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INTERNATIONAL MONETARY FUND

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P.-P. Schweitzer, Chairman
F. A. Southard, Deputy Managing Director

| Executive Directors | Alternate Executive Directors |
|---|---|
| W. B. Dale | J. S. Hooker |
| A. C. Diz | Y. S. Patrón |
| P. L. Faber | L. Williams |
| T. Friis | J. Aranko |
| | A. Phillips O. |
| | P. M. Reid |
| A. Kafka | P. H. Pereira Lira |
| R. Larre | G. Teyssier |
| | H. M. H. A. van der Valk |
| B. K. Madan | A. K. Banerji |
| A. Nikoi | M. B. Alwie |
| A. Z. Saad | A. Mansour |
| S. Siglienti | C. P. Caranicas |
| J. M. Stevens | D. W. G. Wass |
| | A. M. de Villiers |
| H. Suzuki | E. Ozaki |
| | C. L. Chow |
| A. van Campenhout | H. Biron |
| E. vom Hofe | H. Ungerer |
| A. W. Yaméogo | L. M. Rajaobelina |

W. L. Hebbard, Secretary
A. Mountford, Assistant

Also Present

Asian Department: C. C. Liang. Central Banking Service: J. K. Nettles. European Department: L. A. Whittome, Director; G. Tyler. Exchange and Trade Relations Department: C. D. Finch, Deputy Director; P. Simonet. Legal Department: J. Gold, General Counsel and Director; G. P. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel, P. Lachman. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director; H. Ezekiel, R. R. Rhomberg. Treasurer's Department: O. L. Altman, Treasurer; W. O. Habermeier, Deputy Treasurer; R. Kroc, Deputy Treasurer. Personal Assistant to the Managing Director: F. L. Hall. Technical Assistants to Executive Directors: R. H. Arriazu, P. D. Fells, G. M. Gill, R. Guarnieri, W. Y. Hui, C. T. MacDonald, R. G. Nayak, B. Nowzad, E. Schmidbauer, J. A. Sillem, E. Stoffers, W. Stoop, T. Tanaka, J. R. Vallet.

1. INTERNATIONAL LIQUIDITY - ILLUSTRATIVE SCHEMES FOR RESERVE CREATION

The Executive Board resumed discussion of staff papers on an illustrative reserve unit scheme (SM/67/23, 2/24/67), and on an illustrative scheme for a special reserve facility based on drawing rights in the Fund (SM/67/25, 2/28/67). The Executive Board also had before it a staff paper setting forth the corresponding provisions of the two illustrative schemes (SM/67/31, 3/17/67).

The Chairman said that the discussion of reconstitution had not been completed (Article V of the unit scheme, Article III.2 of the drawing rights scheme).

Mr. van Campenhout felt that reconstitution of conditional drawing rights with reserve units was a desirable provision.

Mr. Friis said he had previously voiced certain doubts about the wisdom of this provision, because it was rather arbitrary and irrelevant, and because it would be illogical in the light of the purposes of reserve creation. He feared that a rule of compulsory repayment would have an unfortunate psychological effect on a member that was compelled to repay prematurely a drawing for which there was already a contractual obligation. Not only would it constrain certain member countries to use their reserve units for a specific arbitrary purpose, but it would oblige the Fund to receive these units, regardless of its own liquidity position. Recalling the informal Board discussion on units in the Fund (Informal Session 67/3), he remembered that most Board members had been rather disappointed because the staff paper had seemed to indicate that the Fund's role in a unit scheme could easily be a very modest one. With this in mind, it was surprising to be confronted now with a situation in which the Fund would have to accept units without limitation. In the light of the discussion on this item, he had become increasingly skeptical about the usefulness of this provision, and he thought the philosophy behind it should be re-examined.

Mr. Larre said his views were not very different from those of Mr. Friis. He was worried about the liquidity of the Fund. If the reconstitution were made with drawing rights, it would produce a different result from reconstitution by units. The drawing rights might involve currencies which would be of use to the Fund, but still there would be a problem if the idea was to allow countries to draw weak currencies and plough them back into the Fund, because this would damage the liquidity of the Fund, in the same way as would reconstitution by units. He thought that if there was an appropriate "currencies to be used" policy, he could go along with reconstitution in the case of drawing rights, but not in the case of units because it would inevitably damage the liquidity of the Fund.

Mr. Siglienti thought that in discussing the reconstitution question one was not prejudging the issue of the use of units in the Fund, and he would prefer to avoid discussing that rather difficult problem under this item. Rather, one should concentrate on whether or not outstanding credit tranche drawings on the Fund should be reconstituted on the occasion of each distribution of the unit, whether with units or with other reserve assets.

Mr. Larre said he was afraid it might cut the other way if a country with a small amount of reserves received units and reconstituted its position in the Fund with its good currencies. Then the Fund would have deteriorated the liquidity of the member, and he did not think that the Fund should do that sort of thing.

Mr. Madan believed that the problem under discussion was a transitory and limited one. Considering the point in time at which the new Organization was born, and assuming that the Fund in regulating its operations for the future would provide conditional liquidity of the same order that it would provide in the absence of the new asset, he thought that the accruing new unconditional reserves would be taken into account by the Fund in regulating the use of its facilities. Mr. Saad had mentioned that the affiliate could be thought of as an offspring of the Fund, and Mr. Madan thought there might be quite a long period of gestation before the offspring was born, and during this period the Fund would take the new reserve assets into account in its dealings with members. The Fund would set the repurchase provisions of new stand-by arrangements in the knowledge that the new reserves were on the way. He thought that this showed the limited order of the problem. In addition, it was proposed that the new asset would be classified as reserves by an amendment of the Fund's Articles, and this would lead automatically to a certain degree of reconstitution of positions. Over and above that, members that were in the higher tranches and were perhaps paying higher rates of interest, would have an incentive to repurchase on their own initiative. Taking all this into account, he thought the actual problem would be very limited. In addition, he thought that the new Organization, in ensuring the creation of the proper amount of unconditional liquidity would take into account the extent of the conditional facilities provided by the Fund.

Mr. Yaméogo thought that the reconstitution provision did not take account of the level of reserves of member countries, which might be in a position of having to come to the Fund for financial assistance soon after the compulsory reconstitution.

The Economic Counsellor agreed with Mr. Siglienti's description at the previous meeting that the rationale of this provision was to be found in its history. It had not arisen out of a desire to improve the repayment

of Fund drawings, but rather out of a desire expressed in the discussions about two years earlier, to make a distinction in a nondiscriminatory way between two types of countries, those that might normally be considered as creditors and those that were normally debtors, as evidenced by their position in the Fund. The idea had been to give unconditional drawing rights to creditors and conditional drawing rights to debtors. The merits or demerits of this provision should be looked at from that angle. If the aim was to give unconditional liquidity to all members, then this provision did not make much sense. On the other hand, if the idea was to make this distinction between creditors and debtors, this was probably the least disagreeable way of doing so.

The Chairman said the main explanation of this provision was that it was an historical carryover, and he certainly would not be willing to fight for it. It was only a way of meeting the idea, which two years ago had been quite widely held, that there should be a self-qualifying principle, or something like that. He was fully aware of all the problems that it would raise. He agreed with Mr. Larre that with a unit scheme there would be a special problem. With a drawing rights scheme, one would have to decide to what extent the automatic drawing rights should be floating. He said it had been retained in the schemes because he did not think that in the discussions at the Joint Meetings there had been a definite indication of a consensus to drop it. He thought one would in any event want to include the new asset in the calculation of reserves for the purpose of repurchases under Article V, Section 7. As a general point, he thought the question of retention of the provision need not be settled now, as one was not looking for a decision on any aspects of the schemes at this time.

The Chairman said that the next item was Article VI of the unit scheme, on holding, use and acceptance of reserve units, and the corresponding sections of the drawing rights scheme. In addition to the staff papers, there had been circulated a memorandum by Mr. Handfield-Jones on transfer arrangements and the report of the Ossola subcommittee on "The Provisions to Ensure Acceptability of a New Reserve Asset." Several Executive Directors had pointed out that this was a basic and important subject, and in view of the late hour he doubted whether it would be a good time to begin discussion of these questions. He suggested that the Executive Directors leave this item until a later meeting.

Mr. Reid said it might be helpful, when the Board came back to this item, to have as detailed and precise a formulation of the various possibilities as possible. He asked if the staff could elaborate the proposals in Article VI, of the unit scheme, and in particular Section 3(a)(ii), about rules and recommendations on the direction of transfers that the Organization might make.

The Economic Counsellor said the difficulty was that the staff would not want the provision in the final document to be much more precise than in the illustrative scheme. One would want to give the Organization a rather general power to make rules on transfers. He was not sure how one could elaborate this provision further. The staff had already circulated a paper on transfer arrangements (SM/66/68, 5/19/66).

Mr. Reid said his point was not related to the final form of the document, but rather to facilitate the Board's discussion.

The Chairman said the staff would do what it could, but he could not promise a complete elaboration of all these questions, or a complete list of the alternatives. He thought the report of the Ossola subcommittee was as complete as anything could be in that respect.

The discussion turned to Article VII of the unit scheme, and Article IV of the drawing rights scheme, which dealt with interest.

Mr. Phillips noted that Article VII.2 said that the initial rate of interest would be stated in the Articles. He would prefer if a range of interest rates were stated, to give more flexibility and perhaps to prevent some of the problems with which the Fund was at present confronted as regards the super gold tranche.

The General Counsel explained that the reason why the initial rate would be included in the Articles was that probably members when contemplating the draft Articles would want to know what the initial rate of interest would be. The illustrative schemes had followed the precedent of the Articles of the Fund, in which the initial rate of charges on holdings was set forth, coupled with a power to amend those charges.

The Chairman said the initial rate of interest was not expressed as a range, as the range might happen to be too narrow. As the schemes had been drafted, there would be an initial rate but the Organization would be given the maximum of freedom to move one way or the other.

Mr. Phillips said there should not be a problem so long as it was not a fixed and inflexible interest rate.

Mr. Larre understood why interest should be paid on drawing rights, because they were credit, but he did not think that gold-like units should carry any interest. Gold holdings did not earn interest, and neither did currency holdings unless they were invested.

Mr. Siglienti thought the Organization should be left free to fix the interest rate. A problem might arise between the time when the agreement was submitted for approval and the time when it came up for discussion

in the legislatures, and a fixed interest rate might present an additional difficulty. He thought that interest should be paid in gold, partly because in a unit scheme, units would be created and transferred in round amounts and paying interest in units would introduce fractions and small amounts of units which would complicate the problems of transfer.

Mr. Suzuki had doubts about Section 3 of Article VII: while it would probably create some incentive to hold the reserve units above a prescribed limit, he did not feel that this incentive should come from a high interest rate. In any case, the reserve unit would have a gold value guarantee. He asked the staff to clarify why the cost of the additional interest paid to any member would be assessed against all other members in proportion to the net cumulative distributions of reserve units to them. He did not understand why a country that did not use its reserve units should have to share in the payment of this higher interest.

Mr. Dale said that, like Mr. Larre, he was concerned about the reserve character of this unit, but his conclusions were rather different. He felt that the interest rate, if there was one, ought to be on the low side. He thought the method by which the interest was assessed and paid would emphasize the credit-like nature of the instrument rather than its reserve-like nature. On the assumption that interest would be paid, he wondered if the staff had considered the alternative of paying interest in units on the entire stock of any member's holding by issuing units for that purpose. In other words, interest would be paid not on the basis of quotas but of holdings. He realized that this might impart an inflationary bias to the arrangement, but that could be avoided by making allowance for it in the basic decision to create units for the five-year period.

Mr. Kafka had no strong feelings on whether or not interest should be paid on units. He thought that, while people were talking about creating a gold-like asset, they were not really convinced that it would be gold-like. Consequently, it might not be a bad idea to make the asset attractive by paying some interest on it. On the other hand, he did have strong feelings on the way in which any interest should be paid. It would be most disastrous if the Organization and its members should advertise their distrust in the supposedly gold-like asset by paying interest on it in gold. He thought the interest should be paid in units.

Mr. Larre agreed with most of what Mr. Dale had said. There was nothing wrong with the idea of paying interest on money, but he saw no reason to do so in this case. He could not see why the Organization should charge interest against its members for money which had been created out of nothing. If one wanted to pay interest, then there should be a market in which countries could borrow or lend units and sell units short or long, and so on. That would be an interesting proposition.

Mr. Stevens said he was in favor of paying modest amounts of interest, to give the unit a little extra attractiveness in its early stages. He would certainly not be in favor of interest payments in gold, which would be a very retrogressive step. He took it that the object of Article VII.3 was to pay the higher rate of interest only on excess holdings, so as to make them more attractive, rather than on the total holding of a member. The latter would seem to be too liberal. The idea of the cost falling on all members seemed a little unbalanced, and there might instead be a system by which the cost would fall on members holding less than their net cumulative distribution.

Mr. van Campenhout did not feel strongly on this matter of interest. His inclination would be to make a scheme more attractive in paying interest. He understood that interest would be paid by members to the extent they made a net use of their reserve units. Reserve units meant nothing except to the extent that they allowed the holder to receive whatever currency might be needed for settlement. Therefore, he did not fully understand Mr. Larre's argument. He would fully understand it if the interest were paid on reserve units that were held and that had been distributed for nothing, but when they were used they were in effect used as currencies, and one could pay interest on them.

Mr. Larre responded to Mr. van Campenhout, and said that if one kept dollars in the Federal Reserve Bank one did not receive interest on them, so he wondered why the bank of issue should pay interest on units. If one wanted to earn interest, one had to make the money work and organize a market for it.

Mr. Dale said that, while the Federal Reserve Bank did not pay interest directly, he thought it made arrangements without cost to the depositor to get interest on his money, and did it very quickly, whatever the effect on the money market.

The Economic Counsellor said that payment of interest on a gold-like asset was not unusual. For example, this was done by the Fund on its borrowings, and also interest was paid by members on gold-value guaranteed repurchase obligations resulting from drawings on the Fund. It would not seem unreasonable to pay a rate of interest on units. The rate of interest should be low, in order not to compete with reserve currencies. He thought it would be entirely reasonable for the rate of interest to be paid in units, for the reasons mentioned by Messrs. Kafka and Stevens. As to Mr. Siglienti's point, he thought that as units were only bookkeeping items, they could be credited in any small amounts without any difficulty. No additional units would be created by this operation, and the only technical problem would be in the case of a country that used up all its units and could not be debited any further.

On Mr. Suzuki's point, he thought that there might be merit in giving the Organization something like the borrowing ability of the Fund, and that the Organization might want to sweeten the conditions for a country that undertook to hold additional units. He thought this holding of additional units would be a benefit to all the other members as they would have additional opportunities to place their units. Therefore, the illustrative scheme proposed to assess the cost on the basis of net cumulative distribution over the whole membership, rather than in proportion to something like the amount borrowed or the use made because the whole membership had an interest in the improvement in the liquidity of the scheme.

Mr. Larre said that the Fund did not provide real unconditional liquidity and the comparison between units, which were supposed to be money, and the Fund was not convincing.

The Chairman thought that this was the first time that the principle of paying interest had been questioned. He thought it had always been assumed that interest would be paid or received. This had also been assumed in the discussions about acceptability. He felt that the interest should be on the low side, perhaps comparable to the interest paid on borrowings under the GAB, or whatever might come out of a discussion on the question of interest payments on super gold tranche positions.

Mr. Larre said it was not logical to pay interest on money.

The Chairman agreed that it was not a necessary feature.

Mr. Larre said that it was proper to pay interest on drawing rights or credit, but not on a form of money which was unconditional and gold-like.

The Economic Counsellor noted that interest was paid on officially held dollars and sterling and French francs and on gold deposits in the BIS.

The discussion turned to Article VIII of the unit scheme, and the parallel provisions in the drawing rights scheme, which contained general provisions.

The General Counsel said that the first section, which dealt with the undertaking to collaborate, was similar to Article IV, Section 4(a) of the Articles of the Fund. It was a useful provision, for example, for filling gaps that had to be filled or for aiding interpretation.

The Chairman said that Section 2 of Article VIII of the unit scheme had already been mentioned in earlier discussions. It would provide that units would constitute general obligations of the Organization. Section 3

contained a gold value guarantee. The intention, which had not been questioned by anybody, was that the unit would have a fixed value, with no possibility of a change whatsoever.

There was no discussion of these topics.

The discussion turned to Article IX of the unit scheme, and Article VI of the drawing rights scheme on structure and voting. The Chairman suggested that the sections be discussed successively rather than together.

The General Counsel said that the fact that the Organization would be a separate legal entity would mean that it was an international organization quite distinct from the Fund, with a legal personality, its own privileges and immunities, and its own rights and obligations. Its liabilities would not be the liabilities of the Fund. The similarity of the Organization to that of the Fund meant that the staff envisaged a supreme governing body, the Board of Governors, as in the Fund, an executive body composed of Executive Directors, and a management and staff, again as in the case of the Fund. Whether or not the Board of Governors and the Executive Directors were the same as those in the Fund, which of course would be a possibility, they would nevertheless be acting as the governing and executive bodies of a separate and distinct legal entity when they were exercising the powers and fulfilling the duties of the Organization.

The Chairman said that one could not say it would be the same Governors and the same Executive Directors as in the Fund, because the membership would not be necessarily the same. Of course, it would be more practical to have the same people to the extent that the membership was the same.

Mr. Siglienti agreed that they might not be the same people if the membership were different, but he thought that might not be the only case of a difference. One should remain flexible as to the rules for appointment and election, for example, and these need not be the same as in the Fund. For example, if the Governors reserved the powers as regards the amounts, timing, and distribution or recall of reserve units, then the Executive Board would have little to do, except for issuing directives, and this would depend on how much guidance there would be. In such a case, the Executive Board of the Organization might function well with a smaller membership than in the Fund Board. One should not prejudge these issues.

The Chairman thought it would be quite unreasonable to pay travel costs and per diem expenses for two complete sets of Governors, and remuneration for two complete sets of Executive Directors. Clearly, there were some practical considerations to be taken into account.

Mr. van Campenhout thought it might be a good idea to indicate that Governors and Executive Directors could be the same in the Organization as in the Fund. It was clearly stated that the Managing Director would be ex officio Managing Director, and the implication might be thought to be that the Board of Governors and Executive Directors would be different. He recalled the examples of the IFC and IDA, although he would not suggest following these specific examples.

The Chairman said that this was of course not the implication; and that the possibility of such a misunderstanding should be removed.

Mr. Stevens hoped that the provision about reserved powers could be written in such a way that it would not be a major operation to alter the regulations at a later stage in the operation of the scheme, when there might be frequent small changes in distributions, as the bringing together of the Board of Governors might be a rather ponderous operation.

The General Counsel said that the question raised by Mr. Stevens was a rather awkward one technically. Either one said that the powers were reserved, or that they could be delegated. If they were reserved, then if one followed the precedent of the Articles one would have to amend the Articles to change them from being reserved powers. What Mr. Stevens was in effect suggesting was that these should be delegable and not reserved powers, and that could raise difficult questions of negotiation.

Mr. Larre believed that, if one agreed that the Directors in the new Organization would have as much power as the Executive Directors in the Fund, this would solve Mr. Stevens' problem, because if the Executive Directors had a say in the amount, through their recommendation which was communicated to the Governors, then this would change the balance of power. He took it that what the General Counsel was getting at was that, with the change in voting power for the countries that opted out, the representation in the Fund might not be the same as in the new Organization after a while.

The General Counsel replied to Mr. Larre and said that he did not think that the changes in the relative voting power would cause differences in the composition of the two Boards. Rather there might be different membership for the two institutions if some members of the Fund chose not to belong to the affiliate.

Mr. Larre said that, if, in a group of countries that joined in the election of an Executive Director in the new Organization, there was one major member that represented the group and that member opted out and the other members of the group continued to participate in distributions, it might well be that after some years a different country from the group would provide the Executive Director. If in the meanwhile there was no change in the relative sizes of these countries' quotas in the Fund, then

the major country might be expected to continue providing the Executive Director in the Fund.

Mr. Yaméogo asked about the seat of the headquarters of the new Organization, because there might be language problems if the headquarters were in some other country. The Chairman thought the headquarters would be in the Fund building and that a headquarters provision should be included in the Articles of the new Organization. Mr. Larre thought the questions of the seat of the Organization and its official language should be left open.

Mr. de Villiers presumed that the new Organization would operate on a similar organizational basis as that of the IBRD and IFC. For example, at Board meetings the IBRD Board sometimes adjourned and reconvened as the Board of the IFC. However, with regard to the possibility of different memberships for the two Boards, he wondered whether it was absolutely impossible to have a situation in which one Board decided not to implement something, affecting its institution, which the Board of the other institution had decided to do. In such a case, it was possible that there could be a deadlock. The Chairman asked the General Counsel if there was any provision in IDA, for example, which took care of that possibility. The General Counsel said there was not. Of course, each institution would be sovereign within its own competence. He could not envisage a case in which there could be a deadlock which could not be resolved. The Chairman thought that Mr. de Villiers' problem could only arise if the compositions of the two Boards were widely different. The General Counsel added that there would also have to be a dispute on a subject which was common to the two institutions.

Mr. Kafka said he was surprised by the general assumption that the two Executive Boards would be identical, except for possible divergences resulting from different voting procedures and different membership. He thought it was quite conceivable that the Executive Board of the affiliate might operate on completely different principles from the Executive Board of the Fund. It might have very much less to do, depending on the system of guidance that was adopted, and it might meet only very occasionally. He thought its composition might be based on the old Keynesian idea of a part time Board, perhaps with full time alternates but perhaps without them. In any case, the Board might meet at different places, at different times. He thought the difference in composition, and the difference in the mode of operation, could have considerable importance.

The General Counsel referred again to Mr. de Villiers' point, and said that one possible area of difference of opinion between the two Boards was administrative matters. He thought that the two organizations might make an agreement, particularly on such things as administrative matters.

Mr. de Villiers said he had raised the point because, although it had been agreed not to delve too deeply at this stage into matters which would affect the Fund, he was slightly concerned that matters affecting the Fund might be overlooked.

Mr. van Campenhout thought that another possible area of conflict would derive from the regulating power of the new Organization as to the use of units and therefore the behavior of countries. In theory at least, there might be a conflict as regards multilateral surveillance and the adjustment process, and so on.

The General Counsel observed that there might be different "currencies to be used" policies.

Mr. van Campenhout added that this might not be important, because after all the two institutions were likely to have the same Governors. He wondered if one could not indicate that the Governors would be Ministers of Finance or Governors of Central Banks. The General Counsel said that there could be such a provision, although the choice of a Governor under the Fund and IBRD Articles was left open to the member country. Mr. van Campenhout added that the Articles might indicate that the normal relationship with a country would be through its fiscal agent.

Mr. Larre said that a weak spot in the Fund's Articles was with respect to the interpretation of the Articles. He thought there would be a good case to let the World Court, at The Hague, have responsibility for interpreting the Articles of the new Organization, especially as questions concerning the proper functioning of the international monetary system might be viewed differently in the Fund and in the new Organization, as one was based on gold while the other was based against gold. Therefore, a third institution might be helpful when it came to questions of interpretation.

Mr. Siglienti was impressed by Mr. Kafka's views about the Executive Board of the new Organization. Especially if it was a different Board, at a different level, this would make the danger of a conflict between the two bodies a possibility. The idea of having exactly the same Board in the IDA as in the IBRD, for example, was to avoid that conflict. Thus, in theory it would be possible for the IBRD to decide to lend to IDA, and for the IDA Board to refuse to accept the loan, but in practice this would be impossible because of the identical Boards. He noted that whether one chose units or drawing rights had a bearing on the possibility of a conflict. He thought this whole question should be left open and that Mr. Kafka's ideas deserved further study.

Mr. van Campenhout noted that these difficult problems would not arise in a drawing rights scheme.

Mr. Madan wondered, if the Board of Governors was not necessarily common, the Executive Board was not necessarily common, and the capital of the new Organization was not held by the Fund, which provisions would make the new Organization an affiliate of the Fund.

The General Counsel replied to Mr. Madan and said that affiliation was not a fixed and concrete concept in international law. It was really quite a loose term to describe a relationship, which might be closer or less close, between two international organizations. It was really a question of degree, of the extent to which one was tied to the other. There would be a close affiliation if the Boards were identical, and it would be a less close affiliation if they were not and only the Managing Director and staff were common.

The Deputy Managing Director noted that, in the IFC Articles, it was provided that the Board of Directors would be composed ex officio of the IBRD Directors, despite the possibility of different membership. Thus, an Executive Director could represent six countries in the IBRD and only four countries in the IFC. It would be possible to have a provision that the Executive Directors of the Fund would be the Directors of the new Organization.

The General Counsel said it would be possible to provide that, if there was one member within the new affiliate of a common Fund constellation, then the Executive Director for that group in the Fund would also be the Executive Director in the affiliate, but of course casting the votes of the one member only.

Mr. Madan thought it would be important at a later stage to ensure as great a degree of conformity between the two institutions as possible. With one institution concerned entirely with unconditional liquidity, and the other mainly with conditional liquidity, he thought there might be confusion and perhaps something worse, unless a way for the two institutions to work together was worked out.

The Chairman agreed that this was an important problem. The discussion had already shown that there were several matters of joint concern, and he thought that probably there would have to be matching policies in the Fund and in the affiliate.

Mr. Phillips asked whether, in view of the many organizational suggestions that had been made, thought could be given to the possibility of creating not a separate organization but a sort of special issue department within the Fund, along the lines of the issue departments in central banks.

The General Counsel said that this had been suggested as a possibility when the Managing Director's Plans I and II were put before the Executive

Directors (SM/66/30, 3/3/66). It was by no means impossible to have a special issue department, but it had been thought desirable to propose a quite distinct international person, because this would offer a wider range of possibilities in organization.

The Chairman said that while one could run a unit scheme within a special department of the Fund, he understood that legally it would be more complicated, in terms of keeping the decisions and accounts separate.

The General Counsel said it would not be an impossibly difficult technical legal task to fit it into the present organizational structure of the Fund, and the main reason for preferring a separate affiliate was the one he had already mentioned.

Mr. Larre considered this a very serious point, because a drawing rights scheme could be in the Fund, but he would not like a unit scheme to be in the Fund because of the danger of illiquidity, and it would be better to have it in a subsidiary organization.

On Section 2 of Article IX, the Chairman thought that the question of the delegation of powers from the Board of Governors to the Executive Board would be discussed in detail at a later stage. At this stage, he would only mention that he thought that decisions on distribution or recall could not be delegated. With this exception, he expected that eventually one would have a more refined distribution of powers, as there was in the Fund.

Mr. Siglienti said that one should be sure that the Governors were in a position to use their reserved powers in an effective way. He did not think the present procedure of mail votes would be suitable. Perhaps there should be periodic meetings. The Chairman added that the idea of a committee of Governors had been suggested. The General Counsel said that anybody could appoint committees even if this were not expressly mentioned.

Mr. Kafka thought there might be difficulties of composition, if one tried to set up committees, and he thought that an Executive Board, possibly composed on a different principle and with a different mode of operation, might provide the easiest solution.

There was no discussion of Section 3 of Article IX, and the discussion turned to Section 4.

Mr. Madan wondered if there would be sharing of the staff expenses. One way in which to make the new Organization a subsidiary of the Fund would be for its expenses to be paid by the Fund.

Mr. Phillips said that the fact that the staff of the Fund would serve as the staff of the new Organization as needed was another reason in favor of giving consideration to the possibility of creating an issue department instead of a new organization.

The Chairman said that at one stage, when the schemes were still being drafted, they had simply provided that the expenses of the affiliate would be covered by the Fund. However, the possibility of a different arrangement had been incorporated in case that should be desired. As the schemes were presently drafted, the Organization would have no net income, because it would charge as much interest as it paid out. If the new affiliate had to meet part or all of its expenses, it might have to charge higher interest than it paid.

Mr. Stevens thought that one should bear in mind that the purpose of paying interest on units was to establish their status vis-à-vis gold, on the one hand, and ordinary currency on the other hand. One should clearly spell out any other reason for having interest, such as covering expenses.

The Chairman said that a provision could be included in the scheme to have a charge to cover administrative expenses.

Mr. Madan thought that any such charge should be shared in proportion to quotas; if it was in proportion to borrowing or use, the reserve character of the asset would be watered down.

Mr. Larre said that the costs of IDA were not covered entirely by the IBRD, but divided between the two institutions. The IDA paid the IBRD 10 per cent of the Bank's costs. He thought that, if the new institution were separate from the Fund, there should be separate accounts and it should have its own financing arrangements.

The General Counsel said that, if the Organization had to pay its own way, there would be at least two ways of doing it. There could be a differential in the rates of interest paid and received, or the Organization could assess its members from time to time on some appropriate basis.

Mr. Larre thought the Fund would have to start charging interest on gold tranche drawings to keep the Fund and the new institution on the same basis.

Mr. Reid said that, of the two ways of financing mentioned by the General Counsel, he would favor the interest differential. This would involve amendment of Article VII.2 of the unit scheme.

Mr. Diz noted in the explanatory note that the Fund as a holder of reserve units would receive interest from the Organization on those units.

He asked if the principle of paying interest to the Fund would be different from the principle of paying interest to the members.

The Economic Counsellor said the principle would be the same. Interest would be paid on the difference between the amount held and the initial allocation, but as the Fund's allocation would be zero, it would only be holding units it had received in payment.

Mr. van Campenhout noted that an additional interest charge to members to meet the administrative expenses of the Organization could not be paid in units. In this respect, also, the drawing rights scheme had an advantage.

The Chairman said that Section 5 of Article IX, which dealt with weighted votes, was very close to the decision-making problem, and he did not think it would be useful at this stage to have a detailed discussion of it.

The Economic Counsellor referred to the relation between subsections (a) and (b) of Article IX.5(ii), and said that, as described in the explanatory note, one might want to start the Organization's operations on the same voting system as in the Fund before any large distribution had been made. Then, at some later stage, after the transition point at which the opting out provisions started to work, one could go over to a voting system based on net cumulative distribution. The main reason for this transition was that there should be a corresponding effect on the votes of countries that opted out and therefore reduced their stake in the operation. In the scheme as drafted the precise timing of the transition would be based not on the original quota but on the quota at some later time. He thought it might be more logical to base it on the original quota. He pointed out that the transition would not come at the same time for all countries. The biggest possible difference would arise if a country joined the Organization at a late stage; before it had had any cumulative distribution it would have the same number of votes as it had in the Fund.

Mr. vom Hofe felt that the creditors were not very generously treated in Article IX.5, and he hoped the staff would produce a paper on how it would work out in practice.

The Chairman said that the whole problem remained completely open, but he agreed that it would be useful to have an illustrative demonstration of how it would work out under various circumstances.

The Chairman thought that Sections 6 and 7 of Article IX were uncontroversial. The only point on which there might be a question was as to whether Executive Directors should cast split or bloc votes.

Mr. van Campenhout thought that, if such questions as the amount of reserve assets to be created and distributed were among the reserved powers of the Governors, it would be possible to have bloc voting for the Executive Directors, but he thought split voting would be essential if the Directors had the power to create reserves.

Mr. Larre said that the only convincing point in the idea that Executive Directors did not represent their countries came from the bloc voting requirement. If there was split voting, the Executive Directors would appear to represent their constituent countries.

The Chairman felt that in these circumstances the elected Executive Directors would become more like the appointed ones.

Mr. Larre said he would prefer split voting. The only situation in which the Executive Directors could have an independent attitude to voting matters would be if they had bloc voting which required them to balance the issues. With split voting they could be expected to be obedient to instructions from their governments.

Mr. Suzuki asked if there would be both elected and appointed Executive Directors. The General Counsel replied that one might follow the precedent of the Fund or choose some other arrangement. The Chairman said that this had been left open in the illustrative scheme, but he would not want to preclude the possibility of a similar arrangement to that in the Fund.

There were no comments on Section 8 of Article IX.

It was agreed to continue the discussion at a later meeting.

W. LAWRENCE HEBBARD
Secretary