

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/85/127

CONFIDENTIAL

May 14, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Suspension of Transfers to the SFF Subsidy Account and
Investment of Balances Retained in the Special Disbursement
Account

It is not proposed to bring the attached memorandum on the suspension of transfers to the SFF subsidy account and investment of balances retained in the special disbursement account to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Tuesday, May 28, 1985. In the absence of such a request, the draft decisions that appear on pages 6 and 7 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Coats (ext. 8249) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Suspension of Transfers to the SFF Subsidy Account and
Investment of Balances Retained in the Special Disbursement Account

Prepared by the Treasurer's Department

(In consultation with Legal Department)

Approved by W.O. Habermeier

May 13, 1985

I. Introduction

The assets available to the Supplementary Financing Facility (SFF) Subsidy Account are now estimated to be sufficient for the Account to make all expected remaining subsidy payments at the maximum permissible rates of subsidy and to discharge the known liabilities of the Account. Accordingly, it is proposed in this paper that the Executive Board decide to suspend further transfers to the SFF Subsidy Account of the interest on and repayment of Trust Fund loans, which are paid into the Special Disbursement Account (Section II). As regards the resources received by the Trustee as a result of the termination of the Trust Fund which are retained in the Special Disbursement Account, it is proposed that they be invested in SDR-denominated assets pending their use (Section III). A paper dealing with the use of these resources will be issued for the consideration of the Executive Board in due course. Draft decisions are proposed for adoption by the Executive Board in Section IV.

II. Suspension of Transfers

The Instrument establishing the Supplementary Financing Facility Subsidy Account provides that a total equivalent to SDR 750 million of Trust Fund interest and repayments of Trust Fund loans shall be transferred to the Account and shall be made as the amounts are received in the Special Disbursement Account. The Instrument provides further that:

"If, on the basis of reasonable estimates, the Board determines at any time that amounts already transferred to the Account, together with other assets available to the account, are sufficient to carry out the operations and to meet the liabilities of the account in full, it may authorize the suspension of further transfers from, and the retransfer of any surplus back, to the Special Disbursement Account, provided that transfers shall be resumed, up to the total amount specified in (a) [SDR 750 million],

if this proves necessary to complete the operations of the Account and to discharge its liabilities in full." 1/

As explained below and shown in Table 1, the resources of the Subsidy Account are now estimated to be sufficient to meet the Account's obligations in full.

Disbursements from the Subsidy Account for payment of subsidies and loan repayments have amounted to SDR 230.2 million to date. Since purchases under the Supplementary Financing Facility ceased in February 1984 and the list of beneficiaries is final, the maximum future expenditures under the SFF Subsidy are fixed and amount to SDR 278.1 million. Taking account of past and maximum future subsidy payments and repayments of loans by the Subsidy Account, total disbursements by this Account will not exceed SDR 508.3 million. 2/

Since the effective date of termination of the Trust Fund, all resources received by the Trustee have been paid to the Special Disbursement Account and immediately transferred to the SFF Subsidy Account. As of May 10, 1985, a cumulative amount equivalent to SDR 404.4 million has been transferred to the SFF Subsidy Account (see Table 1). 3/ In addition, the Account has received SDR 52.5 million in donations and SDR 18.5 million in investment income. Taking into account known future interest income on existing investments of the Account of SDR 28.0 million and a pledged donation from Saudi Arabia of SDR 22.0 million, the resources (in hand and pledged) of the account are currently SDR 525.4 million. Reinvestment of future interest income will add somewhat to this amount but, as the interest rates at which these funds will be reinvested are unknown, this additional source of funds is not taken into account in this total.

As the SFF Subsidy Account's resources in hand and pledged to it

1/ For details, see paragraph 3(a) of Executive Board Decision on the Termination of the Trust Fund and Transfer of Resources to Special Disbursement Account, and Section 4 of the Instrument establishing the SFF Subsidy Account, as reproduced in the Attachment.

2/ While the maximum possible disbursements are fixed, actual future disbursements could be less if there are early repurchases of balances eligible for the payment of subsidy, or if subsidies are paid at less than the maximum permissible rates. The subsidy may not reduce the effective charges on the relevant holdings below the charges which would have been applicable to the regular use of Fund resources or to balances acquired under the Extended Fund Facility, as appropriate.

3/ These transfers exclude SDR 21.2 million of overdue Trust Fund loan repayments and SDR 0.5 million of overdue Trust Fund interest payments. Had these amounts been received on time, transfers to the SFF Subsidy Account and interest income on the Accounts investments would have been correspondingly higher.

Table 1. SFF Subsidy Account
Resources and Disbursement of Funds

(as of May 10, 1985 - in SDR millions)

Disbursements

SFF Subsidy Payments to Date	225.6
Loan Repayments <u>1/</u>	4.6
Maximum Future Subsidy Payments 1985-1991	<u>278.1</u>
Total	508.3 =====

Resources

Transfers from the Special Disbursement Account	404.4 <u>2/</u>
Donations Received	52.5
Interest Income Received	18.5
Pledged Donation <u>3/</u>	22.0
Future Interest Income on Existing Deposits With BIS <u>4/</u>	<u>28.0</u>
Total	525.4 =====

1/ Loan repayments made to Belgium and Luxembourg. All loans have been repaid.

2/ This figure is SDR 39.3 million below the total Trust Fund interest payments and loan repayments due by May 10, 1985 (SDR 443.7 million), because of outstanding overdue obligations (SDR 21.7 million) and because transfers to the SFF Subsidy Account did not begin until April 30, 1981 upon termination of the Trust Fund. Before that date, SDR 17.6 million of Trust Fund interest payments were combined with the other assets of the Trust, in accordance with Section II, Paragraph 5(a) of the Trust Instrument, and used to make subsequent disbursements or to satisfy the liabilities specified in Section V, Paragraph 2 of the Trust Instrument. All of the Trust's liabilities have been provided for.

3/ Saudi Arabia has pledged to pay \$52 million over time. To date it has paid a total of \$30 million in four annual installments leaving a balance of \$22 million (which presently has about the same SDR value).

4/ Estimates of future investment income on the existing resources in the two-day notice account with the BIS and on reinvestment of interest receipts on existing fixed term deposits are not included. If an annual rate of interest of 8 percent is assumed, total future income from these reinvestments could amount to about SDR 12 million.

now exceed the Account's maximum requirements, it is proposed that the Executive Board suspend further transfers from the Special Disbursement Account to the Subsidy Account and authorize the retransfer to the Special Disbursement Account of resources in excess of the maximum requirement following the Board's decision and as they may be received in the future. 1/ As provided for in the Subsidy Account Instrument, transfers to the SFF Subsidy Account would be resumed if this becomes necessary to complete the operations of the Account and to discharge its liabilities in full. This could happen if expected resources fail to materialize. Any amount remaining in the Account after completion of all subsidy payments would be returned to the Special Disbursement Account. 2/

III. Investment of Resources Held in the Special Disbursement Account

Following suspension of further transfers to the SFF Subsidy Account, all receipts of Trust Fund repayments and interest will be retained in the Special Disbursement Account until such time as they are used in accordance with Executive Board Decision 6704-(80/185)TR and any other decisions that the Executive Board may take 3/. The Interim Committee has requested that the Executive Board consider the use of these resources, in light of the 1980 Decision, and that the Managing Director report to the Committee on the matter by the time of the Committee's meeting in Seoul. A staff paper on this subject will be issued in due course. This section proposes arrangements for the interim investment of the balances received by the Special Disbursement Account as a result of the termination of the Trust Fund, which would also include retransfers from the SFF Subsidy Account. 4/

The Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or of international financial organizations. Such investments are to be in obligations denominated in SDRs or the currency used for investment. 5/ As currencies held by the Special Disbursement Account are not subject to maintenance of value and as the Account's assets are denominated in SDRs, it is proposed that the balances retained in the Special Disburse-

1/ This would consist of the excess in the Subsidy Account upon the suspension of transfers (presently SDR 17.1 million as shown in Table 1) and any interest earned on the reinvestment of future interest receipts on existing deposits with the BIS.

2/ See Section 18 of the Instrument establishing the SFF Subsidy Account reproduced in the Attachment.

3/ The relevant provisions of Decision No. 6704-(80/185) TR, adopted December 17, 1980, are set forth in the Attachment.

4/ Table 2 provides data on projected flows of Trust Fund repayments and interest to the Special Disbursement Account.

5/ See Article V, Section 12(h) in the Attachment.

Table 2. Projected Receipts of Trust Fund Loan Repayments and Interest Payments by the IMF Special Disbursement Account

(As of May 10, 1985 - In SDR millions)

	<u>Interest Payments</u>	<u>Loan Repayments</u>	<u>Cumulative Receipts</u>
Retransfer from SFF Subsidy Account	-	-	17.1
Overdue obligations	0.5 ---	21.2 ----	38.8
1985			
May-June	6.6	0.3	45.7
July-December	6.3	193.1	245.2
TOTAL 1985	12.9 ----	193.4 -----	
1986			
January-June	5.6	262.4	513.1
July-December	4.9	297.9	815.9
TOTAL 1986	10.5 ----	560.3 -----	
1987			
January-June	4.1	297.9	1,117.9
July-December	3.4	294.8	1,416.1
TOTAL 1987	7.5 ---	592.7 -----	
1988			
January-June	2.7	282.6	1,701.4
July-December	2.0	267.9	1,971.3
TOTAL 1988	4.7 ---	550.6 -----	
1989			
January-June	1.5	213.8	2,186.6
July-December	1.0	200.9	2,388.5
TOTAL 1989	2.4 ---	414.8 -----	
1990			
January-June	0.5	161.2	2,550.2
July-December	0.2	104.8	2,655.2
TOTAL 1990	0.7 ---	266.0 -----	
1991			
January-April	0.1	47.6	2,702.9
TOTAL 1991	0.1 ---	47.6 -----	

ment Account be invested in SDR-denominated instruments insofar as possible in order to avoid the risk of exchange loss. This prevents the Fund from having an open position in any particular currency and is in accordance with the Fund's policy on its other investments.

It would be intended that balances held in the Special Disbursement Account would be invested at short term pending determination of the specific modalities and procedures of their use by the Executive Board, and the investment would be encashable on short notice by the Fund. The proposed Executive Board decision on the interim investment policy of the Special Disbursement Account is identical in substance to that already authorized for the investments of the SFF Subsidy Account.^{1/} This policy has in general operated satisfactorily for the Subsidy Account and would be reviewed at the time of the Executive Board's decision on the specific use of the resources of the Special Disbursement Account. The adoption of an identical investment policy at this time has the further advantage of facilitating the possible retransfers to the Special Disbursement Account of any surplus amounts held by the Subsidy Account without the cost of disinvestment and reinvestment by making the appropriate book entry transfers.

Under Article V, Section 12(h), investments by the Special Disbursement Account must be made with the concurrence of the member whose currency is used for the investment. As Trust Fund repayments and interest are received in U.S. dollars, the concurrence of the United States is required. Consultations have taken place with the United States and the staff understands that the concurrence will be obtained.

IV. Proposed Decisions

The following decisions are proposed for adoption by the Executive Board:

1. Suspension of Transfers to the Supplementary Financing Facility Subsidy Account and Retransfer of Surplus

In accordance with Section 4(b) of the Instrument establishing the Supplementary Financing Facility Subsidy Account (Decision No. 6683-(80/185)G/TR), transfers from the Special Disbursement Account to the SFF Subsidy Account shall be suspended as soon as arrangements can be made for the investment of resources retained in the Special Disburse-

^{1/} See Executive Board Decision No. 6854-(81/78) SBS, adopted May 8, 1981.

ment Account. Any resources of the SFF Subsidy Account above the amounts necessary to meet its future liabilities shall be promptly retransferred to the Special Disbursement Account as soon after the date of this decision as possible and as they may be received in the future.

2. Special Disbursement Account - Investment

Pending their use, the Managing Director shall place in investments, denominated in SDRs, with the Bank for International Settlements, the currencies received by the Special Disbursement Account as a result of the termination of the Trust Fund, unless the Managing Director considers that the terms offered by the BIS on an intended deposit denominated in SDRs are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations in accordance with Article V, Section 12(h).

Trust Fund : Termination and Transfer of Resources to Special Disbursement Account (Executive Board Decision No. 6704-(80/185)TR, adopted December 17, 1980)

Paragraph 3(a): From the resources received in the Special Disbursement Account of the Fund pursuant to paragraph 2(b) above, the Fund shall make available an amount equivalent to SDR 750 million for use in the Supplementary Financing Facility Subsidy Account (hereinafter called the Subsidy Account). Such amount shall be transferred to the Subsidy Account as provided in Section 4 of the Instrument establishing the Subsidy Account.

Paragraph 3(b): Of the resources received in the Special Disbursement Account as a consequence of the termination of the Trust Fund which are not used for the Subsidy Account as provided in (a) above, SDR 1,500 million shall be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Instrument. The remainder shall be used to provide assistance to low-income developing members in accordance with the second sentence of subsection 12(f) of Article V of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is taken by that date, the remainder referred to in the preceding sentence shall be used on the same terms as the SDR 1,500 million referred to in the first sentence of this subparagraph.

Supplementary Financing Facility : Subsidy Account - Instrument
(Executive Board Decision No. 6683-(80/185)G/TR, adopted December 17, 1980)

Section 4. Amounts Transferred from Special Disbursement Account

(a) Subject to (b) below, a total equivalent to SDR 750 million shall be transferred to the Account from the assets received by the Special Disbursement Account of the Fund on termination of the operation, in its present form, of the Trust Fund established by Executive Board Decision No. 5069-(76/72). These transfers to the Account shall be made as the amounts are received in the Special Disbursement Account.

(b) If, on the basis of reasonable estimates, the Board determines at any time that amounts already transferred to the Account, together with other assets available to the account, are sufficient to carry out the operations and to meet the liabilities of the account in full, it may authorize the suspension of further transfers from, and the retransfer of any surplus back, to the Special Disbursement Account,

provided that transfers shall be resumed, up to the total amount specified in (a), if this proves necessary to complete the operations of the Account and to discharge its liabilities in full.

Section 18. Termination Arrangements:

Upon completion of the subsidy operations authorized by this Instrument the Fund shall wind up the affairs of the Account. Any resources remaining in the Account after all outstanding liabilities of the Account have been discharged in full shall be applied first to reimburse the Special Disbursement Account up to the full amount transferred to the Account under Section 4, net of any previous re-transfers, and then to reimburse donors pro rata, up to the amounts of their donations. Any remaining balance in the Account shall be transferred to the Special Disbursement Account.

Articles of Agreement. Article V, Section 12(h)

(h) Pending uses specified under (f) above, the Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or in marketable obligations of international financial organizations. The income of investment and interest received under (f)(ii) above shall be placed in the Special Disbursement Account. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

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