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**IMMEDIATE
ATTENTION**

EBD/86/199

July 16, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Report of the Committee on Rules for the 1986 Regular
Election of Executive Directors

There is attached the report of the Committee on Rules for the 1986 Regular Election of Executive Directors, together with a proposed decision whereby the Executive Board would transmit its Report and a draft Resolution to the Board of Governors on the Election.

It is not proposed to bring this matter to the agenda unless an Executive Director so requests by noon on Wednesday, July 23, 1986. In the absence of such a request, this report and its proposed decision will be deemed approved and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Heads of Departments

July 15, 1986

To: Members of the Executive Board

From: Jacques de Groote, Chairman
Committee on Rules for the 1986 Regular
Election of Executive Directors

Subject: Report on 1986 Regular Election of Executive Directors

As directed by the Executive Board (EBM/86/181, 6/27/86), the Committee for the 1986 Regular Election of Executive Directors met on July 15, 1986, and considered the forthcoming election.

In connection with the appointment of an Executive Director under Article XII, Section 3(c), the Executive Board has been informed in EBD/86/192 (7/8/86), of the calculations made under Article XII, Section 3(c). These were made in accordance with certain conventions, one of which is set out in Executive Board Decision No. 597-4 of July 28, 1950, as follows:

"The phrase 'the preceding two years' as used in Art. XII, Sec. 3(c), shall be deemed to be the two-year period ending on the July 31 preceding the dates of regular biennial elections of Executive Directors. However, this decision shall be reconsidered if such regular elections are held in other months than September."

The 1986 Regular Election is scheduled to take place on Thursday, October 2, 1986. The Committee believes that the difference of two days from the holding of the Regular Election in September is not sufficiently large to warrant a change in the convention of ending the two-year period on July 31. Calculations made on the basis of members' positions during the period August 1, 1984 through June 30, 1986 indicate that Saudi Arabia and the United States are the two members that fill the requirements of Article XII, Section 3(c) and that no possible changes during the month of July can affect this result. Accordingly, as set out in Annex I, Saudi Arabia has confirmed that it will appoint an Executive Director, 1/ and the Managing Director has notified all members of Saudi Arabia's entitlement and intention to appoint an Executive Director. In accordance with Article XII, Section 3(b), with this appointment under Section 3(c), the number of elective Executive Directors will be automatically reduced

1/ With the notification from Saudi Arabia no action is required under Section 18(b) of the By-Laws, which states:

"The Executive Board shall prescribe a period within which a member that may appoint an Executive Director in accordance with Article XII, Section 3(c) shall notify the Managing Director whether it will appoint an Executive Director...."

to 14 unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or threaten to upset a desirable balance in the Executive Board.

On the question of the number of Executive Directors to be elected, the Committee took note of the sentiments of the Board of Governors expressed in Board of Governors' Resolution No. 36-3 that in the present circumstances there should continue to be 16 elected Executive Directors.

Annex II is the draft of a report of the Executive Board to the Board of Governors on the 1986 Regular Election of Executive Directors. It states the reason for continuing to provide for 16 elected Executive Directors. Also attached to the report is a proposed resolution of the Board of Governors adopting the Regulations and setting the next regular election for 1988 (Attachment II to Annex II). As noted above, an affirmative vote of an eighty-five percent majority of the total voting power is required for the adoption of the proposed Resolution, because the number of Executive Directors to be elected will be other than 14.

An early submission of the proposed resolution to the Board of Governors will give members timely reassurance of the rules for the election. In order to submit the proposed resolution to the Board of Governors for a vote without meeting under Section 13 of the By-Laws, the following decision is recommended for adoption by the Executive Board:

1986 Regular Election of Executive Directors

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund upon the draft Resolution, entitled 1986 Regular Election of Executive Directors, set forth in Attachment II to Annex II to EBD/86/199.
2. The Secretary is directed to send the Report of the Executive Board to the Board of Governors on the 1986 Regular Election of Executive Directors, in Annex II, and the draft Resolution entitled 1986 Regular Election of Executive Directors to each member of the Fund by mail or other rapid means of communication on or before July 25, 1986.

3. To be valid, votes must be cast by Governors or Alternate Governors on or after July 25, 1986 and must be received at the seat of the Fund on or before 6 p.m. Eastern Daylight Time on August 28, 1986. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be August 28, 1986, the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

Attachments



Office Memorandum

TO The Managing Director

DATE July 8, 1986

FROM Yusuf A. Nimatallah

A handwritten signature, likely of Yusuf A. Nimatallah, is written over the name in the "FROM" field.

SUBJECT Appointment of an Executive Director by Saudi Arabia under Article XII, Section 3(c)

I have been instructed to notify you on behalf of the Government of Saudi Arabia that, as the calculations made under Article XII, Section 3(c) indicate that Saudi Arabia will be eligible to appoint an Executive Director for the two-year period beginning November 1, 1986, it will make this appointment. As in the past, this Executive Director will cast the votes only of Saudi Arabia.

July 14, 1986

Sir:

Pursuant to Section 18(a) of the By-Laws of the International Monetary Fund, I hereby notify your government that Saudi Arabia and the United States are the two members whose currencies held in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right. The United States is entitled to appoint an Executive Director under Article XII, Section 3(b)(i). Saudi Arabia will be able to appoint an Executive Director pursuant to Article XII, Section 3(c) of the Articles of Agreement for the two-year period November 1, 1986 through October 31, 1988.

In accordance with Section 18(b) of the By-Laws, I wish to inform you further that Saudi Arabia has notified me that it will appoint an Executive Director under Article XII, Section 3(c) for the two-year term beginning November 1, 1986 and that this Executive Director will cast the votes only of Saudi Arabia.

Very truly yours,

J. de Larosière
Chairman of the Executive Board
and
Managing Director

Draft Report of the Executive Board to the Board of Governors

1986 Regular Election of the Executive Directors

1. Pursuant to Resolution No. 39-2 of the Board of Governors, "a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 1986." Draft Regulations for the Conduct of the 1986 Regular Election of Executive Directors recommended by the Executive Board are set forth in Attachment I to this Report.

2. The calculations made pursuant to Article XII, Section 3(c) and in accordance with Executive Board Decision No. 574-2 of May 18, 1950, as amended by Decision No. 2620-(68/141), of November 1, 1968, and the principle in Executive Board Decision No. 597-4 of July 28, 1950, indicate that Saudi Arabia is entitled to appoint an Executive Director for the two-year term beginning November 1, 1986. In accordance with Section 18(a) of the By-Laws, the Managing Director informed Saudi Arabia that it would be able to appoint. In response to the inquiries to it, Saudi Arabia informed the Managing Director that it would appoint an Executive Director pursuant to Article XII, Section 3(c) for the two-year period November 1, 1986 through October 31, 1988.

3. Article XII, Section 3(b) provides that the Executive Board shall consist of five Directors appointed by the five members having the largest quotas and 15 Directors elected by the other members. Section 3(b) further provides that the number of 15 Directors to be elected may be increased or decreased and this number "shall

be reduced by one or two, as the case may be, if Executive Directors are appointed under (c) below [i.e., Article XII, Section 3(c)], unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board." Therefore, with the appointment of an Executive Director by Saudi Arabia pursuant to Article XII, Section 3(c), the number of Directors to be elected will be reduced from 15 to 14 unless the Board of Governors decides, by the prescribed majority, to maintain the number of elective Directors. Faced with similar situations in 1980, 1982 and 1984, the Executive Board recommended, and the Board of Governors agreed, that an appointment of an Executive Director under Article XII, Section 3(c) should not be permitted to reduce the number of elective Executive Directors to 14, and, in the Regulations for the 1980, 1982, and 1984 elections, provided that 16 Executive Directors be elected.

The Executive Board again believes that there should not be a reduction in the number of elective Executive Directors because of the appointment of Saudi Arabia for the two-year term beginning November 1, 1986. As in 1980, 1982, and 1984, the Executive Board believes that for it to be able to conduct its business efficiently, the size of the Executive Board should be held to the minimum consistent with a desirable balance in its composition. Taking into account these considerations and the objectives set forth in Chapter 0, Section 2 of the Report by

the Executive Directors to the Board of Governors on the Proposed Second Amendment to the Articles of Agreement, and in light of the belief expressed by the Board of Governors in Resolution No. 36-3 that in present circumstances the number of elected Executive Directors needs to be maintained at 16, the Executive Board recommends that the number of elected Executive Directors be maintained at 16. Paragraph 5 of the Draft Regulations so provides.

4. The Executive Board considered the maximum and minimum percentages of eligible votes required for election in light of the fact that Saudi Arabia would appoint an Executive Director under Article XII, Section 3(c). The Executive Board concluded that it was not necessary to change the maximum nine percent or the minimum four percent established in Schedule E of the Articles of Agreement, and stated this position in paragraph 6 of the Draft Regulations.

5. It is also recommended that the subsequent Regular Election of Executive Directors take place in the Regular Meeting of the Board of Governors to be held in 1988.

6. One editorial change is set out in the proposed regulations for the conduct of the 1986 Regular Election of Executive Directors. The term "nominee", which was used in previous Regulations, has been changed to "candidate" to conform to the usage of Schedule E.

7. The Regulations for the Conduct of the 1986 Regular Election of Executive Directors, are set forth in Attachment I. A draft Resolution of the Board of Governors, by which the Board of Governors would adopt (i) these Regulations for the 1986 Regular Election, and (ii) the

recommendation set out in paragraph 5 above relating to the timing of the subsequent Regular Election is set forth in Attachment II, and is proposed for adoption by a vote without meeting in accordance with Section 13 of the By-Laws. The recommendation that the number of elected Executive Directors be 16 requires that the draft Resolution be adopted by an eighty-five percent majority of the total voting power, as specified in Article XII, Section 3(b).

Attachments (2)

REGULATIONS FOR THE CONDUCT OF THE 1986 REGULAR ELECTION OF
EXECUTIVE DIRECTORS

1. Definitions: In these Regulations, unless the context shall otherwise require:
 - (a) "Articles" means the Articles of Agreement of the Fund.
 - (b) "Board" means the Board of Governors of the Fund.
 - (c) "Chairman" means the Chairman or a Vice Chairman acting as Chairman of the Board.
 - (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor when acting for the Governor.
 - (e) "Secretary" means the Secretary or any acting Secretary of the Fund.
 - (f) "Election" means the 1986 Regular Election of Executive Directors.
 - (g) "Eligible votes" means the total number of votes that can be cast in the election.
2. Date of Election: The election shall be held during a plenary session of the 1986 Annual Meeting to be held Thursday, October 2, 1986.
3. Eligibility: The Governors eligible to vote in the election shall be all of the Governors except those of the members that:
 - (a) are entitled to appoint an Executive Director pursuant to Article XII, Section 3(b)(i);
 - (b) have notified the Managing Director, in accordance with the procedure established by the Executive Board, of their intention to appoint an Executive Director pursuant to Article XII, Section 3(c).
4. Schedule E: Subject to the supplementary regulations set forth herein, the provisions of Schedule E of the Articles shall apply to the conduct of the election.
5. Number of Executive Directors to be Elected: Sixteen Executive Directors shall be elected. "Sixteen persons" shall be substituted for "fifteen persons" in paragraphs 2, 3 and 6, and "fifteen persons" shall be substituted for "fourteen persons", and

"sixteenth" shall be substituted for "fifteenth" in paragraph 6 of Schedule E.

6. Proportion of Votes Required to Elect: In paragraphs 2 and 5 of Schedule E, "four percent", and in paragraphs 3, 4 and 5, "nine per cent", shall not be changed.
7. Nominations:
 - (a) Any person nominated by one or more Governors eligible to vote in the election shall be eligible for election as an Executive Director.
 - (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
 - (c) A Governor may nominate only one person.
 - (d) Nominations may be made until 12 o'clock noon on the day before the day on which the election is scheduled to be held. The Secretary shall post and distribute a list of the candidates.
8. Supervision of the Election: The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.
9. Ballots and Balloting:
 - (a) One ballot form shall be furnished, before a ballot is taken, to each Governor eligible to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.
 - (b) Each ballot shall be by a call of members whose Governors are eligible to vote, and each ballot form, signed by the Governor, shall be deposited in the ballot box.
 - (c) When a ballot has been completed, the Chairman shall cause the ballot forms to be counted and shall announce the names of the persons elected promptly after the tellers have completed their tally of the ballot forms. If a succeeding ballot is necessary, the Chairman shall announce the names of the candidates to be voted on and the members whose Governors are eligible to vote.
 - (d) If the tellers are of the opinion that any particular ballot form is not properly executed, they shall, if possible,

afford the Governor concerned an opportunity to correct it before tallying the results, and the ballot form, if corrected, shall be deemed valid.

- (e) If a Governor does not vote on any ballot in which he is eligible to vote, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted, under Article XII, Section 3(i)(iii), towards the election of any Executive Director.
 - (f) If, at the time of any ballot, a member does not have a duly appointed Governor, such member or its Governor shall be taken not to have voted on that ballot.
10. If on any ballot there are more candidates than the number of Executive Directors to be elected and two or more candidates tie with the lowest number of votes, no candidate shall be ineligible for election on the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of the candidates from the following ballot.
 11. If on any ballot two or more Governors having an equal number of votes have voted for the same candidate and the votes of one or more, but not all, of these Governors could be deemed under paragraph 4 of Schedule E to have raised the total votes received by the candidate above nine percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.
 12. When on any ballot the number of candidates is the same as the number of Executive Directors to be elected, and no candidate is deemed to have received more than nine percent of the eligible votes, each candidate shall be considered elected by the number of votes received even though a candidate may have received less than four percent of the eligible votes.
 13. If the votes cast by a Governor raise the total votes received by a candidate from below to above nine percent of the eligible votes, the votes cast by the Governor shall be deemed under paragraph 4 of Schedule E not to have raised the total votes of the candidate above nine percent.
 14. Any member whose Governor has voted on the last ballot for a candidate not elected may, before the effective date of the election, as set forth in section 16 below, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted towards the election of the Executive Director so designated.

15. Announcement and Review of Result:

- (a) After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.
- (b) The Board of Governors, at the request of any Governor, will review the result of the election in order to determine whether, in light of the objectives set forth in Chapter 0, Section 2 of the Report by the Executive Directors to the Board of Governors on the Proposed Second Amendment to the Articles of Agreement an additional Executive Director should be elected to serve for the term of office commencing November 1, 1986.

16. Effective Date of Election of Executive Directors: The effective date of election shall be November 1, 1986, and the term of office of the elected Executive Directors, and of any Executive Director appointed under Article XII, Section 3(c), shall commence on that date. Incumbent elected Executive Directors shall serve through October 31, 1986.

17. General: Any questions arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such question shall be put without identifying the members or Governors concerned.

Draft Resolution

1986 Regular Election of Executive Directors

RESOLVED:

- (a) That the proposed Regulations for the Conduct of the 1986 Regular Election of Executive Directors are hereby adopted; and
- (b) That a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 1988.