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CONFIDENTIAL

September 18, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **Special One-Time Allocation of SDRs—Proposed Fourth Amendment of the Fund's Articles of Agreement—Draft Report of the Managing Director to the Interim Committee**

Please find attached a draft report of the Managing Director to the Interim Committee on a special one-time Allocation of SDRs in connection with the proposed fourth amendment of the Articles of Agreement.

Att. (1)

Other Distribution:
Department Heads

** Issued in Hong Kong and at Headquarters

**Special One-Time Allocation of SDRs—Proposed Fourth Amendment of the
Fund's Articles of Agreement—Draft Report of the Managing Director
to the Interim Committee**

1. 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 SDR 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 quota. In its April 28, 1997 Communiqué, the Interim Committee requested that the Executive Board finalize its work in this area as soon as possible.

2. I am pleased to report that the Executive Board has completed its work. On September 19, 1997, the Executive Board decided to propose to the Board of Governors the approval of an amendment that would provide for a special one-time allocation of special drawing rights that is consistent with the Committee's request. The proposal is contained in the attached Report of the Executive Board to the Board of Governors (the "Report"). Its essential features may be briefly summarized as follows:
 - Existing participants will receive a one-time allocation of SDRs in an amount that will result in their net cumulative allocation of SDRs being equal to 29.315788813 percent of their Ninth Review quotas. This allocation will double the amount of SDRs already allocated. The special one-time allocation will not be made on the basis of a finding of "long-term global need" in accordance with Article XVIII. Nor will it in any way affect the Fund's existing power under Article XVIII to allocate SDRs on the basis of a finding of long-term global need to supplement existing reserve assets as and when that need arises.

- For participants with overdue obligations to the Fund, the special allocation of SDRs will be deposited and held in an escrow account within the SDR Department and released to the participant only upon the discharge of all its overdue obligations to the Fund. This mechanism would not apply to allocations made on the basis of a finding of long-term global need.
 - A country that becomes a member of the Fund and a participant in the SDR Department after September 19, 1997 will also receive a special allocation of SDRs based on a notional Ninth Review quota.
3. The agenda for the forthcoming annual meeting will provide for the Board of Governors to vote on a resolution regarding the proposed amendment, which is included in the Report. If the resolution is adopted, the proposed amendment will enter into effect once it has been accepted by three-fifths of the Fund's members, having 85 percent of the total voting power.
4. I request the Committee, in its forthcoming Communiqué, to recommend to the Board of Governors its adoption of the proposed resolution to amend the Articles.