

SM/11/36

February 18, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Entry into Force of the Investment Authority Amendment (Fifth Amendment) of the Articles of Agreement—Key Implications**

Attached for the **information** of Executive Directors is a paper on key implications of the entry into force of the Investment Authority Amendment (Fifth Amendment) of the Articles of Agreement.

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Bergthaler, LEG (ext. 34287).

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Entry into Force of the Investment Authority Amendment (Fifth Amendment) of the Fund's Articles of Agreement—Key Implications

Prepared by the Finance, Legal, and Secretary's Departments

Approved by Sean Hagan, Siddharth Tiwari, and Andrew Tweedie

February 18, 2011

I. Introduction

1. Executive Directors will have seen the formal communications of February 18, 2011, pursuant to Article XXVIII(c) of the Fund's Articles by which the Investment Authority Amendment¹ has entered into force.
2. This paper briefly outlines the key implications associated with the entry into force of the Investment Authority Amendment. Further background information may be found in the Executive Board's report to the Board of Governors that also forms the commentary to the amendment.² Upon the entry into force of the Voice and Participation Amendment³, a similar paper outlining key features and implications of the Voice and Participation Amendment will be issued.
3. This paper does not discuss the 2010 Proposed Amendment on the Reform of the Executive Board (which would eliminate the category of appointed Executive Directors) or the quota increases under the Fourteenth General Review (i.e., doubling of quota resources to SDR 476.8 billion).⁴

II. Investment Authority Amendment

4. The entry into force of the Investment Authority Amendment has two main implications:

¹ Amendment of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund (the "Investment Authority Amendment" or "Fifth Amendment")

² SM/08/80, Rev 1, Sup 1, 4/8/08, *Developing a New Income Model for the Fund—Decisions and Report of the Executive Board to the Board of Governors*; Board of Governors Resolution 63-3 effective May 5, 2008.

³ Amendment of the Articles of Agreement of the International Monetary Fund to Enhance Voice and Participation in the International Monetary Fund (the "Voice and Participation Amendment") adopted by Board of Governors Resolution No. 63-2 effective April 28, 2008.

⁴ Board of Governors Resolution No. 66-2 effective December 15, 2010; SM/10/293, Supplement 1, 11/9/10, *IMF Quota and Governance Reform—Elements of an Agreement—Report of the Executive Board to the Board of Governors*; Secretary's Circular dated December 22, 2010.

- **Broadening of the investment mandate.** The Investment Authority Amendment provides authority to broaden the range of instruments in which the Fund may invest, in accordance with rules and regulations that would be adopted by the Fund for this purpose. This expansion of the Fund's investment authority enables the Fund to adapt its investment strategy over time without the need for further amendments to the Fund's Articles. The Executive Board still needs to adopt the rules and regulations to determine the range of such instruments for investments. The Executive Board has recently discussed an initial paper on issues related to asset allocation under a broadened investment mandate and the future work program on implementing the Fund's expanded investment authority.⁵
- **Transfer of profits from gold sales.** The Investment Authority Amendment mandates that any profits from the sale of post-Second Amendment gold after April 7, 2008 and before the entry into force of the Investment Authority Amendment are to be transferred to the Investment Account upon the effectiveness of the amendment unless transferred prior to that date. The sale of gold as envisaged under the new income model was completed in December 2010.⁶ All proceeds from the sales were placed in the General Resources Account and have not yet been transferred to the Investment Account. Accordingly, the profits, amounting to SDR 6.85 billion, will be transferred to the Investment Account shortly.⁷ Initially, proceeds will be held in short-duration fixed-term deposits denominated in SDRs with the Bank for International Settlements (BIS), split into three equal tranches of 1-, 2-, and 3-month maturities for operational simplicity and to reduce roll-over risk. The interim investment strategy will be revisited following upcoming Executive Board discussion on the disposition of the gold profits.

⁵ SM/10/306, 12/1/10, *Asset Allocation Under a Broadened Investment Mandate—Preliminary Considerations*; SM/10/307, 12/1/10, *Implementing the Fund's Expanded Investment Authority—Overview and Work Program*; BUFF/11/33, 2/17/11, *Asset Allocation Under a Broadened Investment Mandate—Preliminary Considerations*.

⁶ SM/11/25, 2/7/11, *Report of the Fund's 2009-2010 Gold Sales*.

⁷ The transfer from the GRA to the Investment Account will take place as soon as operationally feasible. Funds transferred to the Investment Account will be governed by the existing rules and regulations of the Investment Account until the Executive Board approves new rules and regulations for the Investment Account under the expanded investment authority.