

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/86/242
Supplement 2

CONFIDENTIAL

December 10, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Principles of "Burden Sharing" - Distribution of the Proceeds
of the Settlement of Deferred Charges

It is not proposed to bring the attached memorandum on the timing of the distribution of the proceeds of the settlement of deferred charges to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Wednesday, December 17, 1986. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Wittich (ext. 8307) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Distribution of the Proceeds of the Settlement
of Deferred Charges

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

Approved by W.O. Habermeier

December 10, 1986

It may be recalled that the "Principles of 'Burden Sharing'" call for a distribution (i.e., payment) to members that had borne the cost of deferred charges as and when these charges are settled. It had been proposed in EBS/86/116 that these distributions should be made semi-annually to coincide with payments at the end of an adjustment period. 1/ Accordingly, Executive Board Decision No. 8348 prescribes semiannual distribution of the proceeds of any settlement of deferred charges. 2/

As mentioned, the reason for semiannual distribution of the proceeds of the settlement of deferred charges to the members that originally had borne the adjustment was to have these distributions coincide with the semiannual adjustment payments. In view of the reduction of the adjustment period from six months to three months, which results in adjustment payments after the end of each quarter rather than after the end of semiannual periods, it would seem reasonable to distribute the proceeds of the settlement of deferred charges which had given rise to the adjustment payments (or to the reduction of remuneration payments) also on a quarterly basis.

The proposed change from semiannual to quarterly distribution would reduce Fund income by the amount of interest that would have been earned on holdings for an additional quarter of the amounts of deferred charges that had been settled, and would benefit the members that had borne the cost of deferred charges. The exact amounts would depend on the timing of the discharge of deferred charges, and would be difficult to project with any degree of accuracy. 3/ Inadvertently, no reference was made to

1/ See "The Fund's Net Income for FY 1986 and FY 1987 - Disposition of Net Income for FY 1986 and Determination of the Rate of Charge for FY 1987" (EBS/86/116, 5/28/86).

2/ Executive Board Decision No. 8348-(86/122) adopted July 25, 1986 on "Principles of 'Burden Sharing', the Fund's Income Target for FY 1987 and 1988, Rate of Charge, and Rate of Remuneration," Section V, paragraph 4(b).

3/ The settlement of deferred charges averaged SDR 36.7 million during the past four quarters. At the present interest rate on the SDR, interest earned on such balances would be about SDR 0.5 million a quarter.

this issue in the staff memorandum proposing the shortening in the adjustment period. 1/ It is open to doubt that Executive Directors had this consideration in mind when deciding to shorten the adjustment period; in any event, the staff had not intended to retain the semiannual distribution so that the Fund could earn some income on the retained assets. Accordingly, the staff proposes that the Executive Board consider whether the distributions under Section V, paragraph 4(b), of Decision No. 8348 should also be made quarterly rather than semiannually. If the Executive Directors would wish to make the refund quarterly, this could be accomplished by adopting the following decision:

Amendment of the Decision on Principles of "Burden Sharing", the Fund's Income Target for FY 1987 and 1988, Rate of Charge, and Rate of Remuneration (Decision No. 8348-(86/122), adopted July 25, 1986)

In Decision No. 8348-(86/122), adopted July 25, 1986, the word "semiannually" in the last sentence of paragraph 4(b) of Section V is replaced by the word "quarterly".

The text of the decision on "Principles of 'Burden Sharing'" as it would read if the decision set out above were adopted, in addition to the amendment set forth in EBS/86/242, Supplement 1 (12/10/86), is reproduced in the Appendix for the convenience of Executive Directors.

1/ "Adjustment of the Rate of Charge and the Rate of Remuneration for the First Half of FY 1987" (EBS/86/242, 11/4/86).

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

Section I. 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.

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. For financial year 1988, the Fund may decide to add supplemental income to be generated 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) The rate of charge referred to in Rule I-6(4) shall be determined at the beginning of financial year 1987 and financial year 1988. This determination shall be made 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, and shall include the adjustment necessary to generate one-half of the additional net income and of the supplemental income for the year.

(b) 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 further 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 shall be adjusted in accordance with the provisions of Section III.1(a), and the rate of remuneration shall be adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, 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 further adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, so as to generate, in equal amounts, 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(a), the adjustments under this paragraph shall be made as of May 1, as of August 1, as of November 1, and as of February 1 of each year:

shortly after July 31 for the period from May 1 to July 31;
shortly after October 31 for the period from August 1 to October 31;
shortly after January 31 for the period from November 1 to January 31;
shortly after April 30 for the period from February 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 when 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 received reduced 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 received reduced remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(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.

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