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**FOR
AGENDA**

EBS/86/262
Supplement 2

CONFIDENTIAL

December 16, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Morocco - Late Payments to the Fund - Valuation

Attached for consideration by the Executive Directors is a paper on valuation adjustments as a result of late payments to the Fund by Morocco. A draft decision appears on page 3.

This subject is scheduled for discussion by the Executive Board today, Tuesday, December 16, 1986.

Att: (1)

INTERNATIONAL MONETARY FUND

Morocco: Late Payments to the Fund - Valuation

Prepared by the Treasurer's Department

(In consultation with the African and the Legal Departments)

Approved by W.O. Habermeier

December 15, 1986

This note deals with obligations to settle valuation adjustments in terms of the SDR that have arisen as a result of late payments to the Fund by Morocco. While Morocco does not dispute the validity of the adjustments, it desires to offset these payments with valuation gains of the Fund on earlier late payments to the Fund. In accordance with established procedures, certain valuation gains of the Fund that are due to delays in payments are not refunded. The matter needs to be brought to the attention of the Executive Board since a request for a stand-by arrangement is to be considered by the Executive Board on December 16, 1986. The Fund's policy is that the management will not submit to the Board any request for the use of the Fund's general resources under a stand-by arrangement as long as the member concerned has overdue financial obligations to the Fund. 1/

Amounts of currency to be paid to the Fund (or another member) to meet an SDR-denominated obligation are determined, in accordance with the Fund's Rules, on the basis of exchange rates of the third business day before the value date of the transaction. Delays in payments of Fund-related transactions give rise to technical questions regarding the determination of the SDR equivalent of an amount of currency paid late in discharge of an obligation. A specific aspect arises, as discussed in EBS/84/46, March 9, 1984 (page 15), when a payment is completed within a day or a few days of the originally intended value date on the basis of the exchange rate applicable to the original value date. As explained in EBS/84/46, the staff has been guided by two principles in dealing with such cases: (i) that there should be no adjustment in the amount of currency equivalent of a transaction or operation if the adjustment would be to the advantage of the member responsible for the failure to observe the intended value date; and (ii) when the difference between the amount of currency paid or transferred and the amount that should have been paid or transferred does not exceed SDR 5,000, an adjustment would not be made, unless the party not responsible for the delay requested the adjustment irrespective of amount. However, if the delay is protracted,

1/ See Selected Decisions, Twelfth Issue, pp. 75 and 76.

the member would inform the Fund when it intends to settle the overdue obligation, and the Fund would accordingly advise the amount of currency to be paid. In the absence of valuation adjustments, the exchange risks would be carried by other members.

These procedures have been applied consistently in all cases since early 1984 with valuation adjustments being paid as needed by the members concerned. The procedures have not given rise to difficulties until some recent payments by Morocco. In the case of some of these payments made within a few days of the due dates, any adjustments would have been to the advantage of Morocco and refunds were not made by the Fund. In the case of other payments, there were shortfalls in excess of SDR 5,000 and the authorities have been asked to pay the shortfalls. ^{1/} The authorities have raised questions about these procedures and are of the view that all payments should be valued on the basis of exchange rates three business days before the payment dates.

In the staff's view, the present procedures should continue to apply uniformly in all cases until such time as the Executive Board may decide on another procedure. A review of the valuation procedures is intended in due course, on the basis of a staff paper to be prepared for Board consideration.

It is understood that if the Executive Board should endorse the continued application of the procedures mentioned above pending a more general review of the matter, the Moroccan authorities will promptly settle the valuation adjustment due. On this basis the staff proposes that consideration of the request for the stand-by should proceed and, if the stand-by is approved, that Morocco should be permitted to proceed to make purchases under the arrangement, and that Morocco would promptly settle the overdue valuation adjustment in light of the affirmation by the Board of the procedures in EBS/84/46 pending a review of the valuation procedures on late payments.

Moreover, the authorities have requested as early a date as possible for the disbursement. Although borrowed resources are involved and the normal value date would be end-December, the staff proposes to make the first disbursement on December 22, as borrowed funds are readily available for the disbursement and the cost of early disbursement is negligible.

^{1/} The overdue shortfalls total about SDR 180,000.

Proposed Decision

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

1. The Fund takes this decision relating to paragraph 5 of the stand-by arrangement for Morocco (EBS/86/262, Supplement 1).
2. The Fund notes that Morocco is in the process of settling the overdue valuation adjustment and affirms the procedures described in EBS/84/46, pending a review of the valuation procedures on late payments.