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ROOM C-120

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SM/85/40

February 4, 1985

To: Members of the Executive Board

From The Secretary

Subject: Overdue Payments to the Fund - Purchases from Fund -  
Options for Decision

The attached paper, prepared in response to a request by the Executive Board for a staff memorandum analyzing the various options regarding the treatment of unfulfilled repurchase expectations, will be brought to the agenda for discussion on a date to be announced.

Att: (1)

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Department Heads

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INTERNATIONAL MONETARY FUND

Overdue Payments to the Fund -  
Purchases from Fund - Options for Decision

Prepared by the Legal Department

(In consultation with the Treasurer's Department)

Approved by George P. Nicoletopoulos

February 1, 1985

1. At EBM/85/7, on January 16, 1985, the Executive Board considered the proposed decisions set out in SM/84/281 (December 27, 1984) relating to the use of the Fund's resources by members that have overdue financial obligations to the Fund or are not meeting repurchase expectations established pursuant to the Guidelines on Corrective Action with respect to noncomplying purchases. At that meeting, questions were raised regarding the proposed treatment of unfulfilled repurchase expectations which, under the proposed decisions, would be different in certain respects from that of overdue obligations. More specifically, under the proposed decisions, a member that is not meeting a repurchase expectation with respect to a noncomplying purchase would, as in the case of an overdue financial obligation, be prevented from making further purchases under a stand-by or an extended arrangement. However, such a member would not be prevented from negotiating or obtaining a stand-by or an extended arrangement or approval for a purchase outside an arrangement, and the Fund would not be able, in the case of such a member, to rescind instructions given for the transfer of currency in connection with a purchase requested by the member.

2. At Meeting 85/7 another option and a further possibility regarding the treatment of unfulfilled repurchase expectations were discussed. Under the alternative option (Option B) the treatment would be different from that proposed in SM/84/281 (Option A) in that repurchase expectations would be treated like overdue financial obligations for all purposes set out in SM/84/281.

3. A further possibility would be a variation of Option A in that in case of an unfulfilled expectation the Fund would be required to rescind instructions for any purchase.

4. At Meeting 85/7 it was pointed out that under the decisions proposed by SM/84/281 (Option A), a member that did not meet a repurchase expectation would be permitted to negotiate and obtain a stand-by or extended arrangement under which it would be unable to make purchases

until it complied with the expectation. This result might seem to involve an anomaly, and it would be for consideration whether the Executive Board would wish to provide for such a possibility.

5. The further possibility referred to in paragraph 3 above would give rise to the anomaly that a member that was not meeting a repurchase expectation would be able to obtain a stand-by or extended arrangement or obtain approval for a purchase outside an arrangement, but would not be able to receive the proceeds of the purchase because the instructions for the transfer of the currency would be rescinded. This possibility is, therefore, regarded as technically deficient.

6. Option B would treat an unfulfilled repurchase expectation as if it were an overdue financial obligation. This would mean that if the member had either an overdue financial obligation to the Fund or an unfulfilled repurchase expectation, the position with respect to the various uses of the general resources of the Fund would be as follows:

(a) The Fund would not negotiate or approve either a stand-by or extended arrangement for the member or the use of the Fund's general resources outside an arrangement.

(b) A member's right to make any purchase under a stand-by or extended arrangement would be suspended.

(c) If the Fund had given instructions for a purchase requested by the member under an arrangement, or for any other purchase (other than a reserve tranche purchase), the Fund would rescind the instructions to the extent that this is feasible.

This similarity in treatment between financial obligations and unfulfilled repurchase expectations would apply only in respect of the negotiation or approval of stand-by or extended arrangements, or purchases under or outside such arrangements. This treatment would not attribute to repurchase expectations the characteristics of financial obligations in other respects. Thus, a failure to meet a repurchase expectation would not be regarded as a failure to meet an obligation for the purposes of Article XXVI, Section 2 of the Articles of Agreement.

7. If the Executive Board were to choose Option A, the two draft decisions in SM/84/281 would be adopted. If Option B were chosen, the first decision in SM/84/281 would be adopted, together with the following draft decision as the second decision:

Rule G-4 shall be amended to include the following provision as paragraph (e):

"Instructions for the transfer of currency for any purchase, other than a reserve tranche purchase, shall be rescinded, to the extent that it is feasible, during the period between the issuance of the instructions and the value date for the purchase if, during that period, the member requesting the purchase has any overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action with respect to a noncomplying purchase."

