

Mr. George Nicoletopoulos

Room 8-313

#11

EB/CREED/80/1, COO

July 2, 1980

To: Members of the Committee on Rules for
1980 Regular Election of Executive Directors

From: The Committee Secretary

Subject: 1980 Regular Election of Executive Directors

The attached paper prepared by the staff on the 1980 regular election of Executive Directors will be placed on the agenda of a Committee meeting to be held in the Board Room during the latter part of July, on a day to be announced.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads

INTERNATIONAL MONETARY FUND

1980 Regular Election of Executive Directors

Prepared by the Legal Department

(In consultation with The Secretary's
and Treasurer's Departments)

Approved by George P. Nicoletopoulos

July 1, 1980

Introduction

Article XII, Section 3(d) states:

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

This regular election in 1980 will be the second held under Article XII, Section 3 and Schedule E as revised by the Second Amendment. The effect of the revision of the Second Amendment was described in EB/CREED/78/1 of June 23, 1978, which recently has been circulated again to Executive Directors for their information. Regulations supplementing the provisions of Schedule E were issued for the 1978 election covering such aspects of the election as: the date of the election, the number of Executive Directors to be elected, the proportion of votes required to elect, nomination, the supervision of the election, the balloting, and the effective date of the election. Copies of the "Regulations for the Conduct of the 1978 Regular Election of Executive Directors of the Fund", which were adopted by Board of Governors Resolution No. 33-9, together with the Report of the Executive Board to the Board of Governors on these Regulations are attached for information. (Attachment I)

The Committee will now wish to consider proposing such regulations for the conduct of the 1980 election which, according to Board of Governors Resolution No. 33-9 on the 1978 Regular Election of Executive Directors, is to take place at the 1980 Annual Meeting of the Board of Governors.

The main points for consideration are the number of Executive Directors to be elected and the proportion of the votes needed to elect an Executive Director. The date of the election may also be an important issue if the Executive Board recommends that the Board of Governors consider a quota increase for China at the time of the Annual Meeting.

Two factors may affect the consideration of the appropriate regulations for the 1980 regular election. The first is whether a member again will be eligible to appoint an Executive Director in accordance with Article XII, Section 3(c). On the basis of the calculations to date, it appears almost a certainty that only Saudi Arabia will be eligible to appoint an Executive Director in accordance with that Article. The second is any change in quotas that might occur. These two factors are discussed in the next two sections. Section III discusses the substantive and procedural questions raised by these factors.

I. Appointment of an Executive Director in accordance with Article XII, Section 3(c)

Article XII, Section 3(c) provides that each of the two members, the holdings of whose currencies by the Fund in the General Resources Account have been reduced below their quotas on the average over the two years preceding an election by the largest absolute amounts in terms of the special drawing right, may appoint an Executive Director to serve during the next two-year term if they do not already appoint as one of the members with the five largest quotas. The calculations for this purpose are made on the basis of certain interpretations and conventions set out in "Calculations under Article XII, Section 3(c)", EBD/76/137, July 2, 1976, which is attached for information. (Attachment II)

The convention that will require action by the Executive Board this year is set out in Executive Board Decision No. 597-4 of July 28, 1950 (Selected Decisions, 8th Issue, p. 161), which states:

"The phrase 'the preceding two years' as used in Article XII, Section 3(c), shall be deemed to be the two-year period ending on the July 31 preceding the dates of regular biennial elections of Executive Directors. However, this decision shall be reconsidered if such regular elections are held in other months than September."

As the Annual Meeting will not start until September 30, it is unlikely that the Regular Election will be held in September, and the Executive Board will have to take a decision to determine the date on which the two-year period will be deemed to end. There seems no reason why July 31 should not be kept as the relevant date, i.e., this year. In the past when the election has been held in October, as last occurred in 1976, no change in the timing of the two-year period had been thought necessary. The purpose of Executive Board Decision No. 597-4 was to enable members to form their constituencies for the forthcoming election with knowledge of the members that are going to be involved in the election.

The same purpose is also reflected in the provisions of Section 18 of the By-Laws, Additional Directors. This By-Law provides, first, that

the Managing Director is to inform all members at least six weeks before a regular election of the two members whose currencies held in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the SDR and state whether either or both may appoint in accordance with Article XII, Section 3(c). Next, the By-Law requires the Executive Board to prescribe a period within which a member that may appoint an Executive Director under Article XII, Section 3(c) must notify the Managing Director whether it will appoint. Finally, the Managing Director is instructed to inform a member that may so appoint of this period and to inform all members of the notice received from that member. The beginning of the six-week period before the Regular Election would fall on or about August 21, 1980, depending on the date set for the election during the Annual Meeting.

Whether a member may be able to appoint an Executive Director in accordance with Article XII, Section 3(c), is often determined with near certainty before the July 31 date so that the member or members concerned are in a position to notify the Managing Director of their intentions before that date. This was the case in 1978, when the Executive Director elected by Saudi Arabia circulated to the ad hoc Committee in early July, a cable from the Minister of Finance of Saudi Arabia stating that Saudi Arabia would appoint an Executive Director in accordance with Article XII, Section 3(c) and would not make arrangements for this Executive Director to cast the votes of any other member. In light of this information, the procedure adopted in 1978 for the purpose of Section 18 of the By-Laws was to instruct the Managing Director to ask for confirmation of the information circulated by the Executive Director elected by Saudi Arabia, and to have the Managing Director, when the final calculation was known, circulate the result to all members together with the notification from Saudi Arabia to the Managing Director. As this was the procedure followed during the consideration of the Regulation for the Election by the ad hoc Committee in 1978, no special period was prescribed under By-Law 18(b). A similar course might be followed in 1980, and, when the calculation indicates those members that might appoint, the Managing Director could ask that they state their intentions expeditiously so that these intentions could be included in the notice to all members informing them which members are eligible to appoint under Article XII, Section 3(c).

The notice whether a member will exercise its right to appoint an Executive Director in accordance with Article XII, Section 3(c), and whether it will make arrangements to cast the votes of other members in accordance with Article XII, Section 3(i)(ii), is of importance: if the member decides to appoint rather than participate in the election, the number of elective Executive Directors, set at 15 by Article XII, Section 3(b)(ii), is automatically reduced by one, that is, to 14, unless the Board of Governors

by an 85 per cent majority of the total voting power decides not to permit this reduction because it would hinder the effective discharge of the functions of the Executive Board or of Executive Directors, or would threaten to upset a desirable balance in the Executive Board. With the adoption of the Regulations for the 1978 Regular Election, the Board of Governors decided not to permit this reduction and kept the number of elective Executive Directors at 15 for the term beginning November 1, 1978, the effective date of the last election.

II. Quotas

1. Board of Governors Resolution No. 34-2: "Increase in Quotas of Members--Seventh General Review" provides in paragraph 2 that no increase in quota under the Resolution shall become effective before the date of the Fund's determination that members having not less than three-fourths of the total quotas on November 1, 1978, have consented to increases in their quotas, and if this determination is not made before July 1, 1980, no increase in quota shall become effective until after October 5, 1980, that is, after the Annual Meeting and the 1980 Regular Election. As of June 30, 1980, only 62 members with 34.20 per cent of the total quotas as of November 1, 1978 had consented to the increase in their quotas and it is unlikely that sufficient additional consents will have been received by July 1, 1980 to meet the participation requirement of that provision.

2. The People's Republic of China has requested an increase in the quota of China to an amount commensurate with its importance in the world's economy, and asked that the request be brought to the attention of the Executive Board for consideration at its earliest convenience (EBD/80/153, June 3, 1980). A staff mission will visit China during July in connection with this request. Executive Directors will recall that the Alternate Governor for China, who recently visited the Fund, expressed the desire of the Chinese authorities that the Board of Governors adopt an appropriate resolution before the next election of Executive Directors. The Managing Director responded that we would do our best to expedite the staff work, but that the schedule was tight and that the questions of both the size and timing of a quota increase were matters for the Executive Board and the Board of Governors to decide. In this connection, the Chinese authorities were informed of the policy of the Executive Board not to ask the Board of Governors to act on important changes in quotas within three months of the election of Executive Directors (Statement of the Managing Director on the People's Republic of China, Buff 80/124, June 11, 1980). The policy concerning the timing of important changes in quotas was a practice confirmed by Executive Board Decision No. 1720-(64/32) adopted June 12, 1964, which approved the procedure described in EBD/64/74 (6/10/64) as follows:

"Inquiries have been made with respect to the appropriate procedure for dealing with matters which require action by the Board of Governors and which arise in a period closely preceding the annual meeting of the Board. It is suggested that, as a matter of general procedure and provided circumstances of an exceptional nature do not dictate otherwise, such matters should be placed on the agenda of the annual meeting, rather than being handled by mail or cable vote, unless all steps preliminary to referral to the Board of Governors have been completed at least three months in advance of the meeting."

The understanding of that decision was that resolutions permitting the admission of new members or increases in quotas would not be submitted to the Board of Governors for adoption during the period referred to, but would normally be submitted for adoption at the annual meeting only after the impending regular election had been held. (See EB/CQuota/69/2, November 14, 1969, p. 2.)

As the next election is not expected to take place before October 1, 1980, the three-month period in advance will start on July 1, 1980. The Executive Board will have to decide whether the request from the People's Republic of China for an increase in quota can be considered and recommendations may be made to the Board of Governors either for a vote without meeting in accordance with By-Law 13 or during the Annual Meeting before the election is held. Even if the Executive Board were to decide to recommend that the Board of Governors act favorably on an increase in quota, a vote without meeting under By-Law 13 would be possible only if the recommendation could be made in sufficient time to assure adequate responses from Governors before Governors left for the various meetings that precede the Annual Meeting. The period for voting usually prescribed under By-Law 13 is four weeks.

The members of the Committee will have to consider the question whether China's participation in the forthcoming election either with its present quota of SDR 550 million or with an increased quota may necessitate a change in the number of the Executive Directors to be elected. In addition, if the Executive Board recommends that the Board of Governors adopt a resolution permitting China to increase its quota before the election, consideration will have to be given to the consequences for the procedure to be followed for the adoption not only of the resolution on China's quota but also the adoption of the supplementary regulations for this Regular Election. These questions are explored in the next section.

III. Questions for consideration

1. In light of what is said above, the Committee will need to consider both substantive and procedural questions. The main substantive questions involve:

- a. the number of Executive Directors to be elected; and
 - b. the maximum and minimum percentages set forth in Schedule E, paragraphs 2-5. These percentages were not changed in the Regulations for the 1978 Election (see paragraph 6 of the Regulations).
2. With respect to procedure, it is necessary to decide on:
- a. the date for ending the "preceding two-year period" under Article XII, Section 3(c), which can be July 31, 1980;
 - b. the procedures under By-Law 18;
 - c. the date on which the Executive Board will be in a position to recommend the adoption of the supplementary regulations by the Board of Governors, and the date on which the regulations should be adopted.
 - d. the date of the election in relation to any action by the Board of Governors on the quota for China.

On the first procedural point a draft report of the Committee to the Executive Board can be circulated if the Committee agrees to recommend that the July 31 date be maintained.

With respect to the second point, the question of an appropriate procedure under By-Law 18 may be resolved when the calculations under Article XII, Section 3(c) are more definitive and the intentions of any member that may appoint are made known, so that the Committee may be in a position to recommend that the procedure followed in 1978 be used again.

On the third and more general procedural point mentioned above, one starts with the question of when the Committee will be able to make its recommendation to the Executive Board. The tentative schedule of Executive Board Meetings, issued on June 30, has scheduled the consideration of the Regulations for the 1980 Regular Election by the Executive Board for August 4, 1980. This date was picked on the assumption that July 31 would be the date that ends "the preceding two-year period" for the purposes of Article XII, Section 3(c) so that, based on the final calculations and the stated intentions of any members that could appoint under that provision, the Executive Board could make recommendations to the Board of Governors with respect to the number of Executive Directors to be elected and the date of the election. It has been customary in the recent past for the Executive Board to ask the Board of Governors to adopt the Regulations for the biennial Regular Election of Executive Directors by a vote without meeting, pursuant to By-Law 13, in order to establish these

rules early in the election process. For the Regulations to be adopted by a vote under By-Law 13, normally it would be desirable for all the matters of importance to the election to have been resolved by August 8 at the latest, the last business day before the informal recess that starts August 11, 1980. After the recess, there are only five weeks before the beginning of the Annual Meeting, so that a vote by mail would extend up to the time of the Annual Meeting.

The question of the timing of the recommendations on the supplementary regulations for the election may be affected by the substance and procedure recommended with respect to the request for a quota increase for China. If the recommendation is made that a quota increase be made available to China before the election and there is not sufficient time for a vote to be held by mail, the resolution would have to be voted by the Board of Governors at the Annual Meeting. If this procedure were followed, the Executive Board might wish to recommend that the regulations for the election be adopted during the Annual Meeting, perhaps in conjunction with the resolution on the increase in quota.

There have been a number of regular elections, although not in the recent past, for which the regulations have been adopted by the Board of Governors at a session of the Annual Meeting during which the election is held rather than earlier under By-Law 13. This procedure involved scheduling a meeting of the Joint Procedures Committee before the Annual Meeting, or at least, before the session at which the Regulations were to be adopted. On that basis, a Resolution proposing the adoption of the Regulations for the Regular Election could be introduced at a plenary session on September 30, the first day of the meeting, and it would stipulate, inter alia, the appropriate time for closing nominations and holding the election.

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**IMMEDIATE
ATTENTION**

ATTACHMENT I

EBD/78/163

July 24, 1978

To: Members of the Executive Board
From: The Secretary
Subject: Report on the 1978 Regular Election of Executive Directors

There is attached a report of the Committee on Rules for the 1978 regular election of Executive Directors. Unless there is a request that this matter be placed on an agenda prior to the close of business on Friday, July 28, 1978, the report and recommendations will be deemed approved and it will be so recorded in the minutes of next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads

ATTACHMENT I

July 24, 1978

To: Members of the Executive Board

From: R. J. Whitelaw, Chairman
Committee on the Rules for the 1978
Regular Election of Executive Directors

Subject: Report on the 1978 Regular Election
of Executive Directors

As directed by the Executive Board (EEM/78/90, 6/16/78), the Committee on the Rules for the 1978 Regular Election of Executive Directors has considered the forthcoming election.

Subject to the determination that as of July 31, 1978, Saudi Arabia will be entitled to appoint an Executive Director under Article XII, Section 3(c), the Committee submits for the approval of the Executive Board and referral to the Board of Governors for a vote without meeting pursuant to Section 13 of the By-Laws the attached draft report of the 1978 Regular Election together with supplemental regulations for the 1978 Regular Election and a draft Proposed Resolution of the Board of Governors.

Section 13(c) of the By-Laws provides that votes are to be cast during such period as the Executive Board may prescribe. Section 13(d) of the By-Laws states that "the Executive Board may provide that no Governor shall vote on a motion during such period after the dispatch of the motion as the Executive Board prescribes." The Committee recommends that the Executive Board prescribe that votes be cast on or after August 4, 1978, the date the motion is to be sent to Governors, and be received on or before September 12, 1978. The Committee further recommends that the Executive Board not prescribe a period after dispatch of the motion during which no Governor may vote.

The following draft decision is proposed for adoption by the Executive Board:

1978 Regular Election of Executive Directors

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund upon the draft Resolution, entitled 1978 Regular Election of Executive Directors, set forth in Attachment II.

2. The Secretary is directed to send the Report of the Executive Board to the Board of Governors on the 1978 Regular Election of Executive Directors in the Annex and the draft Resolution on the 1978 Regular Election of Executive Directors to each member of the Fund by rapid means of communication on or before August 4, 1978.

3. To be valid, votes must be cast by Governors or Alternate Governors on or after August 4, 1978 and must be received at the seat of the Fund on or before September 12, 1978. Votes received after that date will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be September 12, 1978, the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

DRAFT

Report of the Executive Board to the Board of Governors
1978 Regular Election of the Executive Directors

1. Pursuant to Resolution No. 31-8 of the Board of Governors "a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 1978." Draft Regulations for the Conduct of the 1978 Regular Election of Executive Directors recommended by the Executive Board are set forth in Attachment I to this Report.

2. The calculations made pursuant to Article XII, Section 3(c) and in accordance with Executive Board Decision No. 574-2 of May 18, 1950, as amended by Decision No. 2620-(68/141) of November 1, 1968, and Decision No. 597-4 of July 28, 1950 indicate that Saudi Arabia is entitled to appoint an Executive Director for the two-year term beginning November 1, 1978. In accordance with Section 18(b) of the By-Laws, the Managing Director informed Saudi Arabia that it would be able to appoint. In response to the inquiries to it, Saudi Arabia informed the Managing Director that it would appoint an Executive Director pursuant to Article XII, Section 3(c) for the two-year period November 1, 1978 through October 1980 and that it would not make arrangements for this appointed Director to cast the votes of any other member as permitted by Article XII, Section 3(i)(iii).

3. Article XII, Section 3(b), as revised by the Second Amendment, which entered into force April 1, 1978, provides that the Executive Board

shall consist of five Directors appointed by the five members having the largest quotas and 15 Directors elected by the other members. Section 3(b) further provides that the number of 15 Directors to be elected "shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below [Article XII, Section 3(c)], unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board." Therefore, with the appointment of an Executive Director by Saudi Arabia pursuant to Article XII, Section 3(c), the number of Directors to be elected will be reduced from 15 to 14 unless the Board of Governors decides, by the prescribed majority, to maintain the number of elective Directors at 15.

4. Bearing in mind the provisions of Article XII, Section 3(b), the Executive Board recommends by paragraph 5 of the draft Regulations for the 1978 Regular Election that the Board of Governors decides to maintain the number of elective Executive Directors at 15 in the belief that this number will contribute to the effective discharge by the Executive Board of its business and will help to maintain a desirable balance in the composition of the Executive Board. In making this recommendation the Executive Board had in mind the relevant considerations in the discussion of this matter in Chapter O, Section 2 of the Report by the Executive Directors to the Board of Governors on the Proposed Second Amendment to the Articles of Agreement.

5. The Executive Board notes that, with the entry into force of the Second Amendment on April 1, 1978, the American Republics will participate in the same election as other members in the election of the 15 elective Executive Directors.

6. The Executive Board considered the maximum and minimum percentages of eligible votes required for election in light of the fact that Saudi Arabia would appoint an Executive Director under Article XII, Section 3(c). The Executive Board concluded that it was not necessary to change the minimum 4 percent and maximum 9 percent established in Schedule E, "Election of Executive Directors" of the Articles of Agreement, and stated this position in paragraph 6 of the draft Regulations.

7. It is also recommended that the subsequent Regular Election of Executive Directors take place in the Regular Meeting of the Board of Governors to be held in 1980.

8. A draft Resolution of the Board of Governors, set forth in Attachment II, by which the Board of Governors would adopt the Regulations for the Conduct of the 1978 Regular Election of Executive Directors, set forth in Attachment I, and the other recommendation above, is proposed for adoption by a vote without meeting in accordance with Section 13 of the By-Laws. The recommendation that the number of elective Executive Directors be maintained at 15, as proposed in paragraph 5 of the draft Regulations, requires that the draft Resolution be adopted by an eighty-five percent majority of the total voting power, as specified in Article XII, Section 3(b).

REGULATIONS FOR THE CONDUCT OF THE 1978 REGULAR ELECTION OF
EXECUTIVE DIRECTORS OF THE FUND

1. Definitions: In these Regulations, unless the context shall otherwise require:
 - (a) "Articles" means the Articles of Agreement of the Fund.
 - (b) "Board" means the Board of Governors of the Fund.
 - (c) "Chairman" means the Chairman or a Vice Chairman acting as Chairman of the Board.
 - (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor when acting for the Governor.
 - (e) "Secretary" means the Secretary or any acting Secretary of the Fund.
 - (f) "Election" means the 1978 Regular Election of Executive Directors.
 - (g) "Eligible votes" means the total number of votes that can be cast in the election.
2. Date of Election: The election shall be held during the plenary session of the 1978 Annual Meeting to be held Tuesday afternoon.
3. Eligibility: The Governors eligible to vote in the election shall be all of the Governors except those of the members that:
 - (a) are entitled to appoint an Executive Director pursuant to Article XII, Section 3(b)(i);
 - (b) have notified the Managing Director, in accordance with the procedure established by the Executive Board, of their intention to appoint an Executive Director pursuant to Article XII, Section 3(c).
4. Schedule E: Subject to the supplemental regulations set forth herein, the provisions of Schedule E of the Articles shall apply to the conduct of the election.
5. Number of Executive Directors to be Elected: Fifteen Executive Directors shall be elected.

6. Proportion of Votes Required to Elect: In paragraphs 2 and 5 of Schedule E "four percent" and in paragraphs 3, 4, and 5 "nine percent" shall not be changed.
7. Nominations:
 - (a) Any person nominated by one or more Governors eligible to vote in the election shall be eligible for election as an Executive Director.
 - (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
 - (c) A Governor may nominate only one person.
 - (d) Nominations may be made until 12 o'clock noon on the day before the day on which the election is scheduled to be held. The Secretary shall post and distribute a list of the persons nominated.
8. Supervision of the Election: The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.
9. Ballots and Balloting:
 - (a) One ballot form shall be furnished, before a ballot is taken, to each Governor eligible to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.
 - (b) Each ballot shall be by a call of members whose Governors are eligible to vote and each ballot, signed by the Governor, shall be deposited in the ballot box.
 - (c) When a ballot has been completed, the Chairman shall cause the ballots to be counted and shall announce the names of the persons elected promptly after the tellers have completed their tally of the ballots. If a succeeding ballot is necessary, the Chairman shall announce the names of the nominees to be voted on and the members whose Governors are eligible to vote.
 - (d) If the tellers are of the opinion that any particular ballot form is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results, and the ballot form, if corrected, shall be deemed valid.

- (e) If a Governor does not vote on any ballot, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted, under Article XII, Section 3(i)(iii), towards the election of any Executive Director.
 - (f) If, at the time of any ballot, a member does not have a duly appointed Governor, such member or its Governor shall be taken not to have voted on that ballot.
- 10. If on any ballot there are more nominees than the number of Executive Directors to be elected and two or more nominees tie with the lowest number of votes, no nominee shall be ineligible for election in the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of the nominees from the following ballot.
 - 11. If on any ballot two or more Governors having an equal number of votes have voted for the same nominee and the votes of one or more, but not all, of these Governors could be deemed under paragraph 4 of Schedule E to have raised the total votes received by the nominee above nine percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.
 - 12. When on any ballot the number of nominees is the same as the number of Executive Directors to be elected, and no nominee is deemed to have received more than nine percent of the eligible votes, each nominee shall be considered elected by the number of votes received even though a nominee may have received less than four percent of the eligible votes.
 - 13. If the votes cast by a Governor raise the total votes received by a nominee from below to above nine percent of the eligible votes, the votes cast by the Governor shall be deemed under paragraph 4 of Schedule E not to have raised the total votes of the nominee above nine percent.
 - 14. Any member whose Governor has voted on the last ballot for a nominee not elected may, before the effective date of the election, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted towards his election.
 - 15. Announcement of Result: After the tally of the last ballot the Chairman shall cause to be distributed a statement setting forth the result of the election.

16. Effective Date of Election of Executive Directors: The effective date of election shall be November 1, 1978, and the term of office of the elected Executive Directors, and of any Executive Director appointed under Article XII, Section 3(c), shall commence on that date. Incumbent elected Executive Directors shall serve through October 31, 1978.
17. General: Any questions arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such question shall be put without identifying the members or Governors concerned.

Draft Resolution

1978 Regular Election of Executive Directors

RESOLVED:

- (a) That the proposed Regulations for the Conduct of the 1978 Regular Election of Executive Directors are hereby adopted; and
- (b) That a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 1980.

ATTACHMENT II

EBD/76/137

July 2, 1976

To: Members of the Executive Board
From: The Secretary
Subject: Calculations Under Article XII, Section 3(c)

Attached for the information of the Executive Directors is a memorandum on the calculations made under Article XII, Section 3(c) in connection with the appointment of additional Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Calculations under Article XII, Section 3(c)

Prepared by the Treasurer's and Legal Departments

Approved by R. J. Familton and Joseph Gold

July 1, 1976

This memorandum has been prepared in response to inquiries about the Fund's practice in making calculations under Article XII, Section 3(c) and in order to serve as background information in connection with the forthcoming election of executive directors.

Article XII, Section 3(c) provides as follows:

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

In the Report of the Executive Directors to the Board of Governors on the Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund (Part III, Chapter O, Section 2(f)) it is noted that

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

The existing interpretations and conventions for the application of Article XII, Section 3(c) are set forth below. A table attached gives an illustrative example of the calculations.

1. "Below their quotas"

The Executive Directors decided in 1950 that the phrase "below their quotas" in Article XII, Section 3(c) would lead to results incompatible with the purpose of the provision and that the drafters

- 2 -

must have intended the reference to quota to mean the norm of 75 percent of quota. 1/ The rationale of the norm of 75 percent of quota, which reflects the understanding that "the purpose of Article XII, Section 3(c) is to ensure that the two members whose currencies have been used by the Fund to grant the largest absolute amounts of credit to other members through the Fund are represented on the Executive Board by appointed Directors of their own, if they do not already appoint them," 2/ was discussed in detail in SM No. 469, Additional Appointed Directors -- Article XII, Section 3(c), May 2, 1950.

2. Administrative accounts and expenditures

The Executive Directors have also decided that in the calculations of average holdings under the provision the Fund's special (i.e., No.2) accounts for administrative purposes shall be excluded unless their balances exceed 1/10 of one percent of the member's quota, and the same treatment shall apply to the Fund's sundry cash accounts. It was also decided that a member would not be entitled to appoint an additional director if the Fund's average holdings have been reduced below 75 percent of quota solely because of administrative expenditures or because of the exclusion of the No.2 accounts for administrative purposes from the calculation of average holdings. 3/ The rationale of the decision was operational convenience and the principle that reductions in the Fund's average holdings of a member's currency resulting solely from the exclusions based on operational convenience or from administrative expenditures do not constitute the use of resources made available by a member in transactions by the Fund with other members. 4/ If, however, a reduction below 75 percent of quota does not result solely from the exclusions referred to or from administrative expenditures, the calculations are made on the basis of absolute levels of holdings without any further inquiry into how they came about.

3. Increase in holdings above 75 percent of quota

Whenever the holdings of a member's currency by the Fund are above 75 percent of quota, the excess has been included in the average of daily holdings, i.e., average holdings are calculated by adding the Fund's actual holdings on all days during the year and then dividing this number by the total number of days. 5/

1/ Decision No.574-2, May 18, 1950, as amended by Decision No.2620-(68/141), November 1, 1968, in Selected Decisions, pp.141-42 (7th Issue).

2/ SM/61/81, Borrowing - Effects of Receipt or Use of Borrowed Currency on Certain Fund Calculations (October 25, 1961), p.5.

3/ See note 1.

4/ See SM No.469, p.2 and Attachment A, Section 6, pp.9-10.

5/ See SM 66/130, Legal Aspects of Article XII, Section 6 - Distribution of Net Income (December 14, 1966), pp.14-15.

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4. Replenishment

(a) Replenishment by borrowing (Article VII, Section 2(i))

The effect under Article XII, Section 3(c) of borrowing by the Fund was considered in SM/61/81. This paper reached the conclusion that:

"For the purposes of Article XII, Section 3(c) and Article XII, Section 6(b), the receipt of borrowed currency from a member should not bring about a reduction in the benefits enjoyed by the member under the provisions as the result of the use already made of the member's currency. In addition, the subsequent use of the borrowed currency should increase the member's benefits under the provisions. Both of these principles can be attained by the following formula: add the amount for which the Fund is indebted under a borrowing to 75 per cent of quota and deduct the Fund's actual holdings." (p.7)

The conclusion was based on the reasoning that "the purpose of Article XII, Section 3(c) is to recognize the special interests of the members whose currencies have been used to give the largest volume of credit through the Fund, and the interest of the Fund in seeing that these members have Executive Directors on the Board" (p.5).

This conclusion was acted upon by the Fund on two occasions. The Executive Directors decided in 1958 that Canada 6/ and in 1968 that Italy 7/ was entitled to appoint an Executive Director in accordance with Article XII, Section 3(c) and calculations based on these principles.

In making the calculations under Article XII, Section 3(c) the reference to "members" in that provision includes central banks, fiscal agencies, and all official agencies in calculating the effect of loans. The member that makes a loan to the Fund in accordance with the preceding sentence has the benefit of the loan under the provision and not the issuer of the currency lent if it is the currency of another member. 8/

6/ See EBD/58/126, Additional Appointed Directors - Seventh Regular Election of Executive Directors, August 4, 1958.

7/ See EBD/68/132, Additional Appointed Directors - 1968 Regular Election of Executive Directors, August 6, 1968.

8/ The transfer of a loan claim against the Fund by one member to another member is treated thereafter as a loan by the transferee.

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- (b) Replenishment by sale of gold or SDRs (Article VII, Section 2(ii) and Article XXV, Section 7(d))

The practice in making the calculations under Article XII, Section 3(c) has been to adjust the Fund's average holdings of currency in order to exclude the average balance of the holdings resulting from the sales of gold or SDRs to members in replenishment transactions. This practice has been based on the view that the receipt of currency in these transactions does not reduce the resources made available by a member and used by the Fund. On the same view, reductions in the Fund's holdings of a member's currency after the replenishment are deemed to have resulted first from the use of "subscription currency" (that is, currency not obtained in replenishment by the sale of gold or SDRs). The effect is that these reductions increase the benefit obtained by the member under Article XII, Section 3(c). If all "subscription currency" has been used, any further reductions in the Fund's holdings of the member's currency are treated as the use of "replenished currency," without increasing the benefit obtained by the member in the calculation. 9/

An increase in the Fund's holdings of a member's currency by operations or transactions other than replenishment by the sale of gold or SDRs is regarded as having increased the holdings of "subscription currency," with a corresponding effect on the calculation under the provision.

The sale of a member's currency by the Fund to another member in return for gold under Article V, Section 6 results in a benefit to the issuer of the currency under Article XII, Section 3(c).

5. "The preceding two years"

The reference in Article XII, Section 3(c) to "the preceding two years" has been deemed by the Executive Board to be "the two-year period ending on the July 31, preceding the dates of regular biennial elections of Executive Directors," subject to reconsideration "if such regular elections are held in other months than September." 10/ The purpose of this decision is to enable members to form their constituencies for the forthcoming election with knowledge of the members that are going to be involved.

Attachment

9/ There has been no occasion yet for applying these conventions to replenishment by borrowing, because of the established practice of simultaneous use of borrowed currencies in the Fund's transactions with members making purchases from the Fund.

10/ Decision No.597-4, July 28, 1950, in Selected Decisions, p.142 (7th Issue).

Table 1. Illustrative Calculation of Average Credit Extended Under Article XII, Section 3(c)
for the Two Year Period August 1, 1972 through July 31, 1974

ATTACHMENT II

1. 75 Per Cent of Average Quota:

<u>Date</u>	<u>Member's Quota</u>	<u>Number of Days</u>	<u>Days x Balance</u>
Aug. 1, 1972	700	365	255,500
Aug. 1, 1973	780	365	284,700
		730	540,200
		<u> </u>	<u> </u>
Average (540,200 ÷ 730)	740		
75 Per Cent	555		

2. Average Indebtedness (Borrowing)

<u>Date</u>	<u>Indebtedness</u>	<u>Number of Days</u>	<u>Days x Balance</u>
Aug. 1, 1972	-	630	-
Apr. 23, 1974	73	100	7,300
		730	7,300
		<u> </u>	<u> </u>
Average (7,300 ÷ 730)	10		

3. 75 Per Cent of Quota plus Indebtedness

(555 + 10) 565

4. Average Adjusted Holdings:

<u>Date</u>	<u>Particulars</u>	<u>Holdings^{1/}</u>		<u>Adjustment for^{2/}</u>		<u>Adjusted Holdings</u>	<u>Number of Days</u>	<u>Days x Adjusted Holdings</u>
		<u>Increase (+) or Decrease (-)</u>	<u>Balance</u>	<u>Change</u>	<u>Balance</u>			
Aug. 1, 1972	Balance		80		-	80	31	2,480
Sep. 1, 1972	Sale of Currency	-20	60		-	60	334	20,040
Aug. 1, 1973	Subscription payment	+60	120		-	120	9	1,080
Aug. 10, 1973	Replenishment through sale of SDRs	+40	160	+40	40	120	-	-
Aug. 10, 1973	Sale of currency	-100	60		40	20	21	420
Aug. 31, 1973	Sale of currency	-30	30	-10	30	-	5	-
Sep. 5, 1973	Repurchase transaction	+20	50		30	20	230	4,600
Apr. 23, 1974	Amount borrowed	+73	123		30	93	-	-
Apr. 23, 1974	Sale of currency	-73	50		30	20	100	2,000
							730	30,620
							<u> </u>	<u> </u>
Average adjusted holdings (30,620 ÷ 730)			42					

5. Average Net Credit Extended

75 Per Cent of Quota plus Indebtedness	565
Less Average Adjusted Holdings	42
	<u>523</u>

1/ Balances of administrative accounts (i.e., No. 2 Accounts) not in excess of 1/10 of 1 per cent of quota are excluded.

2/ Currency holdings resulting from the sale of gold or SDRs to members in replenishment transactions are excluded from the balance of holdings in computing average holdings. The exclusion, however, does not reduce the adjusted holdings below zero. For example, the sale of SDR 30 million on August 31, 1973 is deemed to have been comprised of SDR 20 million of holdings acquired other than by replenishment and SDR 10 million from replenishment through the earlier sale of SDR.