September 16, 2013
Approval: 9/23/13

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 13/9-1

2:30 p.m., January 30, 2013

## 1. Quota Formula Review, Continuation

Documents: SM/13/13 and Revision 1, and Revision 2, and Supplement 1, and Supplement 2

Staff: Tweedie, Kumar and Bassett, FIN; Leckow, LEG

Length: 3 hours, 31 minutes

**Executive Board Attendance**

C. Lagarde, Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| M. Saho (AE) | |
| K. Assimaidou (AF) | |
| P. Garcia-Silva (AG) | |
| | I. Davidoff (AU) |
| P. Nogueira Batista, Jr. (BR) | |
| T. Zhang (CC) | |
| J. Rojas (CE) | |
| T. Hockin (CO) | |
| | M. Kollar (EC) |
| A. Fayolle (FF) | |
| H. Temmeyer (GR) | |
| R. Mohan (IN) | |
| A. Montanino (IT) | |
| D. Momma (JA) | |
| J. Mojarrad (MD) | |
| | S. Geadah (MI) |
| | M. Hadzi-Vaskov (NE), Temporary |
| A. Groenn (NO) | |
| | A. Lushin (RU) |
| A. Alkholifey (SA) | |
| D. J. Chia (ST) | |
| R. Weber (SZ) | |
| M. Lundsager (UA) | |
| A. Gibbs (UK) | |

P. Alonso-Gamo, Acting Secretary
O. Vongthieres, Summing Up Officer
F. Liu/J. Morco, Board Operations Officers
P. Martin, Verbatim Reporting Officer

**Also Present**

European Central Bank: G. Pineau. African Department: D. Robinson. External Relations Department: K. Ferrey, N. Laframboise. Finance Department: S. Bassett, A. Buzaushina, C. Janada, T. Krueger, M. Kumar, M. Rossi, R. Rozenov, H. Treichel, A. Tweedie, C. Wong, R. Zhang. Legal Department: C. DeLong, K. Kwak, R. Leckow, C. Ogada, B. Steinki. Research Department: J. Ahn. Strategy, Policy, and Review Department: B. Joshi, K. Kochhar, T. Koranchelian, Y. Sun. Statistics Department: B. Graf, Q. He, S. Matei, E. Valdivia-Velarde Perez. Alternate Executive Director: F. Alshathri (SA), M. Arbelaez (CE), S. Meyer (GR), I. Oliveira Lima (BR), M. Radziwill (SZ), N. Yambaye (AF). Senior Advisors to Executive Directors: A. Ally (BR), A. Brunelle-Côté (CO), M. Choueiri (MI), K. Eapen (IN), R. Espinel (BR), M. Farid (MI), A. Hubic (NE), L. Hunter (AU), H. Lee

(AU), N. Luu (AU), E. Meyer (UA), M. Nomura (JA), M. Peter (SZ), C. Poonpatpibul (ST), C. Qualierini (IT), J. Raj (IN), T. Reeve (UA), B. Saidy (AE), O. Yalvac (EC). Advisors to Executive Directors: S. Alnefaee (SA), P. Ayissi-Etoh (AF), F. Dlamini-Kunene (AE), T. Duggan (UK), I. Hafid (ST), O. Hendrick (AG), E. Kanaris (NE), M. Kapur (IN), S. Keshava (SA), A. Landbeck (GR), S. Maherzi (MD), R. Mosch (NE), T. Nguema-Affane (AF), R. Ngugi (AE), L. Norton (UA), D. Orkoubi (SA), L. Piana (FF), J. Duperrut (SZ), G. Pedersen (NO), B. Lischinsky (AG), L. Mansur (BR).

## 1. QUOTA FORMULA REVIEW, CONTINUATION

The Chairman opened the floor for discussion and encouraged Directors to make their arguments in the spirit of compromise and multilateralism. She reiterated that she did not want the meeting to turn into a drafting session, and that the staff would finalize the drafting of any proposed changes that were agreed upon by a large number of Board members.

Mr. Hockin made the following statement:

> In the spirit of the Managing Director's remarks about the tenor of the conversation, I have reflected on the different public policy fora I have been in, and I tried to remind myself that the IMF Executive Board is a diplomatic setting. That means we must find a way to achieve enough of an agreement to carry on. We must find the middle ground. This is not a court case where I will lose and my opponent will win. We have treated this too much like a court case.
>
> Different points of view are healthy. Uniformity would be unhealthy. However, deadlock would make the Board look irrelevant to our own Governors, and I worry about that.
>
> The revised draft report prepared for the Board is balanced and reflects the outcome of the Board's discussions under the quota formula review. As I mentioned on Monday, I am worried that if we turn this meeting into a drafting session, we will simply reopen debates we have been unable to solve in our other meetings.
>
> I would like to make a comment about how to reach compromise. One way to prevent compromise is to put a wedge issue on the table that a preponderance of Directors cannot accept. To prevent agreement, one insists on a wedge issue. To insist that openness be dropped, or that specialists finally reach a detailed unanimity on it before we can include it, is putting a wedge issue on the table. I am reminded of a lighthearted comment by Mr. Mussa, a former IMF chief economist who recently passed away. He warned against waiting for specialist certainty on a variable. He reminded the Board that if a plumber is the architect, the house will have nothing but bathrooms.
>
> It is important that we try not to raise wedge issues, but that we try to find a way to come together. Consequently, my only comment on the current draft report is that it is a bit more ambiguous than the IMFC chairman's summary on the issue of variability. Although the IMFC chair's summary noted that variability should be dropped from the formula, the draft report is

not as decisive and only notes considerable support for dropping variability. This paragraph should be redrafted to clearly state that variability will be dropped. I am not using that point as a wedge issue, it is just our reflection on what we heard in Paris.

Moreover, if the redistribution of the weight of variability is dealt with in paragraph 12, as we suggest, we do not see why there should be a reference in paragraph 11 to the preference expressed by some chairs to have its weight allocated to openness. Strong views have been expressed on the allocation of the weight of variability, and the report should not be biased by specifically referencing only one possible allocation of the variability variable.

With regard to the rest, we can live with the report as it is. We expect other Board members to continue to work constructively and in cooperation toward a balanced outcome, as it is the only way we can make progress.

We all get off at different floors of this building, but it is the same building. We must make sure that the building's final authoritative decision making mechanism, the Board, does not fail to do its job.

Mr. Davidoff made the following statement:

Our chair broadly supports the sentiment expressed by Mr. Hockin that we need to identify the things that unite us. Our presence in this room—looking out for an institution as important as this institution is—should be the common denominator. In that spirit, we can support the draft report in its current form.

There are some aspects of the drafting which could better reflect the stance of the Board, particularly on issues like variability and reserves. However, our chair will not quibble with the drafting. We must all act in the manner in which we speak of compromise. Therefore, we are putting our best foot forward in that regard.

We hope that others consider that the report provide us with building blocks to move forward. That is our chair's view and we hope that others share that view and act accordingly in the latter part of this year. Ultimately, what matters for our chair is how we progress, and whether we have the will, flexibility, and respect for this institution to work cooperatively so that the governance of this institution reflects the dynamism of the economies it advises.

Mr. Garcia-Silva made the following statement:

I share Mr. Davidoff and Mr. Hockin's point regarding the multilateral process and how it should be conducted. I support the draft as is. The staff has done a good job reflecting the discussions from the past meeting and I will highlight four points which are important.

The report now clearly states that there will be a new quota formula. This was not so clear in the previous version of the draft. The second paragraph also mentions the importance of concluding the 2010 reform, and it is appropriate to put it there.

Some clarifications may not have gone as far as we would have liked in paragraph 7—for example, the reference to GDP, and particularly Mr. Lushin's points regarding the misleading reference to the 2008 reform, but the qualifiers have been improved.

Paragraph 11 on openness is clearer now in terms of laying out the different views of the Board without giving a misleading impression of consensus.

I can share Mr. Hockin's point regarding the drafting on variability and openness. However, on the whole, this report does good justice to what we discussed at the last meeting on this topic.

Mr. Zhang noted that the structure and content of the new draft were broadly acceptable. Although there was some room for fine-tuning the report, he urged Directors to reach compromise and consensus. His chair was open to further suggestions, but he encouraged Directors not to squander the momentum that had built up.

Mr. Lushin made the following statement:

We appreciate the staff's efforts on the second version of this report that brings us much closer to an agreement. I believe and hope we will eventually agree on the text of the report to the Board of Governors.

I will mention a few changes that alter the substance of what was agreed upon in Paris. However, we will make some factual observations about where we stand with regard to the quota review. These are not attempts to tilt the balance, but rather to more accurately reflect the current situation.

Our proposals will be circulated to Directors. I am making this proposal not only on my behalf, but on behalf of all Directors that issued a joint gray statement at our previous Board meeting on this topic—Mr. Mohan, Mr. Nogueira Batista, Mr. Zhang, and Mr. Saho, and Mr. Mojarrad.

We suggest the following changes:

In paragraph 4, we would like to remove the reference in the second sentence to achieving consensus, and also the reference to the idea that it is best done in the context of the Fifteenth General Review of Quotas.

With regard to consensus, it is difficult to expect that we will manage to achieve consensus, or an agreement, on the formula by every chair. I refer to the experience of 2008 when the new formula, which is valid today, was accepted by a vast majority of the Board but not by consensus.

Removing the word "consensus" ensures that we will not be in a situation in which we cannot progress unless everyone agrees. The formula of 2008 was agreed upon with several members abstaining, and we cannot rule out that this may also happen this time.

By removing the reference that the agreement on the new quota formula is "best done" in the context of the Fifteenth General Review of Quotas, we want to emphasize that we will continue working with the formula during the Fifteenth Review, mostly out of necessity because we did not manage to agree on the formula in time. There was clear merit in dealing with the formula separately. My own experience from the 2008 reform shows that reforming the formula and increasing the Fund's capital simultaneously could be a difficult exercise.

The proposed second sentence in paragraph 4 would read as follows: "It was decided that this will be achieved in the context of the Fifteenth Review, rather than on a standalone basis."

We did not change the message, we just made it more precise.

Although we appreciate the corrections made in the second sentence of paragraph 7, it remains unbalanced. Our preference would be to remove the second sentence, which refers to a 7.7 percentage point shift in calculated quota shares toward emerging market and developing countries (EMDC), because it makes those who support the quota reform look unreasonable. We would not like to be presented in this way because we have a strong case for the reform of the quota formula.

The Chairman asked if Mr. Lushin wanted to circulate the documents he had brought.

Mr. Lushin circulated the documents.

Mr. Lushin made the following statement:

In paragraph 7, we continue to believe that removing this sentence could benefit all members, because otherwise it gives the impression that the position of those calling for the reform of the quota formula is unreasonable. Our first option would be to remove this sentence from paragraph 7. If this is not agreeable, we could suggest some changes in the wording of the last sentence to better reflect the position of those supporting the changes in the formula.

We would put a full stop after the words “in need of radical reform.” Later, we propose the following language: “Others considered that the formula remains seriously flawed, producing results that are anomalous and diverge significantly from members’ relative weights in the global economy, with a systematic bias against the poor.” This change would better reflect our view on the formula, provided that the second sentence that refers to a 7.7 percentage point increase in EMDCs’ calculated quota shares is kept.

On paragraph 10, we propose including a factual sentence with a quotation from the last staff report concerning the quality of PPP data. We were happy with this paragraph in the previous version of the report. The reference to methodological and data problems with PPP GDP in the latest version of the report leads us to believe that a reference to the staff report—which makes this specific observation about the quality of PPP GDP data—is worthwhile to provide a balanced presentation of views on this variable.

In paragraph 11, we can go along with the Paris language in the first sentence that preserves this ambiguity about when and how the concerns about the openness variable will be addressed. However, we would like our position to be more precisely specified in this paragraph. We have always insisted that because of its flaws, openness should be removed from the formula. We would be prepared to take a step forward and accept openness in the formula if its flaws are addressed. However, since there is little enthusiasm among some Directors to accept this, we want to put our long-held position on the table.

In paragraph 12, our proposal is the same as the one made by Mr. Hockin and Mr. Garcia-Silva. We propose removing the reference to how the weight of GDP and openness should be reallocated.

Finally, in paragraph 16 we propose replacing the word “protect” in the first sentence with “enhance.” This was also our proposal for the previous draft. The voice and representation of low-income countries (LICs), should not be protected only on an ad hoc basis, but also strengthened through the formula. We should give the LICs what they should rightly have as IMF members and not force them to depend on the clemency of the membership.

Mr. Geadah made the following statement:

I have a few comments that are motivated by a comparison of this draft report with the last summing up that we had on the topic. In paragraph 9, the reference to the scope to further increase the weight of GDP goes beyond what was written in the summing up. I know that this language is from the IMFC Deputies meeting, but it was an agreed chair’s summary which was not agreed upon by everybody. I would prefer to drop that reference.

The second reference toward the end of paragraph 12 states that “some remain to be convinced” that variability should also be dropped. Instead, it should read that “a number of Directors are not convinced” that variability should be dropped from the formula. This is how it appears in the summing up.

Finally, in paragraph 12, the second sentence says “extensive consideration was given to the role of variability.” I would prefer to drop the word “extensive.” This chair has asked for more work on this topic, which has not been done, so I would prefer not to use the phrase “extensive consideration” and simply say, “consideration was given to the role of variability.”

Mr. Nogueira Batista made the following statement:

The quota formula review was launched in October 2010, in the G20 meeting of finance ministers and central bank governors held in Korea, and subsequently confirmed by G20 leaders in the November 2010 meeting in Seoul. In those meetings, it was agreed that the IMF’s quota formula would be reviewed comprehensively by January 2013 to better enhance the voice and representation of the EMDCs including the poorest, and better reflect countries' economic weights.

More than two years later, the results are still meager. The Board has not reached an agreement on a new quota formula. Since 2011, IMF reform has practically ground to a halt. The Fund missed the October 2012 deadline for entry into force of the 2010 quota and governance reform. Instead of a new quota formula, we have this draft decision. I continue to believe that a new quota formula is key to the indispensable rebalancing of decision-making power in the IMF.

Having said that, in the spirit of compromise, the chairs that issued the joint statement for the previous meeting had extensive discussions, and we have circulated our suggestions to the Board. Mr. Lushin has already explained the spirit of these suggestions. The changes are small, but significant. They can be taken on board because they portray the discussion in a more balanced and factual way. The suggestions attempt to portray more precisely the views of our chairs and others on certain specific important points in this discussion.

I would like to add a few explanations to what Mr. Lushin has already explained.

In paragraph 4, the lines that we propose striking out are not present in the Paris document, namely the expressions "achieving consensus" and "best done." Our chairs are deeply unhappy with the fact that we have not reached a new quota formula by January 2013. We cannot be asked to join a document that states that it was agreed that the new quota formula is best done in the context of the Fifteenth General Review of Quotas. It is not reasonable to suggest that.

This is not the best outcome. We have slipped into this because of the lack of results in terms of a new quota formula. This proposed drafting is highly inappropriate. The Executive Board would say to the Board of Governors that we have come to the conclusion that it is best to do the quota formula review as part of the Fifteenth General Review. The Board of Governors instructed the Executive Board to do the comprehensive review of the quota formula by January 2013 and the next general quota review by January 2014. The idea that we should alter this is a second-best option.

We should not use the word "best," which does not describe the overall opinion of the Board. The sentence starts with the phrase, "it was agreed," which would indicate that it was supposedly agreed by all.

On paragraph 7, our chairs have proposed two alternatives. We can strike out the sentence that makes the paragraph unbalanced because it gives support to one of the views, and provides numbers to support that view. That is the only number that appears in the entire report—the 7.7 percentage point shift in quota shares. Alternatively, we could explain the other view better by adding language such as, "Others consider that the formula remains seriously flawed, producing results that are anomalous, and diverge significantly from members' relative weights in the global economy, with a systematic bias against the poor." That is our view. We would like our view to be portrayed as precisely as possible.

On paragraph 10, I could also live with dropping the sentence that was added: "Some who supported this view also continue to see methodological and data problems with PPP GDP." What is missing is an explanation of the specific problems that some Directors have with the staff's view of the reliability of PPP GDP data. If these Directors can provide a specific explanation, that would be useful. Our chair and others have extensively explained why we believe there are flaws and weaknesses in the openness variable. This has also been explained by the staff in several papers. We should drop this addition on PPP GDP because it has not been argued for, only stated.

Keeping this addition could be acceptable because it portrays a certain viewpoint. However, we should then indicate that we took note of the staff's findings about PPP data by introducing the following sentence: "The Executive Board took note of staff's finding that 'PPP data are as reliable as the national GDP and price statistics from which they are constructed'." This is word for word what the staff has written in one of the annexes. I draw your attention to the fact that the language we suggest introducing in this paragraph mirrors the language used in paragraph 12: "The Executive Board took note of the staff's finding that there is little empirical evidence of a relationship between variability and actual demand for Fund resources." We suggest including a similar sentence in paragraph 10.

On the issue of openness, we are not asking, of course, all chairs to endorse the view that openness should be dropped from the formula. We are simply asking that our view be portrayed in a more precise fashion, namely that the current measure is seriously flawed and this variable should be dropped from the formula.

The first sentence of the paragraph on openness promises that concerns regarding this variable will be thoroughly examined and addressed. Unfortunately, we have promised to address this issue before and it was not done. Consequently, we are reluctant to use this language. I can agree to it, but only provided that our view is appropriately portrayed in paragraph 11.

On paragraph 16, I urge the Board to consider that we need to be more forthcoming with LICs. I know that we have used the word “protect” on several occasions, but a better word is “enhance.” The word “enhance” was used when we launched the quota formula review in Korea in the G20. Rather than merely protecting the voice and representation of LICs, we need to work toward enhancing their voice and representation.

Mr. Alkholifey made the following statement:

I thank the staff for a quick revised draft report, which is an improvement over the last report, but unfortunately is favorably biased toward two variables, namely GDP and openness. In the end, this bias will work against the spirit of the reform, resulting in more concentration of power in this Board against certain members, including our chair. I have three points, which are meant to be suggestive.

The language in paragraph 14 about financial contributions is a step backward from the language of the Board that was used in December 2012. We therefore prefer to stick to the previous language. I understand that the current draft incorporated the IMFC Deputies’ language, but that is a step backward.

In paragraph 12, I support Directors who mention that the reallocation should not be toward GDP and openness. It is one example of the bias. We are preempting the future outcome. Dropping the words—”the reallocation between GDP and openness”—will be more consistent with the summing up.

In paragraph 9, I support Mr. Geadah’s suggestion to delete the phrase about the scope to further increase the weight of GDP.

Ms. Lundsager made the following statement:

I thank the staff for their redraft, which walked a fine line between the many different positions. I found myself in agreement with Mr. Hockin's comments. In that spirit, our chair is ready to reluctantly signal that we could go ahead with the report, perhaps with a few adjustments. I give the staff credit for doing what they could, but there are a few points that could be better balanced.

On paragraph 7, in terms of the quality of the formula, I still believe the paragraph is misleading in terms of the satisfaction with the formula itself. I would agree with the points Mr. Hockin made and that others have endorsed on variability.

On paragraph 11 about openness, I appreciate the efforts to make the paragraph more balanced. Our chair would prefer to eliminate openness and reserves in favor of a GDP-only formula. The staff could do some additional editing, but the paragraph as drafted captures the balance, so I appreciate the efforts of the staff.

Finally, on paragraph 15 about compression, we believe compression should be reduced or eliminated, so I would prefer that our opinion is stated explicitly in the statement.

With that being said, I keep referring back to the carefully crafted agreed chair's summary from the Paris meeting, and hope we can pull together that Paris work with the comments being made in the Board today.

Mr. Temmeyer made the following statement:

Our chair continues to have substantial misgivings about the draft. On several aspects of the revised draft report, the language has been worsened. This applies to paragraphs 10 and 11. However, we acknowledge the difficulties in finding a compromise that is acceptable to all members, and the revised report tries to bridge divergent positions taken in past discussions. That is why we share the view of Mr. Hockin about the need to find middle ground. We appreciate the efforts of the staff in this regard.

We are prepared to accept the revised report in the present form as a broadly balanced outcome of the modifications proposed during Monday's discussion. However, our agreement is strictly conditional on the absence of further substantive, nonfactual changes in the revised report. We discussed this issue extensively with our authorities. We need to emphasize that further modification will make this already difficult compromise unacceptable. The proposals that have been suggested by Board members in an effort to achieve the maximum realization of their extreme demands are not acceptable. If we keep the report as is, that would be acceptable.

We are open to suggestions on a purely technical basis, but not to shifting the balance in any direction. In that vein, we offer two factual refinements. On paragraph 12, the last sentence about dropping variability and how to reallocate its weight mentions two distinct groups. One group is willing to drop the variability in favor of GDP and openness. The other group conditions its support on measures to protect the poorest members. It seems odd to put these two groups together, and we propose that the two separate positions should be separated into two sentences.

In the new version of paragraph 4, the note states that achieving consensus on a new formula will be best done in the context of the Fifteenth General Review. We fully agree with this statement as it fully reflects the decision to request a formula review and also request a quota review. To be consistent with the language in paragraph 4, we propose using the phrase “in the context of the Fifteenth General Review” in paragraphs 5 and 17, instead of using the phrase “as part of the Fifteenth General Review.”

With these two factual suggestions, we could go along with this balanced and final draft of the report.

Mr. Saho made the following statement:

Our chair hopes that we will be able to finalize this draft report to the Board of Governors on the quota formula review today. Even though we have agreed on some broad directional themes, this is still a work in progress and all elements of the quota formula remain open for discussion. Our chair hopes that we can find some common ground that will enable agreement in time for use in the Fifteenth General Review of Quotas. If we do not, we run the risk that this process will be taken out of our hands, perhaps by the G20, which is an outcome that we all wish to avoid.

It makes sense to modify paragraph 4 and remove the reference to a consensus, as this is new language. Even though this would be the ideal outcome, it is a strong standard to reach for, given the polarized nature of this debate. In addition, if the proposed language is changed to what we have suggested, this paragraph will be more consistent with paragraph 17 of the report.

On paragraph 7, it would also be useful to achieve more balance by either removing the reference to the shift in quotas or by adding language that indicates that some Directors also believe that the formula needs reform.

In paragraph 10, including a reference to the variability of PPP data by quoting the staff report, as we propose, seems appropriate. It has merit because it introduces some balance, and our Governors would want to know why we continue to make PPP a central theme of our advocacy if it is so flawed, as implied in the current language. Quoting the staff report in this paragraph would give them some comfort that we are on the right track.

In addition to paragraph 12, we also agree that it is too early to specify that the weight of variability would be split between GDP and openness.

On paragraph 16, our objective is to continue to indicate that the quota formula serves as a guide to quota adjustments. Therefore, the formula should seek to enhance the voice and representation of LICs by selecting variables that will yield a higher calculated quota share, such as a higher share of PPP GDP in the GDP blend.

In relation to the next steps and communications, it would be useful to hear how we intend to communicate this to the public. It would be important that the outcome is characterized properly so that it is understood that there is ongoing work that still needs to be done.

In relation to next steps, we would appreciate an indication from management or the staff as to what the next steps will be. We would also like some legal clarification on whether this report currently indicates that we have discharged our obligations to the Board of Governors. Would the acceptance of the report indicate that we do not have to seek a new mandate to continue to search for a new formula?

Mr. Gibbs made the following statement:

As many Directors have noted, we need to compromise to reach agreement on a report, and we all have to accept that compromise means a balance of disappointment on all sides. I have a few comments on substance, and a few reactions to what I have heard from other Directors.

On PPP, we should not lose sight of the fact that for a number of Directors, this is about more than just an issue of data quality. There is a significant concern about the principle, and it has been a long-held view of this chair through several quota reviews that for a global financial institution that transacts with its members at market exchange rates, GDP measured at those exchange rates is the right measure to use in the quota formula.

We have agreed to a compromise on the PPP blend for well known reasons. I welcome the fact that the data issues that have long plagued this series have been addressed to some extent, but I want to stress that my real concern has always been broader than data. The difficulty I have with the extra sentence Mr. Lushin has proposed is that it may be a factual statement about the Board's work, but it makes the problem in the text worse because it gives the impression that resolving the data issues is all that matters. That is not the case.

On openness, I welcome the staff's proposed changes to paragraph 11. This is a difficult paragraph, and like Ms. Lundsager, I appreciate the effort the staff has put into it. The current version better captures the nuance on this issue, which us among the most divisive in this debate, as Mr. Hockin noted. I ask that we leave this paragraph without further changes to reach the consensus that we are all looking for.

On protecting the position of the poorest countries, almost all the proposals submitted in writing by a number of Directors have been accepted or accepted in variants. I can go along with that. However, I have a general comment. It is important that we do not give the impression that this will definitely be done through the formula. The discussion in the various meetings and the experience of previous quota reviews suggest that this is much harder to achieve than some are suggesting. We should keep our options open and not rule out more targeted measure to achieve the same objective when it comes to the quota formula review, as we needed to do in the past.

Turning back to paragraph 4, the staff's revisions reflect the proposals circulated by a number of Directors. I agree that they significantly strengthen the objective of the review. I do not see a compelling case for further changes to paragraph 4. Mr. Lushin suggests deleting the word "consensus." I have no problem with the reference to consensus. That is how we work, and we have all seen that there are many ways to build the broadest possible consensus. At this stage, I would have thought that it would be an appropriate objective for this exercise.

On the reference to the 7.7 percentage point shift in paragraph 7, my understanding is that the redrafted version of that sentence—which Mr. Lushin and others propose deleting—is factually accurate. It is not there for a random reason, it echoes a point repeatedly made throughout the review by many chairs, including this one. It is relevant in the context of our discussions that we are reporting to Governors, so I hope that we can retain that language.

In summary, the staff has done a good job under difficult circumstances. They have taken many of the proposals submitted by Directors, and I am ready to accept the revised report. I can live with the drafting even if I see areas for improvement, and I would encourage Directors to do the same so that we can move ahead.

Mr. Mohan made the following statement:

I thank the staff for their hard work. Given how difficult it is to draft a report that reflects the differences of views that we have expressed, the staff has made an effort in trying to put together the differences in views.

I particularly appreciate the change in paragraph 1, which acknowledges the motivation behind the mandated quota review by mentioning the forward looking agreed package for 2010, which is expected to increase the quota shares of the EMDCs, including the LICs. It is important, and our chair's suggestions are in keeping with this motivation outlined in paragraph 1, namely, that the quota review increases the share of EMDCs and LICs more than the existing formula would.

That is important to keep in mind, and that is the thrust of the suggestions we have made with Mr. Lushin, Mr. Nogueira Batista, Mr. Zhang, Mr. Saho, and Mr. Mojarrad.

In that spirit, I agree with Mr. Hockin, Ms. Lundsager, and Mr. Garcia-Silva about going ahead with a compromise, and particularly with the view expressed on the issues of variability and openness, which are included in the changes we have suggested.

On paragraph 10, there are two reasons for suggesting the inclusion of the additional sentence. If the sentence stating the view that some chairs continue to see methodological and data problems with the PPP GDP was dropped, we could possibly go along with not including the additional sentence we have suggested. It is a purely factual change. This was on the first document I read when I came to the Fund, and it was an informative and well-done document based on the validity and quality of the data that goes into PPP GDP.

I have no difference with Mr. Gibbs in the sense that there can still be a different view on the use of PPP GDP. That is a perfectly reasonable view. However, the data problems, methodological problems, and conceptual issues have been resolved by the staff, so that is the spirit of this change that we are suggesting.

Going back to paragraph 1, it is the greater use of PPP GDP that would get the result that we want from the mandate that we have been given.

On paragraph 16, the Board of Governors' mandate was to protect the voice of LICs. We are suggesting that the Executive Board should go beyond that and enhance the voice of LICs though the quota formula and beyond the quota formula, as Mr. Gibbs suggested. The combined quota share for LICs is about 4 percent and the calculated quota share is about 2.7 percent. Given the number of countries involved, that is a small quota share. To some extent, that share reflects their economic weight. However, these countries have a huge stake in the functioning of the IMF in terms of the issues that arise, the assistance that is extended, and the policy advice that is given. Consequently, it would be desirable for the Fund to increase the voice and representation of LICs in the functioning of the institution. That is the spirit behind that one-word change in paragraph 16.

Finally, I echo Mr. Saho's two questions about what the mode of communication would be, and what the way forward would be.

Mr. Rojas remarked that his chair was ready to go along with the report, with minor comments. He agreed with Mr. Lushin's suggestion about dropping the word "consensus" in paragraph 4. He agreed with the proposal to delete the reference to the 7.7 percentage point shift in quota share for EMDCs in paragraph 7, and with using the language from the staff report as regards to PPP in paragraph 10. He joined Mr. Hockin and Mr. Garcia-Silva's recommendations for paragraph 11.

Mr. Weber made the following statement:

Mr. Saho might be getting ahead of himself when he raises communication issues, first we have to reach an agreement.

I hear strong complaints about the fact that there is not a new formula today. The reasons cannot be easily appropriated, and Mr. Hockin was right in saying that wedge issues have been on the table from the start, and have been unfortunately confirmed today. Some of these wedge issues continue to linger.

As Mr. Garcia-Silva noted, with this text we commit to coming up with a new formula in the context of the Fifteenth General Review of Quotas. This point is now almost excessively made in paragraphs 1 and 17.

Given the clear language in the introductory and final paragraph, I wonder whether it is helpful to have language that refers to a "final agreement" in paragraph 4. This wording may give rise to many interpretations. It adds nothing. I propose deleting the word "final" from the second line of paragraph 4.

On paragraph 4, there were several substantial comments about consensus. Consensus does not mean unanimity, and I remind the Board that not every chair or Governor approved the 2010 quota and governance package. Consensus is not a constraint in that respect.

There is an overwhelming majority of members who support the view that compression should remain part of the formula. I propose using the same language as for other variables, namely, stating that this fact is agreed. In paragraph 15, I propose deleting the word "generally" from the phrase "generally agreed." I could nevertheless live with the separate sentence at the end of the paragraph that makes the U.S. view explicit.

Although the views in the Board diverge on financial contributions, we have noted and also counted a majority support for considering this element as part of the Fifteenth General Review. This support is not reflected in the present wording, which seems to close the door on including such contributions in the formula. This wording also does not reflect the readiness of this majority to consider taking this element into account as part of the Fifteenth General Review. A fair quid pro quo could acknowledge the former, but also reflect the latter.

This is not the case in the current draft. I could support Mr. Alkholifey's suggestion to go back to the language of the summing up. However, I am conscious of the delicacy of the current wording, including in relation to other paragraphs that would have to be renegotiated.

I propose merely a linguistic clean up that would distinguish the issue of considering financial contributions in the formula from the issue of considering contributions as part of the Fifteenth General Review. That proposal is to delete the word “however,” and to put a full stop after the word “approach.”

Finally, I support Mr. Temmeyer and Mr. Gibbs’s suggestions, including those on paragraph 16. I would not be ready to see substantial changes as proposed by Directors today. The issue will remain in flux and I suggest we set our sights forward.

Mr. Momma supported deleting the phrase in paragraph 12 that indicated the weight of variability would be allocated between GDP and openness. Regarding paragraph 14 on financial contributions, he strongly supported Mr. Alkholifey’s and Mr. Weber’s comments.

Mr. Montanino made the following statement:

I thank staff for the improvements in the latest version of the report. I will focus on two of these improvements.

One improvement is paragraph 7, which better specifies the increase that occurred in the past. It is a factual clarification, but helpful. Another improvement is the specification of PPP GDP in paragraph 10. As Mr. Gibbs noted, the problem with PPP GDP is not only a matter of quality data. But quality is still an issue.

There is an interesting IMF paper on that topic that underlines several issues with the data. For example, it highlights the necessity to increase the number of countries participating in International Comparison Program (ICP) rounds, while ensuring the reliability and integrity of the middle for estimating PPP for nonparticipating countries. It highlights the possible deficiencies in PPP estimates for nonbenchmark years, and the time lags between the completion of the price survey and the validation of source data and the completion of the regional and global PPP. Statisticians are working on these issues, and we have to give them time.

I see some additional nuanced messages that are not improvements, but I understand that it is needed, considering the broad divergence of positions in the Board. I join those who are ready to approve the report as is to move forward. Afterward we can start working on additional refinements.

The Chairman asked Mr. Mojarrad if he intended to address the various proposals circulated in the papers or if he would make other additional points.

Mr. Mojarrad made the following statement:

I have proposals in addition to what was circulated. I agree with Mr. Hockin and others that we should be constructive, move forward, and reach compromise. At the same time, the report to our Governors should be fair, balanced, and factual.

On paragraph 7, Mr. Gibbs mentioned that the reference to the 7.7 percentage point shift is factual. I agree with that. However, we should add that the formula was biased against LICs.

On paragraph 10, I agree with Mr. Mohan that the reference to the quality of the PPP GDP called into question the methodology and the measurement of PPP GDP. That is not factual. However, that sentence could be balanced by expressing both views.

On variability, in addition to the suggestions made by Mr. Lushin, I would like to change the last sentence, which reads, "Some remained to be convinced that variability should be dropped." There are views that variability should not be dropped. It is negative. I suggest rephrasing this in a more positive tone by stating that "some considered that variability should be maintained as a measure of members' vulnerability and to reflect the need for Fund resources, which is one of the key functions of the quota."

Mr. Fayolle made the following statement:

I find my position to be extremely close to that of Mr. Gibbs and Mr. Montanino. I have three comments to make.

First, on paragraph 7, it is completely appropriate to keep the sentence that has been revised by the staff. The revision makes it more precise. It would be strange to deliver a report to our Governors about the outcome of the formula with no figure in the report. I suggest that we keep the sentence as revised by the staff.

On paragraph 10, beyond the points of Mr. Gibbs and Mr. Montanino on PPP, I will refrain from proposing a sentence that indicates that the Board took note of the staff's finding that the implementation of PPP confirms certain measurement challenges—taking note of staff's finding is what is suggested by Mr. Nogueira Batista and a few Directors. There is an important difference compared with the similar sentence in paragraph 12, which Mr. Nogueira Batista referred to. That sentence in paragraph 12 is in one of our summings up. We should not start to work on this kind of wording, which is not the conclusion of discussions that we had in the Board.

It is time to end the discussion. I am not completely happy with the revised proposals, but I can live with them. However, if there are more changes that lead to another round of drafting, then I will come back to my own suggestions.

Mr. Snel made the following statement:

Two days ago I argued that the introduction of any new language in our report could lead to renegotiation and thus to a destructive way of reaching today's main goal, which is to finalize our quota review and send the report to our Governors. Although the staff did a good job of balancing the discussion that we had on Monday, I was not completely wrong and we have ended up in a drafting session as expected, even without talking about the content itself.

Deep in my heart, I still believe that sending a summing up of the December 5 Board meeting with all the qualifiers would provide a significant amount of information and would be useful for our Governors. Unfortunately, there was not enough support for this pragmatic idea and I rest my case there.

Looking at the new proposals made by the staff, I can see some improvements in the language in some paragraphs, but I also see some language that is incomplete, unclear, or even unwelcome. I was not happy with the fact that for the first time we are agreeing to have a new quota formula. I know Mr. Garcia-Silva was happy with that. Our Governors only asked us to review the quota formula rather than end up with a completely new formula.

The opening sentence in paragraph 11 now states that we agree to address the concerns about the openness variable itself. This sentence is not completely factually correct. There could also be some concerns about the definition of the word "address." Most of us will come up with different definitions, so it is confusing and the language from the Board meeting was better. However, after listening to Directors, and also looking at my own suggestion, maybe it would be wiser to join all those chairs that say enough is enough, let us keep the report as it is.

Even though I am not happy with all of the report, we should finish what we promised Governors, and that is to end the review in January 2013. I have a final suggestion to those Directors who also mentioned that the qualifiers in the Board report of December 5 were helpful. We could send the last Board meeting's report as an annex to the report. I am not sure if that is legally possible, but in the end, it provides more of the flavor of the discussions.

In response to the suggestions made by several Directors, Mr. Lushin, Mr. Mohan, Mr. Zhang, and others, I am close to the reaction of Mr. Gibbs and Mr. Fayolle. The drafting suggestions are not an improvement on the report.

Mr. Groenn made the following statement:

The staff has done a good job in trying to bridge the various views that were expressed at the meeting on Monday. We also would like to change some of the wording and phrasing in the report.

I have great sympathy for Mr. Hockin's general remarks at the beginning of this meeting, particularly his comment on introducing wedge issues, which create difficulties. I am in close alignment with remarks made by Mr. Temmeyer, Mr. Fayolle, and Mr. Snel.

On paragraph 4, I agree with Mr. Gibbs that it is good to include the word "consensus." As Mr. Snel just mentioned, this is a quota review, so that would be the preferred language.

On paragraph 7, as Mr. Montanino and Mr. Gibbs mentioned, the 7.7 percentage point change is a factual statement and it is useful to give that information to the Governors. I would definitely keep that.

On paragraph 10, I agree with Mr. Montanino and Mr. Gibbs that this is not only a data issue. It is a broader issue regarding the relevance of the indicator; PPP is more of a real comparison indicator, and the IMF is a unique financial institution devoted to financial comparisons and the ability to contribute financially. Therefore, the market exchange rate is important. This extra note stating that PPP data are reliable is insufficient. It is a broader issue of the relevance of the PPP indicator.

On openness, I suggest keeping the language as it is. The mandate of the Fund is on income and openness, and openness has been a key driver of economic developments for more than half a century. It would be awkward or troublesome if the IMF sent a signal that it was decreasing or even removing the role of openness.

On financial contributions, I am in line with the views expressed by Mr. Momma, Mr. Weber, and Mr. Alkholifey. We have also proposed specific wording, but I shall refrain from making those changes. We can go along with the wording as it is.

Mr. Fayolle and other Directors have remarked that it is time to end discussion. As Mr. Snel commented, it is time to move on. We are reaching the deadline. Even though we would have preferred different language, we are prepared to go along with this report as it stands without introducing new language, as has been suggested early this afternoon.

Mr. Chia made the following statement:

I thank the staff for striking what is evidently a difficult balance, and it has been well done broadly speaking. We have only a few small comments and reactions.

I also commend Mr. Hockin and Mr. Davidoff for setting off this discussion in the right spirit. By and large, Directors have gone along those lines and it has been more pleasant than I expected.

On paragraph 4, I find myself agreeing more with Mr. Weber and others that this enterprise probably ought to garner the broadest support possible. I do not say this philosophically, even though philosophically I have been reminded by others that this is a consensus-based organization. Very often this consensus-based approach has been to the advantage of many chairs with minority views. Some of these chairs, with previously minority views, happen to be in the majority view now. It cuts both ways. We have been reminded by Mr. Hagan that this exercise—especially the quota increase as part of the Fifteenth General Review—requires 85 percent of voting power from the Governors. This is a practical reality that we will have to achieve.

On the PPP GDP debate, the views of our chair are well known. We support PPP GDP, but objectively speaking, it would be confusing to our Governors to receive a paragraph that says that there is no problem with PPP GDP, and at the same time language that says there are problems with PPP

GDP and with the methodology and the data. I wonder if the simplest way is simply to delete both lines. The views are there. There is one view that supports and another view that does not support an increase in the weight of the PPP GDP. I refer to Mr. Gibbs in saying that the methodological and data issues are perhaps not the central argument, and there are other arguments. Maybe it is a bit of a distraction and both sentences should be deleted.

On paragraph 11 about openness, we can go along with this version, although in my personal view, it has neither the benefit of brevity, nor accuracy. However, we can go along in the interest of compromise.

In paragraph 12, we would agree with other Directors who have suggested deleting the language on reallocation. The possibilities of an increase in weight of GDP and openness are already mentioned in their respective paragraphs. It is a bit of a repetition to state it in this paragraph.

On paragraph 13 about retaining reserves, the last sentence in that paragraph goes beyond the December summing up. If we choose not to delete this sentence, then we should state it more accurately, by saying that some are in favor of increasing its weight, or eliminating it. This is the formulation that the staff has used in other parts of this draft. In the front, we say that there is “considerable support,” and later on, if there are caveats, the word “some” is used. This follows the exact same formulation. It should give greater clarity to where the weight of opinion lies in paragraph 13.

In general, this is a good draft.

Mr. Kollar’s chair supported the text as drafted by the staff.

Mr. Assimaidou supported the proposal made by Mr. Lushin, Mr. Nogueira Batista, and other Directors to replace the word “protect” with “enhance” in paragraph 16. He echoed Mr. Saho’s request for the staff to elaborate on the communication strategy. He noted that consensus building was a challenging task among diverse chairs and groups of countries. His chair accepted the proposed draft in the spirit of compromise underscored by the Managing Director. He remarked that with the efforts of the Managing Director, it was possible to reach the needed compromise.

Mr. Nogueira Batista made the following statement:

I welcome the recognition by Mr. Weber that we are committing to reaching a new quota formula as part of the next general review. However, it must be stressed that this is mere compensation for the fact that we have not reached a new quota formula by January 2013.

I agree with Mr. Saho and other Directors that if we are to finalize this discussion today, we would need to have a careful discussion of the communication of this decision.

I would like to make an observation on the issue of balance. It is a telling feature of our discussion that a number of European Directors are happy with the report as it is. Whereas a number of emerging market chairs, as well as Ms. Lundsager, are suggesting some focused changes to agree to the revised report. It is a sign that there is some imbalance.

In response to comments by a few Directors, I will clarify the nature of the six changes suggested by the group of six chairs.

First, we are not tipping any balance, there is no new language, we are only trying to be factual and precise. Second, we are trying to track closely the Paris language whenever relevant and to avoid introducing new language at the last minute. For example, the expression “achieving consensus” in paragraph 4 arose in this version. It is new. It is not good practice to introduce new language at this late stage. We have explained why we believe that this is problematic.

The phrase “best done” in paragraph 4 does not reflect our views. We do not believe that this is the best approach. This is a second-best approach, the fall-back approach that we are unhappily going along with, depending on the changes to the report. It is unfair to characterize the view of the Board as a whole as agreeing that a broad consensus on a new formula would be best achieved in the context of the Fifteenth General Review. That is not a factual description of where the opinion of the Board lies.

Our suggestions try to establish some balance. It is not a matter of altering the overall orientation of the report, but rather to ensure that we have a balanced presentation.

We are trying to ensure that our views are represented correctly. I see no reason why other chairs should have an opinion on how our views are to be represented. When we suggest adding to paragraph 11 the phrase, “another view was to remove openness from the formula,” as Ms. Lundsager stated, it is because a number of chairs favor dropping openness.

In the previous round, in last Monday's meeting, we suggested rewriting the first sentence of the paragraph phrase so as to indicate that openness could only play a role in the formula if concerns regarding this variable are thoroughly examined and addressed. That was our initial proposal. The staff did not take it on board. It was argued that the sentence as drafted came from the Paris document, without the word "if." So, we reconsidered this. We propose to clarify our view more precisely in the same paragraph in a different manner.

Chairs cannot object to changes we propose to the report that track closely the Paris language, and then insist on keeping the first sentence of paragraph 11 unchanged because it is Paris language. There cannot be a double standard. If we introduce language that is different from the Paris language in other parts of the report, I would like to also alter the first sentence of paragraph 11.

But it might be better to track the Paris document when possible. The changes that our chairs proposed to paragraph 4 closely track Paris language. Our changes to paragraph 7 that we just sent to the Secretary try to reestablish the balance. The alternative proposal, which we would also accept, is to either drop the sentence on the shift in quota share, or if we keep that sentence, then characterize more precisely the views of those Directors who view the formula as flawed. That is the suggestion that Mr. Mojarrad referred to in his intervention, which we gave to the Secretary so that it could be circulated to Directors.

On PPP GDP, of all the Directors who spoke on the matter today, no one gave any reasons to state that there are methodological and data problems with PPP GDP. Mr. Gibbs spoke of principles, but he did not address the sentence that is being introduced supposedly to contemplate his views. I will quote from the staff report: "Work on the methodology for estimating PPP has been going on for over four decades, and has vastly improved the PPP GDP data. These data are now of high quality, and many major international organizations, governments, and private sector organizations use them as benchmarks for a variety of purposes."

We should not misrepresent in our report to the Board of Governors what staff wrote about PPP GDP.

We could go along with Mr. Chia's suggestion on PPP GDP. If we drop the reference to "some who support this view also continue to see methodological and data problems," we would not insist on introducing the sentence stating that "the Executive Board took note of staff's finding on PPP." We only proposed this sentence to rebalance the paragraph, as a new sentence appeared in this version today.

Of the six changes we have proposed, only one goes beyond a factual balanced representation of our own views, which is the suggestion that Mr. Assimaidou supported, namely to use the word "enhance." I ask Directors whether we should not be stronger in our support for LICs. I recognize that although "enhance" was used in Korea we have often used "protect." Should we not go further, and say that we intend to enhance the voice and representation of LICs? I believe we should.

Mr. Lushin made the following statement:

On paragraph 10, I agree completely with Mr. Chia and Mr. Nogueira Batista that the best way to proceed is to return to paragraph 10 as it was in the previous draft, without the addition of the two new sentences on the PPP GDP issue.

On the issue of mentioning consensus in paragraph 4, I would be happy to believe that consensus means an 85 percent majority, and if so, I would have no problem with this language. However, I have always believed that consensus means 100 percent. I am concerned about the holdout issue, because if there is an agreement by 23 chairs, the one chair that is in opposition could block everything. The intention behind removing the word "consensus" from paragraph 4 was to avoid this situation.

For this to be clear, I would ask Mr. Leckow for a legal opinion on what it means if we leave the word "consensus" as it is suggested here. Would it mean that there could be a holdout issue in the quota formula reform? I remind Directors that the 2008 decision on a new quota formula was not adopted by consensus. It was adopted by a significant majority of the Board with three or four chairs abstaining, including our chair. We could ask for as broad support as possible, but I am afraid the word consensus could create a risk for this entire exercise.

Finally, on paragraph 7, I see clear reluctance to remove the second sentence with the reference to the 7.7 percentage point shift. It is understandable, because it makes one side look better than the other. In the gray statement for our previous meeting, I made an observation that there was another shift of 11.1 percentage points in favor of EMDCs. This is a shift in their GDP share between 2005 and 2010. If we decide to have some numerical examples in this paragraph, it would only be fair that both sides could be represented by some quantitative illustrations. Why could we not have the 7.7 percentage point figure in terms of the shift in calculated quota share, and the 11.1 percentage points figure in terms of GDP to satisfy those who are arguing that the formula needs further work and revision?

The Chairman asked Mr. Lushin to clarify his comments about the use of the word "consensus."

Mr. Lushin reiterated that he was concerned about the legal consequences of using the word "consensus" in the report to the Board of Governors. He asked if it would it imply that 100 percent support would be required for the new formula to be adopted by the Executive Board.

Mr. Geadah expressed confusion about the role the Paris language played in drafting the report. His impression was that the IMFC Deputies met to give guidance to the Board on the quota formula. However, the Board had not taken account of that guidance in its deliberations. For example, the Paris language stated that variability should be dropped, but that one-third of the deputies were against dropping variability. Furthermore, the chairman at the meeting clearly indicated that a new formula did not necessarily have to drop variability and that the language did not bind Directors in their further deliberations on the issue. He also supported the language proposed by Mr. Mojarrad for the last sentence of paragraph 12, which was more in line with the December summing up.

Mr. Temmeyer made the following statement:

Mr. Nogueira Batista mentioned the issue of late stage amendments and this should also apply to paragraph 16, the discussion of protecting or enhancing the voice and representation of poorest members. The last IMFC communiqué clearly stated that it should be "protected" and not "enhanced." The same applies also to the G20 language in Los Cabos; the leaders decided to protect the voice of the poorest members, not to enhance it.

On the issue of PPP GDP, I repeat our chair's concerns, and remind the Board of the study of Angus Deaton, who came to the conclusion that some international comparisons are close to impossible because practical difficulties make comparisons easily hazardous. It is not a singular view, there is broad evidence that we should be careful in using PPP data.

A recent study in the *American Economic Review* came to the conclusion that PPP data are systemically biased and tend to substantially overestimate poor countries' incomes.

In addition, PPP estimates have been subject to large downward revisions due to changes in the design and the methodology of the ICP. For example, using the 2005 benchmark estimates, China and India's PPP-based GDP levels were 30 percent and 40 percent smaller in 2005 than the GDP numbers for the same year, based on extrapolation.

I mention these three sources to demonstrate that there is significant concern about using PPP data. We should use balanced language in the report.

Mr. Weber made the following statement:

I regret the somewhat confrontational framing of the issue that was just emphasized. However, I have to take issue with the interpretation that the report is favored by some members and less favored by other members, because it goes to the heart of what has hobbled this process. Although some members see the readiness to accept certain proposals, I see that as a sign that some members are happy about those proposals. Those members see that differently. We would see readiness to go along with proposed text as quite a concession, or an effort to move forward.

We have encountered the same type of framing and approach in this process. I strongly take issue with the argument that we should be happy with this text. I am sitting on the fence on whether to abstain.

We have new language. We also have new elements—especially the one element that I emphasized, which is the acknowledgment to agree on the new formula in the context of the Fifteenth General Review. If we want differentiated views, we can go back to the summing up of the Board. That is the maximum differentiation that we were able to achieve.

If we try to come up with a more compact report to the Board of Governors, there is no way around moving away from this differentiated group of views. I accept that but I am not necessarily happy about it.

Lastly, we should agree on the report, but we do not have to agree on each of the individual elements in the report.

The Chairman proposed that after Mr. Leckow addressed the legal questions raised by Directors, the Board would break as the staff revised the draft. Afterward, Directors would have the opportunity to comment on the revised draft.

Mr. Weber asked for a legal opinion on the use of the word "consensus."

The Deputy General Counsel (Mr. Leckow), in response to questions and comments by Executive Directors, made the following statement:

> I will respond to the question raised by Mr. Lushin as to whether including a reference to "consensus" in the report would imply that a new quota increase would require unanimous support among the membership. The answer is no. It is important to remember what the meaning of consensus is for the purposes of the Fund.
>
> There is no definition of consensus in any Board decision, or in the Articles, but for the purposes of Executive Board proceedings, an understanding of consensus has developed that is laid out in the compendium of Executive Board practices. The compendium defines consensus as being generally understood to exist when all Directors can go along with the majority view in the sense they would not wish to vote against it. It has been generally understood that consensus can mean something less than unanimity.
>
> In any event, the reference to "consensus" in the report does not refer to a decision of the Executive Board, but rather to a broader consensus, the concept of consensus amongst the membership. It is important to remember that an increase in quotas requires a decision of the Board of Governors with an 85 percent majority of the total voting power.

The Chairman reiterated that the threshold for the purpose of the quota increase was 85 percent, but that the modus operandi within the Board was to work by way of consensus as defined in the compendium. However, the two did not necessarily overlap.

The Deputy General Counsel (Mr. Leckow) responded that the Chairman was correct.

The Chairman asked Mr. Leckow to respond to Mr. Saho's question about whether by adopting the proposed report to the Board of Governors, the Executive Board would meet the requirements of the Board of Governors' resolution from the 2010 reform that required the Board to engage in a comprehensive review of the quota formula by January 2013.

The Deputy General Counsel (Mr. Leckow) confirmed that the Board would meet that requirement by adopting the proposed report which is the result of comprehensive discussions and identifies areas of common ground and outstanding issues.

Mr. Lushin returned to the use of the word "consensus" and asked whether a new formula could be adopted even if one or two chairs voted against it. He asked what kind of formal majority would be required for the quota formula. He asked if a special majority of 50 percent could be used or if it was firmly linked to the 85 percent majority required for the Fifteenth General Review of Quotas.

The Chairman asked whether it was the Executive Board or the Board of Governors that was ultimately responsible for changing the quota formula.

The Deputy General Counsel (Mr. Leckow) responded that the Executive Board could propose a change in quotas that would be based upon a new formula that the Board itself would adopt. However, ultimately the Board of Governors would have to approve the change in quotas that would be based upon the new formula.

The Chairman asked Mr. Lushin if his question had been answered.

Mr. Lushin responded that the answer remained unclear.

Mr. Nogueira Batista made the following statement:

> My understanding is that a new quota formula can be decided by the Executive Board with a simple majority of weighted voting. It is the quota review that requires a super majority of 85 percent. I ask the staff to clarify.
>
> On the issue of consensus, the problem is this report will be read by those that do not know the details of how the Fund defines consensus. The use of the word "consensus"—besides being brought up at the final stage—creates ambiguity. Webster's Dictionary defines consensus as general agreement, unanimity and proposes the following synonyms: accord, concurrence, agreements, unanimity, and unison. This introduces a needless ambiguity at the very last stage of our discussion.
>
> If other Directors are so attached to using the word "consensus," then I must say that I am concerned that the Managing Director is not following the practice of seeking consensus when she indicates that she prefers to only slightly change the revised report. If the Managing Director wants to build the widest possible consensus, perhaps even unanimity, she should consider the fact that the adjustments our chairs are proposing are mostly factual, and track Paris language. These adjustments represent our own views, and we should be entitled to represent our own views, and to restore balance in one or two places in the report.

The Chairman remarked that she could characterize Mr. Nogueira Batista's amendments as slight, so that they would be included in her goal of doing only a slight revision of the report.

Mr. Chodos noted that his chair agreed with the proposals related to paragraphs 10, 12 and 16.

The Deputy General Counsel (Mr. Leckow) clarified that the decision of the Board of Governors to change quotas required an 85 percent majority of the total voting power. To the extent that the Executive Board wished to propose a change in quotas in a draft resolution, the decision to propose the change would be adopted by a majority of votes cast. However, in practice, that decision was generally adopted by consensus and without a formal vote.
Mr. Weber asked if it was accurate to describe consensus as the broadest possible acceptance.

Mr. Weber asked if it was accurate to describe consensus as the broadest possible acceptance.

Mr. Mojarrad asked the staff if there was a problem with PPP GDP data, as Mr. Temmeyer had argued. Mr. Mojarrad remarked that he had been using these data since they were initiated at the University of Pennsylvania in 1974.

Mr. Mohan remarked that because the IMF used PPP GDP data in almost all its documents, particularly the World Economic Outlook (WEO), then Directors should be informed if there was a genuine problem with the data, as Mr. Temmeyer had suggested.

Mr. Montanino noted that the author of the paper he cited still worked at the Fund. The author could possibly explain the concerns about PPP data.

The Chairman remarked that Mr. Montanino had a good idea, and recommended taking a break to allow the staff to refine the report.

The meeting adjourned at 4:39 p.m. and resumed at 7:45 p.m.

The Chairman made the following statement:

> I regret making you wait for so long, and I am grateful to those who are available on the phone to explore a few changes and understand the rationale behind it. It is a tedious, cumbersome and tiresome process, but it is indispensable to get a little closer, without closing the gap, because everybody is not on the same page. Not all chairs have the same view and there are some who want more and some who are not prepared to move as much as others would like to.

There is also a temptation on the part of those who have belonged to other forms of negotiations to leverage on that experience and try to move a bit further.

What Mr. Tweedie has tried to do by consulting with a number of chairs separately is to get closer to an equilibrium which some Directors will be tempted to say is not satisfactory. It does not reflect one's views, but we are trying in good faith to get closer. I will highlight the changes quickly, and then it will be up to the Board. My sense is that we are not that far apart from a consensus as defined under the rules of operation of the Board. I hope that we can conclude tonight. I call on Directors' spirit of compromise and reasonableness rather than their rational drafting exuberance.

The first change is the addition of the word "broad" to the word "consensus," which reflects that it was not proposed to be a unanimous principle of agreement. The second change addresses the point in paragraph 7, which underlines that the flaw in the formula does not reflect the increased importance of EMDCs.

Paragraph 10 deals with PPP GDP and its accuracy, so we are trying to balance that paragraph better. The last change affects paragraph 14, which responds to the views expressed by those who were keen on seeing financial contributions better identified.

I will open the floor for Directors to debate those points. I am not so happy to just close the meeting. We are so close that it would be a pity to just conclude. I would call on Directors to try to be sensible. It will not satisfy the group under Mr. Lushin's patronage, and it will not satisfy some of the Europeans who were against some of the changes being proposed. As I said, it is an attempt to reach compromise.

I am tempted to give the floor to Mr. Hockin, because he started this meeting on a positive note, and I hope we can have positivity for a change.

Mr. Hockin remarked that the report would be a success if everybody was equally unhappy. There was no suggestion in the new draft that could be viewed as a huge boulder in the road. He called for the Board to adopt the report as it was drafted.

Mr. Lushin made the following statement:

Following the consultations, I can see only one surprise in this revised draft. In paragraph 12, the reallocation of weight between GDP and openness has been kept in the text, even though a number of Directors—not only the six Directors that issued a joint gray—supported the removal of this wording, which is significant for us.

We were urged not to represent our views on openness, and the long-held position that openness cannot be used without correction, but we agreed to take away our points on removing openness from the quota formula in paragraph 11. It is surprising that the concession we made was not reciprocated by the other side.

I will not speak for the rest of the chairs who joined our joint gray statement, because they may have a different view. However, I was prepared to drop the mention of removing openness in paragraph 11, but what is written in paragraph 12 is a surprise, because there was a broad understanding about the removal of this clause.

Mr. Nogueira Batista made the following statement:

There are problems in this revised proposal. In paragraph 4, there is a factual mistake. It is not correct to say that it was agreed that the new quota formula would be best done in the context of the Fifteenth General Review of Quotas, rather than on a standalone basis. A large part of the Board has clearly expressed a view that this is not the best thing that could happen. This is a situation that arose because we did not complete the quota formula review. I do not know why there is this insistence to misrepresent, by attributing to the whole Board an opinion that is not shared by the whole Board. I ask that the word "best" be dropped to clearly indicate this is a second-best solution. We do not need to say "second best," but we should not say "best" because that is not factually correct.

In paragraph 7, there is an improvement. However, I wonder why there is reluctance on the part of management to allow us to represent our own views. Our chairs suggested specific drafting of the last sentence to compensate for the fact that the paragraph is unbalanced in that it has a sentence with a number supporting one view and nothing comparable supporting the other view. Several Directors have repeatedly stated, explained, and showed that the results of the quota formula are anomalous. We would like that word to be included. We also asked to use the word "weights" instead of “positions.” Those chairs that are critical of the formula prefer the word “weights,” and we wanted to see a recognition, not necessarily with this wording, “systematic bias against the poor,” but a recognition that one of the problems of the formula is that it does not adequately represent the LICs or the poor. This is missing from the revised version.

In the same vein, I do not understand why we are not allowed to express our views about openness. We suggested that another view was to remove openness from the formula. This is our view. There need not be a consensus in the Board about the way our views are expressed. We should be responsible for the way our views are expressed. However, I was discussing this with Mr. Mohan and Mr. Zhang, and Mr. Zhang came up with an alternative way of representing our view, which I believe would be agreeable.

In a further sign of flexibility, we suggest using the following language: “Another view is that openness can play a role in the formula only if its weaknesses are addressed, given that the current measure is seriously flawed.” The rest of the sentence would remain as is. Why am I insisting on this? We refrain from insisting on a change in the first sentence because it was Paris language, but we would not like the first sentence to be interpreted as indicating that there is agreement on keeping openness. Openness should be kept only if the deficiencies are addressed. That is our view. I would respectfully ask that our view be portrayed as we wish it to be portrayed.

This is all the more necessary because—contrary to what I expected, and on this I agree fully with Mr. Lushin—we did not drop the reference to a possible increase in the weight of openness, which is outrageous. This reference is that the weight for variability will be allocated between GDP and openness. Not only did the six chairs that signed on to the joint gray support dropping this reference to a possible increase in the weight of openness, but also Japan. I believe that Mr. Chodos, Mr. Chia, Mr. Hockin, Mr. Garcia-Silva also supported dropping this reference.

I do not understand, and I am disappointed to see that we did not take a political view and use the word “enhance.” The LICs have such a high stake in this institution. Why are we so insistent on using only the word “protect?” I recognize that this departs from the language of the last Los Cabos meeting. Mr. Temmeyer correctly quoted the Los Cabos communiqué of the G20, which used the word “protect.” However, we used “enhance” in Korea, and we could use “enhance” in this report and reinforce the message we are giving on LICs.

Mr. Geadah noted that he had suggested changes to paragraphs 9 and 12 so the document would more faithfully reflect the summing up of the last meeting on the topic. For the last sentence of paragraph 12, he strongly suggested using the sentence from the summing up, which read: "A number of other Directors see a continued role for variability."

Mr. Alkholifey supported Mr. Geadah's points about paragraphs 9 and 12. He also expressed concerns about the wording of paragraph 14 about financial contributions. The sentence in question read: "It was agreed to consider whether and how to take into account significant voluntary financial contributions." The changes made to this paragraph were minor, and the entire paragraph was weak in terms of recognizing members' financial contributions.

Mr. Saho made the following statement:

> The views expressed by Mr. Geadah have some merit, particularly in relation to paragraph 12 about the need for a continued role for variability. The formulation Mr. Geadah has suggested has merit. In the past, we have mentioned that the only result of this quota formula review was to drop one of the only aspects of the formula which was supposed to take into consideration members' vulnerabilities and the need for Fund resources. Considering members' vulnerabilities is one of the key functions of the quota formula, given that we have multiple roles for the quota formula. This is the only aspect that we seem to want to agree on, and there are several Directors that somehow do not agree to this.
>
> It is clearer, and more positive than the way it is expressed in this draft, which is that "Some Directors remain to be convinced that variability should be dropped." That is not direct, and perhaps it is more direct to indicate that "some continue to see a role for variability."
>
> Alternatively, Mr. Mojarrad had proposed some language which was appropriate.
>
> In paragraph 12, we assumed that there was broad support for dropping the last part of the sentence, which includes how its weight is allocated between GDP and openness, when we left the Board room earlier today. We support this view, and are also surprised to find the sentence in the current draft. It appeared as if chairs had more or less agreed to it, perhaps they were not equally vocal. Removing this sentence will not take much from the document, given that paragraph 11 clearly indicates that we are envisaging an increased role for some other variables in the event that variability is dropped.

We can remove this sentence without too much controversy and without any side feeling that they have been aggrieved. To some extent, it will give us more flexibility as we move forward because to specify the allocation at this stage will only tie our hands.

Mr. Mohan made the following statement:

In the spirit of compromise, although we are not happy with paragraph 11 on openness, we recommend in the second to last sentence using the following language: "Some conditioned their support for dropping variability and other elements of an integrated reform package, including how weight is reallocated." We recommend putting a full stop there and deleting the phrase "between GDP and openness." Mr. Lushin, Mr. Saho, and other chairs have made this suggestion. Our chair would have difficulty agreeing with paragraph 11 if this language is not added.

I would like to express disappointment with paragraph 16, which includes the phrase "enhancing the voice and representation of the poorest members." About 50 members hold a combined quota share of about 4 percent, and about 2.7 percent of calculated quota share. If there is some enhancement, it is not a large change in the overall situation. It would be good to send a message to the world that the Executive Board is much more conscious about enhancing the voice of the poorest countries.

Mr. Temmeyer made the following statement:

I am disappointed. What is the improvement? Paragraph 7 is in favor of emerging market economies. In paragraph 10, the sentence is still valid, it is diluted, diminished, and on top of that, there is another sentence also supporting and strengthening emerging market economies. What does our side get out of this process? I am not convinced this is a form of compromise the IMF should seek.

What will happen with somebody who is ready for compromise? That person will be strongly criticized and will have to accept further demands. This is exactly the salami tactic I mentioned in past meetings, and I am not happy about this. That will also have consequences for our chair's position. On the issue of paragraphs 10 and 11, we have accepted the proposal to include a phrase on openness that expresses the view of those who have problems with this variable. We have accepted the proposed language about gross flows with intracurrency union trade, which was not mentioned in the

December summing up, but is mentioned in this report. We accepted it. However, the other side should be balanced, and evenhanded, and should accept our view on paragraph 10. The current draft of paragraph 10 is not an improvement.

I am not sure whether it is possible for our side to agree to this report.

On the point mentioned by Mr. Mohan about whether to use the word "protect" or "enhance," there is clear language by the IMFC and the G20 heads of state in Los Cabos and also by the ministers in November that uses the word "protect." We should not open this issue.

Mr. Weber remarked that he detected a slight tilt in the wording that was proposed. If mentioning GDP and openness in paragraph 12 was unacceptable to some Directors, he suggested saying that the weight would be reallocated between the remaining variables. He noted that his chair could go along with the report and that he hoped the Board could conclude the discussion.

Mr. Gibbs made the following statement:

I will miss many things when I leave this Board, but I will not miss these discussions. In the spirit of trying to be helpful, it is difficult because I said this afternoon that I could live with the previous text. Most Directors said they could live with the previous text. I am keen to hear from other Directors, because the test for this set of amendments is whether they enable them to gain broader support than they already have. Listening to other Directors, it is not entirely clear that is the case.

Most of these changes go against some of the points I was making. I need to assess whether they have done enough to broaden the consensus enough so that those concessions are worth making. The jury is still out. We need to reach a judgment on whether there will be broader support if these are taken on board. I do not rule out going along with them if that is the case.

I am encouraged to hear Mr. Mohan's comments, and if it helps him to remove those words from paragraph 12, with the other paragraphs remaining as they are, and if that helps build the broadest possible consensus, I would not have difficulty with that. However, the jury is still out on whether this set of changes gets broader support.

The Chairman asked Mr. Gibbs if he would be willing to go along with Mr. Weber's proposal to refer to variables more generally.

Mr. Gibbs responded that he could go along with Mr. Weber's proposal, but that a number of Directors had already supported deleting the phrase, which was probably the neatest way to handle the issue.

Mr. Fayolle agreed with Mr. Gibbs that the revised version of the paragraph went against what many chairs were prepared to agree upon in the earlier text. These chairs were prepared to do so to help achieve the broadest majority possible. The only reason he would support the current text was to move the process forward and if there was broad support.

Ms. Lundsager agreed with Mr. Hockin, Mr. Gibbs, and Mr. Fayolle that if the changes would help secure Mr. Mohan's support, she could go along with them. Although many Directors continued to have reservations about the language, these concerns could be addressed when the Board returned to the matter. The current draft was a bit more balanced and could set the stage for the next part of the process.

Mr. Montanino noted that although he did not like the current text, he was ready to approve it because it was important to send the report to the Board of Governors. There were clearly many issues that would require additional work, and that should be the focus of the Board's efforts. It did not make sense to negotiate the language, because that would require a deep evaluation of the quota formula. Like Mr. Fayolle, he could live with the text because he wanted to end the exercise, not because he liked the text.

Mr. Snel made the following statement:

> We do not need to discuss the process any further. All the chairs that have already come to compromise this afternoon did not do so because they liked it, but rather because they believed a compromise was needed. We are renegotiating that compromise again. I have problems with that, and so I am still in doubt.
>
> To give one example, when we left the meeting this afternoon, the Managing Directors said that there were some small changes and mentioned variability. Mr. Geadah, Mr. Alkholifey, Mr. Saho, Mr. Mojarrad, Mr. Assimaidou, and I had the feeling that the way the variability was described was unnecessarily negative. It was an easy change but it is not in the current draft. There are some changes, but they are tilted, as Mr. Weber noted.
>
> This is what I do not like about the process. Even if we already said we could compromise, we have the last round. The last round should also be balanced. The way the process has unfolded in the last few hours does not have the balance that I hoped for. I agree with Mr. Gibbs. I am still not sure

> that this version will get much more traction than the version from this afternoon. This afternoon, there were 15 to 17 Directors that could go along with the report as it stood, and I am not sure this version is much better. If there is then another version, then it gets out of hand. This must be the end.

Mr. Groenn noted that his chair had been prepared to support the previous version of the text in the spirit of compromise. However, the changes made to paragraphs 7 and 10 tilted the balance. From the perspective of those with a negative view of PPP, paragraph 10 had been toned down. He agreed with Mr. Gibbs and Mr. Snel that it was unclear whether the new draft would command more support than the previous one.

Mr. Rojas remarked that he could support the current version of the report.

Mr. Kollar noted that he could support the proposed changes to paragraph 12 and associated himself with Mr. Gibbs.

Mr. Davidoff remarked that he could go along with the draft report. He noted that Mr. Gibbs had raised a valid point about the emerging consensus prior to the break. Whether one used the previous draft or the current draft, the suggestions put forward by Mr. Weber and Mr. Mohan should be factored into the final outcome. He agreed with Ms. Lundsager that the real test of the draft would be how the Board proceeded next. The current discussion was just a battle in a longer war.

Mr. Mojarrad supported Mr. Mohan's suggestion to delete the phrase "between GDP and openness" from paragraph 12. He suggested changing the tone of the final sentence to positive from negative. He also supported the suggestion of Mr. Geadah and Mr. Saho that there should be a role for variability. On paragraph 16, following the views expressed by Mr. Mohan, he suggested keeping both the words "protect" and "enhance." He recommended redrafting the language so that it read, "It was agreed that measures should be taken to protect, with some calling for measures to enhance the voice and representation of the poorest members."

Mr. Chia was prepared to support the draft, though he was not fully happy with it. He dropped his request for changes to the text because there was a lack of support for his proposals. He encouraged Directors who had made similar requests without receiving such broad support to also be pragmatic. In the interest of trying to attain broad consensus, he recommended that Directors consider Mr. Gibbs's proposal on paragraph 12, which he had supported during the afternoon session.

Mr. Zhang made the following statement:

> I thank the staff and the Managing Director for the effort to come up with more balanced language. I understand the difficulties and the complexities involved in this issue. Since I came to the Board about one year ago, I do not remember ever attending a formal Board meeting that went this late. I believe we have to deliver something tonight to match the hard work.
>
> Having said that, we all made our views clear and all those views are reflected in the Board meeting and also reflected in our grays and joint grays. There is no doubt about that.
>
> On the one hand, I saw more dissatisfaction, but on the other hand, I saw broader support. That it is the way it is. Like many other Directors, I believe it is time to wrap up this issue and move forward, and time can ease our pain down the road. We will have opportunities to discuss. I would be ready to go along with the majority.

Mr. Hockin noted that the proper balance had been reached in paragraph 7. No new ideas were introduced in paragraph 16. He took comfort in Mr. Mohan’s comments about paragraph 12. He agreed with Mr. Zhang and Mr. Montanino that Directors should not lose sight of the goal of the meeting, namely, to send a report to Governors on the agreements and disagreements. The dialogue on the issue would continue.

Mr. Temmeyer noted that three concessions had been made in favor of the other camp, but asked what his side had received in return. Paragraph 10 noted that the PPP data were widely used, which was a change in favor of emerging market economies. The same applied to paragraph 7, and also to dropping the reference to methodological and data problems. He asked why these problems were not mentioned in order to balance the views.

Mr. Weber remarked that introducing a phrase akin to “problems in principle with using PPP GDP” might allow for a consensus.

The Chairman made the following statement:

> I have one piece of good news and one piece of bad news. The good news is that we will adjourn the meeting to give those who want to think it over a chance to ruminate. We have to accept that there are a few chairs that feel uncomfortable and would like to consult with their capitals, which are not necessarily in the same time zone as others.

> We will adjourn and that is the good news. We will reconvene tomorrow, after some chairs have consulted with their authorities. I am not proposing that we make changes to this particular document. We might at the margin look at the proposal made by Mr. Gibbs to meet the concern expressed by Mr. Mohan, if that can be acceptable to the group at large. However, I strongly encourage those chairs who are still sitting on the fence to think about the comments made by Mr. Montanino, Mr. Hockin, and other Directors. We should be sensible about what we are doing, as Ms. Lundsager said. It is the beginning of a process, the continuation and the completion of the process will be harder. If we all sit on what has been negotiated in order to leverage, to take advantage, and to do a selective distribution of what has been agreed to, it is not a multilateral approach. It is segmented, and pits one camp against the other. It is not a good idea to proceed along that basis. I strongly encourage Directors to think about it and come back tomorrow.

Mr. Snel noted that if the only changes were those that were already on the table, he would prefer to attempt to conclude the meeting without adjourning.

The Chairman asked Mr. Snel if he meant that he could go along with the document if the only change being discussed was the one proposed by Mr. Gibbs.

Mr. Snel responded in the affirmative.

Mr. Nogueira Batista welcomed the suggestion to adjourn and remarked that he did not want to be rushed into a decision. He noted that when a decision was taken in the Board, Directors also discussed the public information notice (PIN). He noted that the way the decision would be communicated would be important for the stance his chair would take.

The Chairman noted that there was not a PIN as there was not an agreement on the report. She proposed providing Directors with talking points.

Mr. Nogueira Batista noted that the exact manner in which the communication was done was important for the stance his chair would take. He remarked that it was important that the public communication closely tracked the decision.

Mr. Fayolle remarked that he fully understood Mr. Temmeyer's frustration. The process had been difficult for many Directors. The only reason to carry on with the discussion was if the current text, with Mr. Mohan's suggestion for paragraph 12, was able to obtain the broad support of the Board. He suggested continuing the discussion with the aim of reaching a conclusion that night.

Mr. Mohan assured Mr. Temmeyer that they were both equally unhappy, but that he was acting in the spirit of compromise.

Mr. Groenn expressed his preference to reach a conclusion that night. He had sympathy for Mr. Weber's proposal to add the phrase "in principle" to paragraph 10. However, if it would help in concluding the session that night, he would agree with the change in paragraph 12 to delete the phrase "between GDP and openness," if that would command a broad majority.

Mr. Lushin indicated that he could support the text with the change in paragraph 12.

Mr. Saho remarked that the Board was far closer to a compromise than one might assume. He recommended moving the process forward in an attempt to reach an agreement that night.

Mr. Temmeyer remarked that Mr. Weber and Mr. Groenn's proposal to add the phrase "in principle" to the sentence on PPP GDP would go some way to addressing his chair's concerns. Then it could be possible to conclude the discussion that night rather than reconvene the next morning.

The Chairman noted that there was a large majority of Directors who preferred to complete the work that night. There was a large group that supported the proposal made by Mr. Gibbs to delete the words "between GDP and openness" from the penultimate line of paragraph 12. There was a strong request from Mr. Temmeyer to use language such as, "Some who supported this view, nevertheless continue to see problems of principle with using PPP."

Mr. Mohan remarked that his compromise would fail if that language was accepted.

The Chairman asked whether Mr. Mohan's reservations concerned the word "principle," and whether "problems of substance" would be acceptable.

Mr. Mohan noted that the word "principle" was extremely substantive and raised a whole new debate. Simply using the word "problems" would be acceptable because the substance had not been defined, and doing so would require a full debate.

The Chairman asked Mr. Mohan to help Mr. Temmeyer find the appropriate wording, as the word "problem" alone would not carry enough weight.

Mr. Mohan noted that if a word was added to "problem" another word would be required to add balance. He remarked that it was with great difficulty that his chair was even willing to accept the word "problem" but that it was doing so in the spirit of compromise.

The Chairman suggested the phrase “substantive problem.”

Mr. Mohan responded that using that phrase would require a substantive debate. Furthermore, work had been done that showed that there were not any substantive problems with PPP GDP. Using the phrase “substantive problem” opened to door to a raft of issues.

The Chairman suggested the phrase “significant problem.”

Mr. Weber noted that Mr. Mohan should not be overly worried about the implications of using the word “substantive” in this context, as it clearly referred to the defined group that held such a view.

The Chairman asked Mr. Temmeyer if he could accept the word “problems,” as it was a loaded and powerful word.

Mr. Temmeyer noted that his chair had accepted the word “problems” in the discussion of openness, including lines on gross flows and the intracurrency union trade, even though that was not the position of his chair. Consequently, he was disappointed that the other side of the debate was not willing to accept his chair’s position. The use of “substantive” would be acceptable, as would the use of the phrase “in principle.”

Mr. Montanino recommended using the exit language from the September summing up and the PIN that was issued in October. The phrase, “some others continue to see methodological and data problems,” already existed and did not require the Board to come up with new language.

The Chairman noted that Mr. Mohan would likely not be able to accept that solution.

Mr. Mohan suggested the phrase “various problems.”

The Chairman asked Mr. Temmeyer if the phrase “various problems” was acceptable, as it suggested an array of choices.

Mr. Temmeyer accepted the use of the phrase “various problems.”

Mr. Geadah asked why the Board had not opted to use the language from the third bullet point in the December summing up for the last sentence of paragraph 12 of the current report. There was a difference of nuance between the two sentences.

The Director of the Finance Department (Mr. Tweedie) noted that the language in the current draft had been suggested by Mr. Gibbs and was aimed at capturing the different views in the Board. Although there was strong support for dropping variability, the language from the Paris IMFC Deputies meeting suggested that dropping variability was conditional upon how the weight of the variable would be allocated. The current language attempted to incorporate the minority views without diluting the meaning of the whole paragraph. The proposed phrase, "remain to be convinced," captured the viewpoint of chairs who still believed that variability should be included in the quota formula, and the views of some chairs who were holding out for more work to be done on the issue before making their decision.

Mr. Geadah noted that the last discussion the Board had on this issue took place in December, which was captured in the summing up. The Paris discussion was inconclusive on the issue and there had not been much discussion of the topic afterward. He preferred to stick to the language that was agreed upon by the Board in the December summing up. The Paris language was meant to provide guidance, but the Board had not acted on that guidance.

The Director of the Finance Department (Mr. Tweedie) responded that the Paris language included one sentence that stated that variability should be dropped and another sentence referring to the need to decide how to distribute the weight of any dropped variable. The new language attempted to reflect the balance of views on the issue.

Mr. Geadah remarked that the current Board discussion was meant to reflect what had been discussed in the past. The Board was not discussing the formula, but rather was reporting what had already been done. In Paris, one-third of the deputies were against dropping variability, and the chairman made it clear that a new formula did not need to drop variability.

Mr. Mojarrad noted that although there was one sentence on variability in the Paris document, nine participants mentioned the importance of variability to capture a member's vulnerability, particularly for LICs.

Mr. Snel noted that the current language—"some remain to be convinced that variability should be dropped"—indicated that some Directors believed there should be a role for variability in the formula. Meanwhile, seven Directors were asking for the sentence, "Some continue to see a role for variability." He could go along with the current text, but he believed that those seven Directors were making a reasonable and valid point and that sentence could be included.

The Chairman noted that she would list the three changes to the document and ask for a consensus. The first change was to insert the word "various" before the word "problems" in paragraph 10. The second change was the delete the phrase "between GDP and openness" from paragraph 12. The third change was to replace the sentence "Some remain to be convinced that variability should be dropped," with the sentence, "Some continue to see a role for variability." She asked the Board if there was a consensus to accept the document as drafted.

Mr. Nogueira Batista asked for the precise wording of the communication. He requested adjourning the meeting and reconvening the following morning to discuss that topic.

The Chairman noted that the Board could discuss her talking points after it had taken the decision.

Mr. Alkholifey remarked that the current language on financial contributions in paragraph 14 was unacceptable to his chair. The deletion of "whether" in the paragraph would mitigate their concerns. However, without that deletion, his chair could not support the decision.

The Chairman noted that the language in paragraph 14 was Paris language and would be difficult to change.

Mr. Alkholifey responded that the Paris language was a summary from the chair and was not agreed upon.

Mr. Lushin noted that his chair could accept all three proposals. He remarked that there was not much difference between the two options on variability. However, Mr. Alkholifey's proposal was a matter of substance and was significant. Whatever the interpretation of the Paris language, Mr. Tweedie and his staff had used it as a basis for the current report, and it would be difficult to selectively alter that language. No matter what the weaknesses of the bullet points in the Paris document, it was possibly the only tangible outcome of one year's work on the topic.

Mr. Geadah noted that if the current draft was intended to stay faithful to the December summing up, then it should be noted that the summing up used the qualifier "a number" instead of "some."

The Chairman responded that the report would not use the loaded language of the summing up and that Mr. Geadah's point was satisfied with the word "some." She asked Mr. Alkholifey if he could accept the wording as it stood and noted that the initial paragraph had been changed to accommodate sequencing and to segment the ideas to best respond to his point. She remarked that it was desirable to have unanimity in the Board.

Mr. Alkholifey responded that his chair had asked to use the summing up language. The very least thing his chair could accept was to delete the word "whether" in paragraph 14. He noted that his chair usually went with the consensus and it was not typical to abstain.

Mr. Nogueira Batista agreed with Mr. Lushin that Mr. Alkholifey's suggestion made the paragraph even worse. He remarked that because he had not been given time to reflect and consult with his capital, he would have to abstain from the decision.

The Chairman made the following statement:

> We have broad consensus with two abstentions. Mr. Alkholifey has a problem with the wording of paragraph 16 and there is not a huge appetite to change the wording.
>
> I will read the talking points that I would suggest we use and I am sure that they will be the subject of many considerations and discussions. Do we need to adopt the resolution properly, or is it considered adopted?
>
> To conduct the meeting properly and formally, I would refer Directors to the resolution to which is attached the report that we have discussed this afternoon. The decision is on page 2 of SM/13/13 Revision 1. Are there any corrections other than the ones I have mentioned as approved? If not, it is approved with two chairs abstaining.
>
> The staff proposes the publication of a revised version of this paper reflecting the changes that have been agreed.
>
> The three talking points that I would submit are the following:
>
> - The IMF Executive Board has completed the review of the quota formula and has submitted its report to the Board of Governors. This review is an important part of the Fund's overall quota and governance reform and the goal of strengthening the IMF's legitimacy and effectiveness.
>
> - The review provides building blocks for a revised quota formula that better reflects members' relative positions in the global economy.
>
> - The review also forms a good basis for the membership to agree on a new quota formula as part of the work on the Fifteenth General Review of Quotas.
>
> It is purely factual, and I hope we can live with that.

Mr. Nogueira Batista noted that the talking points departed from the decision on a significant point by stating that the IMF had completed the review of the quota formula. In the decision, such language was carefully avoided. To avoid misrepresentation of the decision as it had been approved by the majority of the Board, he recommended that the talking points follow the language of the decision exactly. The phrase, "this has completed the review of the quota formula," had not been used in the decision.

The Chairman asked Mr. Nogueira Batista to offer alternative language. She asked him what he believed the Board had just completed.

Mr. Nogueira Batista responded that the Board had completed nothing.

The Chairman asked if that was his personal view.

Mr. Nogueira Batista asked where in the report it said that the Fund had concluded the review and for the exact wording in the decision.

The Deputy General Counsel (Mr. Leckow) responded that the Board had completed a comprehensive review of the quota formula by adopting the report. In the context of a quota formula review, the Board completed the review by adopting the report and transmitting it to the Board of Governors. The decision itself did not have to state that the review was being completed, though substantively speaking, that was what the Board was doing.

Mr. Nogueira Batista noted that this clarification was not in the approved text.

The Deputy General Counsel (Mr. Leckow) remarked that by adopting the report, the Board was effectively completing a review of the quota formula as required by the Board of Governors resolution.

Mr. Fayolle noted that the introduction of the draft report stated that "The Board of Governors requested the Executive Board complete the comprehensive review of the quota formula by January 2013." Given that the Board had just completed review, as requested by the Board of Governors, he had no difficulty stating that for the outside world.

Mr. Gibbs noted that the bulk of the text that had been agreed upon fell under Section II—outcome of the quota formula review. It was impossible to have an outcome if the review had not been completed.

The Executive Board took the following decision, with two abstentions by Messrs. Nogueira Batista (BR) and Alkholifey (SA):

**Outcome of the Quota Formula Review—Report of the Executive Board to the Board of Governors**

1. The Executive Board adopts the report entitled "Report of the Executive Board to the Board of Governors on the Outcome of the Quota Formula Review" that is set forth in the Annex to SM/13/13, Supplement 2 (1/30/13) (the "Report").

2. The Executive Board authorizes and directs the Secretary to send to each member of the Fund the Report.

3. The Secretary is authorized to take such action as he shall deem necessary or appropriate in order to carry out the purposes of this decision. (SM/13/13, Supplement 2, 01/30/13)

Decision No. 15317-(13/9), adopted
January 30, 2013

APPROVAL: September 23, 2013

JIANHAI LIN
Secretary