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**CONFIDENTIAL**

September 12, 1997

To:      Members of the Executive Board

From:    The Secretary

Subject: **Special One-Time Allocation of SDRs—Proposed Decision and Draft Report to the Board of Governors on the Proposed Fourth Amendment of the Articles**

The attached revision reflects two changes in the text as issued to the Executive Board in EBS/97/170 (9/5/97). First, in view of the fact that the Executive Board will take this matter up on September 19, 1997 in Hong Kong, China, the attached revision reflects a change in date from September 10, 1997 to September 19, 1997. Second, the common benchmark ratio, which was identified in the original text as agreed at 29.32 percent, has been changed in the attached revised proposals to 29.315788813 percent, which is the precise ratio that will yield a special one-time allocation of SDRs equal to the amount of SDRs allocated to date, which is SDR 21,433,330,200.

The attached proposed decision and draft report to the Board of Governors on the special one-time allocation of SDRs and proposed fourth amendment of the Articles is now tentatively scheduled for discussion on Friday, September 19, 1997.

Mr. Hagan (ext. 37715) or Mr. Elizalde (ext. 37796) is available to answer technical or factual questions relating to this paper prior to the Board discussion. Mr. Roncesvalles (ext. 37800) is available to answer technical or factual questions relating to the benchmark ratio.

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**INTERNATIONAL MONETARY FUND**

**Special One-Time Allocation of SDRs --  
Proposed Decision and Proposed Draft Report to the Board of Governors  
on the Proposed Fourth Amendment of the Articles**

Prepared by the Legal Department  
(In consultation with the Treasurer's Department)

Approved by François Gianviti

September 12, 1997

A draft Report of the Executive Board to the Board of Governors on the Proposed Fourth Amendment of the Articles of Agreement of the International Monetary Fund is set forth in Attachment I to this paper (the "Report"). The following should be noted :

1. Parts I and II of the Report are based on the explanatory text set forth in EBS/97/73, Sup. 1 (4/25/97) and the proposed amendment set forth in the Appendix also reflects the draft contained in that paper. The proposed benchmark ratio of 29.315788813 percent has been inserted into the text of both the proposed amendment and the Report. Since the level of this ratio will enable all existing participants to receive a special allocation under the proposed amendment, the consequential changes to paragraphs 1 and 2(c) indicated in EBS/97/73, Sup. 1 (footnotes 6 and 7) have also been made. As has been agreed, for existing members in arrears and the Federal Republic of Yugoslavia (Serbia/Montenegro), the calculation will be made on the basis of their proposed Ninth Review quotas.
2. It is proposed that the "specified date" referred to in the explanatory text and proposed amendment attached to EBS/97/73, Sup. 1 be the date on which the Executive Board will decide on the adoption of the Report; as the discussion has been scheduled for September 19, 1997, that date has been substituted for "specified date" in the proposed amendment and Report. As has been explained in earlier papers, the application of the benchmark ratio to quotas as of this date has the effect that changes in net cumulative allocations or quotas of existing participants after September 19, 1997 will not affect the size of the special allocation.<sup>1</sup>

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<sup>1</sup> As stated in EBS/96/183 (12/2/96), p. 2, the specified date to be used for calculation purposes would be a date chosen by the Executive Board that is not later than the date of transmittal of the proposed amendment resolution to the Board of Governors.

3. Part III, on Procedures for the adoption of the amendment, and Part IV, on the text of the draft Resolution of the Board of Governors, are based, mutatis mutandis, on those of the Report submitted to the Board of Governors for the third amendment of the Articles.

4. Minor editorial changes have been made to the explanatory text set forth in EBS/97/73, Sup.1 (4/25/97), to adapt it to the format of a report. These changes are shown in Attachment II to this paper. In addition, the expression "draft amendment" has been replaced by "proposed amendment".

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

**Proposed Decision**

Pursuant to the request of the Interim Committee that an amendment of the Articles of Agreement be proposed providing for a special one-time allocation of SDRs, the Executive Board:

- (a) adopts the "Report of the Executive Board to the Board of Governors on the Proposed Fourth Amendment of the Articles of Agreements of the International Monetary Fund";
- (b) proposes the introduction in the Articles of Agreement of the modifications included in the Proposed Fourth Amendment attached to the Resolution in Part IV of the Report;
- (c) recommends the adoption by the Board of Governors of the Resolution in Part IV of the Report.

**Report of the Executive Board to the Board of Governors  
on the Proposed Fourth Amendment of the  
Articles of Agreement of the International Monetary Fund**

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## **Part I. Introduction**

To enable all members of the Fund to participate in the SDR system, the Interim Committee, in its September 29, 1996 Communiqué, endorsed the Executive Board's proposal that all participants in the Special Drawing Rights Department should receive an equitable share of cumulative SDR allocations through an amendment of the Fund's Articles that would provide for a one-time allocation of SDRs, based on a common benchmark ratio of cumulative allocations to present quotas. The Interim Committee emphasized that such an amendment would not in any way affect the Fund's existing power to allocate SDRs on the basis of a finding of a long-term global need to supplement reserves as and when that need arises.<sup>2</sup>

A proposed amendment that provides for a special one-time allocation to participants ("special allocation") is attached to this Report. Set forth below in Part II of this Report is a Commentary on the proposed amendment. Part III describes the procedures for adoption of this amendment and Part IV contains a draft Resolution.

## **Part II. Commentary**

Section A describes the terms that will govern special allocations made to the various categories of participants under Schedule M of the amendment. General features of the proposed amendment, including the relationship between special allocations and allocations made pursuant to Article XVIII, are described in Section B. The description of the proposed amendment contains references to the relevant paragraphs of Schedule M.

One of the important features of the proposed amendment is its treatment of participants with overdue obligations to the Fund. As is discussed further in Section B, in the event that a participant is in arrears to the Fund at the time it receives the special allocation, the SDRs allocated to that participant will be deposited and held in an escrow account within the Special Drawing Rights Department and shall be released to the participant upon its discharge of all its overdue obligations to the Fund (paragraph 5). This mechanism would not apply to general allocations made pursuant to Article XVIII.

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<sup>2</sup>In its April 28, 1997 Communiqué, the Interim Committee welcomed the progress achieved in the Executive Board toward the proposed amendment and requested the Executive Board to finalize its work as soon as possible and to report to the Committee in time for the Hong Kong meeting.

## **A. Categories of Recipients**

### **1. Existing Participants**

Under the proposed amendment, the amount of SDRs that will be allocated to members that are participants as of September 19, 1997 (“existing participants”) will be an amount that will raise their net cumulative allocation-to-quota ratios to a level corresponding to a ratio of 29.315788813 percent (the “benchmark ratio”). As a general rule, this ratio will be applied to existing participants’ quotas as of September 19, 1997 (paragraph 1). The application of the benchmark ratio to quotas as of September 19, 1997 has the effect that changes in net cumulative allocations or quotas after September 19, 1997 will not affect the size of the special allocation received by existing participants. As an exception to the above rule, existing participants that have not been able to increase their quotas under the Ninth General Review by September 19, 1997, because they have failed to discharge their overdue obligations to the General Resources Account, will be allocated an amount that is calculated on the basis of their proposed quotas under the Ninth General Review (as set forth in Resolution No. 45-2 of the Board of Governors of the Fund) rather than on the basis of their actual quotas as of September 19, 1997 (paragraph 1). This proposed quota will be used as a basis for calculating the amount of allocation even if the participant never actually increases its quota under the Ninth General Review.

Each existing participant will receive its special allocation on the 30th day following the effective date of the amendment (paragraph 1) unless it has notified the Fund of its desire not to receive the special allocation (paragraph 4).

### **2. Future Participants**

The proposed amendment also makes provision for a special allocation to countries that become participants in the SDR Department after September 19, 1997 but within three months of the date of their membership in the Fund (“future participants”) (paragraph 2).

Regarding the method of calculation, the proposed amendment sets forth a formula that attempts to achieve, to the extent possible, comparability of treatment between existing participants and future participants (paragraph 2(b) and (c)). A future participant will receive a special allocation that will result in its ratio of net cumulative allocation to quota being equal to the benchmark ratio applied to existing participants, as adjusted downwards, in proportion to the change in the total quotas of existing participants that has occurred since September 19, 1997<sup>3</sup> (paragraph 2(b)(i)), and upwards, in proportion to the change in the total net

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<sup>3</sup>Changes arising from: (i) increases in quotas under the Ninth General Review that enter into  
(continued...)

cumulative allocations of existing participants that are attributable to general allocations made after September 19, 1997<sup>4</sup> (paragraph 2(b)(ii)).

Future participants will receive a special allocation on the 30th day following the later of: (i) the date of their participation, or (ii) the effective date of the fourth amendment (paragraph 2(a)), unless they notify the Fund of their desire not to receive the allocation (paragraph 4).

### **3. The Federal Republic of Yugoslavia (Serbia/Montenegro)**

As of September 19, 1997, the Federal Republic of Yugoslavia (Serbia/Montenegro) (the "FRY") has not succeeded to membership in the Fund and participation in the Special Drawing Rights Department in accordance with the terms and conditions of Executive Board Decision No. 10237-(92/150), adopted December 14, 1992, and, therefore, is not an existing participant. Upon satisfying these conditions, it will not be eligible to receive an allocation as a future participant because it will have succeeded retroactively to the former Socialist Federal Republic of Yugoslavia's (the "SFRY") membership in the Fund and participation in the SDR Department, along with the four other successor states of the SFRY. Accordingly, the text of the proposed amendment includes a provision that enables the FRY to receive a special allocation once it becomes a participant (paragraph 3).

With respect to the method of calculation, the proposed amendment provides that the amount to be received will be based on the proposed Ninth Review quota offered to the FRY under paragraph 3(c) of Executive Board Decision No. 10237-(92/150), as adjusted upwards in proportion to the change in the total net cumulative allocations of existing participants that are attributable to general allocations made after September 19, 1997 but prior to the date on which the FRY succeeds to membership in the Fund and participation in the Special Drawing Rights Department (paragraph 3(b)). The method of calculating this upward adjustment is the same as that used in the case of future participants.

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<sup>3</sup>(...continued)

effect after September 19, 1997, and (ii) the quotas of new participants, will not cause an adjustment (paragraph 2(b)(i) and 2(c), respectively).

<sup>4</sup>The category of existing participants that would be used for purposes of determining the adjustment to be made would be limited to existing participants that have received all allocations made by the Fund since September 19, 1997 (paragraph 2(c)). This would ensure that a future participant would not be adversely affected by a decision taken by an existing participant to opt out of an allocation (which would reduce the amount by which the total of net cumulative allocations of participants would have otherwise increased and, accordingly, would also reduce the extent of the upwards adjustment).

## **B. General Features**

1. The special allocation to be made pursuant to the proposed amendment will not be made on the basis of a finding of “long-term global need.” Rather, the proposed amendment will add a sentence to Article XV to provide for a one-time allocation of SDRs to existing and future participants in accordance with the provisions of Schedule M.
2. The special allocation will not in any way affect the Fund’s existing power to allocate SDRs on the basis of a finding of “long-term global need” in accordance with Article XVIII. The text of Article XVIII will not be modified by the amendment. Moreover, a specific reference will be added by the amendment to the first sentence of Article XV for the purpose of emphasizing that allocations made on the basis of “long-term global need” will continue to be made exclusively in accordance with the provisions of Article XVIII.
3. Participants will receive only one allocation under the proposed amendment. Accordingly, the proposed amendment will not establish a permanent mechanism for periodic harmonization of net cumulative allocation-to-quota ratios.
4. Unlike Article XVIII, the special allocation provision will operate without the necessity of a decision by an organ of the Fund; conversely, an organ of the Fund will have no authority to modify the operation of the provision.<sup>5</sup>
5. As noted in the Introduction, SDRs allocated to a participant with overdue obligations to the Fund when the special allocation is made will be deposited in an escrow account within the Special Drawing Rights Department and shall be released to the participant upon discharge of all its overdue obligations to the Fund. The concept of overdue obligations for purposes of this proposed amendment is defined in paragraph 5(c) of Schedule M; it does not include arrears on maintenance of value obligations under Article V, Section 11.

During the period when SDRs are held in an escrow account, these SDRs shall not be available to the participant for any use. Moreover, during this period, the SDRs held in the escrow account would not be included in any calculations of the participant’s allocations or holdings of SDRs for the purposes of the Articles other than calculations under Schedule M. Accordingly, they would not be subject to charges or assessments or give rise to payment of interest under Article XX. They would not be taken into consideration for purposes of calculating the extent of the participant’s obligations to either reconstitute SDRs (Article XIX,

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<sup>5</sup> However, the general provisions on the liquidation of the SDR Department will apply: allocations made under the amendment will be suspended if the Executive Board decides that the liquidation of the SDR Department may be necessary and will cease after a decision of the Board of Governors to liquidate the SDR Department or the Fund.

Section 6) or accept SDRs from other participants (Article XIX, Section 4). Since SDRs held in an escrow account would not be available to the participant, they would not be taken into consideration for purposes of calculating a participant's reserves. If SDRs are held in an escrow account when the participant terminates its participation in the Special Drawing Rights Department or when it is decided to liquidate the Special Drawing Rights Department, such SDRs shall be canceled (paragraph 5(b)).

Paragraph 5(d) clarifies that, except for the provisions of that paragraph as described above, the principle of separation between the General Department and the Special Drawing Rights Department and the unconditional character of SDRs as reserve assets shall be maintained.

6. Except for those SDRs that are held in an escrow account pursuant to paragraph 5 of Schedule M, the characteristics of SDRs allocated pursuant to a special allocation will be the same as those of SDRs allocated under Article XVIII.

7. The proposed amendment will also be without prejudice to the application of Article XVIII, Section 2(d), which sets forth the rules regarding the receipt of regular allocations by members that become participants after the commencement of a basic period. Under that provision, the Fund may authorize a new participant to receive regular allocations made during the remainder of the basic period.<sup>6</sup> Accordingly, if a future member becomes a participant during a basic period when allocations are being made, it may be authorized to receive a regular allocation under Article XVIII in addition to its special allocation.

### **Part III. Procedure**

1. The procedure for the adoption of amendments of the Articles of Agreement is set forth in Article XXVIII. Under this Article, a proposed amendment is to be communicated to the Chairman of the Board of Governors for consideration by the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund is to ask all members whether they accept it. When three-fifths of the members, having 85 percent of the total voting power, have accepted the proposed amendment, the Fund is to certify that fact by a formal communication to all members. Under Article XXVIII(c), an amendment enters into force for every member, whether or not it has accepted the amendment, three months after

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<sup>6</sup>A member that becomes a participant after the commencement of a basic period during which regular allocations are being made may receive such allocations during the remainder of the period only if the Fund so decides. In the past, the Fund has always authorized the receipt of allocations in these cases.

that date of that communication unless a shorter period is specified. In the case of the amendment now being proposed, the Executive Board recommends that it should enter into force on the date of the formal communication.

2. Members whose voting rights have been suspended cannot appoint a Governor or Alternate Governor to participate in the vote on the Resolution of the Board of Governors (Schedule L, paragraphs 1(b) and 3(a)). However, since this amendment pertains exclusively to the Special Drawing Rights Department, these members have the right to participate in the acceptance of the proposed amendment under Article XXVIII. Therefore, they shall be counted in the total number of members and included in the calculation of the total voting power for that purpose (Schedule L, paragraphs 1(a) and 2).

#### **Part IV. Resolution**

WHEREAS the Interim Committee of the Board of Governors has invited the Executive Board to propose an amendment of the Articles of Agreement of the International Monetary Fund providing for a special one-time allocation of SDRs to allow all participants in the Special Drawing Rights Department to receive an equitable share of cumulative SDR allocations; and

WHEREAS the Executive Board has proposed such an amendment and prepared a report on the same;

NOW, THEREFORE, The Board of Governors, noting the said Report of the Executive Board, hereby RESOLVES that:

1. The proposals for modifications (Proposed Fourth Amendment) that are attached to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved.

2. The Secretary of the Fund is directed to ask, by circular letter, telegram, or other rapid means of communications, all members of the Fund whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the proposed Fourth Amendment.

3. The circular letter, telegram, or other communication to be sent to all members in accordance with 2 above shall specify that the Proposed Fourth Amendment shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having eighty-five percent of the total voting power, have accepted the modifications.

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**Proposed Fourth Amendment  
of the Articles of Agreement  
of the International Monetary Fund**

The Governments on whose behalf the present Agreement is signed agree as follows:

1. The text of Article XV, Section 1 shall be amended to read as follows:
  - (a) To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights in accordance with the provisions of Article XVIII to members that are participants in the Special Drawing Rights Department.
  - (b) In addition, the Fund shall allocate special drawing rights to members that are participants in the Special Drawing Rights Department in accordance with the provisions of Schedule M.
2. A new Schedule M shall be added to the Articles, to read as follows:

**SCHEDULE M  
Special One-Time Allocation of Special Drawing Rights**

1. Subject to 4 below, each member that, as of September 19, 1997, is a participant in the Special Drawing Rights Department shall, on the 30th day following the effective date of the fourth amendment of this Agreement, receive an allocation of special drawing rights in an amount that will result in its net cumulative allocation of special drawing rights being equal to 29.315788813 percent of its quota as of September 19, 1997, provided that, for participants whose quotas have not been adjusted as proposed in Resolution No. 45-2 of the Board of Governors, calculations shall be made on the basis of the quotas proposed in that resolution.
2. (a) Subject to 4 below, each country that becomes a participant in the Special Drawing Rights Department after September 19, 1997 but within three months of the date of its membership in the Fund shall receive an allocation of special drawing rights in an amount calculated in accordance with (b) and (c) below on the 30th day following the later of: (i) the date on which the new member becomes a participant in the Special Drawing Rights Department, or (ii) the effective date of the fourth amendment of this Agreement.
  - (b) For the purposes of (a) above, each participant shall receive an amount of special drawing rights that will result in such participant's net cumulative allocation being equal to

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29.315788813 percent of its quota as of the date on which the member becomes a participant in the Special Drawing Rights Department, as adjusted:

(i) first, by multiplying 29.315788813 percent by the ratio of the total of quotas, as calculated under 1 above, of the participants described in (c) below to the total of quotas of such participants as of the date on which the member became a participant in the Special Drawing Rights Department, and

(ii) second, by multiplying the product of (i) above by the ratio of the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of the participants described in (c) below as of the date on which the member became a participant in the Special Drawing Rights Department and the allocations received by such participants under 1 above to the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of such participants as of September 19, 1997 and the allocations received by such participants under 1 above.

(c) For the purposes of the adjustments to be made under (b) above, the participants in the Special Drawing Rights Department shall be members that are participants as of September 19, 1997 and (i) continue to be participants in the Special Drawing Rights Department as of the date on which the member became a participant in the Special Drawing Rights Department, and (ii) have received all allocations made by the Fund after September 19, 1997.

3. (a) Subject to 4 below, if the Federal Republic of Yugoslavia (Serbia/Montenegro) succeeds to the membership in the Fund and the participation in the Special Drawing Rights Department of the former Socialist Federal Republic of Yugoslavia in accordance with the terms and conditions of Executive Board Decision No. 10237-(92/150), adopted December 14, 1992, it shall receive an allocation of special drawing rights in an amount calculated in accordance with (b) below on the 30th day following the later of: (i) the date on which the Federal Republic of Yugoslavia (Serbia/Montenegro) succeeds to membership in the Fund and participation in the Special Drawing Rights Department in accordance with the terms and conditions of Executive Board Decision No. 10237-(92/150), or (ii) the effective date of the fourth amendment of this Agreement.

(b) For the purposes of (a) above, the Federal Republic of Yugoslavia (Serbia/Montenegro) shall receive an amount of special drawing rights that will result in its net cumulative allocation being equal to 29.315788813 percent of the quota proposed to it under paragraph 3(c) of Executive Board Decision No. 10237-(92/150), as adjusted in accordance with 2(b)(ii) and (c) above as of the date on which the Federal Republic of Yugoslavia (Serbia/Montenegro) qualifies for an allocation under (a) above.

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4. The Fund shall not allocate special drawing rights under this Schedule to those participants that have notified the Fund in writing prior to the date of the allocation of their desire not to receive the allocation.

5. (a) If, at the time an allocation is made to a participant under 1, 2, or 3 above, the participant has overdue obligations to the Fund, the special drawing rights so allocated shall be deposited and held in an escrow account within the Special Drawing Rights Department and shall be released to the participant upon discharge of all its overdue obligations to the Fund.

(b) Special drawing rights being held in an escrow account shall not be available for any use and shall not be included in any calculations of allocations or holdings of special drawing rights for the purposes of the Articles, except for calculations under this Schedule. If special drawing rights allocated to a participant are held in an escrow account when the participant terminates its participation in the Special Drawing Rights Department or when it is decided to liquidate the Special Drawing Rights Department, such special drawing rights shall be canceled.

(c) For purposes of this paragraph, overdue obligations to the Fund consist of overdue repurchases and charges in the General Resources Account, overdue principal and interest on loans in the Special Disbursement Account, overdue charges and assessments in the Special Drawing Rights Department, and overdue liabilities to the Fund as trustee.

(d) Except for the provisions of this paragraph, the principle of separation between the General Department and the Special Drawing Rights Department and the unconditional character of special drawing rights as reserve assets shall be maintained.

## **Part I. Introduction**

A proposed amendment that provides for a special one-time allocation to participants (“special allocation”) is attached as an appendix. Set forth below is an explanation in Part II of this Report is a Commentary of the proposed amendment. Section A describes the terms that will govern special allocations made to the various categories of participants under Schedule M of the amendment. General features of the proposed amendment, including the relationship between special allocations and allocations made pursuant to Article XVIII, are described in Section B. The description of the proposed amendment contains references to the relevant paragraphs of Schedule M. Part III describes the procedures for adoption of this amendment and Part IV contains a draft Resolution.

## **Part II. Commentary**

Section A describes the terms that will govern special allocations made to the various categories of participants under Schedule M of the amendment. General features of the proposed amendment, including the relationship between special allocations and allocations made pursuant to Article XVIII, are described in Section B. The description of the proposed amendment contains references to the relevant paragraphs of Schedule M.

### **B. General Features**

1. The special allocation to be made pursuant to the proposed amendment will not be made on the basis of a finding of “long term global need”. Rather, the proposed amendment a sentence will be added will add a sentence to Article XV to provide for a one-time allocation of SDRs to existing and future participants in accordance with the provisions of Schedule M.
2. The special allocation will not in any way affect the Fund’s existing power to allocate SDRs on the basis of a finding of “long term global need” in accordance with Article XVIII. The text of Article XVIII will not be modified by the amendment. Moreover, a specific reference will be added by the amendment to the first sentence of Article XV for the purpose of emphasizing that allocations made on the basis of “long term global need” will continue to be made exclusively in accordance with the provisions of Article XVIII.

