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June 16, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Amendment of Rule E-1 of the Rules and Regulations of the Fund

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Thursday, June 23, 1988. In the absence of such a request, the draft decision that appears on page 3 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Asser (ext. 7709) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Amendment of Rule E-1 of the Rules and Regulations
of the Fund

Prepared by the Legal Department

(In consultation with the Treasurer's Department)

Approved by François Gianviti

June 15, 1988

1. The purpose of this memorandum is to propose an amendment to Rule E-1 of the Rules and Regulations of the Fund in order to bring it closer to the text of the corresponding provision of the Fund's Articles of Agreement concerning the issuance to the Fund by members of notes in substitution for Fund holdings of their respective currencies in the General Resources Account. It is also proposed to delete the first sentence of Rule E-1 which has become redundant, and to make a consequential change in the heading of the E-Rules.

2. Article III, Section 4 of the Articles of Agreement of the Fund reads as follows:

Section 4. Substitution of securities for currency

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources Account which in the judgment of the Fund is not needed for its operations and transactions, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their face value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund and to be placed in the General Resources Account.

3. Rule E-1 of the Rules and Regulations of the Fund, adopted on September 25, 1946, as amended, states:

E-1. A member shall pay its currency subscription to the Fund at the designated depository. Each member is authorized to substitute, in accordance with Article III, Section 4, non-negotiable, non-interest bearing notes

payable to the Fund on demand for that part of the currency holdings of the Fund in the General Resources Account which exceed 1/4 of 1 per cent of the member's quota, and the depository shall hold such notes for the account of the Fund. Such notes shall not be accepted until the Fund is satisfied that they are in proper form and that their issue has been authorized. The balances held in the administrative accounts of the Fund shall not be considered as part of the currency holdings of the Fund for the application of this Rule.

4. Although Article III, Section 4 of the Articles refers to "notes or similar obligations," Rule E-1 refers only to "notes." Therefore, while the Articles authorize the Fund to accept from members in substitution for their respective currency not only notes but also other similar obligations, Rule E-1 does not contemplate the acceptance by the Fund of obligations other than notes.

5. In recent years, securities have been developed that no longer consist of a physical instrument but that are in uncertificated form, e.g., in the form of a book entry. This type of security has been accepted by the International Bank for Reconstruction and Development and the International Development Association in lieu of currency, on the basis of provisions of their respective Articles of Agreement that are similar to Article III, Section 4 of the Fund's Articles.

6. It is recommended that Rule E-1 be amended in order to permit the Fund, in accordance with Article III, Section 4 of the Articles, to accept in substitution for the currency of a member not only notes but also similar obligations. This would allow the Fund to accommodate proposals by members to substitute for their currency obligations in uncertificated form. The interests of the Fund would be protected by the requirement of Rule E-1 that such obligations shall not be accepted until the Fund is satisfied that they are in proper form and that their issue has been authorized.

7. It is proposed to delete the first sentence of Rule E-1 which is as redundant. Originally, the first sentence of Rule E-1 corresponded to a provision on gold subscription payments which was deleted from the E-Rules at the time of the Second Amendment of the Articles. The requirement of making currency subscription payments at the appropriate depository is already covered by Article III, Sections 1 and 3, and by the terms and conditions of Fund membership specified in the membership resolutions of the Board of Governors.

8. With the deletion of the first sentence of Rule E-1, no provision would remain in the E-Rules that governs subscriptions; the E-Rules would only address substitution of securities for currency. Therefore,

it is also proposed to change the heading of the E-Rules which currently reads "Subscriptions" to read the same as the heading of Article III, Section 4, namely "Substitution of Securities for Currency."

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

Proposed Decision

(a) The heading of the E-Rules shall be amended to read
"Substitution of Securities for Currency."

(b) Rule E-1 shall be amended to read as follows (new text
underscored):

E-1. ~~A member shall pay its currency subscription to the Fund at the designated depository.~~ Each member is authorized to substitute, in accordance with Article III, Section 4, non-negotiable, non-interest bearing notes or similar obligations payable to the Fund on demand for that part of the currency holdings of the Fund in the General Resources Account which exceed 1/4 of 1 per cent of the member's quota, and the depository shall hold such notes or similar obligations for the account of the Fund. Such notes or similar obligations shall not be accepted until the Fund is satisfied that they are in proper form and that their issue has been authorized. The balances held in the administrative accounts of the Fund shall not be considered as part of the currency holdings of the Fund for the application of this Rule.

