(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XVIII, paragraph (c), in Schedule D, paragraph 7, and in Schedule E.

(c) Liquidation shall be administered in accordance with the provisions of Schedule E.

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ARTICLE XXVIII

AMENDMENTS

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

(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 XXVI, Section 1);
- (ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2(d)); and
- (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 (Schedule C, paragraph 6).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

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ARTICLE XVII

AMENDMENTS

(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.

(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)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

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ARTICLE XXIX

INTERPRETATION

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article XII, Section 3(j).

(b) In any case where the Executive Board has given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board of Governors, by an eighty-five percent majority of the total voting power, decides otherwise. Pending the result of the reference to the Board of Governors the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Board.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member, and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the International Court of Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

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ARTICLE XVIII

INTERPRETATION

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director it shall be entitled to representation in accordance with Article XII, Section 3(j).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board by an eighty-five percent majority of the total voting power decides otherwise. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

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ARTICLE XXX

EXPLANATION OF TERMS

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following provisions:

(a) The Fund's holdings of a member's currency in the General Resources Account shall include any securities accepted by the Fund under Article III, Section 4.

(b) Stand-by arrangement means a decision of the Fund by which a member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and up to a specified amount.

2688 (c) Reserve tranche purchase means a purchase by a member of special drawing rights or the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency in the General Resources Account to exceed its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under:

- (i) policies on the use of its general resources for compensatory financing of export fluctuations;
- (ii) policies on the use of its general resources in connection with the financing of contributions to international buffer stocks of primary products; and
- (iii) other policies on the use of its general resources in respect of which the Fund decides, by an eighty-five percent majority of the total voting power, that an exclusion shall be made.

(d) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

- (1) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
- (2) payments due as interest on loans and as net income from other investments;

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ARTICLE XIX

EXPLANATION OF TERMS

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following:

(a) A member's monetary reserves means its official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify.

(b) The official holdings of a member means central holdings (that is, the holdings of its Treasury, central bank, stabilization fund, or similar fiscal agency).

(c) The holdings of other official institutions or other banks within its territories may, in any particular case, be deemed by the Fund, after consultation with the member, to be official holdings to the extent that they are substantially in excess of working balances; provided that for the purpose of determining whether, in a particular case, holdings are in excess of working balances, there shall be deducted from such holdings amounts of currency due to official institutions and banks in the territories of members or non-members specified under (d) below.

(d) A member's holdings of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangements under Article XIV, Section 2, together with its holdings of the currencies of such non-members as the Fund may from time to time specify. The term currency for this purpose includes without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months.

(e) The sums deemed to be official holdings of other official institutions and other banks under (c) above shall be included in the member's monetary reserves.

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Article XIX
(f), (g), (h), (i), and (j)

(f) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

(g) The Fund, after consultation with a member which is availing itself of the transitional arrangements under Article XIV, Section 2, may deem holdings of the currency of that member which carry specified rights of conversion into another currency or into gold to be holdings of convertible currency for the purpose of the calculation of monetary reserves.

(h) For the purpose of calculating gold subscriptions under Article III, Section 3, a member's net official holdings of gold and United States dollars shall consist of its official holdings of gold and United States currency after deducting central holdings of its currency by other countries and holdings of its currency by other official institutions and other banks if these holdings carry specified rights of conversion into gold or United States currency.

(i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

- (1) All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
- (2) Payments due as interest on loans and as net income from other investments;
- (3) Payments of moderate amount for amortization of loans or for depreciation of direct investments;
- (4) Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

(j) Gold tranche purchase means a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations.

- (3) payments of moderate amount for amortization of loans or for depreciation of direct investments; and
- (4) moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

(e) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XVIII, Section 2(a).

(f) A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets.

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(g) Members that were members on August 31, 1975 shall be deemed to include a member that accepted membership after that date pursuant to a resolution of the Board of Governors adopted before that date.

(h) Transactions of the Fund means exchanges of monetary assets by the Fund for other monetary assets. Operations of the Fund means other uses or receipts of monetary assets by the Fund.

(i) Transactions in special drawing rights means exchanges of special drawing rights for other monetary assets. Operations in special drawing rights means other uses of special drawing rights.

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ARTICLE XXXII

EXPLANATION OF TERMS WITH RESPECT TO
SPECIAL DRAWING RIGHTS

In interpreting the provisions of this Agreement with respect to special drawing rights the Fund and its members shall be guided by the following:

(a) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XXIV, Section 2(a).

(b) Currency convertible in fact means:

(1) a participant's currency for which a procedure exists for the conversion of balances of the currency obtained in transactions involving special drawing rights into each other currency for which such procedure exists, at rates of exchange prescribed under Article XXV, Section 8, and which is the currency of a participant that

(i) has accepted the obligations of Article VIII, Sections 2, 3, and 4, or

(ii) for the settlement of international transactions in fact freely buys and sells gold within the limits prescribed by the Fund under Section 2 of Article IV; or

(2) currency convertible into a currency described in paragraph (1) above at rates of exchange prescribed under Article XXV, Section 8.

(c) A participant's reserve position in the Fund means the sum of the gold tranche purchases it could make and the amount of any indebtedness of the Fund which is readily repayable to the participant under a loan agreement.

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ARTICLE XXXI

FINAL PROVISIONS

Section 1. Entry into force

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each country shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no country shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and the governments of all countries whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

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ARTICLE XX

INAUGURAL PROVISIONS

Section 1. Entry into force

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

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(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority, and all territories in respect of which they exercise a mandate.

(h) Subsection (d) above shall come into force with regard to each signatory government as from the date of its signature.

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Article XX
Sections 2 and 3

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

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Section 3. Inauguration of the Fund

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member having the largest quota shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries for which the largest quotas are set forth in Schedule A shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule C and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

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Section 4. Initial determination of par values

(a) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (d) below shall apply.

(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period determined by the Fund in the light of all relevant circumstances, agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(d) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (b) above shall apply, subject to the following modifications:

- (i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.
- (ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.
- (iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (a) above.

(e) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (d)(i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (d) above shall apply.

2700

[The signature and depositary clause reproduced below followed the text of Article XX in the original Articles of Agreement]

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

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Article XX
Section 4

(f) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5(c).

(g) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2(g) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. On the basis of the par value so communicated, the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (a), (b) or (d) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (d) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

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(h) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(i) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

(j) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2.

[The signature and depository clause reproduced below followed the text of Article XX in the original Articles of Agreement]

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

SCHEDULE A

QUOTAS

(In millions of United States dollars)

Australia	200	Iran	25
Belgium	225	Iraq	8
Bolivia	10	Liberia5
Brazil	150	Luxembourg	10
Canada	300	Mexico	90
Chile	50	Netherlands	275
China	550	New Zealand	50
Colombia	50	Nicaragua	2
Costa Rica	5	Norway	50
Cuba	50	Panama5
Czechoslovakia	125	Paraguay	2
Denmark*	*	Peru	25
Dominican Republic	5	Philippine Common-	
Ecuador	5	wealth	15
Egypt	45	Poland	125
El Salvador	2.5	Union of South Africa	100
Ethiopia	6	Union of Soviet Socialist	
France	450	Republics	1200
Greece	40	United Kingdom	1300
Guatemala	5	United States	2750
Haiti	5	Uruguay	15
Honduras	2.5	Venezuela	15
Iceland	1	Yugoslavia	60
India	400		

*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

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SCHEDULE A

QUOTAS

(In millions of United States dollars)

Australia	200	Iran	25
Belgium	225	Iraq	6
Bolivia	10	Liberia5
Brazil	150	Luxembourg	10
Canada	300	Mexico	90
Chile	50	Netherlands	275
China	550	New Zealand	50
Colombia	50	Nicaragua	2
Costa Rica	5	Norway	50
Cuba	50	Panama5
Czechoslovakia	125	Paraguay	2
Denmark*	*	Peru	25
Dominican Republic	5	Philippine Common-	
Ecuador	5	wealth	15
Egypt	45	Poland	135
El Salvador	2.5	Union of South Africa	100
Ethiopia	6	Union of Soviet Socialist	
France	450	Republics	1200
Greece	40	United Kingdom	1300
Guatemala	5	United States	2750
Haiti	5	Uruguay	15
Honduras	2.5	Venezuela	15
Iceland	1	Yugoslavia	60
India	400		

2703

*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

SCHEDULE B

TRANSITIONAL PROVISIONS WITH RESPECT TO REPURCHASE, PAYMENT OF
ADDITIONAL SUBSCRIPTIONS, GOLD, AND CERTAIN OPERATIONAL MATTERS2704

1. Repurchase obligations that have accrued pursuant to Article V, Section 7(b) before the date of the second amendment of this Agreement and that remain undischarged at that date shall be discharged not later than the date or dates at which the obligations had to be discharged in accordance with the provisions of this Agreement before the second amendment.

2. A member shall discharge with special drawing rights any obligation to pay gold to the Fund in repurchase or as a subscription that is outstanding at the date of the second amendment of this Agreement, but the Fund may prescribe that these payments may be made in whole or in part in the currencies of other members specified by the Fund. A non-participant shall discharge an obligation that must be paid in special drawing rights pursuant to this provision with the currencies of other members specified by the Fund.

3. For the purposes of 2 above 0.888 671 gram of fine gold shall be equivalent to one special drawing right, and the amount of currency payable under 2 above shall be determined on that basis and on the basis of the value of the currency in terms of the special drawing right at the date of discharge.

4. A member's currency held by the Fund in excess of seventy-five percent of the member's quota at the date of the second amendment of this Agreement and not subject to repurchase under 1 above shall be repurchased in accordance with the following rules:

- (i) Holdings that resulted from a purchase shall be repurchased in accordance with the policy on the use of the Fund's general resources under which the purchase was made.
- (ii) Other holdings shall be repurchased not later than four years after the date of the second amendment of this Agreement.

5. Repurchases under 1 above that are not subject to 2 above, repurchases under 4 above, and any specification of currencies under 2 above shall be in accordance with Article V, Section 7(i).

6. All rules and regulations, rates, procedures, and decisions in effect at the date of the second amendment of this Agreement shall remain in effect until they are changed in accordance with the provisions of this Agreement.

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SCHEDULE B

PROVISIONS WITH RESPECT TO REPURCHASE
BY A MEMBER OF ITS CURRENCY HELD BY THE FUND

1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7(b), shall be made with each convertible currency and each of the other types of monetary reserve, the following rule, subject to 2 below, shall apply:

- (a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.
- (b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase, minus one-half of any decrease in the Fund's holdings of the member's currency that has occurred during the year, shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.
- (c) If after the repurchases required under Article V, Section 7(b), had been made, the result would exceed either of the limits specified in Article V, Section 7(c)(i) or (ii), the Fund shall require such repurchases to be made by the member proportionately in such manner that these limits will not be exceeded.
- (d) If after all the repurchases required under Article V, Section 7(b), had been made, the result would exceed the limit specified in Article V, Section 7(c)(iii), the amount by which the limit would be exceeded shall be discharged in convertible currencies as determined by the Fund without exceeding that limit.

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7. To the extent that arrangements equivalent in effect to (a) and (b) below have not been completed before the date of the second amendment of this Agreement, the Fund shall

- (a) sell up to 25 million ounces of fine gold held by it on August 31, 1975 to those members that were members on that date and that agree to buy it, in proportion to their quotas on that date. The sale to a member under this subparagraph (a) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold, and
- (b) sell up to 25 million ounces of fine gold held by it on August 31, 1975 for the benefit of developing members that were members on that date, provided, however, that the part of any profits or surplus value of the gold that corresponds to the proportion of such a member's quota on August 31, 1975 to the total of the quotas of all members on that date shall be transferred directly to each such member. The requirements under Article V, Section 12(c) that the Fund consult a member, obtain a member's concurrence, or exchange a member's currency for the currencies of other members in certain circumstances shall apply with respect to currency received by the Fund as a result of sales of gold under this provision, other than sales to a member in return for its own currency, and placed in the General Resources Account.

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Upon the sale of gold under this paragraph 7, an amount of the proceeds in the currencies received equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and other assets held by the Fund under arrangements pursuant to (b) above shall be held separately from the general resources of the Fund. Assets that remain subject to disposition by the Fund upon termination of arrangements pursuant to (b) above shall be transferred to the Special Disbursement Account.

(e) If a repurchase required under Article V, Section 7(b), would exceed the limit specified in Article V, Section 7(c)(iv), the amount by which the limit would be exceeded shall be repurchased at the end of the subsequent financial year or years in such a way that total repurchases under Article V, Section 7(b), in any year would not exceed the limit specified in Article V, Section 7(c)(iv).

2. (a) The Fund shall not acquire the currency of any non-member under Article V, Section 7(b) and (c).

(b) Any amount payable in the currency of a non-member under 1(a) or 1(b) above shall be paid in the convertible currencies of members as determined by the Fund.

3. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), no account shall be taken, unless deductions have otherwise been made by the member for such holdings, of any increase in those monetary reserves which is due to currency previously inconvertible having become convertible during the year; or to holdings which are the proceeds of a long-term or medium-term loan contracted during the year; or to holdings which have been transferred or set aside for repayment of a loan during the subsequent year.

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4. In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

5. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), the Fund may decide in its discretion, on the request of a member, that deductions shall be made for obligations outstanding as the result of transactions between members under a reciprocal facility by which a member agrees to exchange on demand its currency for the currency of the other member up to a maximum amount and on terms requiring that each such transaction be reversed within a specified period not in excess of nine months.

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Schedule B

6. In calculating monetary reserves and the increase in monetary reserves for the purpose of Article V, Section 7(b) and (c), Article XIX(e) shall apply except that the following provision shall apply at the end of a financial year if it was in effect at the beginning of that year:

"A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above. "

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SCHEDULE C

PAR VALUES

1. The Fund shall notify members that par values may be established for the purposes of this Agreement, in accordance with Article IV, Sections 1, 3, 4, and 5 and this Schedule, in terms of the special drawing right, or in terms of such other common denominator as is prescribed by the Fund. The common denominator shall not be gold or a currency.

2. A member that intends to establish a par value for its currency shall propose a par value to the Fund within a reasonable time after notice is given under 1 above.

3. Any member that does not intend to establish a par value for its currency under 1 above shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

4. The Fund shall concur in or object to a proposed par value within a reasonable period after receipt of the proposal. A proposed par value shall not take effect for the purposes of this Agreement if the Fund objects to it, and the member shall be subject to 3 above. The Fund shall not object because of the domestic social or political policies of the member proposing the par value.

5. Each member that has a par value for its currency undertakes to apply appropriate measures consistent with this Agreement in order to ensure that the maximum and the minimum rates for spot exchange transactions taking place within its territories between its currency and the currencies of other members maintaining par values shall not differ from parity by more than four and one-half percent or by such other margin or margins as the Fund may adopt by an eighty-five percent majority of the total voting power.

6. A member shall not propose a change in the par value of its currency except to correct, or prevent the emergence of, a fundamental disequilibrium. A change may be made only on the proposal of the member and only after consultation with the Fund.

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7. When a change is proposed, the Fund shall concur in or object to the proposed par value within a reasonable period after receipt of the proposal. The Fund shall concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. The Fund shall not object because of the domestic social or political policies of the member proposing the change. A proposed change in par value shall not take effect for the purposes of this Agreement if the Fund objects to it. If a member changes the par value of its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. Maintenance of an unrealistic par value by a member shall be discouraged by the Fund.

2712 8. The par value of a member's currency established under this Agreement shall cease to exist for the purposes of this Agreement if the member informs the Fund that it intends to terminate the par value. The Fund may object to the termination of a par value by a decision taken by an eighty-five percent majority of the total voting power. If a member terminates a par value for its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. A par value established under this Agreement shall cease to exist for the purposes of this Agreement if the member terminates the par value despite the objection of the Fund, or if the Fund finds that the member does not maintain rates for a substantial volume of exchange transactions in accordance with 5 above, provided that the Fund may not make such finding unless it has consulted the member and given it sixty days notice of the Fund's intention to consider whether to make a finding.

9. If the par value of the currency of a member has ceased to exist under 8 above, the member shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

10. A member for whose currency the par value has ceased to exist under 8 above may, at any time, propose a new par value for its currency.

11. Notwithstanding 6 above, the Fund, by a seventy percent majority of the total voting power, may make uniform proportionate changes in all par values if the special drawing right is the common denominator and the changes will not affect the value of the special drawing right. The par value of a member's currency shall, however, not be changed under this provision if, within seven days after the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

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SCHEDULE D

COUNCIL

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1. (a) Each member that appoints an Executive Director and each group of members that has the number of votes allotted to them cast by an elected Executive Director shall appoint to the Council one Councillor, who shall be a Governor, Minister in the government of a member, or person of comparable rank, and may appoint not more than seven Associates. The Board of Governors may change, by an eighty-five percent majority of the total voting power, the number of Associates who may be appointed. A Councillor or Associate shall serve until a new appointment is made or until the next regular election of Executive Directors, whichever shall occur sooner.
 - (b) Executive Directors, or in their absence their Alternates, and Associates shall be entitled to attend meetings of the Council, unless the Council decides to hold a restricted session. Each member and each group of members that appoints a Councillor shall appoint an Alternate who shall be entitled to attend a meeting of the Council when the Councillor is not present, and shall have full power to act for the Councillor.
 2. (a) The Council shall supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity, and in this connection shall review developments in the transfer of real resources to developing countries.
 - (b) The Council shall consider proposals pursuant to Article XXVIII(a) to amend the Articles of Agreement.
 3. (a) The Board of Governors may delegate to the Council authority to exercise any powers of the Board of Governors except the powers conferred directly by this Agreement on the Board of Governors.
 - (b) Each Councillor shall be entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. A Councillor appointed by a group of members may cast separately the votes allotted to each member in the group. If the number of votes allotted to a member cannot be cast by an Executive Director, the member may make arrangements with a Councillor for casting the number of votes allotted to the member.

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- (c) The Council shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by the Board of Governors and the Executive Board shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by either the Board of Governors or the Council.

4. The Council shall select a Councillor as chairman, shall adopt regulations as may be necessary or appropriate to perform its functions, and shall determine any aspect of its procedure. The Council shall hold such meetings as may be provided for by the Council or called by the Executive Board.

- 5. (a) The Council shall have powers corresponding to those of the Executive Board under the following provisions: Article XII, Section 2(c), (f), (g), and (j); Article XVIII, Section 4(a) and Section 4(c)(iv); Article XXIII, Section 1; and Article XXVII, Section 1(a).
- (b) For decisions by the Council on matters pertaining exclusively to the Special Drawing Rights Department only Councillors appointed by a member that is a participant or a group of members at least one member of which is a participant shall be entitled to vote. Each of these Councillors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants in the group of members that appointed him, and may cast the votes allotted to a participant with which arrangements have been made pursuant to the last sentence of 3(b) above.
- (c) The Council may by regulation establish a procedure whereby the Executive Board may obtain a vote of the Councillors on a specific question without a meeting of the Council when in the judgment of the Executive Board an action must be taken by the Council which should not be postponed until the next meeting of the Council and which does not warrant the calling of a special meeting.
- (d) Article IX, Section 8 shall apply to Councillors, their Alternates, and Associates, and to any other person entitled to attend a meeting of the Council.
- (e) For the purposes of (b) and 3(b) above, an agreement under Article XII, Section 3(1)(ii) by a member, or by a member that is a participant, shall entitle a Councillor to vote and cast the number of votes allotted to the member.

6. The first sentence of Article XII, Section 2(a) shall be deemed to include a reference to the Council.

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SCHEDULE E

ELECTION OF EXECUTIVE DIRECTORS

1. The election of the elective Executive Directors shall be by ballot of the Governors eligible to vote.

2. In balloting for the Executive Directors to be elected, each of the Governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5(a). The fifteen persons receiving the greatest number of votes shall be Executive Directors, provided that no person who received less than four percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When fifteen persons are not elected in the first ballot, a second ballot shall be held in which there shall vote only (a) those Governors who voted in the first ballot for a person not elected, and (b) those Governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above nine percent of the eligible votes. If in the second ballot there are more candidates than the number of Executive Directors to be elected, the person who received the lowest number of votes in the first ballot shall be ineligible for election.

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4. In determining whether the votes cast by a Governor are to be deemed to have raised the total of any person above nine percent of the eligible votes the nine percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until nine percent is reached.

5. Any Governor part of whose votes must be counted in order to raise the total of any person above four percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed nine percent.

6. If, after the second ballot, fifteen persons have not been elected, further ballots shall be held on the same principles until fifteen persons have been elected, provided that after fourteen persons are elected, the fifteenth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

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SCHEDULE C

ELECTION OF EXECUTIVE DIRECTORS

1. The election of the elective executive directors shall be by ballot of the governors eligible to vote under Article XII, Section 3(b) (iii) and (iv).

2. In balloting for the five directors to be elected under Article XII, Section 3(b) (iii), each of the governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5(a). The five persons receiving the greatest number of votes shall be directors, provided that no person who received less than nineteen percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When five persons are not elected in the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected, and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above twenty percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above twenty percent of the eligible votes the twenty percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until twenty percent is reached.

5. Any governor part of whose votes must be counted in order to raise the total of any person above nineteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed twenty percent.

6. If, after the second ballot, five persons have not been elected, further ballots shall be held on the same principles until five persons have been elected, provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

7. The directors to be elected by the American Republics under Article XII, Section 3(b) (iv) shall be elected as follows:

- (a) Each of the directors shall be elected separately.
- (b) In the election of the first director, each governor representing an American Republic eligible to par-

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Schedule C

ticipate in the election shall cast for one person all the votes to which he is entitled. The person receiving the largest number of votes shall be elected provided that he has received not less than forty-five percent of the total votes.

- (c) If no person is elected on the first ballot, further ballots shall be held, in each of which the person receiving the lowest number of votes shall be eliminated, until one person received a number of votes sufficient for election under (b) above.
- (d) Governors whose votes contributed to the election of the first director shall take no part in the election of the second director.
- (e) Persons who did not succeed in the first election shall not be ineligible for election as the second director.
- (f) A majority of the votes which can be cast shall be required for election of the second director. If at the first ballot no person receives a majority, further ballots shall be held in each of which the person receiving the lowest number of votes shall be eliminated, until some person obtains a majority.
- (g) The second director shall be deemed to have been elected by all the votes which could have been cast in the ballot securing his election.

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SCHEDULE F

DESIGNATION

During the first basic period the rules for designation shall be as follows:

- (a) Participants subject to designation under Article XIX, Section 5(a)(i) shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.
- (b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:
 - (i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and
 - (ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

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SCHEDULE F

DESIGNATION

During the first basic period the rules for designation shall be as follows:

- (a) Participants subject to designation under Article XXV, Section 5(a)(i), shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.
- (b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:
 - (i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and
 - (ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

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SCHEDULE G

RECONSTITUTION

1. During the first basic period the rules for reconstitution shall be as follows:

- (a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.
- (ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a)(i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XIX, Section 5 (a)(ii), in order to assist them to comply with the requirement in (a)(i) above.
- (iii) The Fund shall give special notice to a participant when the calculations under (a)(ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (a)(i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (a)(ii) above.
- (iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify.

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SCHEDULE G

RECONSTITUTION

1. During the first basic period the rules for reconstitution shall be as follows:

- (a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.
- (ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a)(i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XXV, Section 5(a)(ii), in order to assist them to comply with the requirement in (a)(i) above.
- (iii) The Fund shall give special notice to a participant when the calculations under (a)(ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (a)(i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (a)(ii) above.
- (iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify.

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- (b) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their other reserves.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIII, Section 2(b).

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Schedule G

- (b) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their holdings of gold and foreign exchange and their reserve positions in the Fund.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIX, Section 2(b).

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SCHEDULE H

TERMINATION OF PARTICIPATION

1. If the obligation remaining after the setoff under Article XXIV, Section 2(b) is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (a) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXIV, Section 5, or (b) by permitting the terminating participant to use its special drawing rights to obtain its own currency or a freely usable currency from a participant specified by the Fund, the General Resources Account, or any other holder.

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2. If the obligation remaining after the setoff under Article XXIV, Section 2(b) is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (a) by the payment to the Fund of a freely usable currency, or (b) by obtaining special drawing rights, in accordance with Article XXIV, Section 6, from the General Resources Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Rights Department going into liquidation under Article XXV within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXV and Schedule I.

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SCHEDULE H

TERMINATION OF PARTICIPATION

1. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (a) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXX, Section 5, or (b) by permitting the terminating participant to use its special drawing rights to obtain its own currency or currency convertible in fact from a participant specified by the Fund, the General Account, or any other holder.

2. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (a) by the payment to the Fund of currency convertible in fact or gold at the option of the terminating participant, or (b) by obtaining special drawing rights, in accordance with Article XXX, Section 6, from the General Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Account going into liquidation under Article XXXI within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXXI and Schedule I.

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SCHEDULE I

ADMINISTRATION OF LIQUIDATION OF THE
SPECIAL DRAWING RIGHTS DEPARTMENT

1. In the event of liquidation of the Special Drawing Rights Department, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in a freely usable currency and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Rights Department.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Rights Department, the liquidation of the Special Drawing Rights Department shall not proceed until special drawing rights held in the General Resources Account have been distributed in accordance with the following rule:

After the distributions made under 2(a) and (b) of Schedule K, the Fund shall apportion its special drawing rights held in the General Resources Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(b). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(d) of Schedule K, the Fund shall deduct the distribution of special drawing rights made under this rule.

3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

- (a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Rights Department shall be redeemed in accordance with the terms of any agreement under Article XXIV or Schedule H.
- (b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.
- (c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in ac-

SCHEDULE I

ADMINISTRATION OF LIQUIDATION OF THE
SPECIAL DRAWING ACCOUNT

1. In the event of liquidation of the Special Drawing Account, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in currency convertible in fact and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Account.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Account, the liquidation of the Special Drawing Account shall not proceed until special drawing rights held in the General Account have been distributed in accordance with the following rule:

After the distribution made under 2(a) of Schedule E, the Fund shall apportion its special drawing rights held in the General Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(a). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(c) of Schedule E, the Fund shall deduct the distribution of special drawing rights made under this rule.

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3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

- (a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Account shall be redeemed in accordance with the terms of any agreement under Article XXX or Schedule H.
- (b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.
- (c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with

cordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 3 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Rights Department and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Rights Department shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.

their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with gold or a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

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6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 2 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Account and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Account shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.

SCHEDULE J

SETTLEMENT OF ACCOUNTS WITH MEMBERS WITHDRAWING

1. The settlement of accounts with respect to the General Resources Account shall be made according to 1 to 6 of this Schedule. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member, and for this purpose the Fund may transfer to the General Resources Account holdings of the member's currency in the Special Disbursement Account or in the Investment Account in exchange for an equivalent amount of the currencies of other members in the General Resources Account selected by the Fund with their concurrence.

2734 2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in a freely usable currency, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or in a freely usable currency.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in a freely usable currency. Redemption shall be made at the rates at which the Fund would sell such currencies at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the general resources of the Fund and that such currency is available under 4 above.

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SCHEDULE D

SETTLEMENT OF ACCOUNTS WITH MEMBERS WITHDRAWING

1. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in gold, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or by the delivery of gold.

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3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in gold or, at its option, in the currencies of members which at the time of redemption are convertible. Redemption shall be made at the parity existing at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the value of its currency in terms of the special drawing right on the date of withdrawal and the value realized in terms of the special drawing right by the Fund on disposal under 4 and 5 above.

7. If the withdrawing member is indebted to the Fund as the result of transactions conducted through the Special Disbursement Account under Article V, Section 12(f)(ii), the indebtedness shall be discharged in accordance with the terms of the indebtedness.

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8. If the Fund holds the withdrawing member's currency in the Special Disbursement Account or in the Investment Account, the Fund may in an orderly manner exchange in any market for the currencies of members the amount of the currency of the withdrawing member remaining in each account after use under 1 above, and the proceeds of the exchange of the amount in each account shall be kept in that account. Paragraph 5 above and the first sentence of 6 above shall apply to the withdrawing member's currency.

9. If the Fund holds obligations of the withdrawing member in the Special Disbursement Account pursuant to Article V, Section 12(h), or in the Investment Account, the Fund may hold them until the date of maturity or dispose of them sooner. Paragraph 8 above shall apply to the proceeds of such disinvestment.

10. In the event of the Fund going into liquidation under Article XXVII, Section 2 within six months of the date on which the member withdraws, the accounts between the Fund and that government shall be settled in accordance with Article XXVII, Section 2 and Schedule K.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the par value of its currency on the date of withdrawal and the value realized by the Fund on disposal under 4 and 5 above.

7. In the event of the Fund going into liquidation under Article XVI, Section 2, within six months of the date on which the member withdraws, the account between the Fund and that government shall be settled in accordance with Article XVI, Section 2, and Schedule E.

SCHEDULE K

ADMINISTRATION OF LIQUIDATION

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

- (a) the currency in which the liability is payable;
- (b) gold;
- (c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

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- (a) (i) The Fund shall calculate the value of gold held on August 31, 1975 that it continues to hold on the date of the decision to liquidate. The calculation shall be made in accordance with 9 below and also on the basis of one special drawing right per 0.888 671 gram of fine gold on the date of liquidation. Gold equivalent to the excess of the former value over the latter shall be distributed to those members that were members on August 31, 1975 in proportion to their quotas on that date.
- (ii) The Fund shall distribute any assets held in the Special Disbursement Account on the date of the decision to liquidate to those members that were members on August 31, 1975 in proportion to their quotas on that date. Each type of asset shall be distributed proportionately to members.
- (b) The Fund shall distribute its remaining holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas in the proportions, but not in excess of, the amounts by which their quotas exceed the Fund's holdings of their currencies.
- (c) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty percent of its quota.

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SCHEDULE E

ADMINISTRATION OF LIQUIDATION

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

- (a) the currency in which the liability is payable;
- (b) gold;
- (c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

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2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

- (a) The Fund shall distribute its holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas. These members shall share the gold so distributed in the proportions of the amounts by which their quotas exceed the Fund's holdings of their currencies.
- (b) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty percent of its quota.
- (c) The Fund shall apportion the remainder of its holdings of each currency among all the members in proportion to the amounts due to each member after the distributions under (a) and (b) above.

- (d) The Fund shall apportion the remainder of its holdings of gold and each currency
- (i) among all the members in proportion to, but not in excess of, the amounts due to each member after the distributions under (b) and (c) above, provided that distribution under 2(a) above shall not be taken into account for determining the amounts due, and
 - (ii) any excess holdings of gold and currency among all the members in proportion to their quotas.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2(d) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(d) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(d) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the steps in the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss result-

3. Each member shall redeem the holdings of its currency apportioned to other members under 2(c) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(c) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

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5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(c) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in gold or, at its option, in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the par value of its currency on the date of the decision to liquidate the Fund and the value realized by such members on disposal of its currency.

ing from the difference between the value of its currency in terms of the special drawing right on the date of the decision to liquidate the Fund and the value in terms of the special drawing right realized by such members on disposal of its currency.

9. The Fund shall determine the value of gold under this Schedule on the basis of prices in the market.

10. For the purposes of this Schedule, quotas shall be deemed to have been increased to the full extent to which they could have been increased in accordance with Article III, Section 2(b) of this Agreement.

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Part III

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PART III. PROCEDURE1. Applicable Legal Provisions

The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XVII of the present Articles, which reads as follows:

(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.

(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)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram."

2. Resolution of Board of Governors

Part IV of this Report contains the text of a Resolution, to which is attached a Proposed Amendment to the Articles of Agreement. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund bring the Resolution and Proposed Amendment before the Board of Governors for its approval. Pursuant to this request the Secretary is transmitting them to the Board with this Report.

In the judgment of the Executive Directors the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Directors, pursuant

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to Section 13 of the By-Laws, request Governors to vote without meeting. In accordance with established practice, the Executive Directors have also decided to waive the requirement that no Governor shall vote until seven days after the dispatch of the motion. To be valid, votes must be received at the seat of the Fund on or before April 30, 1976.

The Resolution will be adopted if replies are received from a majority of the Governors exercising two-thirds of the total voting power and if a majority of the votes is cast in favor of the Resolution. The Resolution must be voted on as a whole.

3. Acceptance of Proposed Amendment by Members

By adopting the annexed Resolution, the Board of Governors will grant its approval to the Proposed Amendment of the Articles of Agreement. Members will then be asked, by circular letter or telegram, to notify the Fund whether they accept the Proposed Amendment. The Proposed Amendment can be accepted only in its entirety. That is to say, members will not be able to accept part only of the Proposed Amendment.

2746 In accordance with Article XVII(a) of the present Articles, the Proposed Amendment must be accepted by three-fifths of the members, having four-fifths of the total voting power, before it can enter into force.

4. Entry into Force of Proposed Amendment

When the Proposed Amendment has been accepted by the necessary majority, the Fund will certify the fact by a formal communication to be sent by the Secretary of the Fund to all members. Pursuant to Article XVII (c) of the present Articles, the Executive Directors recommend that the proposed Amendment should enter into force on the date of the formal communication instead of three months after that date. In accordance with that provision and paragraph 3 of the Resolution, the circular letter or telegram by which members will be asked whether they accept the Proposed Amendment will specify the date of the formal communication referred to above as the date of the entry into force of the Proposed Amendment.

The Proposed Amendment will enter into force for all members on the date of the formal communication, whether they have accepted the Amendment or not. It is assumed that members accepting the Proposed Amendment will have taken any legislative and other action that may be necessary to enable them to carry out their obligations under the Articles of Agreement as amended. Other members that have not accepted the Proposed Amendment will need to consider what action is necessary in order to enable them to carry out their obligations under the Articles of Agreement as amended.

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5. Notification to Depositary of Articles of Agreement

Upon certification of the entry into force of the Proposed Amendment it is intended to notify that fact to the Government of the United States, which is the depositary of the Articles of Agreement of the Fund, so that it may record the Amendment. It is also intended to ask the Government of the United States to register the Amendment with the Secretary-General of the United Nations, pursuant to Article 102 of the United Nations Charter.

6. Domestic Legal Steps

In view of the important and extensive changes in the Articles that will be introduced by the Amendment, members may find it necessary to review both the financial and nonfinancial aspects of their domestic legislation relating to the Articles of Agreement. The provisions relating to quotas and subscriptions, exchange arrangements, and the special drawing right may be of particular importance in connection with domestic legislation. In connection with exchange arrangements, members may wish to examine any legislation, whether relating directly to the Fund or not, that refers to par values established under the Articles.

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Part IV

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PART IVRESOLUTION

WHEREAS the Board of Governors, in Resolution No. 29-10 adopted at its 1974 Annual Meeting, has requested the Executive Directors to consider and prepare for the approval of the Board possible modifications in the Articles of Agreement of the International Monetary Fund on the basis of the recommendations in Part II of the Outline on Reform attached to the Report to the Board by its ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty), dated June 14, 1974; and

WHEREAS the Interim Committee of the Board of Governors on the Reform of the International Monetary System has requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee; and

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WHEREAS the Executive Directors have completed their work relating to possible modifications in the Articles of Agreement of the International Monetary Fund pursuant to Resolution No. 29-10 and the guidance given by the Interim Committee; and

WHEREAS the Executive Directors have prepared a Report on the Second Amendment setting forth proposals for modifications in the Articles of Agreement of the International Monetary Fund; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposals of the Executive Directors before the Board of Governors; and

WHEREAS the Report of the Executive Directors setting forth their proposals has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Directors have requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors, noting the said Report of the Executive Directors, hereby RESOLVES that:

1. The proposals for modifications (Proposed Second Amendment) that are included in the attachment to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved.
2. The Secretary of the Fund is directed to ask, by letter or telegram, all members of the Fund whether they accept, in accordance with the provisions of Article XVII of the present Articles, the Proposed Second Amendment.
3. The circular letter or telegram to be sent to all members in accordance with 2 above shall specify that the Proposed Second Amendment shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having four-fifths of the total voting power, have accepted the modifications.

PROPOSED SECOND AMENDMENT TO THE ARTICLES OF AGREEMENT
OF THE INTERNATIONAL MONETARY FUND
PREPARED PURSUANT TO BOARD OF GOVERNORS RESOLUTION No. 29-10

The text of the Articles of Agreement of the International Monetary Fund shall read as follows:

"The Governments on whose behalf the present Agreement is signed agree as follows:

INTRODUCTORY ARTICLE

- (i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted and subsequently amended.
- (ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Department and a Special Drawing Rights Department. Membership in the Fund shall give the right to participation in the Special Drawing Rights Department.
- (iii) Operations and transactions authorized by this Agreement shall be conducted through the General Department, consisting in accordance with the provisions of this Agreement of the General Resources Account, the Special Disbursement Account, and the Investment Account: except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department.

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ARTICLE I

PURPOSES

The purposes of the International Monetary Fund are:

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

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ARTICLE II

MEMBERSHIP

Section 1. Original members

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945.

Section 2. Other members

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

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ARTICLE III

QUOTAS AND SUBSCRIPTIONS

Section 1. Quotas and payment of subscriptions

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.

Section 2. Adjustment of quotas

(a) The Board of Governors 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.

(b) The Fund may at any time propose an increase in the quotas of those members of the Fund that were members on August 31, 1975 in proportion to their quotas on that date in a cumulative amount not in excess of amounts transferred under Article V, Section 12(f)(1) and (j) from the Special Disbursement Account to the General Resources Account.

(c) An eighty-five percent majority of the total voting power shall be required for any change in quotas.

(d) The quota of a member shall not be changed until the member has consented and until payment has been made unless payment is deemed to have been made in accordance with Section 3(b) of this Article.

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Section 3. Payments when quotas are changed

(a) Each member which consents to an increase in its quota under Section 2(a) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence, by the Fund, or in the member's own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(b)(ii), as a result of payments by other members under this provision.

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(b) Each member which consents to an increase in its quota under Section 2(b) of this Article shall be deemed to have paid to the Fund an amount of subscription equal to such increase.

(c) If a member consents to a reduction in its quota, the Fund shall, within sixty days, 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 special drawing rights or the currencies of other members specified, with their concurrence, by the Fund as is necessary to prevent the reduction of the Fund's holdings of the currency below the new quota, provided that in exceptional circumstances the Fund may reduce its holdings of the currency below the new quota by payment to the member in its own currency.

(d) A seventy percent majority of the total voting power shall be required for any decision under (a) above, except for the determination of a period and the specification of currencies under that provision.

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Section 4. Substitution of securities for currency

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources Account which in the judgment of the Fund is not needed for its operations and transactions, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their face value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund and to be placed in the General Resources Account.

ARTICLE IV

OBLIGATIONS REGARDING EXCHANGE ARRANGEMENTS

Section 1. General obligations of members

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective

is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

- (i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;
- (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;
- (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and
- (iv) follow exchange policies compatible with the undertakings under this Section.

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Section 2. General exchange arrangements

(a) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfillment of its obligations under Section 1 of this Article, and shall notify the Fund promptly of any changes in its exchange arrangements.

(b) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

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(c) To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.

Section 3. Surveillance over exchange arrangements

(a) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

(b) In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

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Section 4. Par values

The Fund may determine, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. The Fund shall make the determination on the basis of the underlying stability of the world economy, and for this purpose shall take into account price movements and rates of expansion in the economies of members. The determination shall be made in light of the evolution of the international monetary

system, with particular reference to sources of liquidity, and, in order to ensure the effective operation of a system of par values, to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective, and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances. Upon making such determination, the Fund shall notify members that the provisions of Schedule C apply.

Section 5. Separate currencies within a member's territories

(a) Action by a member with respect to its currency under this Article shall be deemed to apply to the separate currencies of all territories in respect of which the member has accepted this Agreement under Article XXXI, Section 2(g) unless the member declares that its action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(b) Action by the Fund under this Article shall be deemed to relate to all currencies of a member referred to in (a) above unless the Fund declares otherwise.

ARTICLE V

OPERATIONS AND TRANSACTIONS OF THE FUND

Section 1. Agencies dealing with the Fund

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.

Section 2. Limitation on the Fund's operations and transactions

(a) Except as otherwise provided in this Agreement, transactions on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with special drawing rights or the currencies of other members from the general resources of the Fund, which shall be held in the General Resources Account, in exchange for the currency of the member desiring to make the purchase.

(b) If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of

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the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent.

Section 3. Conditions governing use of the Fund's general resources

(a) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.

(b) A member shall be entitled to purchase the currencies of other members from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions:

- (i) the member's use of the general resources of the Fund would be in accordance with the provisions of this Agreement and the policies adopted under them;
- (ii) the member represents that it has a need to make the purchase because of its balance of payments or its reserve position or developments in its reserves;
- (iii) the proposed purchase would be a reserve tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota;
- (iv) the Fund has not previously declared under Section 5 of this Article, Article VI, Section 1, or Article XXVI, Section 2(a) that the member desiring to purchase is ineligible to use the general resources of the Fund.

(c) The Fund shall examine a request for a purchase to determine whether the proposed purchase would be consistent with the provisions of this Agreement and the policies adopted under them, provided that requests for reserve tranche purchases shall not be subject to challenge.

(d) The Fund shall adopt policies and procedures on the selection of currencies to be sold that take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions in the Fund, provided that if a member represents that it is proposing to purchase the currency of another member because the

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purchasing member wishes to obtain an equivalent amount of its own currency offered by the other member, it shall be entitled to purchase the currency of the other member unless the Fund has given notice under Article VII, Section 3 that its holdings of the currency have become scarce.

- (e) (i) Each member shall ensure that balances of its currency purchased from the Fund are balances of a freely usable currency or can be exchanged at the time of purchase for a freely usable currency of its choice at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(a).

- (ii) Each member whose currency is purchased from the Fund or is obtained in exchange for currency purchased from the Fund shall collaborate with the Fund and other members to enable such balances of its currency to be exchanged, at the time of purchase, for the freely usable currencies of other members.

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- (iii) An exchange under (i) above of a currency that is not freely usable shall be made by the member whose currency is purchased unless that member and the purchasing member agree on another procedure.

- (iv) A member purchasing from the Fund the freely usable currency of another member and wishing to exchange it at the time of purchase for another freely usable currency shall make the exchange with the other member if requested by that member. The exchange shall be made for a freely usable currency selected by the other member at the rate of exchange referred to in (i) above.

(f) Under policies and procedures which it shall adopt, the Fund may agree to provide a participant making a purchase in accordance with this Section with special drawing rights instead of the currencies of other members.

Section 4. Waiver of conditions

The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3(b)(iii) and (iv) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's general resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

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Section 5. Ineligibility to use the Fund's general resources

Whenever the Fund is of the opinion that any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its general resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the general resources of the Fund or may, after giving reasonable notice to the member, declare it ineligible to use the general resources of the Fund.

Section 6. Other purchases and sales of special drawing rights by the Fund

(a) The Fund may accept special drawing rights offered by a participant in exchange for an equivalent amount of the currencies of other members.

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(b) The Fund may provide a participant, at its request, with special drawing rights for an equivalent amount of the currencies of other members. The Fund's holdings of a member's currency shall not be increased as a result of these transactions above the level at which the holdings would be subject to charges under Section 8(b)(ii) of this Article.

(c) The currencies provided or accepted by the Fund under this Section shall be selected in accordance with policies that take into account the principles of Section 3(d) or 7(i) of this Article. The Fund may enter into transactions under this Section only if a member whose currency is provided or accepted by the Fund concurs in that use of its currency.

Section 7. Repurchase by a member of its currency held by the Fund

(a) A member shall be entitled to repurchase at any time the Fund's holdings of its currency that are subject to charges under Section 8(b) of this Article.

(b) A member that has made a purchase under Section 3 of this Article will be expected normally, as its balance of payments and reserve position improves, to repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(b) of this Article. A member shall repurchase these holdings if, in accordance with policies on repurchase that the Fund shall adopt and after consultation with the member, the Fund represents to the member that it should repurchase because of an improvement in its balance of payments and reserve position.

(c) A member that has made a purchase under Section 3 of this Article shall repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(b) of this Article not later than five years after the date on which the purchase was made. The Fund may prescribe that repurchase shall be made by a member in installments during the period beginning three years and ending five years after the date of a purchase. The Fund, by an eighty-five percent majority of the total voting power, may change the periods for repurchase under this subsection, and any period so adopted shall apply to all members.

(d) The Fund, by an eighty-five percent majority of the total voting power, may adopt periods other than those that apply in accordance with (c) above, which shall be the same for all members, for the repurchase of holdings of currency acquired by the Fund pursuant to a special policy on the use of its general resources.

(e) A member shall repurchase, in accordance with policies that the Fund shall adopt by a seventy percent majority of the total voting power, the Fund's holdings of its currency that are not acquired as a result of purchases and are subject to charges under Section 8(b)(ii) of this Article.

(f) A decision prescribing that under a policy on the use of the general resources of the Fund the period for repurchase under (c) or (d) above shall be shorter than the one in effect under the policy shall apply only to holdings acquired by the Fund subsequent to the effective date of the decision.

(g) The Fund, on the request of a member, may postpone the date of discharge of a repurchase obligation, but not beyond the maximum period under (c) or (d) above or under policies adopted by the Fund under (e) above, unless the Fund determines, by a seventy percent majority of the total voting power, that a longer period for repurchase which is consistent with the temporary use of the general resources of the Fund is justified because discharge on the due date would result in exceptional hardship for the member.

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(h) The Fund's policies under Section 3(d) of this Article may be supplemented by policies under which the Fund may decide after consultation with a member to sell under Section 3(b) of this Article its holdings of the member's currency that have not been repurchased in accordance with this Section 7, without prejudice to any action that the Fund may be authorized to take under any other provision of this Agreement.

(i) All repurchases under this Section shall be made with special drawing rights or with the currencies of other members specified by the Fund. The Fund shall adopt policies and procedures with regard to the currencies to be used by members in making repurchases that take into account the principles in Section 3(d) of this Article. The Fund's holdings of a member's currency that is used in repurchase shall not be increased by the repurchase above the level at which they would be subject to charges under Section 8(b)(ii) of this Article.

(j) (i) If a member's currency specified by the Fund under (i) above is not a freely usable currency, the member shall ensure that the repurchasing member can obtain it at the time of the repurchase in exchange for a freely usable currency selected by the member whose currency has been specified. An exchange of currency under this provision shall take place at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(a).

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(ii) Each member whose currency is specified by the Fund for repurchase shall collaborate with the Fund and other members to enable repurchasing members, at the time of the repurchase, to obtain the specified currency in exchange for the freely usable currencies of other members.

(iii) An exchange under (j)(i) above shall be made with the member whose currency is specified unless that member and the repurchasing member agree on another procedure.

(iv) If a repurchasing member wishes to obtain, at the time of the repurchase, the freely usable currency of another member specified by the Fund under (i) above, it shall, if requested by the other member, obtain the currency from the other member in exchange for a freely usable currency at the rate of exchange referred to in (j)(i) above. The Fund may adopt regulations on the freely usable currency to be provided in an exchange.

Section 8. Charges

(a) (i) The Fund shall levy a service charge on the purchase by a member of special drawing rights or the currency of another member held in the General Resources Account in exchange for its own currency, provided that the Fund may levy a lower service charge on reserve tranche purchases than on other purchases. The service charge on reserve tranche purchases shall not exceed one-half of one percent.

- (ii) The Fund may levy a charge for stand-by or similar arrangements. The Fund may decide that the charge for an arrangement shall be offset against the service charge levied under (i) above on purchases under the arrangement.

(b) The Fund shall levy charges on its average daily balances of a member's currency held in the General Resources Account to the extent that they

- (i) have been acquired under a policy that has been the subject of an exclusion under Article XXX(c), or
- (ii) exceed the amount of the member's quota after excluding any balances referred to in (i) above.

The rates of charge normally shall rise at intervals during the period in which balances are held.

(c) If a member fails to make a repurchase required under Section 7 of this Article, the Fund, after consultation with the member on the reduction of the Fund's holdings of its currency, may impose such charges as the Fund deems appropriate on its holdings of the member's currency that should have been repurchased.

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(d) A seventy percent majority of the total voting power shall be required for the determination of the rates of charge under (a) and (b) above, which shall be uniform for all members, and under (c) above.

(e) A member shall pay all charges in special drawing rights, provided that in exceptional circumstances the Fund may permit a member to pay charges in the currencies of other members specified by the Fund, after consultation with them, or in its own currency. The Fund's holdings of a member's currency shall not be increased as a result of payments by other members under this provision above the level at which they would be subject to charges under (b)(ii) above.

Section 9. Remuneration

(a) The Fund shall pay remuneration on the amount by which the percentage of quota prescribed under (b) or (c) below exceeds the Fund's average daily balances of a member's currency held in the General Resources Account other than balances acquired under a policy that has been the subject of an exclusion under Article XXX(c). The rate of remuneration, which shall be determined by the Fund by a seventy percent majority of the total voting power, shall be the same for all members and shall be not more than, nor less than four-fifths of, the rate of interest under Article XX, Section 3. In establishing the rate of remuneration, the Fund shall take into account the rates of charge under Article V, Section 8(b).

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(b) The percentage of quota applying for the purposes of (a) above shall be:

- (i) for each member that became a member before the second amendment of this Agreement, a percentage of quota corresponding to seventy-five percent of its quota on the date of the second amendment of this Agreement, and for each member that became a member after the date of the second amendment of this Agreement, a percentage of quota calculated by dividing the total of the amounts corresponding to the percentages of quota that apply to the other members on the date on which the member became a member by the total of the quotas of the other members on the same date; plus
- (ii) the amounts it has paid to the Fund in currency or special drawing rights under Article III, Section 3(a) since the date applicable under (b)(i) above; and minus
- (iii) the amounts it has received from the Fund in currency or special drawing rights under Article III, Section 3(c) since the date applicable under (b)(i) above.

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(c) The Fund, by a seventy percent majority of the total voting power, may raise the latest percentage of quota applying for the purposes of (a) above to each member to:

- (i) a percentage, not in excess of one hundred percent, that shall be determined for each member on the basis of the same criteria for all members, or
- (ii) one hundred percent for all members.

(d) Remuneration shall be paid in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

Section 10. Computations

(a) The value of the Fund's assets held in the accounts of the General Department shall be expressed in terms of the special drawing right.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement, except Article IV and Schedule C, shall be at the rates at which the Fund accounts for these currencies in accordance with Section 11 of this Article.

(c) Computations for the determination of amounts of currency in relation to quota for the purpose of applying the provisions of this Agreement shall not include currency held in the Special Disbursement Account or in the Investment Account.

Section 11. Maintenance of value2766

(a) The value of the currencies of members held in the General Resources Account shall be maintained in terms of the special drawing right in accordance with exchange rates under Article XIX, Section 7(a).

(b) An adjustment in the Fund's holdings of a member's currency pursuant to this Section shall be made on the occasion of the use of that currency in an operation or transaction between the Fund and another member and at such other times as the Fund may decide or the member may request. Payments to or by the Fund in respect of an adjustment shall be made within a reasonable time, as determined by the Fund, after the date of adjustment, and at any other time requested by the member.

Section 12. Other operations and transactions

(a) The Fund shall be guided in all its policies and decisions under this Section by the objectives set forth in Article VIII, Section 7 and by the objective of avoiding the management of the price, or the establishment of a fixed price, in the gold market.

(b) Decisions of the Fund to engage in operations or transactions under (c), (d), and (e) below shall be made by an eighty-five percent majority of the total voting power.

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(c) The Fund may sell gold for the currency of any member after consulting the member for whose currency the gold is sold, provided that the Fund's holdings of a member's currency held in the General Resources Account shall not be increased by the sale above the level at which they would be subject to charges under Section 8(b)(ii) of this Article without the concurrence of the member, and provided that, at the request of the member, the Fund at the time of sale shall exchange for the currency of another member such part of the currency received as would prevent such an increase. The exchange of a currency for the currency of another member shall be made after consultation with that member, and shall not increase the Fund's holdings of that member's currency above the level at which they would be subject to charges under Section 8(b)(ii) of this Article. The Fund shall adopt policies and procedures with regard to exchanges that take into account the principles applied under Section 7(i) of this Article. Sales under this provision to a member shall be at a price agreed for each transaction on the basis of prices in the market.

(d) The Fund may accept payments from a member in gold instead of special drawing rights or currency in any operations or transactions under this Agreement. Payments to the Fund under this provision shall be at a price agreed for each operation or transaction on the basis of prices in the market.

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(e) The Fund may sell gold held by it on the date of the second amendment of this Agreement to those members that were members on August 31, 1975 and that agree to buy it, in proportion to their quotas on that date. If the Fund intends to sell gold under (c) above for the purpose of (f)(ii) below, it may sell to each developing member that agrees to buy it that portion of the gold which, if sold under (c) above, would have produced the excess that could have been distributed to it under (f)(iii) below. The gold that would be sold under this provision to a member that has been declared ineligible to use the general resources of the Fund under Section 5 of this Article shall be sold to it when the ineligibility ceases, unless the Fund decides to make the sale sooner. The sale of gold to a member under this subsection (e) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold.

(f) Whenever under (c) above the Fund sells gold held by it on the date of the second amendment of this Agreement, an amount of the proceeds equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and, except as the Fund may decide otherwise under (g) below, any excess shall be held in the Special Disbursement Account.

The assets held in the Special Disbursement Account shall be held separately from the other accounts of the General Department, and may be used at any time:

- (i) to make transfers to the General Resources Account for immediate use in operations and transactions authorized by provisions of this Agreement other than this Section:
- (ii) for operations and transactions that are not authorized by other provisions of this Agreement but are consistent with the purposes of the Fund. Under this subsection (f)(ii) balance of payments assistance may be made available on special terms to developing members in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income;
- (iii) for distribution to those developing members that were members on August 31, 1975, in proportion to their quotas on that date, of such part of the assets that the Fund decides to use for the purposes of (ii) above as corresponds to the proportion of the quotas of these members on the date of distribution to the total of the quotas of all members on the same date, provided that the distribution under this provision to a member that has been declared ineligible to use the general resources of the Fund under Section 5 of this Article shall be made when the ineligibility ceases, unless the Fund decides to make the distribution sooner.

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Decisions to use assets pursuant to (i) above shall be taken by a seventy percent majority of the total voting power, and decisions pursuant to (ii) and (iii) above shall be taken by an eighty-five percent majority of the total voting power.

(g) The Fund may decide, by an eighty-five percent majority of the total voting power, to transfer a part of the excess referred to in (f) above to the Investment Account for use pursuant to the provisions of Article XII, Section 6(f).

(h) Pending uses specified under (f) above, the Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or in marketable obligations of international financial organizations. The income of investment and interest received under (f)(ii) above shall be placed in the Special Disbursement Account. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

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(i) The General Resources Account shall be reimbursed from time to time in respect of the expenses of administration of the Special Disbursement Account paid from the General Resources Account by transfers from the Special Disbursement Account on the basis of a reasonable estimate of such expenses.

(j) The Special Disbursement Account shall be terminated in the event of the liquidation of the Fund and may be terminated prior to liquidation of the Fund by a seventy percent majority of the total voting power. Upon termination of the account because of the liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K. Upon termination prior to liquidation of the Fund, any assets in this account shall be transferred to the General Resources Account for immediate use in operations and transactions. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations for the administration of the Special Disbursement Account.

ARTICLE VI

2769

CAPITAL TRANSFERS

Section 1. Use of the Fund's general resources for capital transfers

(a) A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund.

(b) Nothing in this Section shall be deemed:

- (i) to prevent the use of the general resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking, or other business; or
- (ii) to affect capital movements which are met out of a member's own resources, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 2. Special provisions for capital transfers

A member shall be entitled to make reserve tranche purchases to meet capital transfers.

Section 3. Controls of capital transfers

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3(b) and in Article XIV, Section 2.

ARTICLE VII

REPLENISHMENT AND SCARCE CURRENCIES

Section 1. Measures to replenish the Fund's holdings of currencies

2770 The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency in the General Resources Account needed in connection with its transactions, take either or both of the following steps:

- (i) propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the concurrence of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to concur in the borrowing of its currency by the Fund from any other source;
- (ii) require the member, if it is a participant, to sell its currency to the Fund for special drawing rights held in the General Resources Account, subject to Article XIX, Section 4. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Article XIX, Section 5.

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Section 2. General scarcity of currency

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 3. Scarcity of the Fund's holdings

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 2 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

2771

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV and Schedule C, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question, and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. Administration of restrictions

Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3(b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. Effect of other international agreements on restrictions

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

ARTICLE VIII

GENERAL OBLIGATIONS OF MEMBERS

Section 1. Introduction

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. Avoidance of restrictions on current payments

2772 (a) Subject to the provisions of Article VII, Section 3(b) and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any discriminatory currency arrangements or multiple currency practices, whether within or outside margins under Article IV or prescribed

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by or under Schedule C, except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force, the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 3 of that Article shall apply.

Section 4. Convertibility of foreign-held balances

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents:

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in special drawing rights, subject to Article XIX, Section 4, or in the currency of the member making the request.

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(b) The obligation in (a) above shall not apply when:

- (i) the convertibility of the balances has been restricted consistently with Section 2 of this Article or Article VI, Section 3;
- (ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;
- (iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;
- (iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(a); or
- (v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

Section 5. Furnishing of information

(a) The Fund may require members to furnish it with such information as it deems necessary for its activities, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

- (i) official holdings at home and abroad of (1) gold, (2) foreign exchange;
- (ii) holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange;
- (iii) production of gold;
- (iv) gold exports and imports according to countries of destination and origin;
- (v) total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin;
- (vi) international balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items;
- (vii) international investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information;
- (viii) national income;
- (ix) price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices;
- (x) buying and selling rates for foreign currencies;
- (xi) exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur; and
- (xii) where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

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(b) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable and, so far as possible, to avoid mere estimates.

(c) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

Section 6. Consultation between members regarding existing international agreements

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements **shall consult with one another with a view to making such mutually acceptable adjustments as may be necessary.** The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

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Section 7. Obligation to collaborate regarding policies on reserve assets

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

ARTICLE IX

STATUS, IMMUNITIES, AND PRIVILEGES

Section 1. Purposes of Article

To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities, and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2. Status of the Fund

The Fund shall possess full juridical personality, and in particular, the capacity:

- (i) to contract;
- (ii) to acquire and dispose of immovable and movable property; and
- (iii) to institute legal proceedings.

Section 3. Immunity from judicial process

The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4. Immunity from other action

Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation, or any other form of seizure by executive or legislative action.

Section 5. Immunity of archives

The archives of the Fund shall be inviolable.

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Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the activities provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls, and moratoria of any nature.

Section 7. Privilege for communications

The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

Section 8. Immunities and privileges of officers and employees

All Governors, Executive Directors, Alternates, members of committees, representatives appointed under Article XII, Section 3(j), advisors of any of the foregoing persons, officers, and employees of the Fund:

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity;
- (ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements, and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members; and
- (iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials, and employees of comparable rank of other members.

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Section 9. Immunities from taxation

(a) The Fund, its assets, property, income, and its operations and transactions authorized by this Agreement shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to Executive Directors, Alternates, officers, or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because of its origin; or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10. Application of Article

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Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

ARTICLE X

RELATIONS WITH OTHER INTERNATIONAL
ORGANIZATIONS

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XXVIII.

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ARTICLE XI

RELATIONS WITH NON-MEMBER COUNTRIES

Section 1. Undertakings regarding relations with non-member countries

Each member undertakes:

- (i) not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;
- (ii) not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and
- (iii) to cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

2779Section 2. Restrictions on transactions with non-member countries

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

ARTICLE XII

ORGANIZATION AND MANAGEMENT

Section 1. Structure of the Fund

The Fund shall have a Board of Governors, an Executive Board, a Managing Director, and a staff, and a Council if the Board of Governors decides, by an eighty-five percent majority of the total voting power, that the provisions of Schedule D shall be applied.

Section 2. Board of Governors

(a) All powers under this Agreement not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors. The Board of Governors shall consist of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made. No Alternate may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as chairman.

(b) The Board of Governors may delegate to the Executive Board authority to exercise any powers of the Board of Governors, except the powers conferred directly by this Agreement on the Board of Governors.

(c) The Board of Governors shall hold such meetings as may be provided for by the Board of Governors or called by the Executive Board. Meetings of the Board of Governors shall be called whenever requested by fifteen members or by members having one-quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the Governors having not less than two-thirds of the total voting power.

(e) Each Governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Board, when it deems such action to be in the best interests of the Fund, may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

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(g) The Board of Governors, and the Executive Board to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and Alternates shall serve as such without compensation from the Fund, but the Fund may pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and their Alternates and the salary and terms of the contract of service of the Managing Director.

(j) The Board of Governors and the Executive Board may appoint such committees as they deem advisable. Membership of committees need not be limited to Governors or Executive Directors or their Alternates.

Section 3. Executive Board

(a) The Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors.

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(b) The Executive Board shall consist of Executive Directors with the Managing Director as chairman. Of the Executive Directors:

(i) five shall be appointed by the five members having the largest quotas; and

(ii) fifteen shall be elected by the other members.

For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above. The number of Executive Directors in (ii) above shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below, unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board.

(c) If, at the second regular election of Executive Directors and thereafter, the members entitled to appoint Executive Directors under (b)(i) above do not include the two members, the holdings of whose currencies by the Fund in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right, either one or both of such members, as the case may be, may appoint an Executive Director.

(d) Elections of elective Executive Directors shall be conducted at intervals of two years in accordance with the provisions of Schedule E, supplemented by such regulations as the Fund deems appropriate. For each regular election of Executive Directors, the Board of Governors may issue regulations making changes in the proportion of votes required to elect Executive Directors under the provisions of Schedule E.

(e) Each Executive Director shall appoint an Alternate with full power to act for him when he is not present. When the Executive Directors appointing them are present, Alternates may participate in meetings but may not vote.

(f) Executive Directors shall continue in office until their successors are appointed or elected. If the office of an elected Executive Director becomes vacant more than ninety days before the end of his term, another Executive Director shall be elected for the remainder of the term by the members that elected the former Executive Director. A majority of the votes cast shall be required for election. While the office remains vacant, the Alternate of the former Executive Director shall exercise his powers, except that of appointing an Alternate.

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(g) The Executive Board shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Board shall be a majority of the Executive Directors having not less than one-half of the total voting power.

(i) (i) Each appointed Executive Director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(ii) If the votes allotted to a member that appoints an Executive Director under (c) above were cast by an Executive Director together with the votes allotted to other members as a result of the last regular election of Executive Directors, the member may agree with each of the other members that the number of votes allotted to it shall be cast by the appointed Executive Director. A member making such an agreement shall not participate in the election of Executive Directors.

(iii) Each elected Executive Director shall be entitled to cast the number of votes which counted towards his election.

(iv) When the provisions of Section 5(b) of this Article are applicable, the votes which an Executive Director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which an Executive Director is entitled to cast shall be cast as a unit.

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(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint an Executive Director under (b) above may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration.

Section 4. Managing Director and staff

(a) The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. The Managing Director shall be chairman of the Executive Board, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Board so decides.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund.

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(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. Voting

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above adjusted

- (1) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

- (11) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(b) and (f) up to the date when the vote is taken,

provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

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

(a) The Fund shall determine annually what part of its net income shall be placed to general reserve or special reserve, and what part, if any, shall be distributed.

(b) The Fund may use the special reserve for any purpose for which it may use the general reserve, except distribution.

(c) If any distribution is made of the net income of any year, it shall be made to all members in proportion to their quotas.

(d) The Fund, by a seventy percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas.

(e) Payments under (c) and (d) above shall be made in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

- (f) (i) The Fund may establish an Investment Account for the purposes of this subsection (f). The assets of the Investment Account shall be held separately from the other accounts of the General Department.

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- (ii) The Fund may decide to transfer to the Investment Account a part of the proceeds of the sale of gold in accordance with Article V, Section 12(g) and, by a seventy percent majority of the total voting power, may decide to transfer to the Investment Account, for immediate investment, currencies held in the General Resources Account. The amount of these transfers shall not exceed the total amount of the general reserve and the special reserve at the time of the decision.
- (iii) The Fund may invest a member's currency held in the Investment Account in marketable obligations of that member or in marketable obligations of international financial organizations. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.
- (iv) The income of investment may be invested in accordance with the provisions of this subsection (f). Income not invested shall be held in the Investment Account or may be used for meeting the expenses of conducting the business of the Fund.
- (v) The Fund may use a member's currency held in the Investment Account to obtain the currencies needed to meet the expenses of conducting the business of the Fund.
- (vi) The Investment Account shall be terminated in the event of liquidation of the Fund and may be terminated, or the amount of the investment may be reduced, prior to liquidation of the Fund by a seventy percent majority of the total voting power. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations regarding administration of the Investment Account, which shall be consistent with (vii), (viii), and (ix) below.

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- (vii) Upon termination of the Investment Account because of liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K, provided that a portion of these assets corresponding to the proportion of the assets transferred to this account under Article V, Section 12(g) to the total of the assets transferred to this account shall be deemed to be assets held in the Special Disbursement Account and shall be distributed in accordance with Schedule K, paragraph 2(a)(ii).
- (viii) Upon termination of the Investment Account prior to liquidation of the Fund, a portion of the assets held in this account corresponding to the proportion of the assets transferred to this account under Article V, Section 12(g) to the total of the assets transferred to the account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the assets held in the Investment Account shall be transferred to the General Resources Account for immediate use in operations and transactions.
- (ix) On a reduction of the amount of the investment by the Fund, a portion of the reduction corresponding to the proportion of the assets transferred to the Investment Account under Article V, Section 12(g) to the total of the assets transferred to this account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the reduction shall be transferred to the General Resources Account for immediate use in operations and transactions.

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Section 7. Publication of reports

- (a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its operations and transactions and its holdings of special drawing rights, gold, and currencies of members.
- (b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

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Section 8. Communication of views to members

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a seventy percent majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Section 3(j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

ARTICLE XIII

OFFICES AND DEPOSITORIES

Section 1. Location of offices

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The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. Depositories

(a) Each member shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Board may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. Guarantee of the Fund's assets

Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

ARTICLE XIV

TRANSITIONAL ARRANGEMENTS

Section 1. Notification to the Fund

Each member shall notify the Fund whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept these obligations.

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Section 2. Exchange restrictions

A member that has notified the Fund that it intends to avail itself of transitional arrangements under this provision may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which it became a member. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund, and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the promotion of a stable system of exchange rates. In particular, members shall withdraw restrictions maintained under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the general resources of the Fund.

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Section 3. Action of the Fund relating to restrictions

The Fund shall make annual reports on the restrictions in force under Section 2 of this Article. Any member retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4 shall consult the Fund annually as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XXVI, Section 2(a).

ARTICLE XV

SPECIAL DRAWING RIGHTS

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Section 1. Authority to allocate special drawing rights

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Rights Department.

Section 2. Valuation of the special drawing right

The method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect.

ARTICLE XVI

GENERAL DEPARTMENT AND SPECIAL DRAWING RIGHTS DEPARTMENT

Section 1. Separation of operations and transactions

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. All other operations and transactions on the account of the Fund authorized by or under this Agreement shall be conducted through the General Department. Operations and transactions pursuant to Article XVII, Section 2 shall be conducted through the General Department as well as the Special Drawing Rights Department.

Section 2. Separation of assets and property

2790 All assets and property of the Fund, except resources administered under Article V, Section 2(b), shall be held in the General Department, provided that assets and property acquired under Article XX, Section 2 and Articles XXIV and XXV and Schedules H and I shall be held in the Special Drawing Rights Department. Any assets or property held in one Department shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Department, except that the expenses of conducting the business of the Special Drawing Rights Department shall be paid by the Fund from the General Department which shall be reimbursed in special drawing rights from time to time by assessments under Article XX, Section 4 made on the basis of a reasonable estimate of such expenses.

Section 3. Recording and information

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Rights Department. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

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ARTICLE XVII

PARTICIPANTS AND OTHER HOLDERS OF
SPECIAL DRAWING RIGHTSSection 1. Participants

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Rights Department in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Rights Department as of the date the instrument is deposited, except that no member shall become a participant before the provisions of this Agreement pertaining exclusively to the Special Drawing Rights Department have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. Fund as a holder

The Fund may hold special drawing rights in the General Resources Account and may accept and use them in operations and transactions conducted through the General Resources Account with participants in accordance with the provisions of this Agreement or with prescribed holders in accordance with the terms and conditions prescribed under Section 3 of this Article.

Section 3. Other holders

The Fund may prescribe:

- (i) as holders, non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities;
- (ii) the terms and conditions on which prescribed holders may be permitted to hold special drawing rights and may accept and use them in operations and transactions with participants and other prescribed holders; and

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- (iii) the terms and conditions on which participants and the Fund through the General Resources Account may enter into operations and transactions in special drawing rights with prescribed holders.

An eighty-five percent majority of the total voting power shall be required for prescriptions under (i) above. The terms and conditions prescribed by the Fund shall be consistent with the provisions of this Agreement and the effective functioning of the Special Drawing Rights Department.

ARTICLE XVIII

ALLOCATION AND CANCELLATION OF SPECIAL DRAWING RIGHTS

Section 1. Principles and considerations governing allocation and cancellation

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(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Section 2. 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.

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(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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(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

- (i) the Governor for the participant did not vote in favor of the decision; and
- (ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

(f) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. Unexpected major developments

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. Decisions on allocations and cancellations

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(a) Decisions under Section 2(a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(a) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1(b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Rights Department as he is so satisfied.

(c) The Managing Director shall make proposals:

- (i) not later than six months before the end of each basic period;

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- (ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (b) above have been met;
- (iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or
- (iv) within six months of a request by the Board of Governors or the Executive Board;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (b) above, he shall report to the Board of Governors and to the Executive Board.

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(d) An eighty-five percent majority of the total voting power shall be required for decisions under Section 2(a), (b), and (c) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

ARTICLE XIX

OPERATIONS AND TRANSACTIONS IN SPECIAL DRAWING RIGHTS

Section 1. Use of special drawing rights

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. Operations and transactions between participants

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights to obtain an equivalent amount of currency from the other participant.

(c) The Fund, by a seventy percent majority of the total voting power, may prescribe operations in which a participant is authorized to engage in agreement with another participant on such terms and conditions as the Fund deems appropriate. The terms and conditions shall be consistent with the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement.

(d) The Fund may make representations to a participant that enters into any operation or transaction under (b) or (c) above that in the judgment of the Fund may be prejudicial to the process of designation according to the principles of Section 5 of this Article or is otherwise inconsistent with Article XXII. A participant that persists in entering into such operations or transactions shall be subject to Article XXIII, Section 2(b).

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Section 3. Requirement of need

(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIII, Section 2(b).

(c) The Fund may waive the expectation in (a) above in any transactions in which a participant uses special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; or offset the effect of a failure by the other participant to fulfill the expectation in (a) above.

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Section 4. Obligation to provide currency

(a) A participant designated by the Fund under Section 5 of this Article shall provide on demand a freely usable currency to a participant using special drawing rights under Section 2(a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund.

(b) A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

Section 5. Designation of participants to provide currency

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

- (i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.
- (ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(a) of this Article, to reduce negative balances in holdings of special drawing rights, or to offset the effect of failures to fulfill the expectation in Section 3(a) of this Article.
- (iii) In designating participants, the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

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(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. Reconstitution

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

2798 (b) The rules for reconstitution may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of review shall continue to apply. A seventy percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. Exchange rates

(a) Except as otherwise provided in (b) below, the exchange rates for transactions between participants under Section 2(a) and (b) of this Article shall be such that participants using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

(b) The Fund, by an eighty-five percent majority of the total voting power, may adopt policies under which in exceptional circumstances the Fund, by a seventy percent majority of the total voting power, may authorize participants entering into transactions under Section 2(b) of this Article to agree on exchange rates other than those applicable under (a) above.

(c) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(d) For the purpose of this provision the term participant includes a terminating participant.

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ARTICLE XX

SPECIAL DRAWING RIGHTS DEPARTMENT
INTEREST AND CHARGESSection 1. Interest

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. Charges

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

2799Section 3. Rate of interest and charges

The Fund shall determine the rate of interest by a seventy percent majority of the total voting power. The rate of charges shall be equal to the rate of interest.

Section 4. Assessments

When it is decided under Article XVI, Section 2 that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. Payment of interest, charges, and assessments

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction

with the Fund conducted through the General Resources Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

ARTICLE XXI

ADMINISTRATION OF THE GENERAL DEPARTMENT AND THE SPECIAL DRAWING RIGHTS DEPARTMENT

(a) The General Department and the Special Drawing Rights Department shall be administered in accordance with the provisions of Article XII, subject to the following provisions:

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- (i) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Rights Department only requests by, or the presence and the votes of, Governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.
- (ii) For decisions by the Executive Board on matters pertaining exclusively to the Special Drawing Rights Department only Executive Directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these Executive Directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of Executive Directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority. For the purposes of this provision, an agreement under Article XII, Section 3(1)(ii) by a member that is a participant shall entitle an appointed Executive Director to vote and cast the number of votes allotted to the member.

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- (iii) Questions of the general administration of the Fund, including reimbursement under Article XVI, Section 2, and any question whether a matter pertains to both Departments or exclusively to the Special Drawing Rights Department shall be decided as if they pertained exclusively to the General Department. Decisions with respect to the method of valuation of the special drawing right, the acceptance and holding of special drawing rights in the General Resources Account of the General Department and the use of them, and other decisions affecting the operations and transactions conducted through both the General Resources Account of the General Department and the Special Drawing Rights Department shall be made by the majorities required for decisions on matters pertaining exclusively to each Department. A decision on a matter pertaining to the Special Drawing Rights Department shall so indicate.

(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Rights Department shall be submitted to the Executive Board pursuant to Article XXIX(a) only on the request of a participant. In any case where the Executive Board has given a decision on a question of interpretation pertaining exclusively to the Special Drawing Rights Department only a participant may require that the question be referred to the Board of Governors under Article XXIX(b). The Board of Governors shall decide whether a Governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Rights Department.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Rights Department or between the Fund and any participant during the liquidation of the Special Drawing Rights Department with respect to any matter arising exclusively from participation in the Special Drawing Rights Department, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XXIX(c).

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ARTICLE XXII

GENERAL OBLIGATIONS OF PARTICIPANTS

In addition to the obligations assumed with respect to special drawing rights under other articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement and with the objective of making the special drawing right the principal reserve asset in the international monetary system.

ARTICLE XXIII

SUSPENSION OF OPERATIONS AND TRANSACTIONS IN
SPECIAL DRAWING RIGHTS2802Section 1. Emergency provisions

In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund with respect to the Special Drawing Rights Department, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the provisions relating to operations and transactions in special drawing rights, and the provisions of Article XXVII, Section 1(b), (c), and (d) shall then apply.

Section 2. Failure to fulfill obligations

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XIX, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise decides.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

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(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant's obligation to provide currency in accordance with Article XIX, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligations under Article XIX, Section 6(a) shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's general resources under Article V, Section 5, Article VI, Section 1, or Article XXVI, Section 2(a). Article XXVI, Section 2 shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

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ARTICLE XXIV

TERMINATION OF PARTICIPATION

Section 1. Right to terminate participation

(a) Any participant may terminate its participation in the Special Drawing Rights Department at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Rights Department.

Section 2. Settlement on termination

(a) When a participant terminates its participation in the Special Drawing Rights Department, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Rights Department. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable despatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. Interest and charges

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant, and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates prescribed under Article XX. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with a freely usable currency to pay charges or assessments in a transaction with a participant specified by the Fund or by agreement from any other holder, or to dispose of special drawing rights received as interest in a transaction with any participant designated under Article XIX, Section 5 or by agreement with any other holder.

Section 4. Settlement of obligation to the Fund

Currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

Section 5. Settlement of obligation to a terminating participant

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XIX, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or a freely usable currency to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, a freely usable currency, or any other asset from any holder, if the Fund so permits.

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Section 6. General Resources Account transactions

In order to facilitate settlement with a terminating participant, the Fund may decide that a terminating participant shall

- (i) use any special drawing rights held by it after the setoff in Section 2(b) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Resources Account to obtain its own currency or a freely usable currency at the option of the Fund, or
- (ii) obtain special drawing rights in a transaction with the Fund conducted through the General Resources Account for a currency acceptable to the Fund to meet any charges or installment due under an agreement or the provisions of Schedule H.

ARTICLE XXV

LIQUIDATION OF THE SPECIAL DRAWING RIGHTS DEPARTMENT

(a) The Special Drawing Rights Department may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Special Drawing Rights Department may be necessary, it may temporarily suspend allocations or cancellations and all operations and transactions in special drawing rights pending decision by the Board of Governors. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Department and the Special Drawing Rights Department.

2806 (b) If the Board of Governors decides to liquidate the Special Drawing Rights Department, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Rights Department shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XX, Article XXI(d), Article XXIV, Article XXIX(c), and Schedule H, or any agreement reached under Article XXIV subject to paragraph 4 of Schedule H, and Schedule I.

(c) Upon liquidation of the Special Drawing Rights Department, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders, and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Rights Department.

(d) Liquidation of the Special Drawing Rights Department shall be administered in accordance with the provisions of Schedule I.

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ARTICLE XXVI

WITHDRAWAL FROM MEMBERSHIP

Section 1. Right of members to withdraw

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. Compulsory withdrawal

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. Settlement of accounts with members withdrawing

When a member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule J shall apply to the settlement of accounts.

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ARTICLE XXVII

EMERGENCY PROVISIONS

Section 1. Temporary suspension

(a) In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the following provisions:

(i) Article V, Sections 2, 3, 7, 8(a)(i) and (e);

(ii) Article VI, Section 2;

(iii) Article XI, Section 1;

(iv) Schedule C, paragraph 5.

(b) A suspension of the operation of a provision under (a) above may not be extended beyond one year except by the Board of Governors which, by an eighty-five percent majority of the total voting power, may extend a suspension for an additional period of not more than two years if it finds that the emergency or unforeseen circumstances referred to in (a) above continue to exist.

(c) The Executive Board may, by a majority of the total voting power, terminate such suspension at any time.

(d) The Fund may adopt rules with respect to the subject matter of a provision during the period in which its operation is suspended.

Section 2. Liquidation of the Fund

(a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Fund may be necessary, it may temporarily suspend all operations and transactions, pending decision by the Board of Governors.

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(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XXIX (c), in Schedule J, paragraph 7, and in Schedule K.

(c) Liquidation shall be administered in accordance with the provisions of Schedule K.

ARTICLE XXVIII

AMENDMENTS

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

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(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 XXVI, Section 1);
- (ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2(d)); and
- (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 (Schedule C, paragraph 6).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

ARTICLE XXIX

INTERPRETATION

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article XII, Section 3(j).

(b) In any case where the Executive Board has given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board of Governors, by an eighty-five percent majority of the total voting power, decides otherwise. Pending the result of the reference to the Board of Governors the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Board.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member, and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the International Court of Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

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ARTICLE XXX

EXPLANATION OF TERMS

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following provisions:

(a) The Fund's holdings of a member's currency in the General Resources Account shall include any securities accepted by the Fund under Article III, Section 4.

(b) Stand-by arrangement means a decision of the Fund by which a member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and up to a specified amount.

(c) Reserve tranche purchase means a purchase by a member of special drawing rights or the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency in the General Resources Account to exceed its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under:

- (i) policies on the use of its general resources for compensatory financing of export fluctuations;
- (ii) policies on the use of its general resources in connection with the financing of contributions to international buffer stocks of primary products; and
- (iii) other policies on the use of its general resources in respect of which the Fund decides, by an eighty-five percent majority of the total voting power, that an exclusion shall be made.

(d) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

- (1) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities:

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- (2) payments due as interest on loans and as net income from other investments;
- (3) payments of moderate amount for amortization of loans or for depreciation of direct investments; and
- (4) moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

(e) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XVIII, Section 2(a).

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(f) A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets.

(g) Members that were members on August 31, 1975 shall be deemed to include a member that accepted membership after that date pursuant to a resolution of the Board of Governors adopted before that date.

(h) Transactions of the Fund means exchanges of monetary assets by the Fund for other monetary assets. Operations of the Fund means other uses or receipts of monetary assets by the Fund.

(i) Transactions in special drawing rights means exchanges of special drawing rights for other monetary assets. Operations in special drawing rights means other uses of special drawing rights.

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ARTICLE XXXI

FINAL PROVISIONS

Section 1. Entry into force

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each country shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no country shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and the governments of all countries whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

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(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority, and all territories in respect of which they exercise a mandate.

(h) Subsection (d) above shall come into force with regard to each signatory government as from the date of its signature.

[The signature and depositary clause reproduced below followed the text of Article XX in the original Articles of Agreement]

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Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

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SCHEDULE A

QUOTAS

(In millions of United States dollars)

Australia	200	Iran	25
Belgium	225	Iraq	8
Bolivia	10	Liberia5
Brazil	150	Luxembourg	10
Canada	300	Mexico	90
Chile	50	Netherlands	275
China	550	New Zealand	50
Colombia	50	Nicaragua	2
Costa Rica	5	Norway	50
Cuba	50	Panama5
Czechoslovakia	125	Paraguay	2
Denmark*	*	Peru	25
Dominican Republic	5	Philippine Common-	
Ecuador	5	wealth	15
Egypt	45	Poland	125
El Salvador	2.5	Union of South Africa	100
Ethiopia	6	Union of Soviet Socialist	
France	450	Republics	1200
Greece	40	United Kingdom	1300
Guatemala	5	United States	2750
Haiti	5	Uruguay	15
Honduras	2.5	Venezuela	15
Iceland	1	Yugoslavia	60
India	400		

*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

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SCHEDULE B

TRANSITIONAL PROVISIONS WITH RESPECT TO REPURCHASE, PAYMENT OF
ADDITIONAL SUBSCRIPTIONS, GOLD, AND CERTAIN OPERATIONAL MATTERS

1. Repurchase obligations that have accrued pursuant to Article V, Section 7(b) before the date of the second amendment of this Agreement and that remain undischarged at that date shall be discharged not later than the date or dates at which the obligations had to be discharged in accordance with the provisions of this Agreement before the second amendment.

2. A member shall discharge with special drawing rights any obligation to pay gold to the Fund in repurchase or as a subscription that is outstanding at the date of the second amendment of this Agreement, but the Fund may prescribe that these payments may be made in whole or in part in the currencies of other members specified by the Fund. A non-participant shall discharge an obligation that must be paid in special drawing rights pursuant to this provision with the currencies of other members specified by the Fund.

3. For the purposes of 2 above 0.888 671 gram of fine gold shall be equivalent to one special drawing right, and the amount of currency payable under 2 above shall be determined on that basis and on the basis of the value of the currency in terms of the special drawing right at the date of discharge.

4. A member's currency held by the Fund in excess of seventy-five percent of the member's quota at the date of the second amendment of this Agreement and not subject to repurchase under 1 above shall be repurchased in accordance with the following rules:

- (i) Holdings that resulted from a purchase shall be repurchased in accordance with the policy on the use of the Fund's general resources under which the purchase was made.
- (ii) Other holdings shall be repurchased not later than four years after the date of the second amendment of this Agreement.

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5. Repurchases under 1 above that are not subject to 2 above, repurchases under 4 above, and any specification of currencies under 2 above shall be in accordance with Article V, Section 7(i).

6. All rules and regulations, rates, procedures, and decisions in effect at the date of the second amendment of this Agreement shall remain in effect until they are changed in accordance with the provisions of this Agreement.

7. To the extent that arrangements equivalent in effect to (a) and (b) below have not been completed before the date of the second amendment of this Agreement, the Fund shall

(a) sell up to 25 million ounces of fine gold held by it on August 31, 1975 to those members that were members on that date and that agree to buy it, in proportion to their quotas on that date. The sale to a member under this subparagraph (a) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold, and

(b) sell up to 25 million ounces of fine gold held by it on August 31, 1975 for the benefit of developing members that were members on that date, provided, however, that the part of any profits or surplus value of the gold that corresponds to the proportion of such a member's quota on August 31, 1975 to the total of the quotas of all members on that date shall be transferred directly to each such member. The requirements under Article V, Section 12(c) that the Fund consult a member, obtain a member's concurrence, or exchange a member's currency for the currencies of other members in certain circumstances shall apply with respect to currency received by the Fund as a result of sales of gold under this provision, other than sales to a member in return for its own currency, and placed in the General Resources Account.

Upon the sale of gold under this paragraph 7, an amount of the proceeds in the currencies received equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and other assets held by the Fund under arrangements pursuant to (b) above shall be held separately from the general resources of the Fund. Assets that remain subject to disposition by the Fund upon termination of arrangements pursuant to (b) above shall be transferred to the Special Disbursement Account.

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SCHEDULE C

PAR VALUES

1. The Fund shall notify members that par values may be established for the purposes of this Agreement, in accordance with Article IV, Sections 1, 3, 4, and 5 and this Schedule, in terms of the special drawing right, or in terms of such other common denominator as is prescribed by the Fund. The common denominator shall not be gold or a currency.

2. A member that intends to establish a par value for its currency shall propose a par value to the Fund within a reasonable time after notice is given under 1 above.

3. Any member that does not intend to establish a par value for its currency under 1 above shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

4. The Fund shall concur in or object to a proposed par value within a reasonable period after receipt of the proposal. A proposed par value shall not take effect for the purposes of this Agreement if the Fund objects to it, and the member shall be subject to 3 above. The Fund shall not object because of the domestic social or political policies of the member proposing the par value.

5. Each member that has a par value for its currency undertakes to apply appropriate measures consistent with this Agreement in order to ensure that the maximum and the minimum rates for spot exchange transactions taking place within its territories between its currency and the currencies of other members maintaining par values shall not differ from parity by more than four and one-half percent or by such other margin or margins as the Fund may adopt by an eighty-five percent majority of the total voting power.

6. A member shall not propose a change in the par value of its currency except to correct, or prevent the emergence of, a fundamental disequilibrium. A change may be made only on the proposal of the member and only after consultation with the Fund.

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7. When a change is proposed, the Fund shall concur in or object to the proposed par value within a reasonable period after receipt of the proposal. The Fund shall concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. The Fund shall not object because of the domestic social or political policies of the member proposing the change. A proposed change in par value shall not take effect for the purposes of this Agreement if the Fund objects to it. If a member changes the par value of its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. Maintenance of an unrealistic par value by a member shall be discouraged by the Fund.

8. The par value of a member's currency established under this Agreement shall cease to exist for the purposes of this Agreement if the member informs the Fund that it intends to terminate the par value. The Fund may object to the termination of a par value by a decision taken by an eighty-five percent majority of the total voting power. If a member terminates a par value for its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. A par value established under this Agreement shall cease to exist for the purposes of this Agreement if the member terminates the par value despite the objection of the Fund, or if the Fund finds that the member does not maintain rates for a substantial volume of exchange transactions in accordance with 5 above, provided that the Fund may not make such finding unless it has consulted the member and given it sixty days notice of the Fund's intention to consider whether to make a finding.

9. If the par value of the currency of a member has ceased to exist under 8 above, the member shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

10. A member for whose currency the par value has ceased to exist under 8 above may, at any time, propose a new par value for its currency.

11. Notwithstanding 6 above, the Fund, by a seventy percent majority of the total voting power, may make uniform proportionate changes in all par values if the special drawing right is the common denominator and the changes will not affect the value of the special drawing right. The par value of a member's currency shall, however, not be changed under this provision if, within seven days after the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

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SCHEDULE D

COUNCIL

1. (a) Each member that appoints an Executive Director and each group of members that has the number of votes allotted to them cast by an elected Executive Director shall appoint to the Council one Councillor, who shall be a Governor, Minister in the government of a member, or person of comparable rank, and may appoint not more than seven Associates. The Board of Governors may change, by an eighty-five percent majority of the total voting power, the number of Associates who may be appointed. A Councillor or Associate shall serve until a new appointment is made or until the next regular election of Executive Directors, whichever shall occur sooner.
- (b) Executive Directors, or in their absence their Alternates, and Associates shall be entitled to attend meetings of the Council, unless the Council decides to hold a restricted session. Each member and each group of members that appoints a Councillor shall appoint an Alternate who shall be entitled to attend a meeting of the Council when the Councillor is not present, and shall have full power to act for the Councillor.
2. (a) The Council shall supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity, and in this connection shall review developments in the transfer of real resources to developing countries.
- (b) The Council shall consider proposals pursuant to Article XXVIII(a) to amend the Articles of Agreement.
3. (a) The Board of Governors may delegate to the Council authority to exercise any powers of the Board of Governors except the powers conferred directly by this Agreement on the Board of Governors.

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- (b) Each Councillor shall be entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. A Councillor appointed by a group of members may cast separately the votes allotted to each member in the group. If the number of votes allotted to a member cannot be cast by an Executive Director, the member may make arrangements with a Councillor for casting the number of votes allotted to the member.
- (c) The Council shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by the Board of Governors and the Executive Board shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by either the Board of Governors or the Council.

4. The Council shall select a Councillor as chairman, shall adopt regulations as may be necessary or appropriate to perform its functions, and shall determine any aspect of its procedure. The Council shall hold such meetings as may be provided for by the Council or called by the Executive Board.

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- 5. (a) The Council shall have powers corresponding to those of the Executive Board under the following provisions: Article XII, Section 2(c), (f), (g), and (j); Article XVIII, Section 4(a) and Section 4(c)(iv); Article XXIII, Section 1; and Article XXVII, Section 1(a).
- (b) For decisions by the Council on matters pertaining exclusively to the Special Drawing Rights Department only Councillors appointed by a member that is a participant or a group of members at least one member of which is a participant shall be entitled to vote. Each of these Councillors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants in the group of members that appointed him, and may cast the votes allotted to a participant with which arrangements have been made pursuant to the last sentence of 3(b) above.
- (c) The Council may by regulation establish a procedure whereby the Executive Board may obtain a vote of the Councillors on a specific question without a meeting of the Council when in the judgment of the Executive Board an action must be taken by the Council which should not be postponed until the next meeting of the Council and which does not warrant the calling of a special meeting.

- (d) Article IX, Section 8 shall apply to Councillors, their Alternates, and Associates, and to any other person entitled to attend a meeting of the Council.
- (e) For the purposes of (b) and 3(b) above, an agreement under Article XII, Section 3(i)(ii) by a member, or by a member that is a participant, shall entitle a Councillor to vote and cast the number of votes allotted to the member.

6. The first sentence of Article XII, Section 2(a) shall be deemed to include a reference to the Council.

SCHEDULE E

ELECTION OF EXECUTIVE DIRECTORS

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1. The election of the elective Executive Directors shall be by ballot of the Governors eligible to vote.
2. In balloting for the Executive Directors to be elected, each of the Governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5(a). The fifteen persons receiving the greatest number of votes shall be Executive Directors, provided that no person who received less than four percent of the total number of votes that can be cast (eligible votes) shall be considered elected.
3. When fifteen persons are not elected in the first ballot, a second ballot shall be held in which there shall vote only (a) those Governors who voted in the first ballot for a person not elected, and (b) those Governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above nine percent of the eligible votes. If in the second ballot there are more candidates than the number of Executive Directors to be elected, the person who received the lowest number of votes in the first ballot shall be ineligible for election.
4. In determining whether the votes cast by a Governor are to be deemed to have raised the total of any person above nine percent of the eligible votes the nine percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until nine percent is reached.
5. Any Governor part of whose votes must be counted in order to raise the total of any person above four percent shall be considered as

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casting all of his votes for such person even if the total votes for such person thereby exceed nine percent.

6. If, after the second ballot, fifteen persons have not been elected, further ballots shall be held on the same principles until fifteen persons have been elected, provided that after fourteen persons are elected, the fifteenth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

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SCHEDULE F

DESIGNATION

During the first basic period the rules for designation shall be as follows:

- (a) Participants subject to designation under Article XIX, Section 5(a)(i) shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.
- (b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:
 - (i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and
 - (ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

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SCHEDULE G

RECONSTITUTION

1. During the first basic period the rules for reconstitution shall be as follows:

- (a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.
- (ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a)(i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XIX, Section 5 (a)(ii), in order to assist them to comply with the requirement in (a)(i) above.
- (iii) The Fund shall give special notice to a participant when the calculations under (a)(ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (a)(i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (a)(ii) above.

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(iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify.

(b) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their other reserves.

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2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIII, Section 2(b).

SCHEDULE H

TERMINATION OF PARTICIPATION

1. If the obligation remaining after the setoff, under Article XXIV, Section 2(b) is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (a) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXIV, Section 5, or (b) by permitting the terminating participant to use its special drawing rights to obtain its own currency or a freely usable currency from a participant specified by the Fund, the General Resources Account, or any other holder.

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2. If the obligation remaining after the setoff under Article XXIV, Section 2(b) is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (a) by the payment to the Fund of a freely usable currency, or (b) by obtaining special drawing rights, in accordance with Article XXIV, Section 6, from the General Resources Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Rights Department going into liquidation under Article XXV within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXV and Schedule I.

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SCHEDULE I

ADMINISTRATION OF LIQUIDATION OF THE SPECIAL DRAWING RIGHTS DEPARTMENT

1. In the event of liquidation of the Special Drawing Rights Department, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in a freely usable currency and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Rights Department.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Rights Department, the liquidation of the Special Drawing Rights Department shall not proceed until special drawing rights held in the General Resources Account have been distributed in accordance with the following rule:

After the distributions made under 2(a) and (b) of Schedule K, the Fund shall apportion its special drawing rights held in the General Resources Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(b). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(d) of Schedule K, the Fund shall deduct the distribution of special drawing rights made under this rule.

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3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

- (a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Rights Department shall be redeemed in accordance with the terms of any agreement under Article XXIV or Schedule H.
- (b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.
- (c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

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4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 3 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Rights Department and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Rights Department shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.

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SCHEDULE J

SETTLEMENT OF ACCOUNTS WITH MEMBERS WITHDRAWING

1. The settlement of accounts with respect to the General Resources Account shall be made according to 1 to 6 of this Schedule. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member, and for this purpose the Fund may transfer to the General Resources Account holdings of the member's currency in the Special Disbursement Account or in the Investment Account in exchange for an equivalent amount of the currencies of other members in the General Resources Account selected by the Fund with their concurrence.

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2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in a freely usable currency, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or in a freely usable currency.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in a freely usable currency. Redemption shall be made at the rates at which the Fund would sell such currencies at the time of withdrawal from the Fund. The withdrawing member shall

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complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the general resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the value of its currency in terms of the special drawing right on the date of withdrawal and the value realized in terms of the special drawing right by the Fund on disposal under 4 and 5 above.

7. If the withdrawing member is indebted to the Fund as the result of transactions conducted through the Special Disbursement Account under Article V, Section 12(f)(ii), the indebtedness shall be discharged in accordance with the terms of the indebtedness.

8. If the Fund holds the withdrawing member's currency in the Special Disbursement Account or in the Investment Account, the Fund may in an orderly manner exchange in any market for the currencies of members the amount of the currency of the withdrawing member remaining in each account after use under 1 above, and the proceeds of the exchange of the amount in each account shall be kept in that account. Paragraph 5 above and the first sentence of 6 above shall apply to the withdrawing member's currency.

9. If the Fund holds obligations of the withdrawing member in the Special Disbursement Account pursuant to Article V, Section 12(h), or in the Investment Account, the Fund may hold them until the date of maturity or dispose of them sooner. Paragraph 8 above shall apply to the proceeds of such disinvestment.

10. In the event of the Fund going into liquidation under Article XXVII, Section 2 within six months of the date on which the member withdraws, the accounts between the Fund and that government shall be settled in accordance with Article XXVII, Section 2 and Schedule K.

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SCHEDULE K

ADMINISTRATION OF LIQUIDATION

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

- (a) the currency in which the liability is payable;
- (b) gold;
- (c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

- (a) (i) The Fund shall calculate the value of gold held on August 31, 1975 that it continues to hold on the date of the decision to liquidate. The calculation shall be made in accordance with 9 below and also on the basis of one special drawing right per 0.888 671 gram of fine gold on the date of liquidation. Gold equivalent to the excess of the former value over the latter shall be distributed to those members that were members on August 31, 1975 in proportion to their quotas on that date.
- (ii) The Fund shall distribute any assets held in the Special Disbursement Account on the date of the decision to liquidate to those members that were members on August 31, 1975 in proportion to their quotas on that date. Each type of asset shall be distributed proportionately to members.

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- (b) The Fund shall distribute its remaining holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas in the proportions, but not in excess of, the amounts by which their quotas exceed the Fund's holdings of their currencies.
- (c) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty percent of its quota.
- (d) The Fund shall apportion the remainder of its holdings of gold and each currency
 - (i) among all the members in proportion to, but not in excess of, the amounts due to each member after the distributions under (b) and (c) above, provided that distribution under 2(a) above shall not be taken into account for determining the amounts due, and
 - (ii) any excess holdings of gold and currency among all the members in proportion to their quotas.

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3. Each member shall redeem the holdings of its currency apportioned to other members under 2(d) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(d) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(d) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the steps in the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

2834 8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the value of its currency in terms of the special drawing right on the date of the decision to liquidate the Fund and the value in terms of the special drawing right realized by such members on disposal of its currency.

9. The Fund shall determine the value of gold under this Schedule on the basis of prices in the market.

10. For the purposes of this Schedule, quotas shall be deemed to have been increased to the full extent to which they could have been increased in accordance with Article III, Section 2(b) of this Agreement."

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