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INTERNATIONAL MONETARY FUND

Secretary's Journal of Executive Board
Informal Session No. 69/10

3:00 p.m., August 11, 1969

F. A. Southard, Acting Chairman

Executive Directors	Alternate Executive Directors
	S. Jónsson
W. B. Dale	J. S. Hooker
	R. H. Arriazu
R. Johnstone	
	E. da S. Gomes
	M. A. Merican
	P. Stek, Temporary
B. K. Madan	
E. W. Maude	
	C. Bustelo
	M. A. Sandoval
	B. de Maulde
	A. Mansour
	L. Fuenfgelt
J. O. Stone	G. P. C. de Kock
	S. Hattori
	N. H. Hanh
	J. Roelandts
	M. P. Omwony
A. W. Yaméogo	

W. L. Hebbard, Secretary
C. N. Marsh, Assistant

Also Present

African Department: C. L. Merwin, Deputy Director; M. Guen, G. Szapary. Asian Department: C. C. Liang. Exchange and Trade Relations Department: E. Sturc, Director. Fiscal Affairs Department: H. C. Murphy. Legal Department: J. Gold, General Counsel and Director; G. P. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel, S. A. Silard. Middle Eastern Department: M. M. Hassanein. Research Department: J. M. Fleming, Deputy Director; R. R. Rhomberg. Treasurer's Department: F. C. Dirks, R. J. Familton, C. B. Fink, D. L. Lechliter, D. Williams. Personal Assistant to the Managing Director: F. L. Hall. Technical Assistants to Executive Directors: H. Bobadilla, I. A. Craik, P. M. de Raet, D. Frommel, R. Patti, H. G. Schneider, J. Skutle, J. A. Sogo, W. Stoop, G. F. Taylor, N. Tsukagoshi, J. R. Vallet.

1. ALLOCATION OF SPECIAL DRAWING RIGHTS FOR THE FIRST BASIC PERIOD

The Executive Board resumed its consideration of the allocation of special drawing rights for the first basic period (SM/69/101, 7/3/69, SM/69/121, 8/1/69, and SM/69/125, 8/8/69).

The Acting Chairman observed that the meeting was a resumption of the informal discussions of the Executive Directors. The purpose was to determine whether there was a broad consensus on the main elements of the first decision to allocate, which were contained in SM/69/125.

The General Counsel said that if the Executive Directors wanted the Board of Governors to take a decision at the Annual Meeting for the first basic period, a document would have to be sent to the Governors in time for them to study prior to the Annual Meeting. On that assumption, draft proposals and resolutions would have to be ready for discussion very shortly after the end of the recess.

Mr. Dale supported the assumptions in SM/69/125. He took it that the decision would be made formally at the Annual Meeting, but that the first allocation would not occur until January 1, 1970 in order to give Fund members the opportunity to become participants in the intervening time, if they had not yet done so. He then asked what method had been used in calculating the figures shown on the two tables on page 4 of the paper; the amount in Table 1 came close to $3.5 billion, and in Table 2 to $3 billion. Further, he asked how the arithmetical approach could be expressed in appropriate legal language for presentation to the Board of Governors.

The Acting Chairman replied that it was his understanding that the formal proposal and draft resolution presented to the Board of Governors would express the quantities in terms of percentages. If an explanation were necessary, that would be given in a separate document or an explanatory note.

The General Counsel stated that the procedure outlined by the Acting Chairman would be in accordance with the Articles. The procedure would be to prepare a report from the Managing Director, culminating in a proposal. Attached to that document would be a draft resolution for adoption by the Board of Governors; in those papers, quantification would be expressed in terms of percentages, and not in actual amounts. Those papers would have to be discussed and concurred in by the Executive Directors before they could be forwarded to the Board of Governors. The final constitutive act for allocation of SDR's would be the adoption of the resolution by the Board of Governors.

Miss Fuenfgelt believed that her authorities would welcome a general decision on the creation of reserves at the Annual Meeting. She understood

that to obtain such a decision, the proposal would have to be prepared in early September. She was in full agreement with the assumptions contained in SM/69/125, and she would agree with a proposal made on the basis of those assumptions. She expected that the proposal would be submitted to the Executive Directors in draft form for discussion, and again after redrafting for concurrence.

The General Counsel confirmed that the proposal would be submitted to the Executive Directors in draft form for discussion; after discussion, redrafting, and concurrence of the Executive Directors, it would be forwarded to the Board of Governors.

Mr. Stone observed that SM/69/125 had been issued on the previous Friday, and had not yet arrived in the capitals of any of the countries he represented. He had several questions concerning the paper; the replies might enable him to furnish information to his authorities to supplement that contained in the paper. First, he understood that at the meeting of the Group of Ten Deputies conducted July 23 and 24, there had been an agreement that after the authorities of the countries concerned had accepted the recommendations of the Deputies, the Chairman of the Deputies would bring that fact to the attention of the Chairman of the Ministers and Governors of the Ten, and immediately thereafter to the attention of the Managing Director of the Fund. He assumed that that had occurred, but asked for confirmation of his assumption. The General Counsel replied that it had.

Mr. Stone recalled that at Informal Session 69/6 (7/11/69) the Managing Director had said in his statement that he had not addressed himself to the principles and considerations set forth in Article XXIV, Section 1. Mr. Stone inquired when the Managing Director proposed to address himself to those principles and considerations. Second, as a matter of procedure, he wondered whether it was appropriate for the Executive Directors to address themselves to the detailed questions set out in SM/69/125, until they had addressed themselves to what used to be called the "preconditions," which were in Article XXIV, Section 1.

The General Counsel said that he assumed the Managing Director would state in the report that he had satisfied himself that the principles and considerations set forth in Article XXIV, Section 1(a) and (b) had been met. He imagined that the Managing Director had been waiting for the discussions on the draft of the Annual Report and the U.S. consultation before forming a view.

The Acting Chairman observed that if the Executive Directors thought that the provisions of Article XXIV, Section 1 had not been met, they would not concur and the report could not be forwarded to the Board of Governors.

Mr. Stone agreed with what the Acting Chairman and the General Counsel had said, but he still thought that unless there was some good reason for doing otherwise, the Executive Directors should address themselves first to the preconditions. The Acting Chairman replied that for some weeks the Executive Directors had been discussing various matters concerning the preconditions; the purpose of the present meeting was to find what would be necessary to obtain a broad consensus. Mr. Stone then said that when the statement of the Managing Director had been discussed on July 11, he recognized that information was not available on such matters as the U.S. consultation report; he had therefore, contented himself at the time by saying that he looked forward with interest to hearing the Managing Director's views at the appropriate time. However, he thought that meanwhile the U.S. consultation report, the draft Annual Report, and other information had become available; it was thus now appropriate to have a substantive discussion on the matter.

Mr. Johnstone viewed SM/69/125 as a useful basis for exchanging opinions on the assumptions on which the specific proposal might be based, on condition that other necessary procedures, to which the General Counsel and others had referred, were completed. The paper provided a very useful set of working hypotheses on which the staff might proceed in preparing appropriate documents for formal consideration by the Executive Directors.

Concerning the matter of preconditions, Mr. Johnstone recalled that at Informal Session 69/3 (6/18/69), he had made a fairly lengthy statement--to which he did not now wish to make any additions--which had brought him to the conclusion that circumstances were appropriate for the activation. While he did not deny that formal consideration of the matter was appropriate, it should be recalled that the matter had been under discussion not only in connection with such documents as the U.S. consultation report and the Annual Report, but also in the series of Executive Board discussions which had led up to the present meeting. At least some Executive Directors had addressed themselves, in those discussions, directly to the questions to which Mr. Stone had referred.

Mr. Maude supposed it would be useful to use the day's discussion as an opportunity to elicit views from as many Executive Directors as were ready to present them at the time. He then said that he was prepared to present his own views and those of his authorities informally at the present meeting, and in a more formal manner at a formal discussion. Those views were first, that, subject to hearing any views that might be expressed by the Managing Director, the preconditions of activation were met, and second, that what had been described as specific assumptions of an operative character set out at the beginning of SM/69/125 were acceptable and represented the broad basis on which activation could go forward.

Mr. Maude then commented that it was fairly clear from SM/69/125 that the problem was a complicated one, if only because there were three different

ranges of uncertainties, as was said on the bottom of page 1. That meant that the number of possible combinations was enormous, and he thought the members of the Fund could make the problem less complicated by taking early rather than belated steps to indicate their own intentions with regard to participation. He hoped that the Executive Directors, acting as individuals, would exert their influence with their authorities by urging that member countries make their intentions with respect to participation known as early as possible, and if any action needed to be taken, to take it as soon as possible. The area of uncertainty would thus be reduced, and it would be less difficult for the staff and the Executive Directors to grapple with the problems of activation.

The General Counsel said that a cable had been sent to countries which had not given a fairly clear indication on participation, asking about their intentions.

Mr. de Maulde said it was his understanding that the Fund intended to create a certain amount of liquidity, with any number of participants so long as it was above that required.

The General Counsel said that allocations could be made only after the requirement of participation had been met. However, it would be helpful to keep all members informed, and to permit those who might be latecomers to have some share of the distribution if possible. Further, it would be helpful for the Fund to know which members intended to become participants although they might be late doing so.

Mr. Madan said he expected that a draft of the proposals would be considered at a formal meeting in due course. Referring to the technical operative part of SM/69/125, the statistics in the appendix to the paper seemed appropriate for relating the allocation to a specific percentage, and thereby ensuring the distribution of a particular figure. The figures in Table 1 appeared to be based on an assumption that 90 per cent or 95 per cent of the members would be participants. In that respect, he asked just how many members had indicated that they intended to become participants, but had not yet fulfilled all of the conditions. Further, he wondered whether such a listing was being kept current. He then referred to paragraph (5) on page 1 of the paper, where it was said that there would be a participation clause to the effect that no new quotas would go into effect until members having two thirds or three fourths of the total of quotas had consented to the increases in their quotas. He asked what light past experience would throw on the proportions--as between two thirds or three quarters--which were expected to be adopted, and what effect the larger participation might have on the assurance of broad equitable relationships between the Fund and the various members.

The Acting Chairman replied that the Secretary was prepared to continue to circulate papers so that the Executive Directors would know the status

of the members with respect to participation, and the per cent of quota which they comprised. He thought that by the end of the year a very large percentage of the members would be participants. The General Counsel added that the second condition required by Article XXIII, Section 1 of the Fund Agreement was satisfied on August 6, 1969, as by that date instruments of participation had been deposited with the Fund by 50 members having 75 per cent of the total fund quotas. Cables to that effect were sent to all members on August 7, 1969. The General Counsel also pointed out that members that became participants at any time before the beginning of the first basic period--whether or not they had become participants by the time the decision to allocate was taken--would be participants for the purposes of the first basic period.

The General Counsel then referred to Mr. Madan's second question, concerning a participation clause for the general review of quotas, and said that there was no legal requirement in the Articles for any particular participation before increases might become effective. However, it had been felt desirable on the previous occasions to have a participation clause--largely in the interest of the Fund's liquidity. However, the appropriate time to discuss whether there should be such a participation clause, and if so what the required percentage should be, would be at the time when the quota increases were being considered. The consideration would have to take into account the fact that on the past occasions many months had elapsed before the required percentage of participation had been attained.

Mr. Arriazu asked a question. He supposed that the amounts of SDR's to be allocated would be based on a percentage of present quotas for the first year, and a percentage of envisaged quotas for the second and third years. If the amounts of the second and third year quota became, in fact, quite different from the amounts envisaged, could the Managing Director revise the allocations to compensate for the changes from the expected quotas, thereby changing his proposal?

The staff representative from the Research Department replied that the percentages of SDR's to be distributed would be based on the aggregate of quotas as of the date of allocation, rather than on an estimate of future quotas.

The General Counsel added that the capacity of the Managing Director to change a proposal was a separate question. The Managing Director could not amend a proposal which had been accepted by the Board of Governors. However, a decision could be taken, based on Article XXIV, Section 3, in the event of unexpected major developments. The decision would have to be adopted by the same procedure that applied to decisions on allocations.

Mr. Stone observed that there seemed to be a general feeling that the decision should be taken at the Annual Meeting. He presumed that following the decision, it would be sensible to leave the computation of the SDR amounts until as late as possible before the date of activation to assure basing the allocation on the proper number of participants and the proper quotas. However, he felt, and he believed that other Executive Directors had the same feeling, that a cast-iron decision, articulated in every detail, made at the Annual Meeting, could later prove very difficult for the Executive Directors to follow. He recalled that the General Counsel had explained that when a decision was made by the Board of Governors it was not possible for it to be changed without much time and effort. He wondered, therefore, whether the resolution to be passed at the Annual Meeting could not have some more general form, so that the Executive Directors could retain some flexibility in executing it.

The Acting Chairman asked the General Counsel whether the Managing Director's proposal to the Board of Governors could say in substance that there would be an allocation as of January 1, 1970 in an amount of $3.5 billion, that the basic period would be for three years, and that the amount to be allocated for the second year would be $3 billion, and for the third year $3 billion. This would be done by the selection of appropriate percentages.

The General Counsel replied that the proposal must include the percentages. Although it would be possible to have a declaration of intention, or some other partial decision from the Board of Governors, he believed that would be generally unacceptable; that was one reason why the Managing Director himself felt quite strongly that the decision should be taken at the Annual Meeting. Further, the decision at the Annual Meeting would provide the proper sense of formality and of history making; it would also be an effective contribution to confidence. Decisions made by correspondence were obviously much less dramatic.

The staff representative from the Research Department added that the final percentage would have to be computed some time before allocation; even though that computation were postponed until a very late date, to arrive closer to the target amount for allocation than the margin of approximately plus or minus one third of one per cent which had been achieved--and the technique illustrated--in the table on page 4 of the paper would be difficult.

The General Counsel added that voting on the resolution by mail would take time; in the interval some countries might become participants, so that there could still be a margin of error.

Mr. Stone observed that the difficulty under discussion would be a one-time problem which would arise only for the first distribution, but it was nevertheless a very real problem. He questioned that an extremely detailed decision at the Annual Meeting would inspire more confidence than a more generally worded decision, and he believed that a formal appropriate declaration of intent could be made at the Annual Meeting; the problem would be considerably alleviated if the more detailed decision could be postponed until the end of November.

The Acting Chairman suggested that the problem might be eased by finding appropriate language while drafting the proposal and resolution. If that could not be done, the Executive Directors might find themselves going to the Board of Governors twice: once at the time of the Annual Meeting and another time later on. However, as the Governors were always allowed about 30 days for voting, much time would be required. The General Counsel added that in such a case some of the Governors might inquire at the Annual Meeting why the Executive Directors did not make a complete proposal, and by what authority the declaration of intent had been presented. He thought that the reply would be a very difficult one.

Mr. Johnstone observed that, as he understood it, a percentage had to be used in the proposal for the Board of Governors, because legally an amount could not be mentioned. Therefore, the first two columns in Table 1 on page 4 of the paper could be presented to the Governors, but the third column could not. He then asked how the problem of a time delay while computing amounts could be avoided. The General Counsel said that the moving formula set out in SM/69/125 would permit flexibility and alleviate the problem.

Mr. Dale observed that there had been a few times when he had had second thoughts about using percentages rather than absolute amounts, but he did not think the problem was insuperable; there should be several different ways of using the table on page 4 of the paper. For example, if the Executive Directors agreed that the total quotas of participants would be $20 billion on January 1, 1970, an SDR amount of 17 1/2 per cent could be specified, provided that it would be adjusted if quotas departed from $20 billion by more than $60 million, by taking a fraction of 20 over whatever the quotas of participants turned out to be, to the nearest one tenth of one per cent.

The Acting Chairman added that calculations could be prepared in various ways. The General Counsel commented that the same kind of problem was inevitable for later allocations when quotas were increased in the course of a basic period. Such a difficulty would arise because it was impossible to determine in advance the exact amounts of quotas for any specific time in the future.

The staff representative from the Research Department referred to Mr. Dale's suggestion and said that, in the proposal, there could be either a schedule of percentages which corresponded to the different ranges of quotas, or a description of the formulation underlying that schedule.

Mr. Johnstone then observed that the difficulty seemed the same, regardless of whether the proposal were submitted at the Annual Meeting or two months later.

The Acting Chairman said that if the Directors wished the two-step proposal presented to the Governors, and found it undesirable to depart from the 30-day minimum time allowed for the Governors to vote, the final proposal would have to be mailed not later than December 1, 1969. Even in that case, the proposal would still have to include a formula or range. It was also possible that some countries might deposit their instruments of participation during the 30 days while the Governors were voting.

Mr. Gomes said that Mr. Kafka believed that the size of the quota increases and the time of their allocations should be arranged in such a manner that all participants were reasonably satisfied. Based on that view, he generally accepted the assumptions in SM/69/125. However, when the decision was taken to allocate SDR's, there should be a generally satisfactory understanding of the expected result of the quota review. In view of the existing uncertainty concerning the quota review, he felt presently unable to advance further on Mr. Kafka's views about the proposal to activate SDR's.

Mr. Yaméogo asked what the last date would be for members to become participants, assuming that the first allocation would be on January 1, 1970. The Acting Chairman replied that the date could be December 31, 1969.

The General Counsel added that if a member wished to participate in the first allocation on January 1, 1970, it would have to deposit its instrument of participation by midnight on December 31, 1969. However, if this was not done, a member could still deposit its instrument of participation at any time thereafter and thereby become a participant at such later time. If this was done during the basic period, the Fund would be sympathetic to a request from the new participant, as had been indicated in the Report, to receive the subsequent allocations during the basic period. Nevertheless, if the member deposited its instrument on January 2, 1970, there would be no way for it to receive the first allocation if that were made on January 1.

Mr. Yaméogo asked whether a majority of 85 per cent could make an exception. The General Counsel replied that the Articles permitted no such exception. Mr. Stone stated that denying a country the whole of its first allocation simply because it had been unable to deposit its instrument of participation before January 1, 1970, seemed to be a severe penalty. If a small country were unable to conduct a legislative session of its parliament in time to deposit its instrument of participation before that date, it appeared that the whole of the 1970 allocation would be lost to it, and that seemed very unfair. He asked whether there might not be quarterly distributions, so that a late country would be eligible for at least three quarters of the year's allocation. Such an arrangement would also be relevant to the problem of a country with a quota increase which became effective during a year; such countries would be encouraged to act with dispatch in order to be eligible for at least part of the year's allocation on the basis of the new quota.

The General Counsel replied that the basic rule was contained in Article XXIV, Section 2(a), which stated that allocations would take place at yearly intervals; but that was modified by subsection (c), which authorized the Fund to decide to allocate at other than yearly intervals, thus providing flexibility. In reply to the Acting Chairman, he added that quarterly or semiannual allocations could be decided for the first year, provided that all participants were treated alike.

Mr. de Maulde, following a suggestion by Mr. Johnstone, said that he knew of nothing in the Articles which would prohibit both a full year's allocation for some participants and installment allocations for other countries which might prefer receiving SDR's in that manner. Further, it appeared to him that the Governors had been given complete flexibility under the provisions of Article XXIV, Section 2(c)(ii).

The General Counsel replied that the question was one which would have to be investigated since there was no provision in the Articles authorizing two different methods of allocation. The Acting Chairman agreed that this was a question which would require some study.

The General Counsel then restated the point that permitting members that had deposited their instruments of participation after the agreed date to receive the first allocation would involve the problem of the rates of allocation. Also, annual allocations, instead of more frequent allocations, had the advantage of avoiding the workload of many smaller allocations. The Acting Chairman observed that a number of the late participants might be very small ones and the total of their quotas might have no practical effect on the total allocation. The General Counsel recalled that in past years some members had come in for their quota increases more than a year late.

Miss Fuenfgelt thought that the wording in Article XXIV, Section 2(c)(ii) indicated that there would be no exceptions to allocations or cancellations on an annual basis. That was a paragraph which would have specified otherwise had it been so desired.

Mr. Stone, however, said that the word "installments" was not contained in the Articles and so a three-monthly distribution would still be an allocation. He shared Mr. de Maulde's opinion that there was nothing in the Articles which would prevent quarterly allocations and he thought that view had been confirmed by the General Counsel. It was true that the drafting of the Articles indicated a preference for annual allocation, but the very first activation should be recognized as a very special situation. He then referred to Mr. Johnstone's suggestion, and said that permitting participants to receive either a full year's allocation or quarterly allocations at first appeared to be a solution, but on second thought that involved the problem of ensuring the same percentage to all participants, and there seemed to be no way to overcome that difficulty. Since the problem not only affected the allocations to participants, but also involved the question of the speed with which allocations could be switched to the new quota basis, his tentative view was that the matter should be explored carefully.

The Acting Chairman agreed that study would be required to assure equitable treatment of participants and avoid any discrimination.

Mr. Stek referred to the assumptions contained in SM/69/125, and concurred both with the amounts to be distributed over three years and with the dates for the allocations. He then stressed that he strongly preferred to have the main lines of the quota review presented to the Board of Governors at the Annual Meeting, so that they could take the decisions on the quota increase and the SDR's together. Although the details had not yet been settled, he stressed the importance of that approach.

Mr. Phillips suggested that the SDR's might be allocated as of December 30, 1969 instead of January 1, 1970. Most banks closed their records on January 1, and the allocation might tend to confuse their balance sheets if the SDR's were issued that day. The date of December 30 might be helpful to some of the participating countries.

The General Counsel replied that such an arrangement had been discussed, but it had been generally opposed.

Mr. de Maulde referred to Mr. Stek's indication that some countries might have additional funds for internal financing as a result of their SDR allocations, and asked about the possibility of sterilizing counterpart funds arising from SDR's, in view of the possible effect on world inflation. Miss Fuenfgelt felt strongly that the Executive Board should discuss the matter. Mr. Arriazu thought that participant countries should

remain free to use the funds as they wished; and while Mr. de Maulde agreed, he thought that would not preclude a recommendation by the Fund to sterilize them.

Mr. Stone agreed with the philosophy underlying the comments of Mr. de Maulde and Miss Fuenfgelt, but the matter was not provided for in the Articles of Agreement; he therefore considered that the Fund had no authority whatsoever in that respect.

Mr. Dale questioned whether informally advising a country, in a report, on what it ought to do with counterpart funds was a good idea; the time to have done that was when the Report accompanying the Amendment had been prepared, so that legislation could have reflected the point. He supposed that most countries had legislation concerning the sterilization of counterpart funds, and he asked the staff to provide factual information of a comparative nature about such legislation.

The General Counsel said that the staff would do that. He added that a memorandum had been circulated previously which described the internal effect of counterpart funds and made recommendations.

The Acting Chairman recalled that the Executive Directors had not really focused on that paper. They could discuss it if they wished; if they felt strongly about recommending sterilization of counterpart funds to participants, a recommendation to that effect could be included in the decision. Although the recommendation would not be binding, it would provide guidance.

Mr. Phillips asked who, in a member country, would own SDR's after they had been distributed. Mr. Dale said that in the United States they would belong to the Treasury which, under certain circumstances, could sell special drawing right certificates to the Federal Reserve.

The General Counsel commented that a number of members had raised similar questions; as far as the Fund was concerned, the member owned the SDR's as a matter of international law, and a participant would have to make its own domestic arrangements.

The Acting Chairman observed that the problem was a difficult one; the participant country's Central Bank or Treasury might be authorized to use SDR's on behalf of the participant. There were also questions relating to the profits.

Mr. Stone questioned the footnote on page 3 of SM/69/125. He presumed that the Fund would decide that a certain amount of liquidity should be created. The implication of the footnote was that the amount of liquidity might be increased beyond that which was found necessary,

if new members joined the Fund, particularly if one or more of the new members happened to be relatively larger or more significant.

The General Counsel replied that the footnote had been designed to assure equity for all participants by preventing a reduction in their allocations as a result of the entry of new participants. This was one of the reasons why the Articles provided for the expression of the rates of allocation as percentages instead of as absolute amounts. He then pointed out that when the participants decided that a certain amount of liquidity should be created, that figure would be more of a target than a precise figure, and deviations might be expected. Mr. Dale mentioned that Article XXIV, Section 3 appeared to contemplate some deviations by providing for unexpected major developments. The General Counsel agreed.

Mr. Hattori stated that he was in broad agreement with the assumptions contained in SM/69/125. However, referring to Table 1 on page 4 of SM/69/125, he inquired whether the quotas of participants who opted out would be deducted from the left-hand column. The General Counsel replied that this would depend on the wording of the resolution, but the assumption was that all participants would accept allocations. Furthermore, it would be assumed that latecoming participants would also wish to accept the allocations which they might be offered.

The Acting Chairman said that on the basis of the informal discussion during the meeting, he had the impression that there was no measurable dissent with respect to the following matters, which could be a basis for a finding by the Managing Director that there was "broad support":

a. The length of the first basic period would be three years;

b. Having in mind the special problem faced by some members in taking action which would enable them to become participants prior to the beginning of this first basic period, the period should begin on January 1, 1970;

c. The annual allocations for the three years would be in the order of $3.5 billion, $3 billion, and $3 billion;

d. There would be no problem of new quotas for the first year of the three years of the basic period; but there would be a problem for the second and even the third year. Therefore, the Managing Director's proposal and action by the Governors should provide for a switch to new quotas as a basis for allocation during the basic period.

The Acting Chairman said that the staff would prepare a draft report and proposal for consideration by the Managing Director. It was the

Managing Director's intention to circulate the draft to Executive Directors for discussion before he made his formal proposal. Since it would be necessary to submit the proposal to Governors approximately in the middle of September, in order that it might be considered by them during the Annual Meeting, Executive Directors should expect to deal with the matter very shortly after the end of the recess.

The General Counsel then described the necessary documents as he visualized them. There would be a report by the Managing Director to the Board of Governors in which he would explain his proposal, and in which he would state that he was satisfied that the proposal was consistent with the provisions of the Articles, that he had conducted the necessary consultations, and that he had ascertained that there was broad support among participants for the proposal. The report would conclude with a distinct section which would constitute the proposal itself. The Executive Directors would have been asked to concur in the proposal, and the Managing Director would state that they had taken a decision to concur. Finally, the Managing Director would state that in view of his report, the proposal, and the concurrence of the Executive Directors, he invited the Board of Governors to adopt a resolution in the form of the draft which would be annexed to his report.

The Executive Directors decided to continue the discussion after their recess.

W. Lawrence Hebbard
Secretary