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SM/87/139

June 23, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Article IV Consultations - Options for Simplified Interim Procedures

The attached paper on options for simplified interim procedures under Article IV has been tentatively scheduled for discussion on Wednesday, July 8, 1987.

Mr. Liuksila (ext. 7797) is available to answer legal questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Article IV Consultations -
Options for Simplified Interim Procedures

Prepared by the Legal Department

(In consultation with the Exchange and Trade Relations Department
and the Secretary's Department)

Approved by François Gianviti

June 22, 1987

At Executive Board Meeting 87/85 (6/8/87), the staff was requested to prepare a paper clarifying various aspects of the three options presented to the Board for a simplified interim procedure under Article IV, Section 3(b).

I.

The principles governing the role of the Executive Board in consultations with members under Article IV, Section 3(b), are as follows:

a. Article IV consultations with the Fund are to be carried out by the Executive Board. 1/

b. The Articles do not specify the manner in which consultations are completed. Therefore, the form of the Executive Board's involvement in the completion of consultations is determined by the Executive Board:

- (i) the Executive Board may complete a consultation with or without a discussion;
- (ii) the decision taken at the end of the consultation may be procedural (declaring that the consultation has been completed) or substantive (expressing the collective view of the Board);

1/ All powers under the Fund's Articles of Agreement not directly conferred to the Board of Governors, the Executive Board or the Managing Director are vested in the Board of Governors (Article XII, Section 2(a)), which may delegate them to the Executive Board (Article XII, Section 2(b)). The Board of Governors has delegated those powers, including those of Article IV, to the Executive Board (By-Laws, Section 15).

- (iii) the decision may be adopted in a meeting 1/ or on a lapse-of-time basis.

c. The existing Procedures for Surveillance 2/ provide that the Executive Board shall complete Article IV consultations by reaching conclusions. This could have been interpreted as requiring the adoption of a substantive decision by the Executive Board. In practice, however, a summation by the Chairman of views expressed by members of the Board has been considered sufficient to constitute "conclusions" and the endorsement of the Chairman's summary of such views has served as a procedural decision to complete the consultation.

II.

Consistent with these general principles, three degrees of involvement of the Executive Board in the interim procedure can be envisaged. These different degrees have certain legal implications. For convenience, the three variations are dealt with as Options I, II, and III below.

a. Under Option I, the staff report would be submitted for consideration by the Executive Board and included in the tentative schedule of the Executive Board for a particular meeting. In the absence of a request by a certain date (to be indicated in the circulating note) from an Executive Director that the report be taken up for discussion in the Executive Board, the interim consultation with the member in question would be deemed to have been completed without discussion by the Executive Board, and the conclusions set forth in the staff appraisal would be deemed to have been adopted by the Executive Board, thereby completing the consultation in accordance with the current Procedures for Surveillance. As in the case of other decisions adopted without discussion, the minutes of the next meeting of the Executive Board would state that the Board has completed the interim consultation and approved the conclusions set forth in the staff appraisal.

Option I could be introduced without any amendment to the existing Procedures for Surveillance.

b. Under Option II, the staff report would be submitted for consideration by the Executive Board and included in the tentative schedule of the Executive Board for a particular meeting as under

1/ A decision adopted in a meeting may be reflected in the Chairman's summing up or formally approved by the Board.

2/ See the document entitled "Surveillance Over Exchange Rate Policies" attached to Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. Selected Decisions, Twelfth Issue, pp. 10-14.

Option I. In the absence of a request by a certain date from an Executive Director that the report be taken up for discussion in the Executive Board, the interim consultation with the member in question would be deemed to have been completed. In contrast to Option I, the decision of the Executive Board completing the consultation would be a procedural one only and, therefore, the Executive Board would not be deemed to have approved the conclusions contained in the appraisal section of the staff report. It would be recorded in the minutes of the next Executive Board meeting that the interim consultation has been completed.

Option II would require an amendment to paragraph II of the existing Procedures for Surveillance, allowing for an interim consultation with a member to be completed without the Executive Board reaching conclusions (Annex III to SM/87/117).

c. Under Option III, the staff report would cover "consultation discussions" with a member but would be circulated to members of the Executive Board "for information only" and not "for consideration by the Executive Board." Any Executive Director could request that the staff report be taken up for discussion by the Executive Board.

Option III would not require an amendment to the existing Procedures for Surveillance because the issuance and circulation of a staff report "for information only" could be regarded as an interim staff report of ongoing consultation discussions with the member in question.

III.

In conclusion, only the simplified interim procedures envisaged under Options I and II above would constitute "consultations" under Article IV, Section 3(b). Option III would furnish the Board with information on consultation discussions taking place under the same provision of the Articles. The role of the Executive Board under each option varies accordingly:

a. Under Option I, the Executive Board would adopt, without discussion, a decision approving the conclusions set forth in the staff report;

b. Under Option II, the Executive Board would adopt, without discussion, a decision completing the consideration of a staff report by the Executive Directors. Hence, the Executive Board would take note of the staff report, but would not approve any conclusions set forth in the report;

c. Under Option III, the Executive Board would not adopt any decision.

It should be noted that under all three options the Executive Directors have the responsibility to request a discussion if it is felt that substantive issues need to be brought to the attention of the Executive Board.