

**FOR
AGENDA**

EBS/86/162

CONFIDENTIAL

July 23, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Proposed Decision on "Burden Sharing," the Fund Income
Target for FY 1987 and FY 1988, Rate of Charge, and Rate
of Remuneration

The attached draft decision has been placed on the agenda of
an Executive Board meeting scheduled on Friday, July 25, 1986.

Att: (1)

INTERNATIONAL MONETARY FUND

Proposed Decision on "Burden Sharing"
the Fund's Income Target for FY 1987 and 1988,
Rate of Charge, and Rate of Remuneration

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

Approved by François Gianviti

July 23, 1986

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

Section 1. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.
2. This sharing shall be applied in a simultaneous and symmetrical fashion insofar as the Articles of Agreement make possible the full application of this principle.

Section II. Income Target for FY 1987 and 1988

1. During financial year 1987 and financial year 1988, the Fund's net income target shall be raised from 5 percent to 7.5 percent of the Fund's reserves at the beginning of each year. The additional net income shall be generated in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.
2. During financial year 1988, a supplemental income equal to 2.5 percent of the Fund's reserves at the beginning of the year shall be generated and used in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.

Section III. Rate of Charge

1. (a) Effective May 1, 1986, the rate of charge referred to in Rule I-6(4) shall be 6.0 percent.

(b) The rate of charge shall be determined at the beginning of financial year 1988 on the basis of the estimated income and expense of the Fund during the year and the target amount of net and supplemental income for the year.

(c) During financial year 1987 and financial year 1988, when estimating income, no deduction shall be made for projected deferred income.

2. During financial year 1987 and financial year 1988, the rate of charge shall be adjusted in accordance with the provisions of Section V.

3. The rate of charge in force as of the end of a financial year, as adjusted under Section V, shall continue to apply subsequently unless it is otherwise decided.

Section IV. Rate of Remuneration

1. Effective August 1, 1986, Rule I-10(d) shall cease to apply.

2. Effective February 1, 1987, Rule I-10 shall read as follows:

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."

3. During financial year 1987 and financial year 1988, the rate of remuneration shall be adjusted in accordance with the provisions of Section V.

Section V. "Burden Sharing" in FY 1987 and 1988

1. In financial year 1987 and financial year 1988, and notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the additional net income referred to in Section II.1, and the supplemental income referred to in Section II.2, the rate of charge and the rate of remuneration shall be adjusted, subject to the limitation in (c), so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and the rate of remuneration shall be adjusted as under (a) to generate an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189)G/TR, December 30, 1985 shall not be taken into consideration.

(c) No reduction in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) Subject to the provisions of Section III.1(b), the adjustments under this paragraph shall be made as of May 1 and as of November 1 of each year:

shortly after October 31 for the period from May 1 to October 31;
shortly after April 30 for the period from November 1 to April 30.

(e) Notwithstanding the provisions of (d), any adjustment made in respect of the first half of financial year 1987 shall affect the rate of remuneration only as of August 1, 1986.

(f) The operation of this decision shall be reviewed before the remuneration coefficient is reduced to 85 percent under (c).

3. A mid-year review of the Fund's income position shall be held shortly after October 31 of each year. If, after any adjustment under paragraph 2, the 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 on December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. (a) An amount equal to the proceeds of any adjustment made under paragraph 2(a) in order to generate supplemental income in financial year 1988 shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have not received remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment made under paragraph 2(b) in financial year 1987 or 1988 shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have not received remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which has given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made semi-annually.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), April 30, 1986 or any subsequent decision of the Fund.