

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0422

**IMMEDIATE
ATTENTION**

EBD/94/142

August 18, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Rules and Regulations Amended Since the 1993 Annual Meeting

Attached for the Executive Board's consideration is a draft letter to the Chairman of the Board of Governors submitting for review by the Governors the texts of amendments to the Rules and Regulations adopted since the 1993 Annual Meeting. A proposed resolution for the Board of Governors is attached as Annex II.

It is not proposed to bring this matter to the agenda for discussion unless an Executive Director so requests by the close of business on Tuesday, August 23, 1994. In the absence of such a request, the letter and draft resolution will be deemed approved for review by the Governors, and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads

Dear Mr. Chairman:

In accordance with Section 16 of the By-Laws, the attached amendments of the Rules and Regulations adopted since the 1993 regular meeting (Annex I) are submitted for review by the Board of Governors. A draft resolution for approval by Governors appears in Annex II.

Several provisions of the I-Rules, which had essentially remained unchanged since 1981, had become obsolete and needed to be deleted while other provisions required updating. Moreover, several changes had been made recently in the system of setting the rate of charge which needed to be incorporated into the I-Rules. Updating of the I-Rules also provided the opportunity to simplify or harmonize certain provisions on charges. First, it was proposed that a general definition of holdings subject to Rule I-6(4) in line with the definition in Article V, Section 8(b) be substituted for the listing of holdings in the introductory sentence of Rule I-6(4) and in Rule I-6(7). Secondly, since Rule I-10(a) sets the rate of remuneration at 100 percent of the SDR rate, and since the rate of remuneration cannot be increased further, it was proposed to delete in Rule I-6(4)(c) the option to retroactively increase the remuneration rate at the end of the financial year. Finally, it was proposed that the commitment charge on extended arrangements be incorporated in the I-Rules and harmonized with the commitment charge on stand-by arrangements by amending Rule I-8 accordingly.

As a result of the decision by the Executive Board on January 7, 1994, Rules I-1, 2, 3, the introductory sentence of Rule I-6(4), Rule I-6(4)(a), (b) and (c), and Rule I-8 were amended as shown in Annex I. Rules I-4 and 5, Rule I-6(1), (2), (3), (5), (6), (7), (8), (9), (10), (11), and the Note to Rule I-6(10) and (11) were deleted.

Rule T-1(d) provided for a review of the rate of interest on holdings of SDRs at the conclusion of each financial year. Since consideration is given to the rate of interest on SDR holdings at the time of the review of the valuation of the SDR basket, which is every five years, and since there had been no substantive review of the rate of interest on holdings of SDRs on the occasion of the annual income discussions, the Executive Board also decided, on January 7, 1994, to delete that review provision.

The Executive Board has made no other changes in the Rules and Regulations since the last Annual Meeting.

Very truly yours,

Michel Camdessus
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
1994 Annual Meeting
International Monetary Fund

RULES AND REGULATIONS AMENDED SINCE
THE 1993 ANNUAL MEETING

1. Rule I. Text as amended January 7, 1994.

I-1. The service charge payable by a member buying, in exchange for its own currency, the currency of another member or SDRs from the General Resources Account shall be 0.5 percent, except that no service charge shall be payable in respect of any purchase to the extent that it is a reserve tranche purchase. The service charge shall be paid at the time the transaction is consummated.

I-2. The Fund shall notify each member by cable, as soon as possible after July 31, October 31, January 31, and April 30, of the charges it owes to the Fund pursuant to Article V, Section 8(b) or (c) for the three calendar months ending on each such date. The charges shall be payable on the third business day following the dispatch of the notification.

I-3. Charges levied under Article V, Section 8(b) or (c) shall be computed for each member on the basis of the daily balances of its currency held by the Fund that are subject to charges. The Fund's holdings of each member's currency shall consist of all of its currency except amounts, not in excess of 0.1 percent of quota, in a special account to meet administrative expenses and amounts in sundry cash accounts.

I-4. Deleted.

I-5. Deleted.

I-6. (1) Deleted.
(2) Deleted.
(3) Deleted.

(4) The rate of charge on holdings (i) acquired as a result of a purchase under a policy that has been the subject of an exclusion under Article XXX (c), or (ii) that exceed the amount of the member's quota after excluding any balances referred to in (i), shall be determined in accordance with (a), (b), and (c) below.

(a) The rate of charge shall be determined at the beginning of each financial year as a proportion of the SDR interest rate under Rule T-1. The proportion shall be determined on the basis of the estimated income and expense of the Fund during the year, and the target amount of net income for the year. The latter shall be 5 percent of the Fund's reserves at the beginning of the

year or such other percentage as the Executive Board may determine particularly in the light of the results in the previous financial year.

- (b) A mid-year review of the Fund's income position shall be held shortly after October 31 of each year. If actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, two percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If by December 15 no agreement has been reached as a result of this consideration, the proportion of the SDR interest rate under Rule T-1 determined under (a) at the beginning of the year shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.
- (c) A review of the Fund's income position shall be held shortly after the end of each financial year. If the net income for the year just ended is in excess of the target amount for the year, the Executive Board will consider whether the whole or a part of the excess should be used to reduce the rate of charge retroactively for the year just ended, or to place all or part of the excess to reserve.
- (d) If the Fund's net income for a financial year is in excess of the target amount for that year, the Executive Board may for the purposes of the determinations and estimates referred to in (a) and (b) above in respect of the immediately subsequent financial year, decide to deem any part of the excess over the target amount that has been placed to reserve as income for that subsequent financial year.

- (5) Deleted.
- (6) Deleted.
- (7) Deleted.
- (8) Deleted.
- (9) Deleted.
- (10) Deleted.
- (11) Deleted.

I-7. Already deleted.

I-8. The following provisions shall apply to stand-by and extended arrangements:

- (a) A charge of 1/4 of 1 percent per annum shall be payable at the beginning of each twelve-month period of an arrangement on the total amount of the arrangement that could be purchased during that period.
- (b) When a purchase is made under an arrangement, the amount of the charge paid shall be reduced in the proportion the amount of the purchase bears to the total amount that can be purchased under the arrangement during the period of twelve months or less in which the purchase was made. A refund equal to the reduction shall be made.
- (c) If a member notifies the Fund that it wishes to cancel an arrangement, the Fund shall repay to the member a portion of the charge. The portion repaid shall represent the charge for the period remaining unexpired at the date of cancellation for the amount that could still be purchased under the arrangement at the date of cancellation for which the member has paid a charge.
- (d) Refunds for reductions under subparagraph (b) above and repayments under subparagraph (c) above of a charge paid for an arrangement shall be made in the media selected by the Fund.

I-9. (a) Remuneration shall accrue daily. The amount that has accrued during each quarter of the financial year of the Fund shall be paid as of the beginning of the following quarter.

b.
c.

d.
e.

f.

- (b) A member that wishes to receive in its own currency the whole or a specified portion of the remuneration payable to it shall so notify the Fund.

I-10. (a) The rate of remuneration shall be equal to 100 percent of the rate of interest on holdings of SDRs under Rule T-1 (hereafter referred to as "SDR interest rate").

- (b) The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient."

2. Rule T. Text as amended January 7, 1994.

T-1(d) Deleted.

DRAFT RESOLUTION

Amendments of the Rules and Regulations

RESOLVED:

That the Board of Governors of the Fund hereby notifies the Executive Board that it has reviewed the amendments of the I-Rules and Rule T-1(d) which have been made since the 1993 Annual Meeting, and has no changes to suggest.