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INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 69/3

10:35 a.m., November 19, 1969

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

Executive Directors	Alternate Executive Directors
	S. Jónsson
W. B. Dale	J. S. Hooker
L. Escobar	R. H. Arriazu
R. Johnstone	M. Horgan
A. Kafka	E. da S. Gomes
B. Kharmawan	M. A. Merican
P. Lieftinck	
B. K. Madan	S. S. Marathe
D. Mitchell	G. Huntrods
F. Palamenghi-Crispi	C. Bustelo
A. Phillips O.	M. A. Sandoval
G. Plescoff	B. de Maulde
A. Z. Saad	A. Mansour
G. Schleiminger	L. Fuenfgelt
J. O. Stone	
	S. Hattori
B. Tann	N. H. Hanh
	J. Roelandts
L. A. Williams	
A. W. Yaméogo	

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

Also Present

African Department: J. Waïtzenegger, Deputy Director. Asian Department: S. A. Pandit. European Department: A. G. Tyler. Exchange and Trade Relations Department: D. K. Palmer. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; P. R. Lachman. Middle Eastern Department: M. M. Hassanein. Research Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director. Treasurer's Department: W. O. Habermeier, Treasurer; D. L. Lechliter, D. Williams. Western Hemisphere Department: P. J. Brand. Personal Assistant to the Managing Director: L. F. T. Smith. Technical Assistants to Executive Directors: H. Bobadilla, I. A. Craik, P. M. de Raet, H. Hoffmann, R. Patti, H. Rudloff, J. Skutle, J. A. Sogo, P. Stek, W. Stoop, G. F. Taylor, N. Tsukagoshi, J. R. Vallet, J. C. C. Yuan.

1. FIFTH GENERAL REVIEW OF QUOTAS

The Committee of the Whole on the Review of Quotas reconvened to discuss mitigation of the impact of gold subscription payments. The members had before them SM/69/153 (10/15/69).

Mr. Roelandts asked for confirmation that the voting majority prescribed by Article III, Section 4(c) was applicable to Article III, Section 4(a).

The General Counsel furnished confirmation, and added that any decisions dealing with the payment, or taken for the sole purpose of mitigating the effects of the payment, of increases in quotas proposed as the result of a general review of quotas, would have to receive an 85 per cent majority, whatever the form of the mitigation might be.

Mr. Dale referred to the question of primary mitigation, and agreed with what had been said in the basic paper. He was grateful for the paper that had been distributed during the meeting (EB/CQuota/69/3, 11/19/69). Although he was not sure he had been able to absorb it in such a short time, it appeared to make the point that in all probability a certain number of countries would be close to the line that divided members that would, under Article III, Section 4(a), have to make a full gold payment, and those that would not. Those just above the line might feel that they were unlucky, discriminated against, or otherwise badly treated. If the figure of $217 million in the column "Gold Subscription" in the table on page 2 was reasonably accurate, it was not negligible, but neither did it go very far. He ventured a guess that it might be possible that that number could be reduced by the time the quotas actually came into force. He was somewhat open-minded about Article III, Section 4(a), but he was impressed with the problem that some countries would arbitrarily fall a little above the line, and others a little below it.

Turning to secondary mitigation, Mr. Dale said that undoubtedly changing the provisions of the Article to enable 25 per cent of subscription payments to be made in SDR's would be the preferable as well as the most straightforward course. He recalled that that procedure had been considered when the SDR Amendment itself had been discussed. He regretted that the decision had been made at that time not to adopt it. He had been interested in Mr. Colombo's statement at the Annual Meeting about the matter. Mr. Colombo had indicated a feeling of regret that the possibility of paying quota increases with SDR's had not been adopted, and he had expressed the hope that the situation would be changed in the not too distant future. Mr. Dale thought that Mr. Colombo had been right at the time of the Annual Meeting, and that he would still be right on December 31, 1969; in addition, he would continue to be right in 1970 and during the years following. Mr. Dale hoped that consideration would be given to changing the situation.

Turning to the staff comments on page 6 of the paper concerning secondary mitigation, Mr. Dale first mentioned the quantitative elements of the problem. The staff had referred to a maximum of about $500 million; Mr. Dale assumed that the figure was only for illustrative purposes. He had no objection in principle to a ceiling for several reasons. First, a ceiling was desirable for operational purposes. Second, a ceiling was needed so that the Executive Board, as well as the Board of Governors, could approve exactly what they intended to. Third, there was a precedent for a ceiling in the mitigation arrangements that had been approved in 1965. However, it was necessary to be reasonably sure that the ceiling was a realistic one in terms of what would be likely to happen. In 1965, 1966, and 1967 the ceiling had turned out to be a reasonable one; it was quite close to the mark. His own estimate, at the present stage of the discussions, was that the secondary mitigation problem was in the neighborhood of $650 million to $700 million. He had arrived at that estimate by two different methods. The first was the application of the percentage that the secondary mitigation problem had borne in 1965 to gold payments as a whole. The second was an arbitrary consideration of the proposed quota amounts and an estimation of the amounts that various countries would accept. The result of both those estimates had come out reasonably close together. He then reiterated that he would like to feel reasonably certain that the ceiling adopted would be realistic.

Continuing, Mr. Dale asked which country or countries might operate as a turntable by providing the currency that would initially provide gold, and to which the replenishment operations envisaged on page 6 of the paper would be directed. He requested comments, not because of the extreme importance of the question itself, but because at some stage of the discussion the Executive Directors would want a rather precise idea of the manner in which the scheme would operate.

Mr. Dale gave an illustration of the problem. He assumed that Country D would provide gold to a number of other countries that would in turn pay that gold to the Fund in connection with the quota increases. The Fund would then replenish its holdings of the currency of Country D, and at that point the gold holdings of Country D would have been restored. However, the reserve position in the Fund of Country D would have been diminished by an equivalent amount. With that in mind, the paper said that it might be necessary to temporarily place more emphasis on that currency when currencies were selected for ordinary transactions. He agreed with that proposal, but it did raise the question of the length of time that would be required for Country D to "catch up." He viewed it as important that during a given period emphasis should be placed on that currency in ordinary drawings as far as possible, more or less _pari passu_ with the mitigation scheme. In other words, the "catch-up" should be quick.

Finally, Mr. Dale mentioned a fourth matter, which concerned the problem of the total reserve position of Country D. That position had been reduced, even after the replenishment with gold had been undertaken by the Fund, and he proposed a possible alternative to restoring the total reserve position of Country D. Instead of restoring that position by using the country's currencies for regular drawings, perhaps the position could be restored to some extent by directing SDR's to the country without designation under Article XXV, Section 2(b) (ii). As he recalled, it had been previously suggested that another alternative to accomplish the same objective might be to use Article XXV, Section 5(a), which said that designations should be made in accordance with stated general principles supplemented by such other principles as the Fund might adopt from time to time. What he had in mind could be considered as a supplementary principle. However, having compared the idea he had just outlined with the staff proposal, he believed that the suggestion of the staff would perhaps be preferable if an SDR transfer mechanism were to be used.

Mr. Schleiminger observed that the Executive Directors had not yet reached agreement on the size of the total increase in quotas, but he thought that that objective would not be prejudiced by discussing other important aspects of the general review, such as mitigation of the gold payments. He agreed with the comment in the paper that the primary burden of the gold subscriptions appeared to be comparatively smaller than at previous reviews, and that members might have less interest in availing themselves of the opportunity to mitigate the primary impact, as they might have to forgo certain important advantages. He felt, however, that member countries should be free to accept their quota increases in installments, or to make special drawings to mitigate the impact on their reserves; of course, since the Amendment, all drawings were subject to normal conditionality. Concerning Article III, Section 4(a), he thought that the reasons for not activating that Article in the past had been good ones, and they still were good. Activating that Article would go against the spirit of at least some parts of the Amendment that had been made just a short while ago.

Concerning the seconary impact, Mr. Schleiminger had some sympathy with Mr. Dale's view for using SDR's to pay the gold subscription portion of quota increases. But he doubted that an amendment could be made and implemented in time to be effective for the quota increase being discussed; it would be useful to reconsider that argument well in advance of the next general review of quotas. But while he was sympathetic with the "straightforward use" of SDR's for the mitigation of gold subscriptions, he had grave doubts about using SDR's for mitigation either by directing them to a country without designation under Article XXV, Section 2(b)(ii) as suggested by Mr. Dale, or by using them for repayment in order to make it possible for the Fund to replenish certain currencies. He would regret arranging to use SDR's for special purposes before they had been used for the general operational purposes that had been decided on. He believed that there were very good reasons for the separation of the General Account and the Special Drawing Account and that exceptions should not be considered until the rule had first been applied. While he would be ready to consider special uses for SDR's later, he thought it was somewhat premature to do so before the use of SDR's had begun.

So far as the triangular transactions were concerned, Mr. Schleiminger agreed with Professor Charles T. Kindleberger who had spoken at a hearing of the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the U.S. Congress on November 13, 1969. Professor Kindleberger had called those transactions "hocus-pocus," and he had added that as the hocus-pocus did not do any harm, but on the contrary the technique would help to achieve a purpose that was economically sound, he saw no difficulty in applying that method as a means to mitigate the secondary impact of gold subscriptions. Mr. Schleiminger went on to say that the triangular transaction method had a precedent, and a solution was needed for the problem of secondary mitigation; while the technique was somewhat artificial, the objective was reasonable and sound. Like Mr. Dale, he thought that it would be helpful to have a ceiling for the size of the mitigation to be achieved by that method. Moreover, like Mr. Dale, he thought that the method presupposed that certain rules, principles, and definitions would be established for guidance. First, the countries that would be entitled to purchase gold for their subscriptions from other member countries should be specified. Second, certain rules or guidance should be established for determining the currency or currencies that the Fund might wish to replenish. After all that had been done, it would be possible to determine the countries that might have to act as "turntables" in the triangular transactions. He wondered whether the experience of other general reviews of quotas might offer guidance, and he asked the staff for additional information.

In concluding, Mr. Schleiminger favored the triangular approach, and had doubts upon the use of any other arrangement for mitigation of the secondary impact; he viewed the present quota increase as an intermediary one because it was being performed immediately before the actual allocation of SDR's. At the time of the next general quota review sufficient experience in the use of SDR's would have been gained to take a fresh look at other techniques for mitigation.

Mr. Kharmawan observed that both Mr. Dale and Mr. Schleiminger had paid particular attention to the secondary impact; on the other hand, and for equally understandable reasons, he believed that the developing countries were interested more in the primary impact. He thought there were three ways to solve the problem of the primary impact. First, payment in installments; second, a special drawing--which now might have to be a conditional drawing--and, third, a waiver of the gold payment when the total reserves of a country--including SDR's--were less than the total of the new quota. Although there would be no objections to using the installment technique, that arrangement was now less desirable for member countries, in view of the plans for SDR allocations. Concerning a special drawing, the staff paper had pointed out certain restrictions. He believed that it was necessary to be more precise about the conditionality of that drawing, because conditions were not the same for different drawings; they depended on the credit tranche concerned. He wondered if, for the purpose of primary mitigation, a special set of rules might be drawn up that would be applicable equally to all countries using a special drawing. Concerning the waiver of gold payment in some cases, he thought it was necessary to be more precise. The staff paper that had just been distributed presented the problem of those countries on the border between having a waiver and not having one. However, he believed that some countries would be interested in making use of that possibility, and so the Executive Board would have to have definite rules for it.

Concerning the secondary impact, Mr. Kharmawan made the general observation that the procedure proposed seemed rather artificial, although he could not suggest any other solution. He reserved the possibility of making some comments later.

Mr. Palamenghi-Crispi said that the difficulties under discussion seemed to suggest some possible changes in the medium term and long term. His opinion, and that of his authorities, was that the Executive Directors should proceed more boldly in the harmonization of reserves. He agreed with Governor Carli, who had stated on Monday, November 17, 1969, at the International Financial Section of the 26th National Foreign Trade Convention that, "We should resist the temptation to inject newly mined gold in the monetary circuits, directing it mainly to industrial uses." Consequently, Mr. Palamenghi-Crispi added, he was pleased, but not surprised, by Mr. Volcker's statement in which he officially shared the regret expressed by Minister Colombo at the last Annual Meeting that it was not possible at the moment to use SDR's to pay gold subscriptions, partly or totally. Mr. Palamenghi-Crispi went on to say that he agreed with Mr. Volcker that even if the Articles were amended in that way, major countries would still wish to pay their subscription in gold because they considered SDR's as a first-class reserve asset. He did not wish to induce the Executive Board to discuss that problem at the current stage, because he shared Mr. Volcker's opinion that it was necessary to recognize the difficulty of amending the Articles now for that purpose.

Having said that, Mr. Palamenghi-Crispi stated that he was in broad agreement with the staff conclusions as they appeared in the paper under discussion. Primary mitigation did not seem to him to present any significant problems; he agreed that countries should be allowed to increase their quota by installments, if they wished to do so. With regard to special drawings, he said that the amended Articles of Agreement made a clear distinction between automatic and conditional drawings. No new categories of automatic drawings could be created at this time, and consequently every drawing would have to be examined on its own merits. Concerning the document that had just been distributed, his first reaction was to agree that the difficulties expressed on page 4 of SM/69/153 were very real. Although he asked for a little time to consider the problem, his present reaction was that it would not be advisable at this stage to introduce any waiver.

Concerning secondary mitigation, Mr. Palamenghi-Crispi said that his authorities were aware of the delicate political issues that large movements of gold would involve. The problem had its roots in the deep, and at times inexplicable, realms of psychology. There was no doubt, however, that only a few countries would be affected by that type of gold movement. Consequently, it seemed practical to make adjustments that would remove some of the unreasonable fears and emotions. It seemed advisable, at the same time, to make use of the next five years to try to educate some of the gold-minded, stubborn masses that in the recent past sometimes had been induced to err.

Mr. Stone understood that some of the aspects of secondary mitigation had been settled by the Group of Ten, and he doubted that much would be gained by further discussion about those. He noted further, that the subject had been discussed also by a Subcommittee of the Joint Economic Committee of the United States Congress; it was the Subcommittee on International Exchange and Payments at its meeting on November 13, 1969. He expressed gratitude to the gentlemen concerned for the deep interest they had taken in a matter of great importance to the Fund, and particularly for the full and frank briefing which had been given to them by representatives of the United States.

Mr. Stone then made several observations. First, some of the positions that were being taken on the fascinating question under discussion seemed to contain certain amusing incongruities. For example, a member country that continued to state to the Fund that it still bought and sold gold freely, had been expressing considerable doubt as to the consequences to itself, if it continued to do so. In fact, there was no doubt at all that the purpose of arranging for mitigation was to enable the United States to avoid having to sell gold freely, or rather, to ensure that if it did so, it would get all the gold back again. Second, it had been said that several countries, including the United States, were no longer concerned about gold, and he found difficulty in reconciling that view with the anxiety of those countries to protect themselves against losses of gold. Third, the opinion that had been expressed that SDR's were as good as gold suggested that perhaps the Executive Directors should be thinking, in terms of the interest of the Fund, in making replenishment not against gold, but against SDR's. Perhaps some interesting arrangements could be made whereby member countries that made gold available to other countries for the purpose of paying gold subscriptions should be reimbursed in SDR's rather than gold on the basis of that logic; that should be fully acceptable to them. He supposed the truth was that internal contradictions of that kind had become familiar, and they should be recognized and translated; they should not really be a matter for surprise. However, it was painful to anyone who was an Executive Director of the Fund that the Fund should seem to lend itself to such stratagems.

Mr. Stone confirmed the views on primary mitigation that Mr. de Kock had previously expressed on his behalf. Concerning the staff's suggestion on secondary mitigation, it was not precisely clear to him how the device would function, but probably the mechanics were less important than the purpose, which was clearly to deprive the Fund of gold that would otherwise accrue to it. Mr. Schleiminger had referred to Professor Kindleberger's use of the term "hocus-pocus" and Mr. Stone believed that that was a fair enough expression; the arrangement was certainly artificial. He observed that the willingness by the Fund staff to forgo gold in the case of secondary mitigation was all the more surprising in view of the battery of arguments, on page 4 of SM/69/153, against primary mitigation through the use of Article III, Section 4(a). He had not found those arguments unduly convincing, but it was striking that the paper sought to get the last pennyworth of gold for the Fund in connection with primary mitigation, while its attitude concerning secondary mitigation was quite the opposite. It was perhaps relevant that Article III, Section 4(a) mitigation would apply only to countries whose gross monetary reserves as defined in the Articles were less than their new quotas; by definition such members would be the financially weaker ones. He thought it strange that the paper should propose no concession at all to those members--other than installments or drawings that had their own built-in disincentives--and yet that it should propose a major concession to the most powerful member of the Fund. It was even more remarkable when one considered that that form of primary mitigation was specifically provided for in the Articles, while by contrast, the artificial secondary mitigation device that had been proposed was a stratagem of which the best that could be said was that it probably could be reconciled with the Articles, albeit without not a little difficulty.

Next, Mr. Stone turned to the question of secondary mitigation itself, for which he had found no justification in the staff paper. The proposal was to relinquish the Fund's right to acquire gold up to a particular sum. The only justification--if one could call it that--for adopting that position seemed to be contained in what might be called a foreshadowing of a major policy decision about the acquisition of SDR's by the General Account. Other than that, there was nothing. He wished to say in passing that if the Executive Board accepted the proposal for secondary mitigation, which he assumed would be the case, he would regard that as in no way prejudicing, or in any sense committing the Board in advance, to a subsequent acceptance of the possibility outlined in those three paragraphs of the paper relating to the use of SDR's in the General Account. Such questions as that were of the highest order of policy importance for the future of the Fund, and for the future of the SDR asset itself. They were not policy matters to be decided in haste--and perhaps to be regretted at leisure--and he saw no need for the Executive Directors to commit themselves, even implicitly, on that particular question at the present time. He believed that the General Account and the Special Drawing Account should have the separation that had been previously agreed upon, and any change was difficult to contemplate without a fuller treatment than had been given to the matter thus far.

In the absence of any other justification for the staff's proposal for secondary mitigation, Mr. Stone continued, one might assume that the staff no longer considered it important that the Fund should acquire gold, were it not for other provisions in the paper. For example, a ceiling was to be placed on secondary mitigation; and the paper more or less stated that members would, wherever possible, meet their gold subscriptions from their own gold holdings. He then noted that there was a wide difference among members in their capacity to meet their subscriptions from their own gold holdings; he therefore wondered why, if one large country was to receive special treatment through a kind of instant replenishment mechanism, all members should not be permitted to avail themselves of that arrangement. Such an arrangement would not harm any members, but the result would be that the Fund would not gain any gold, or only such gold as some members might wish to tender, which presumably would not be much.

Mr. Stone then said that he could continue with those observations, but he did not have any expectation that they would affect the outcome of the discussions. However, one major aspect of the proposals that had been made concerned him greatly: he thought that the image of the Fund was at stake. The November 18, 1969 issue of the Wall Street Journal referred to the question being discussed under the heading: "The Goings-On in Gold." It pointed out that: "For years the U.S. Treasury, with the more or less willing help of other nations, has tried all sorts of stratagems to keep U.S. gold from flowing abroad." It then went on, in a later paragraph, to talk about the International Monetary Fund. It said: "The International Monetary Fund has conjured up 'special drawing rights,' euphemistically called 'paper gold,' which everyone would consider just as good as gold." Still later, speaking about the quota increase itself, the paper said: "so the planners [and he supposed by implication, at any rate, it was referring to the Fund planners as well as the national planners involved] have worked out a tricky little bookkeeping arrangement that would leave the IMF holding not added gold but some promissory notes." Mr. Stone did not know what the reaction of the other Executive Directors was when they saw the Fund discussed in terms of that kind, but his reaction was one of distress.

Mr. Williams shared strongly the views set forth by Mr. Kharmawan on two aspects of the question. Like him, Mr. Williams was interested more in the primary than in the secondary impact. So far as primary mitigation was concerned, the allocation of special drawing rights provided a built-in disincentive for paying quota increases by installments, as did the conditional nature of drawings for the use of that method of payment. There was therefore less incentive for a developing country to make use of those two methods now than there had been previously. Concerning Article III, Section 4(a), he had read SM/69/153 as well as the document that had just been distributed, but he had not yet had sufficient time to think through the figures advanced. Those tentative statistics included two figures that were not large in view of their relation to the size of the Fund; application of that Article might result in smaller figures than the $217 million and $53 million mentioned. He had listened to the comments of Mr. Dale and Mr. Schleiminger on the problem of countries near the dividing line, but he did not think that that should provide any great obstacle toward applying the Article; it should be possible to work out appropriate arrangements. Moreover, the Amendment had been accepted in the spirit that changes concerning the provision under discussion would require an 85 per cent majority. He believed that the matter should be studied a bit further. As arrangements that had been called artificial could be used toward alleviating the problems of large countries, he thought that it was expedient and necessary for the Fund to apply a provision already in the Articles to relieve the impact on some of the other countries.

Mr. Kafka found himself in complete agreement with the staff paper, but he hoped that the possibility of applying Article III, Section 4(a) would be studied if there were a demand for it by some of the member countries. He regarded secondary mitigation as absolutely essential, because it would be adverse to the best interests of the international financial community to have large gold outflows from certain "turntable" countries.

Mr. Plescoff thought that mitigation could be discussed now, but a decision could not be made before the Executive Board had agreed on the details and figures for the quota increases. He agreed with the staff's suggestions on primary mitigation, and he would transmit to his authorities the paper that had just been received concerning Article III, Section 4(a); he would speak later on that subject.

Concerning secondary mitigation, Mr. Plescoff had several comments. First, the use of special drawing rights for making payment of the gold portion of the additional subscription to the Fund was not a question for the present general review of quotas, but perhaps for the next one. He felt that all Executive Directors would agree on that. He was surprised that the question had been raised; it had been said that the agreement on the total size of the quota increase for the Fund was something that should not be changed, and yet such a use of SDR's would require the change of a written Fund agreement. Second, there was the question of a comparison of the liquidity of the Fund with SDR holdings, against its liquidity with gold holdings; he asked whether a paper could be given to the Executive Directors on that subject. He referred to the footnote on page 5 of SM/69/153, which said that the Fund might require a participant to provide its currency for special drawing rights. As previously members had provided their currency for gold, he thought that additional information should be made available to the Executive Directors about comparing the liquidity of SDR holdings and gold holdings. Third, secondary mitigation could only be justified by showing that without such mitigation there would be problems in the international financial field. In that respect, he had not found in the staff paper mention of the fact that the gold reserves of the United States had increased by $480 million since June 1968, and he thought that that increase was an important factor in the problem. He then asked whether the proposed solution should be used for the secondary mitigation problem regardless of the increase in the gold stock of the U.S. reserves. If it was clearly demonstrated that secondary mitigation was needed, then he thought that the triangular transaction approach was perhaps the most realistic one.

There were conditions to that approach, including the need for some countries to be ready to engage in the transactions; those countries were the ones whose currencies were needed by the Fund and could be used immediately by the Fund. He hoped that before a decision was taken, a careful analysis would be made, and that it would be clear that the decision was the correct one.

Mr. Phillips was in full agreement with the conclusions in the papers, and he asked for clarification of a few points. First, on primary mitigation, he had heard with great interest the statements made by Mr. Kharmawan and Mr. Williams, and he fully agreed with Mr. Kafka that consideration should be given to alleviating the impact on countries by using the procedure described in Article III, Section 4(a). He agreed with making optional the payment of the quota increases by installments, but he would not recommend that procedure to his own countries. Concerning a special drawing to provide payment for the gold subscription, he had some questions. First, would the conditionality referred to in the Articles be the same that applied to all drawings in accordance with the present policy in the Fund? In other words, would the same conditionality apply to a drawing to facilitate payment of the gold portion of the quota increase that would apply if the drawing were made for some other purpose? Second, if there was a need for balance of payments reasons or reserve reasons, as stated in the Articles, could a country use SDR's to purchase gold for the gold subscription?

On secondary mitigation, Mr. Phillips fully agreed with the proposal to use the triangular transaction system. He thought that that would solve some of the problems that had been discussed, and he agreed fully that there was a need for such mitigation. But, like other Executive Directors, he wanted more time to think about the system by which countries would be selected to participate in those triangular operations. It was important to have definite ideas in that respect.

Mr. Phillips fully agreed with Mr. Palamenghi-Crispi on the gold-mindedness of some countries, and he did not limit that to the constituents of Mr. Stone. The reserves of some countries might be considered as frozen when they were in gold.

Mr. Phillips then referred to a future meeting to consider the problem of "rounding." He requested that the paper to be discussed should include an alternative method for rounding, based not only on past experience, but also on aesthetic considerations; possibly rounding to the next million on quotas up to $300 million, to the next $5 million for quotas up to $1 billion, and to the next $10 million thereafter.

Mr. Yaméogo asked to be told the advantages and disadvantages of paying the gold portions of the quota increases with gold, and on paying them with SDR's. Since the Fund desired to give the impression that SDR's were really as valuable and as good as gold, he thought here was an opportunity to demonstrate it. Accepting the payment of the gold portion of the subscription in SDR's would increase their acceptability, and it would also be logical.

Second, Mr. Yaméogo supported quota increases by installments. He regretted that some of the Executive Directors did not share his view, but many of his countries, and many countries from other groups had used that method for the previous quota increase for many good reasons; he did not see any reason why the procedure should not be retained.

Mr. Lieftinck stated first that he regretted that the Articles of Agreement as amended did not allow the use of SDR's instead of gold in payments. At the same time, he felt that it would be necessary to live with the present provision for some time, and any immediate effort to amend the Articles would be inappropriate. He felt that there was every reason to amend the Articles in that sense, when the time was appropriate. When amendment of the Articles was discussed, he had advocated that amendment, but under the present circumstances he thought it was necessary to give consideration to primary and secondary mitigation.

With respect to primary mitigation, Mr. Lieftinck said that the first possibility was an application of Article III, Section 4(a) for countries with very small reserves. Although in the past arguments had been presented against activating it, he felt that the founding fathers had inserted that provision in the Articles because they believed that all members should have an opportunity of participating in a general increase of quotas. If the reserve position of certain members constituted a constraint, the Article should be applied. He recognized that because of the allocation of SDR's that Article would be applicable perhaps to only a few members, and he felt that it should be applied in proportion to the amount by which a country's reserves were below its new quota. Mitigation through acceptance of the quota increase in installments over five years was acceptable to him, but in view of the link between quotas and allocations of SDR's, he wondered whether that arrangement would appeal to members. Concerning mitigation through drawings on the Fund, he again had no objection, but he thought that it should be restricted to countries receiving only a general increase.

With respect to secondary mitigation, Mr. Lieftinck felt that the arguments favoring such mitigation were less convincing than they had been for the previous general increase in quotas. The position of gold now appeared in a different light for two reasons. First, because of the decision that had been taken to close reserves to the inflow of new gold, and second, because of the allocation of SDR's, which the Fund might decide could be used for repurchases and for paying obligations arising from a general increase of quotas. He doubted that any country would be hurt by some small movement of gold within its reserves. But if member countries felt that they would in fact be hurt, then perhaps their approach to the gold problem should become somewhat different than it appeared to be. He had always advocated strengthening the Fund's gold position when quotas were increased. Gold was the most liquid asset the Fund had, and adequate holdings provided more flexibility to the Fund's operations. But to be fair, with the creation of SDR's, the need of the Fund to have gold did not appear of the same importance. The character of gold holdings would change somewhat with the creation of SDR's, and he thought that for psychological reasons the Fund should set an example to its members by avoiding a strong distinction between gold and SDR's. For that reason, he could accept secondary mitigation. The first of the various measures that could be applied was the use of the general deposits of gold, and this had been applied at the time of the previous general increase. He was glad that no one seemed inclined to use that procedure again; if it had been proposed, he would have objected because it led to double counting and to a distortion of the entire reserve picture. Second, triangular transactions had been proposed for secondary mitigation, and he thought that, within a quantitative limit, that procedure was acceptable. The replenishment procedure remained, and that was linked to the need of the Fund for replenishment. His only doubt about that procedure was that he was unconvinced that arrangements could be made so that there would always be a need for replenishment. He referred to the bottom of page 6 of SM/69/153 where it was said that another possibility would be for such replenishment to take place as and when the Fund needed the currency in connection with particular drawings. He questioned whether that replenishment should be part of the triangular transactions as such, or whether replenishment should only take place if and when the Fund needed the currency. He asked for staff comment. In that connection, he favored applying Article XXV, Section 7(c)(ii), for making repurchases with special drawing rights available to all members. The provision included the words: "as far as feasible," and it was possible that such transactions would be feasible for only a few members. His primary reason was that he thought that the use of SDR's in transactions with the Fund--which had been unduly limited under the amended Articles--should be encouraged as much as possible under appropriate circumstances and in appropriate cases.

Mr. Lieftinck favored proceeding with the discussions and perhaps arriving at conclusions, even if an agreement was not reached with respect to the amounts of the general and special increases. Regardless of the outcome of those amounts, mitigation was a problem that had to be faced up to, and in doing so, as many countries as possible should be allowed to take full advantage of the general increase of quotas. With respect to selective increases, the Executive Directors should have the interests of the Fund in mind somewhat more than the interests of the members.

Mr. Mitchell made three points. First, he regretted that SDR's had been excluded from some kind of a role in the quota increase. Second, he agreed in general with the staff paper on both primary and secondary mitigation. On Article III, Section 4(a), he sympathized with the view of Mr. Lieftinck that there might be some cases where it might not be inappropriate to invoke it. Third, on secondary mitigation there was clearly a problem. The solution proposed in the paper was not merely feasible; it had, in a sense, been tried before. He agreed with those who felt that there should be some ceiling, and he was glad that Mr. Dale accepted that view.

Mr. Madan referred to EBM/69/97 (10/20/69), and recalled that he had then said that the arrangements for the mitigation of the secondary impact were, on the whole, reasonable, and he saw considerable advantage in the staff solution. Regarding the primary impact particularly, he referred to Article III, Section 4(a), and reiterated that he agreed with Mr. Stone that there was not the same justification as there might have been in the past for insisting on a full 25 per cent payment in gold by member countries with comparatively low monetary reserves if the gold payment was in effect to lead to no accretion of gold to the Fund. Therefore, he believed, as had been proposed by several other Executive Directors, that activation of the Article might be re-examined, particularly from the point of view of the new role visualized for gold, both generally and in regard to the arrangement for mitigation.

Mr. Escobar said that the most striking paragraph of the paper under consideration was the last paragraph on page 5. He went on to say that the possibility of substituting SDR's for gold--in gold subscriptions to quota increases--although envisaged during the preparation of the SDR scheme, was not provided for in the Articles of Agreement. His first reaction was to wonder why that procedure did not find a place in the Articles of Agreement, especially at a time when one of the objectives was to build up confidence in SDR's. In that respect, he thought it was now timely and appropriate for the Executive Directors to become concerned about amending the Articles in order to make SDR's, in fact, as good as gold for all practical purposes. Having said that, he added that he was in general agreement with the staff paper with respect to primary mitigation; special attention should be paid to that problem.

With respect to secondary mitigation, Mr. Escobar was also in general agreement with the staff paper. He noted that the secondary burden was expected to fall largely on the United States, and if the United States considered that the burden would be detrimental to the working of the international monetary system, or would adversely affect the image of that system in the immediate future, he would accept any formula like the one suggested by the staff. It was necessary to mitigate the burden in order to avoid any damage to the smooth working of the international monetary system at any time when quotas in the Fund were being increased.

Mr. Johnstone referred to primary mitigation, and said that he was broadly in agreement with the suggestions in the paper for the use of installments by countries that found the procedure convenient. He thought no reasonable objection could be raised to that system, and he could say the same for special drawings. With respect to the use of Article III, Section 4(a), he wished to have additional time for careful consideration.

With respect to secondary mitigation, Mr. Johnstone had no objection to the main technique suggested in the paper; namely, triangular transactions. This seemed to be a feasible and reasonable technique for dealing with a situation which would otherwise cause problems. He agreed with Professor Kindleberger that there was no harm in the use of the technique, and therefore he had no objection to it. The professor's use of the term "hocus-pocus" in his reference to the technique might not be so inappropriate. The essence of central banking was a rather similar procedure of exchanging one asset for another. He agreed, however, that a quantification was required in order to establish a reasonable ceiling.

Referring to the final paragraph on page 6 of SM/69/153, Mr. Johnstone asked precisely what difference there was between the procedure envisaged in the first sentence of the paragraph and the one referred to in the second sentence.

Mr. Palamenghi-Crispi clarified his previous remarks by repeating that he had referred not to gold-minded countries, but to gold-minded masses in the United States, in Italy, and everywhere else in the world.

Mr. Hattori favored making it possible for countries to pay their quota increases by installments if they wished, or to make drawings when they were warranted under normal tranche policy. Moreover, it was possible that in some cases, under particular limitations, the provisions of Article III, Section 4(a) might be invoked where necessary.

On the secondary impact, Mr. Hattori thought that there was a clear need for mitigation, and he was broadly in agreement with the proposals in the staff paper. He thought that secondary mitigation was perhaps now less important than it had been for previous quota increases, but on balance the international monetary system had more to gain than to lose from some sort of an arrangement for secondary mitigation.

Mr. Schleiminger observed that one of the interesting features of the discussion had been the wide interest shown in the possible activation of Article III, Section 4(a) as a means for primary mitigation. He had not heard any strong reasons why that provision, which for very good reason had not been activated in the past, should now be activated. He had not heard that the situation had completely changed, making activation of that provision of the Articles necessary. Like other Executive Directors, he was prepared to study the possibility with an open mind; but in order to do so, he thought it would be helpful to have additional information about how the provision would be executed. Mr. Kharmawan had referred to it as a waiver, and the connotation of a waiver reinforced Mr. Schleiminger's uneasiness. He asked whether it would be a permanent waiver, or whether the repayment provisions of Article V, Section 7(a) would apply later; if the country's reserves increased, would it have to pay in full, or would repayment be made over a period to allow the country to rebuild its reserves, and then, to comply with the rules?

Mr. Kharmawan explained that the word waiver was a sort of oral shorthand by which he intended to include all kinds of techniques that might be used for countries in weak financial situations. The smaller countries should be given consideration at the same time that efforts were being made to alleviate the burdens of much stronger countries. There were many reasons for activating the provision, including the Amendment that had made automatic special drawings impossible.

The General Counsel referred first to Mr. Schleiminger's last question in connection with Article III, Section 4(a), and pointed out that the staff had not presented a fixed position against invoking that provision. On the contrary, the staff had resuscitated the suggestion in order that it might be examined, with the explanation that hitherto Executive Directors had not used the provision. The reasons for not invoking that provision in the past had been: first, the liquidity of the Fund and the impact that the use of that provision might have had on Fund resources; second, the desire to discourage the use of an unduly easy method of obtaining quota increases. He noted that the provision was applicable also to individual countries' requests for quota increases that were not associated with general reviews. Although those had been the motives of the Executive Directors in the past, the staff would be ready to work out whatever might be desired on the present occasion.

The General Counsel mentioned Mr. Schleiminger's question about the word "waiver" in connection with additional gold subscriptions, and said that if it was used to describe the reduction in gold subscription, the effect might be no more than temporary in giving relief. The repurchase provisions of the Articles would continue to operate, and they might, in due course, if the member's reserves increased, produce a repurchase obligation for the currency that had, in effect, been substituted for the gold portion of the quota increase, or part of it. The repurchase position was the same, insofar as the original gold subscription had been less than 25 per cent of quota. For example, if the currency subscription had been 80 per cent of quota, then there would be a possible repurchase obligation of 5 per cent that might accrue in gold or in convertible currencies. He then referred to the question whether, in addition, special repurchase terms could be imposed as they were in connection with purchases. Such terms would be within the discretionary power of the Fund; and a repurchase obligation of that kind that was made ancillary to the repurchase provisions of the Articles might seem appropriate to the Executive Directors.

The General Counsel referred to Mr. Dale's two possibilities in connection with directing SDR's to particular members. One was to prescribe transactions without designation under Article XXV, Section 2(b), as a method of alleviating reductions in the reserves of certain countries. The other was the adoption of a supplementary principle of designation under Article XXV, Section 5(a). The General Counsel confirmed that he had previously said that there was no a priori legal objection to either course, but if those procedures were pursued actively--although at the moment they were merely being noted in the record--then it would be necessary to examine how they would affect the operation of the new facility. A decision of policy would be needed in the light of the possible effects on the total operation of the SDR facility. For example, a balanced distribution of special drawing rights was one of the desiderata of the whole scheme, and had been written into the Articles. The issue of directing special drawing rights to the General Account of the Fund itself was a different question, which Mr. Schleiminger had mentioned. A number of decisions with respect to the inflow and outflow of special drawing rights would be necessary before the turn of the year, in addition to solving the problem of mitigation, in order to make the mechanism of the SDR facility fully operative. Indeed, if nothing were done in the field of repurchases, there might be a considerable inflow of special drawing rights into the General Account because of their inclusion in the calculation of monetary reserves as of April 30, 1970. A paper was being prepared that would give the various possibilities for the flow of special drawing rights both into and out of the General Account. That paper would be distributed to the Executive Directors within a number of days. It dealt with issues that would have to be considered whether or not there was a problem of mitigation. But since the problem of mitigation involved Fund liquidity, it was rational to link them.

The General Counsel recalled that Mr. Kharmawan and Mr. Williams had mentioned the possibility of having special purchases from the Fund to relieve the primary impact. The Amendment had made the old form of purchases for this special purpose legally impossible.

The General Counsel turned to Mr. Plescoff's remarks on Article XXV, Section 7(a), and said that it should be quite clear that there was an obligation on a member to provide its currency, if the Fund should so decide, against special drawing rights. It was exactly the same sort of obligation that would exist if the Fund decided that a member should provide its currency against gold. Certain conditions were laid down with respect to using special drawing rights for this purpose, and, of course, those conditions would have to be met. That subject was one of the topics in the paper that was being prepared on the use of special drawing rights in and through the General Account.

Coming to Mr. Phillips' remarks, the General Counsel said that the use of the gold tranche right to acquire currency that would then be used to acquire gold would not be challenged. A member would not have to state the purpose of the purchase, although the member was expected to have a need for it. Nevertheless, the purchase would not be challenged. Purchases in the credit tranches would be subject to appropriate "conditionality." Mr. Phillips had also asked whether special drawing rights could be used to purchase gold. The answer was that in the first instance, currency could only be obtained in transactions involving special drawing rights; and of course, participants had to have a need to use special drawing rights. The General Counsel mentioned Mr. Yaméogo's comment about accepting quota increases by installments, and emphasized that there was no intention to suggest that such a system was being opposed. Several Executive Directors had raised doubts whether that procedure would now be viewed with the same enthusiasm that it had received in the past by some members. Special drawing rights were allocated on the basis of quotas, and allocations would be made on less than the maximum to which a quota could be increased when it was being increased by installments. A technical problem would also arise in correlating the installment feature with an option of accepting a quota between a maximum and a minimum amount, if that arrangement were adopted.

Concerning Mr. Lieftinck's question about the implications of the last sentence on page 6, the General Counsel said that when the Fund used its power to replenish, either by borrowing or by the use of gold, or by the new power to use special drawing rights, there had to be a bona fide need to replenish. There was nothing in the sentence to suggest that replenishment could be made on the basis of some other consideration. The sentence was meant to indicate that if there was a bona fide need within the foreseeable future, two courses could be followed. First, there could be replenishment forthwith; for example, if in the coming three months there was a need for the equivalent of US$100 million of some currency, the Fund would sell $100 million of gold and receive that currency. Second, it would be possible to wait until the General Account transactions actually occurred; for example, if there were to be four transactions equivalent to US$25 million each, replenishment could occur when those transactions took place, and $25 million of gold could be used on each occasion. The latter had been the more general practice in the past.

Mr. Lieftinck had raised a very important point, the General Counsel said, in connection with Article XXV, Section 7(c)(ii), and that provision was at the very heart of the paper that the General Counsel had referred to earlier. It concerned the use of special drawing rights in transactions with the General Account; in particular, it referred to the use of special drawing rights in repurchases. The Fund's power, under that provision, was very broad. The words "as far as feasible" did not limit the repurchase transactions in which the Fund might, if it so desired, receive special drawing rights. It would be possible for the Fund to accept special drawing rights in all of the repurchases now outstanding if it were desirable to do so. The provision indicated, however, that when the discretion was used, it should have roughly the same impact on all members.

The Treasurer referred to the questions about the last two paragraphs on page 6 of the paper, which dealt with the possible techniques and implications of mitigating the secondary impact. The basic operational aspect was that the Fund could replenish its holdings of the currencies for which it had a need against gold received from subscription payments. It had been generally understood that those currencies would be of countries that had net creditor positions in the Fund; meaning that the Fund's holdings would be below 75 per cent of the member's quota. There were now 16 members in net creditor positions; 8 of them had positions of more than $100 million, and there was no prima facie reason why the Fund should not use more than one currency in the replenishment operation. Of course, the result of the replenishment would be an increase in the Fund's holdings of a creditor country's currency, and this would reduce the member's net creditor position. Moreover, if the replenishment were concentrated only on one or two currencies, it would disharmonize the distribution of the net creditor positions in relation to reserves. There were two differences between the situation at the time of the previous general review of quotas and the present time. Previously, two currencies had been involved, namely, the deutsche mark and the Belgian franc, and the Belgian franc was involved for a very small amount in relation to that of the deutsche mark. The other difference, however, was that remuneration was now paid on net creditor positions; and that might make the arrangement less desirable for members. For that reason, Mr. Plescoff's question regarding which member countries would be involved was appropriate, and it would have to be settled; the choice of countries was, however, comparatively wide.

The Treasurer turned to Mr. Dale's question about how a country's position could be returned to normal after holdings had increased as a result of replenishment, and replied that there were various techniques; he would give a few examples. First, the Fund could sell the replenished currency to the exclusion of all other currencies. The reserve positions of other members would remain unchanged, and sales would take place as transactions occurred. Second, there could be a different arrangement in the timing of the sales. The first sentence in the last paragraph on page 6 of the paper implied an instantaneous replenishment; when a subscription payment was made, the Fund would immediately--on the same day--sell that gold for currency; and thereby increase its holdings of the currency. Following that, there would be a delay before the need arose to use that currency in transactions. A third possibility was to delay the sale of gold by the Fund for currency until the time when that currency was needed. That could be done in various ways; for example, a currency might be bought for some future period such as the next quarter. However, the countries that sold gold to other members to enable them to pay gold subscriptions to the Fund would experience a decline in their gold holdings, until the Fund found that it had a need for their currencies. Although that situation would not be unusual for a reserve center, it might be considered undesirable for a member that normally did not buy and sell gold in quantity. A fourth possibility would be to involve more than one member in instantaneous replenishment; that would lessen the decrease in a single member's reserve position. There might be other methods, and since the Executive Directors had expressed a deep interest in the question, the staff might prepare a paper setting forth specific alternatives and preferred operational solutions.

The Treasurer said that Mr. Johnstone had specifically inquired what the middle sentence in the last paragraph on page 6 of the paper meant.

The sentence was intended to explain the first sentence of the paragraph by giving an example. If a country needed gold, it usually bought that gold from the U.S. Treasury to the extent that it did not wish to withdraw the gold from its own holdings. However, as long as the United States had a net creditor position, and the Fund had a need for U.S. dollars, it would be possible to sell gold to the United States in order to replenish the Fund's holdings of dollars.

There was also, the Treasurer said, an important relationship between any primary mitigation and secondary mitigation; the secondary mitigation problem would diminish to the extent to which that primary mitigation would occur. Whether the two would be precisely in proportion would depend on the amounts of gold that members bought from reserve centers compared with the amounts that they drew from their own resources; that could not be determined now.

The Treasurer referred to questions concerning the Fund's liquidity, and made several comments. First, in order to place a ceiling on gold sales by the Fund, it would be necessary to determine what percentage of the total gold subscription would require mitigation. The staff had mentioned an amount of $500 million, but that was subject to discussion by the Executive Board. Second, the gold subscriptions received by the Fund at the time of the last general increase in quotas had moved out to various members by deposit, triangular operations, or replenishment--over a fairly long period of time; that had had an effect on the liquidity of the Fund. Third, the liquidity of the Fund could be affected by the Fund's capacity to borrow. Last, the Fund's liquidity could be influenced by the inflow of SDR's--in amounts still undecided by the Executive Board--that would be used later as needed by the Fund in accordance with the provisions of the Articles of Agreement. The paper had not stated that there was complete identity between SDR's and gold. He thought that they were not completely identical for Fund purposes, because the Articles of Agreement specified certain terms and conditions for SDR's.

The Chairman observed that several Executive Directors had shown an interest in the use of Article III, Section 4(a). He thought that it would be useful to have a more detailed paper, setting out the historical background of that provision, and the various ways in which it could be used.

The Treasurer said that such a paper could be prepared in due course, but it would be useful to determine first what amount of mitigation was envisaged.

Mr. Stone made several comments. First, he was glad to hear the General Counsel say that the staff would work out possible uses of Article III, Section 4(a); he would welcome a paper on that subject. Second, the General Counsel had said that a decision would be necessary on repurchases in SDR's before the end of the year, quite apart from the question of mitigation. He recalled that it was said in paragraph 3(a) on page 2 of SM/69/165 (11/13/69) that consideration needed to be given to repurchases in SDR's, preferably before their first allocation, partly because of the relation of that matter to the problem of mitigation, but more particularly because members that had repurchases falling due after January 1, 1970 might wish to use SDR's in those repurchases. He asked to what extent the failure of the Executive Board to make any decision on that question before January 1, 1970 would inhibit any member from using SDR's in making repurchases, indirectly if not directly. Was he not correct in believing that a member that needed to make such a repurchase would be able to obtain currency convertible in fact from designated participants by tendering SDR's to them, and then to use that currency for the repurchase?

Mr. Stone then referred to the General Counsel's comment that Article XXV, Section 7(d) placed the same obligation upon members to sell currency to the Fund against SDR's, as to sell it to the Fund against gold, but under certain conditions. Mr. Stone believed that the qualification of "certain conditions" should be emphasized. As was noted in the footnote on page 5 of SM/69/153, Article XXV, Section 7(d) said that the Fund might, if it deemed such action appropriate to replenish its holdings of a participant's currency, and after consultation with that participant on alternative ways of replenishment under Article VII, Section 2, require the participant to provide its currency for SDR's.

Mr. Stone thought that the General Counsel had also said, with reference to the last paragraph on page 6 of the paper, that whenever the Fund used gold to acquire the currency of a member, there had to be a bona fide need to replenish. While that was the way the Articles read, he distinctly recalled that as recently as last September when the currency package was discussed for the French stand-by, the paper prepared by the staff said that no borrowing of the currency of a certain member was contemplated under the General Arrangements to Borrow because the Fund's holdings of that currency were judged adequate; yet the same paper proposed sales of gold by the Fund to that country among others to replenish the Fund's holdings of the country's currency. While he had not objected and was not objecting to that transaction, he was having difficulty in reconciling that particular decision of the Executive Board with the General Counsel's statement that whenever the Fund used gold to acquire the currency of a member there had to be a bona fide need to replenish. Mr. Stone referred to the Treasurer's comment in respect of Mr. Dale's question about "catching up." He was puzzled by the question, and would welcome the paper that the Treasurer had promised to provide. It appeared to him that transactions to bring about secondary mitigation would not reduce the reserves of members other than the United States. Using Germany as an example, after the transactions Germany's reserve position in the Fund would have declined, but its foreign exchange holdings would have increased. He understood that in the case of the United States the outcome would be different, and he asked whether it was true therefore that when the term "a member" was used in this context, what was really meant was "the United States." Finally, referring again to the

Treasurer's comment relating to the Fund's liquidity, he noted that a ceiling of $500 million had been proposed for secondary mitigation. He mentioned that many members of the Fund, who were no longer permitted--without a good deal of unpleasantness--to increase their own gold holdings might be less easily reconciled to the prospect of yielding up their gold to the Fund now, than they had been in the past.

Mr. Plescoff said that he continued to believe that it would be useful for the Executive Directors to have a paper showing whether the liquidity of the Fund would be the same whether it were based on SDR's or on gold. He understood from the Treasurer that it was not quite the same, but that a gold basis would give more liquidity. Mr. Plescoff then quoted the first sentence in the third paragraph on page 5 of the paper, which said that holdings by the Fund of SDR's, like Fund holdings of gold, would enable the Fund to finance drawings at any time while preserving its liquidity and acting consistently with its policy on currencies to be used.

The Treasurer reiterated that there would not have to be, of necessity, an identity between the use of SDR's and the use of gold by the Fund. They could be used in similar ways to replenish the Fund's holdings under the provisions of the Articles.

The General Counsel referred to three of Mr. Stone's questions. The first was what the consequences would be of failing to take a decision before January 1, 1970 about repurchases in SDR's, and he said that the failure would in itself be a decision; members would not be empowered to use SDR's in some of the transactions permitted by the Articles. It was true that currencies could be obtained for special drawing rights, but it did not follow that they were the currencies the Fund wished to receive under its policy on the selection of currencies. That would depend on the list of currencies convertible in fact. Second, when he had mentioned conditions under which currency could be obtained against SDR's for replenishment, he had not intended to compare gold with SDR's. He had said that if the conditions of the Articles were satisfied, there was an obligation on a member to provide its currency in return for SDR's, just as there was in the case of the Fund's use of gold for replenishment. There were some obvious conditions; one example was the limitation on the amount of SDR's that any participant could be required to hold. Third, with respect to the requirement of need for replenishment against gold, the Articles stated that the Fund might, if it deemed such action appropriate, replenish its holdings of any member's currency. He assumed that when the Executive Directors had approved replenishment in the past, they had deemed that action appropriate.

Mr. Stone asked whether the General Counsel, in answering the question on the use or nonuse of SDR's in repurchases, considered that there was a possibility that currencies convertible in fact might not actually be convertible.

The General Counsel said that he had not. The list of currencies convertible in fact had not yet been established, but the absence of any particular currency on the list would not connote that the currency was not convertible. There had been and were still several different concepts of convertibility in the operations of the Fund.

It was agreed that the discussion should be resumed at the next meeting of the Committee of the Whole.

Approved: February 9, 1970