

**FOR
AGENDA**

SM/08/83
Correction 1

March 27, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Reform of Quota and Voice in the International Monetary Fund—Draft
Report of the Executive Board to the Board of Governors**

The following corrections to SM/08/83 (3/21/08) have been provided by the staff:

Page 14, para. 21, penultimate line: for “would not affect”
read “would not adversely affect”

Page 18, para. 4, last line: for “met: provided” read “met; provided”

Page 21, para. 1, line 4: for “members may appoint two Alternates.”
read “members to appoint two Alternates.”

Questions may be referred to Mr. Burton, APD (ext. 36531), Mr. Hagan, LEG (ext. 37715), and Mr. Tweedie, FIN (ext. 36944).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (3)

Other Distribution:
Department Heads

18. Finally, the proposed amendment will modify Schedule L of the Fund's Articles, which addresses Suspension of Voting Rights. This Schedule provides that, when a member's voting rights are suspended pursuant to Article XXVI, Section 2(c), the number of votes allotted to the member "shall not be included in the calculation of the total voting power" (except for purposes of the acceptance of a proposed amendment pertaining exclusively to the SDR Department). Given this automatic reduction in the total voting power that arises when a member's voting rights are suspended, the operation of this provision under the amended Article XII, Section 5(a)(i) would result in a decrease in both the aggregate number of basic votes and the number of basic votes allocated to each member.¹³ To avoid this impact on other members, the proposed amendment adds an additional proviso to paragraph 2 of Schedule L to the effect that the votes allotted to members with suspended voting rights are not to be excluded from the total voting power for purposes of calculating the basic votes of members under the Articles. Consequently, the number of basic votes allocated to members will not be affected by the suspension of voting rights of a particular member.

B. Alternate Executive Directors

19. Under Article XII, Section 3(e), each Executive Director shall appoint an Alternate with full power to act for him when he is not present. As amended, Article XII, Section 3(e) will authorize the Board of Governors to adopt rules enabling an Executive Director elected by more than a specified number of members to appoint two Alternates. Such rules, if adopted, may only be modified in the context of the regular election of Executive Directors. The rules adopted by the Board of Governors under Article XII, Section 3(e) will require an Executive Director appointing two Alternates to designate: (i) the Alternate who shall act for the Executive Director when he is not present and both Alternates are present (ii) the Alternate who shall exercise the powers of the Executive Director pursuant to Article XII, Section 3(f). With respect to the designation to be made under (i) above, it is noted that, under the interpretation that has been given to the term "present" in the existing text of Article XII, Section 3(e), an Alternate may act for an Executive Director at an Executive Board meeting at which the Executive Director is not present, even if the Executive Director is at Fund Headquarters. Consistent with that interpretation, the designation that is required under Article XII, Section 3(e)(i) will only be relevant for Executive Board meetings at which both Alternates are present and the Executive Director is not present at such a meeting. By notification to the Fund, an Executive Director may change at any time the designations that are required to be made under the amended Article XII, Section 3(e).

¹³ A member with suspended voting rights continues to be a member of the Fund and continues to be allotted votes (including basic votes) although, as stated in Section 2(c) of Schedule L, the "number of votes allotted to the member shall not be cast in any organ in the Fund."

20. Part D of the Resolution sets forth the initial rules that will apply when the proposed amendment enters into force. In addition to the features identified above, these rules provide that, following the first regular election of Executive Directors after entry into force of the proposed amendment, an Executive Director elected by at least 19 members shall be entitled to appoint two Alternate Executive Directors. The Board of Governors may, by a majority of the votes cast, change the minimum number of members required to elect an Executive Director in order to trigger the entitlement.

21. The entitlement to appoint two Alternates will be based exclusively on the number of members that “elect” an Executive Director. The relevant election would be the most recent election, which could be either a regular election under Article XII, Section 3(d) or an interim election under either Article XII, Section 3(f)¹⁴ (arising from the vacancy of an office of an elected Executive Director) or under Schedule L, Section 3(c)(i) (in the event of a vacancy arising from the suspension of a member’s voting rights).¹⁵ If, between such elections, the number of members in an Executive Director’s constituency changes and no interim election is required (e.g., because of a member’s decision to withdraw from the Fund), such changes would not adversely affect the entitlement to appoint two Alternates for purposes of the amendment.

22. Under the amendment, an Executive Director elected by the requisite number of members would be entitled—but would not be required—to appoint a second Alternate. It is expected, however, that Executive Directors would avail themselves of this benefit.

III. PROCEDURE

23. Consistent with the Singapore Resolution, the Resolution that is appended to this Report provides that the second-round increases in quotas being proposed may not become effective until the proposed amendment of the Articles enters into force.

24. The procedure for amending the Articles of Agreement is set forth in Article XXVIII. Under this Article, a proposed amendment is to be communicated to the Chairman of the Board of Governors for consideration by the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund is to ask all members whether they accept it. When three-fifth of the members, having eighty-five percent of the total voting power,

¹⁴ For purposes of all interim elections, an Executive Director elected by a majority of votes cast by the members in his constituency is considered to have been elected by all of the members of that constituency.

¹⁵ The member whose voting rights have been suspended is not entitled to elect or participate in the election of Executive Directors and cannot be included in the number of members that elect an Executive Director. If the suspension of a member’s voting rights is terminated, the member shall be deemed to have participated in the election of the Executive Director entitled to cast the number of votes allotted to the member if the conditions set forth in Article XII, Section 3(h)(v) have been met. The application of this provision may result in the entitlement to appoint two Alternates being triggered between elections.

APPENDIX**Resolution No. []****Reform of Quota and Voice in the International Monetary Fund**

WHEREAS in response to the request of the Board of Governors set forth in Resolution 61-5, the Executive Board has submitted to the Board of Governors a report entitled “Reform of Quota and Voice in the International Monetary Fund: Report of the Executive Board to the Board of Governors”, hereinafter the “Report”; and

WHEREAS the Executive Board has recommended increases in the quotas of a number of Fund members, all of whom have requested that their quotas be increased; and

WHEREAS in response to the request of the Board of Governors set forth in Resolution 61-5, the Executive Board has proposed an amendment to the Articles of Agreement that (a) would have the effect of increasing the number of basic votes of members and establish a mechanism to ensure that the ratio of the sum of the basic votes of all members to the sum of the total voting power of all members remains constant and (b) would enable each Executive Director elected by a large number of members to appoint a second Alternate Executive Director; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposal of the Executive Board before the Board of Governors; and

WHEREAS the Report of the Executive Board setting forth its proposal has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Board has requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund: and

NOW THEREFORE, the Board of Governors, noting the recommendation and the said Report of the Executive Board, hereby RESOLVES that:

A. Increase in Quotas of Members

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund listed in Attachment I to this Resolution shall be increased to the amounts shown against their names in Attachment I.

2. A member's increase in quota shall not become effective unless the member in question has consented in writing to the increase and has paid to the Fund the full amount of such increase. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by each member in its own currency.

3 Each member shall consent to the proposed increase of its quota no later than 30 days after the date of this Resolution; provided that the Executive Board may extend this period as it may determine.

4 Each member shall pay to the Fund the increase in its quota within 30 days of the later of (a) the date on which it notifies the Fund of its consent or (b) the date on which the requirement for the effectiveness of the increase in quota under paragraph 5 below has been met; provided that the Executive Board may extend the payment period as it may determine.

5. No increase in quota shall become effective before the entry into force of the proposed amendment of the Articles of Agreement approved by this Resolution.

B. Future Quota Reviews

To ensure that members' quota shares continue to reflect their relative positions in the world economy, the Executive Board is requested to consider the need for further realignments of members' quota shares in the context of future general quota reviews, beginning with the Fourteenth General Review of Quotas.

C. Amendment of the Articles of Agreement

1. The proposed amendment of the Articles of Agreement of the International Monetary Fund set forth in Attachment II to this Resolution (the Proposed Amendment to Enhance Voice and Participation in the International Monetary Fund) is approved.

2. The Secretary is directed to ask all members of the Fund, by circular letter or telegram, or other rapid means of communication, whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the Proposed Amendment to Enhance Voice and Participation in the International Monetary Fund.

3. The communication to be sent to all members in accordance with the previous paragraph shall specify that the Proposed Amendment to Enhance Voice and Participation in the International Monetary Fund 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 eighty-five percent of the total voting power have accepted the Proposed Amendment to Enhance Voice and Participation in the International Monetary Fund.

ATTACHMENT II

Proposed Amendment
of the Articles of Agreement
of the International Monetary Fund to Enhance Voice and Participation in the International
Monetary Fund

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

1. The text of Article XII, Section 3 (e) shall be amended to read as follows:

“(e) Each Executive Director shall appoint an Alternate with full power to act for him when he is not present, provided that the Board of Governors may adopt rules enabling an Executive Director elected by more than a specified number of members to appoint two Alternates. Such rules, if adopted, may only be modified in the context of the regular election of Executive Directors and shall require an Executive Director appointing two Alternates to designate: (i) the Alternate who shall act for the Executive Director when he is not present and both Alternates are present and (ii) the Alternate who shall exercise the powers of the Executive Director under (f) below. When the Executive Directors appointing them are present, Alternates may participate in meetings but may not vote.”

2. The text of Article XII, Section 5 (a) shall be amended to read as follows:

“(a) The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes.

(i) The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes.

(ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.”

3. The text of paragraph 2 of Schedule L shall be amended to read as follows:

“2 The number of votes allotted to the member shall not be cast in any organ of the Fund. They shall not be included in the calculation of the total voting power, except for purposes of: (a) the acceptance of a proposed amendment pertaining exclusively to the Special Drawing Rights Department and (b) the calculation of basic votes pursuant to Article XII, Section 5(a)(i).”