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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 14/6-1

11:32 a.m., January 22, 2014

1. Fifteenth General Review of Quotas—Draft Report of the Executive Board to the Board of Governors

Documents: SM/14/22 and Supplement 1, and Supplement 2

Staff: Tweedie and Bassett, FIN; Hagan, LEG

Length: 4 hours, 34 minutes

Executive Board Attendance

C. Lagarde, Chairman

Executive Directors	Alternate Executive Directors
M. Saho (AE)	
K. Assimaidou (AF)	
	B. Lischinsky (AG), Temporary
J. Yoon (AP)	
P. Nogueira Batista, Jr. (BR)	
T. Zhang (CC)	
J. Rojas Ramirez (CE)	
T. Hockin (CO)	
J. Prader (EC)	
H. de Villeroche (FF)	
H. Temmeyer (GR)	
R. Mohan (IN)	
A. Montanino (IT)	
D. Momma (JA)	
J. Mojarrad (MD)	
A. S. Shaalan (MI)	
M. Snel (NE)	
A. Groenn (NO)	
A. Mozhin (RU)	
F. Alshathri (SA)	
W. Santoso (ST)	
D. Heller (SZ)	
M. Lundsager (US)	
S. Field (UK)	

J. Lin, Secretary
O. Vongthieres, Summing Up Officer
D. Daly/F. Liu/J. Morco, Board Operations Officers
P. Martin, Verbatim Reporting Officer

Also Present
European Central Bank: G. Pineau. Communications Department: S. Bhatia, G. Rice, S. Zucchini. Finance Department: E. Bassett, S. Bassett, M. Fisher, T. Krueger, S. Prowse, R. Rozenov, H. Treichel, A. Tweedie, C. Wong, R. Zhang. Legal Department: W. Bergthaler, C. Blair, S. Hagan, R. Leckow, B. Steinki. Middle East and Central Asia Department: A. Mazarei, S. Yoon. Strategy, Policy, and Review Department: A. Arvanitis, W. Bauer, H. Bredenkamp, L. Cubeddu, K. Kochhar, Y. Sun, C. Tovar Mora. Statistics Department: L. Ducharme, Q. He, K. Zieschang. Advisors to Executive Directors: P. Abradu-Otoo (MD), E. Akbar (ST), M. Atamanchuk (RU), Y. Carriere-Swallow (AG), M. Cavaliere (SZ), W. Choi (AP), D. Douglass Kochman (US), V. Gibbs (UK), C. Gokcen (EC), M. Govil (IN), M. Hough (CO), C. Just (EC), M. Kapur (IN), S. Keshava (SA), A. Landbeck (GR),

T. Lessard (CO), I. Lopes (IT), O. Mamadou (AF), A. Marcussen (NO), E. Navarro Aguilera (CE), R. Ngugi (AE), L. Piana (FF), E. Ramos-Murillo (CE), X. Shi (CC), H. Zavarce (CE), A. Cottas (BR), C. Fisher (AP), F. Najjarian (BR).

1. FIFTEENTH GENERAL REVIEW OF QUOTAS—DRAFT REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF GOVERNORS

The Chairman made the following statement:

In approving the 2010 Quota and Governance Reforms, the Board of Governors called on the Fund's Executive Board to conclude its work on the Fifteenth General Review of Quotas by January 2014. We delayed initiating work on the Fifteenth Review to allow additional time for some members to ratify the 2010 reforms, and in particular to allow the United States to proceed with its process of ratification and approval.

The United States' approval is critical for the whole reforms to go through, given the voting power and the majority threshold required for the governance reforms to come into effect. All members of the management team hoped that this would be in place by now.

We had high hopes at the end of 2013, but the U.S. budget legislation that was finally approved—which is a good thing in and of itself—did not include the IMF reform. We are deeply disappointed. I am personally deeply disappointed. We all made huge efforts. We had spared no time, phone calls, dinners, occasions to meet with members of congress. No member of management spared his or her time and effort. Members of the staff went out of their way. In the period between Christmas and the New Year and immediately after that, there were groups of staff focused on the issue, reaching out, making themselves available for briefings or meetings. We tried to do that as much as we could in concordance and in coherence with the efforts undertaken by the Treasury Department, and by Ms. Lundsager in particular, in order to reach our goal.

But this did not carry the day, and the IMF reform was not included in the U.S. budget legislation. It is frustrating for all who made efforts, and for all Directors. We are utterly disappointed.

I recently spoke with U.S. Treasury Secretary Lew and asked about the administration's plan to take this matter forward. He assured me that they were exploring all other possible vehicles, though it is not for me to discuss those matters.

But irrespective of what is happening and how much exploring of alternative vehicles takes place, the Board needs to decide how to respond, and today's discussion represents an important first step in that process.

The staff has circulated a draft of the report to the Board of Governors and I look forward to hearing Directors' views. Some Directors have reached out to the staff, some have expressed their views. Some Directors have found the draft report lacking ambition, others have found it acceptable. Others thought it could include more details, others believed it contains sufficient details. It is a draft that has elicited legitimate comments and reactions, and I would like to hear Directors' views. We all expressed disappointment and frustration, but we also need to adopt a constructive approach and find a way out of the situation that we are in. I would hope that we can have that discussion in the spirit of being constructive to this institution.

We need to take this process forward. We need to take it into positive territory. We need to put it to a credible and relevant authority as well, which is obviously high among our priorities and concerns.

Ms. Lundsager made the following statement:

The Chairman has used many of my own talking points. My authorities are very disappointed that congress did not include the approval of the IMF quota and governance reforms in the budget bill. The bill was an important accomplishment, but it was a big disappointment that the 2010 reforms were left out. I need to assure the Board that our commitment to the IMF remains deep. We recognize it is critically important to the United States' well being, to all members' well being, that the IMF is financially sound, with countries' representation reflecting their roles in the global economy.

The 2010 reforms would achieve important progress in terms of rebalancing the institution in the right direction, increasing the quotas, reducing the borrowed resources, and we strongly support that objective. Last week, my authorities stated publicly that it is critical for the United States to finalize the ratification process. We are continuing to stand by our commitment. We will continue to work hard to get it done. We are reviewing options on how to move forward to meet this commitment. I have nothing specific at this time, but my authorities are focused on trying to accomplish this in the next few months.

The Chairman's help has been highly valuable. She has held many meetings and many conversations. The staff has been forthcoming and helpful in terms of explaining what the IMF does, and what the reforms do. I give them high marks for all the help they have given us.

But in the end it is the United States' responsibility, and it is a deep commitment we have made. It goes back many years. My authorities stand by it. My Treasury Secretary, my IMF Governor has given this issue a very high priority in many meetings with his counterparts. He knows how important it is to all members, and how important it is to the United States. I will keep the Board posted on progress in the coming months, but the draft report gives my authorities some time and I appreciate the Chairman's focus on having a constructive approach. That is what we need now—some time to focus on securing that ratification as soon as possible.

I look forward to hearing Directors' comments. I know they share that frustration. I will convey that frustration to my authorities, but I would like to hear from Directors and I welcome the efforts the Chairman, the other members of the management, and the staff have made.

Mr. Mohan said that, with the Chairman's permission, he would request his senior advisor, Mr. Eapen, to read his prepared statement.

Mr. Eapen made the following statement:

We meet today with a sense of deep disappointment, as was mentioned by the Chairman. However, we must note this has been our experience during each meeting on quotas and governance over the last year. The sense of disappointment has actually escalated with each meeting.

The draft report is bland, technical, and absent of a proper explanation. On going through the draft, which the staff also proposes that we publish, we wonder if anyone will be the wiser about what is taking place. We do not wish to repeat past happenings, but would like to make a few points for our collective consideration, about what these recent developments portend for the future of the IMF, and for global monetary and financial stability, since this is what is at stake.

The important issue for our chair was not so much the increase in our quota share as a result of the 2010 reform, and the proposed Fifteenth Review, but the recognition of the direction that this would portend. The present situation—where we have no expectation on progress on the 2010 reforms, no finality in its expected completion date, the proposed postponement of the Fifteenth Quota Review by a year, and the inability to arrive at a forward-looking quota formula—has created questions regarding the future role of the IMF. Is it not clear that the Fund's position at the cornerstone of the stability of the world's international monetary and financial system is in jeopardy? We do not believe that many members will render or rush to assistance in the future.

The expectation that the IMF will continue to be the world's leading firefighter has already been undermined, and this will increasingly happen if significant parts of its membership lose faith in the efficacy and the evenhandedness of this institution.

If we sound pessimistic, consider some of the recent developments. Already in Europe, the European Stability Mechanism (ESM) has taken over the lead stability role. In East and Southeast Asia, the Chiang Mai Initiative has been expanded. The BRICs are closer than ever to announcing contingency reserve arrangements. Numerous central banks have announced bilateral swaps and emergency arrangements with each other. In fact, the situation now is similar in nature to the proliferation of the regional trade arrangements immediately following the failure of the Doha Round, which set back progress and multilateralism for more than a decade. Is something similar going to happen?

It is important to note the views of commentators like Ed Truman with regard to this failure. He writes, "Other countries may now start turning further away from supporting financially and politically each of the institutions of the international economic and financial cooperation that have nurtured and sustained the remarkable economic financial and political progress of the world since World War II."

He mentions that public support for the IMF, the WTO, the multilateral development banks, and even regional institutions such as the European Union, has declined in recent years in all countries. He notes that as countries in the global economy and financial system have become more interdependent, we have allowed our support for these institutions of international cooperation to atrophy.

It will not be surprising that we have strong views on this issue and I am sure these will be repeated by many Directors. First, we agree that mentioning that the Fifteenth Review will be postponed by a year sends a strong negative signal. It may be more prudent to have certain milestones within this period so that slippages will alert us to further delays.

Second, we can understand the technical arguments regarding a lack of information on the anticipated increase in quotas. However, it is important to launch the Fifteenth Review discussions under certain assumptions, only to point out to the world community that this institution is serious about dealing with issues reflected on earlier. It would also help in finalizing the review in a shortened period of time if approval for the Fourteenth Review is suddenly and unexpectedly received.

Third, the report to the governors should be frank and upfront about the Board's failure to do the tasks that were mandated to it and should avoid sending an incoherent message. We should clearly say why we were not able to do it and indicate how close we are to completing the Fourteenth Review and launching the Fifteenth Review by giving the necessary data in the main body of the report and not in a footnote.

Fourth, as a Board, now that we have nothing more to be circumspect about, we should formally record our appreciation for the efforts of the U.S. government for trying to get this approval through the U.S. Congress. This is not being disingenuous, but strengthening the hands of well wishers, of whom there are many in the administration, including our esteemed colleague, as well as in American civil society. We welcome the commitment that was mentioned by Ms. Lundsager.

On reading the press reports on recent developments, we were struck by the inadequate appreciation of the IMF as an institution in the minds of several decision makers. We would not like to find faults, but the report should address the concerns expressed by members of the U.S. Congress as reported in the press. The report should clearly restate the fundamental and unanimous belief that the 2010 agreement is in the interest of global stability and also in the interest of the United States as the largest shareholder. We should also explain how the completion of the Fifteenth Review will be in everybody's interest, including the IMF's interest. At the same time, we must express surprise that a measure with a budgetary cost of a mere US$315 million in a US$1.2 trillion package did not find favor.

Fifth, beyond these agreements, beyond the statement we make to our Governors, it is critical for management to emphasize the importance of the upcoming deadlines for this institution in every possible forum, every future visit, and every gathering of world leaders. It is important that in the Chairman's communication at Davos later this week and in Australia next month, and everywhere in the world that she travels, that she place these issues front and center as the real problem impeding our institution now that the tide is turning. We have indicated why it is crucial to the future role of the Fund. We are also now in a position where we may have to plan for the contingency that the Fourteenth Review as presently constructed might never get the necessary approval. In other words, what is the proposal or plan B that can be considered? This initiative has to come from management.

Tuesday, January 14, 2014, the day after the bipartisan budget agreement excluding the contribution, was dark and rainy in Washington D.C. It was noted that the weather mirrored the gloom of those who have hoped for a better outcome for the IMF reform package and their growing concern for the future of international economic and financial cooperation. We should, however, always be hopeful for sunny days ahead.

Mr. Saho made the following statement:

At the time of the Board approval of the 2010 reforms, the Managing Director at that time stated that, "This historic agreement is the most fundamental governance overhaul in the Fund's 65-year history, and the biggest-ever shift of influence in favor of emerging market and developing countries, recognizing their growing role in the world economy."

Whether or not we fully agree with this statement, there is no doubt that the 2010 reforms form part of the process of evolution of the Fund to reflect the transformation of the world economy and to reduce reliance on borrowed resources. An IMF that has the full support of all of its members should be better placed to play a more effective role in global economic governance.

The failure to bring the reforms into effect would likely erode support from some parts of the membership, and increase the trust deficit between those members that currently define the global order of economic governance, and those that because of their growing role in the world economy, seek more say in the affairs of the institution. It would be unfortunate if such erosion of support were to lead to a loss of credibility and effectiveness of the Fund as a global stabilizing force.

For many of the countries in my constituency, an effective IMF is of critical importance, not just because of the Fund's financing role, even though this is important given that the IMF is the only backstop that countries in my constituency have, unlike some other parts of the membership that are contemplating implementing or are already implementing subset financing arrangements. An effective IMF is also important to many countries in our constituency because it is crucial to identifying or addressing disruptions to the international monetary system. As many Fund members are impacted by the fallout from deeper, more prolonged, and widespread crisis in systemic countries, the countries in my constituency are as concerned as any in the membership that the IMF should become a more effective institution, given that its breadth of analysis cannot be easily replicated by another regional or global body.

We therefore urge management to continue to explore all options to make the reforms effective. This would include making use of every opportunity in public speeches to highlight the issue. Management and Directors should also continue to support members that have not yet signed on to have the ratification processes concluded successfully.

Mr. Nogueira Batista made the following statement:

The IMF reform has four main elements—the Fourteenth General Review of Quotas, the Fifteenth General Review of Quotas, the Quota Formula Review, and the Board reform. Progress in all of these four elements is blocked or has been blocked because of the failure of the U.S. Congress to approve the quota increase and the Board reform. As mentioned by others, a major opportunity was missed in January when the U.S. administration failed to obtain support in congress to include the IMF reform in the omnibus bill.

This has a clear consequence. With all due respect, I believe it shows the lack of capacity of the largest quota shareholder to deliver on a crucial matter. The original target date for the entry into force of the Fourteenth Review was October 2012. The Fund is now nearly 15 months behind schedule. The United States is unwittingly undermining an institution in which it played a major role in creating, that is headquartered in its capital city, and in which it has had up to now a decisive and leading role. Nothing we can say today would be as destructive to the institution as the delayed ratification by the United States.

One should not lose sight of the irony in the current stalemate. The United States enjoys a privileged position in the IMF. It is the only country to individually hold a veto power over decisions that amend the Articles of Agreement and many others that require an 85 percent threshold of voting power. One fundamental question that arises from this situation is whether the United States will be able to continue playing this role to the same extent until it ratifies the 2010 reforms. Probably not.

The United States is the only G20 country not to have ratified the reform. With the United Arab Emirates, it is the only IMFC member not to have ratified. We cannot deny that the IMF reform process has reached a new low point. What is happening calls into question the institution's legitimacy and its capacity to request structural reforms from its members. How could the IMF ask for what it is incapable of delivering itself?

We cannot get around the fact that we are facing a major disaster. When the international crisis broke out in 2008, the IMF was already facing a decline in its credibility, and also in its capacity to contain the crisis. It recovered from that. Members agreed at the time to boost enormously the borrowed resources of the Fund. Emerging market countries participated in a big way in the provision of loans to the IMF through bilateral agreements, and the New Arrangements to Borrow (NAB), with the agreement that these loans would be a bridge to a reform of quotas and the distribution of voting power. Emerging markets did their part, but the reform did not happen. Can anyone blame them for feeling cheated?

I realize that this is a strong word, but it is not inappropriate to the circumstances. As Keynes once said, "Words ought to be a little wild, for they are the assault of thoughts upon the unthinking."

An enormous amount of work and negotiation time was put into this in the G20 and in the IMF in 2009 and 2010. Many Directors participated in this. Time consuming procedures were undertaken by most of the countries to ratify the decisions in their countries.

We are very close to completing the Fourteenth General Quota Review. One single country, the United States, could by ratifying allow the reform to enter into force. We are that close. I believe we cannot remain hostage to the U.S. Congress. We need out-of-the-box ideas, as the Indian chair just mentioned, to develop alternative routes to overcome the stalemate. I believe we need to start right away.

The Chairman has assured us that she remains committed. The U.S. administration has repeated that it remains committed. Ms. Lundsager has reiterated that. We welcome these assurances. We welcome the fact that the U.S. administration now offers new promises to find ways to work for congressional approval. But at this stage, words and promises are not enough. Deeds are required. Like the Indian chair, we expect to hear from management what alternatives are being contemplated to move forward with these four elements of the reform package, given this surprising and extraordinary delay of the entry into force of the Fourteenth Review.

Turning to the draft report itself, it is very weak. I cannot go along with the proposed decision as it stands. I will not even mention the procedural problems that we have. I will just address directly the reasons why this draft report is weak.

We would prefer a six-month deadline for the conclusion of the work on the Fifteenth Review and the quota formula. It is not clear that a full year is needed. We need to keep up the pressure on the membership, the institution, and ourselves to make progress. Otherwise, I believe we will meet again in January 2015 to send another report of failure to the Board of Governors.

We should be clear about the reasons why we failed to deliver on the Board of Governors' request. This is not done in the draft report.

The Chairman mentioned the need for a constructive approach in reaching some agreement on the way forward. That is fine. One contribution would be if management could come to the Board with a menu of alternatives to move forward on the various elements of the reform process, and perhaps make reference to these alternatives for future discussion in the report to the Board of Governors.

It would be helpful to underscore again that it is crucial for the effectiveness and legitimacy of the IMF that it be a quota-based institution. I would not even say "remain a quota-based institution," because in practical terms, it has lost this characteristic in recent years, given the enormous imbalance that arose between borrowed resources and quota resources.

In fact, I note in passing that the Fifteenth Review is not a discussion of the overall size of the Fund, but a way of ensuring that the large borrowing arrangements and the bilateral agreements—the NAB and the bilateral agreements—are converted to a large extent into quotas, restoring the quota-based nature of the institution.

I prefer to eliminate the passage in paragraph 6 of the draft report that states that the work on the quota formula and the Fifteenth Review would resume "as soon as the quota increases under the Fourteenth Review become effective."

I do not believe I need to explain again why we oppose this approach. Our chair was always reluctant or was even opposed to this sequencing. We would not agree with enshrining it in the Executive Board report to the Board of Governors.

Mr. Lischinsky made the following statement:

> I support the comments made by Mr. Eapen and Mr. Saho, and particularly Mr. Nogueira Batista's last point about the sixth paragraph of the report to Governors. I agree that the passage that calls for the Fund to continue with the Fifteenth Review only after the Fourteenth Review becomes effective should be deleted. We have to continue working on the Fifteenth Review and on the quota formula because the Fourteenth Review is the review of the pre-crisis work with data through 2008. In this Fourteenth Review, several countries that increased their quota later on suffered heavily from the impact of the crisis. In the Fourteenth Review, six of the 11 chairs from emerging markets and developing countries (EMDCs) actually lost quota shares. These chairs and the EMDCs in general were part of the locomotive that took many other countries out of the crisis in 2008/09. The image of the Fund will be damaged if we cannot continue working in this sense. As Mr. Eapen noted, it is critical to the future role of the Fund.
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> The country that has pressed for the reform has not yet consented to this reform and quota increase, and we share Ms. Lundsager's disappointment that this was not included in the budget approved by the U.S. Congress.
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> We have to continue because, as Mr. Nogueira Batista noted, the Fund is a quota-based institution. We have to continue working on the Fifteenth Review because the 2010 reform was approved by the Board of Governors on December 15, 2010, and the 2008 review took effect some months later. We have no argument with not continuing to discuss the Fifteenth Review because the Fourteenth Review has not become effective. There is a precedent in that the previous 2010 review that was completed and approved by the Board of Governors on December 15, 2010, before the 2008 review took effect in March 2011.
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> These are good arguments for why we should continue working on the Fifteenth Review without delay rather than wait for the Fourteenth Review to become effective.

Mr. Momma expressed disappointment with situation, but noted that the U.S. government remained committed to the Fourteenth General Review of Quotas. He remarked that the Board's top priority should be realizing the Fourteenth Review, and that the one-year target for the Fifteenth Review was reasonable under the circumstances. He supported the draft report.

Mr. Yoon made the following statement:

We are deeply disappointed with the continued delay in implementing the Fourteenth Review. This delay has not only caused us to miss the January deadline for the Fifteenth Review, but also has prevented us from rebuilding the IMF's governance structure. The IMF's legitimacy, effectiveness, and credibility depend on continuing quota and governance reform as a matter of urgency, and the negative spillovers from the U.S. Congress should start soon. If this legitimate and long overdue quota reform continues to fail, contrary to the broad membership's decision, we believe that the Board of Governors should conduct a fundamental review of the current governance and voting structure, including the supermajority rule, so as not to repeat this failure.

Regarding the proposed decision outlined in the report, the Board should better signal the importance of this reform by strengthening the language used to express regret in paragraph 5. As this report constitutes the Board's reporting to the Board of Governors, it should contain a review of possible options for what to do next so that the Board of Governors can make an informed decision.

It is important that any new deadline proposed for the Fifteenth Review signals a commitment to act decisively and quickly while also appearing credible. A new deadline should ensure that all stakeholders remain actively engaged and committed, but it should also be balanced against the risk of another failure to complete the Fifteenth Review, which would be a significant blow to the proposed reform.

We could agree with the draft report's proposal to delay the deadline until January 2015, because the period includes another budget season of the U.S. Congress, but it would be useful to have a midyear review at the Board so as to not park this issue to the side.

Finally, we do not consider it appropriate to delay the Fifteenth Review until after the completion of the Fourteenth Review, because it would unnecessarily tie our hands. However, we can agree with delaying the work on this review until after the Spring Meetings.

Mr. Snel made the following statement:

Like all Directors who have spoken, we are deeply disappointed by the last minute developments on the U.S. budget. We were expecting a different outcome, especially because the U.S. administration seemed dedicated to get this done. But given the reality, we have no other choice but to accept the judgment of the democratic process, even though it is disappointing.

I would like to note that concluding the Fourteenth Review was not only important for governance issues, but also for the IMF's resources. The IMF should remain a quota-based institution. All EU member states have ratified the 2010 Quota and Governance Reform and we would like to encourage all members, including the United States, that have not ratified it to do so as soon as possible.

Turning to the Fifteenth Review, we are open to considering alternatives for progressing toward the completion of the Fifteenth Review, and we are committed to bringing this review to a timely and successful closure. We need to be realistic, but at the same time, any new deadline should be also ambitious.

Finally, it is important that the work toward completion of the Fifteenth Review takes into account the interests of the entire membership. That is why the process toward completing the Fifteenth Review should be anchored in the relevant IMF bodies where all members of this institution are represented. Any reference to this latter point would therefore be a welcome addition to the report to the Board of Governors.

Mr. Heller made the following statement:

We also regret that the targeted deadline was missed, and we are of the view that the Fund needs to return to being a quota-based institution. We agree that the report should be somewhat clearer as to why we failed to meet the deadline, and one possibility is Mr. Eapen's proposal to identify the supportive forces in the United States.

The report makes two proposals. The first one relates to when to resume the work on the Fifteenth Review and the other one relates to the deadline.

We should not resume the work on the Fifteenth Review before we have completed the Fourteenth Review, not because we want to delay anything, but because we have done a significant amount of work, all the arguments are on the table, and the problem is finding consensus on what to do in the Fifteenth Review and not in finding new insight.

On the deadline, we should avoid having to write another report of failure to the Board of Governors. Against this background, we do not favor setting a new deadline that does not take into account when the Fourteenth Review will be ratified.

Mr. Mozhin made the following statement:

We greatly appreciate all the efforts made by the Fund's management and the staff, as well as by the U.S. authorities, including Ms. Lundsager. This should be very clear. At the same time, I share the sense of disappointment and frustration of many Directors. I would even say that knowing the scale of the effort made toward having the U.S. Congress ratify the 2010 reforms, the outcome makes me even more frustrated, because the only conclusion I can come to from this outcome is that we now face the prospect of no ratification for many years to come. Consider how much energy was put behind this effort. It has failed.

It is important that we keep hoping that someone will find a way to ratify it sooner rather than later. But we need to think carefully about the prospect of no ratification for many years to come. We can no longer view that prospect as a tail event that is unlikely to happen.

Having said that, I agree with Mr. Nogueira Batista that the report is weak. It needs to be strengthened significantly. I share many of the specific suggestions on how to strengthen this report made by Mr. Eapen, Mr. Saho, Mr. Nogueira Batista, Mr. Lischinsky, and Mr. Yoon. I would want even more. The report has to be made more transparent in the sense of describing the Fund's current state of play. The Fund is out of money. The Fund is out of its regular resources, which should be clearly explained and described in the report. The Fund can only continue to operate based on borrowed resources, which have been extended to the Fund on a temporary basis. This is clearly stated in all the relevant decisions—that these resources are extended on a temporary basis. This has to be in the report.

I do not believe that any language could overdramatize the circumstances the Fund is facing. In fact, any language would perhaps not sufficiently dramatize our circumstances.

I would prefer a six-month extension of the deadline rather than a 12-month extension because it is important to send a signal about the sense of urgency. I understand it is not realistic, but I do not mind issuing this kind of report every six months, which would be better than issuing them only once a year. Where is the sense of urgency if we issue a report that says “we have failed, see you next year?” This is not the type of signal one should be sending at this moment.

The report must communicate the sense of failure, the sense of urgency. There should be transparency in the description of the circumstances, especially that the Fund has no money.

The language in paragraph 6, which says that the Fund will only begin discussing the Fifteenth Review after the coming into force of the Fourteenth Review, should be removed. I am not unrealistic. I understand the circumstances. I know that we will not be able to discuss the Fifteenth Review if some of the members are not prepared to discuss it, but I do not want to openly recognize that we have become hostages of the U.S. Congress, and that is what is currently written in the draft.

I agree with others that the report should make a specific commitment to consider a menu of options, and that we will expect the Fund’s management to provide this menu of options, perhaps not in a distant future.

I also support the idea that the Chairman and other members of the management team should use every opportunity in their engagement, in various international fora—Davos, Sydney, and the like—to make clear, strong, and even dramatic statements publicly.

Mr. Assimaidou made the following statement:

I thank the Chairman, the management team, and the staff for all the efforts made. Although we regret that the U.S. Congress did not pass the reforms, we acknowledge the strong support of the U.S. administration for the decision. We also thank Ms. Lundsager for her tireless efforts on this issue. We can only hope that the U.S. Congress will review its decision in the near future.

Overall we share the disappointment of Directors. I will not repeat the arguments, which I broadly share. We need to continue our efforts, and in this regard the draft report is a good basis to start with, as it broadly reflects the state of progress in the upcoming general review. Given the delays, we agree that additional time is required to complete the Board’s work on the Fifteenth Review.

We also encourage the Chairman to pursue efforts to move forward. In the spirit of the constructive approach that she called for, we would like to make the following points for consideration. Since the discussion on a new quota formula should be integrated and move in parallel with the discussion on the Fifteenth Review, it would be sensible for the report to include an appendix that provides a stock taking of the discussion on the new quota formula review, notably the areas of agreement and where agreement is still needed to reach consensus.

Mr. Alshathri made the following statement:

We thank the staff for the concise report and support the proposed decision. Like other Directors, we are disappointed by the lack of support for the entry into force of the 2010 Quota and Governance Reform.

We thank the Chairman and the staff for their persistent outreach efforts to secure the necessary legislative support. We also appreciate the contribution of Ms. Lundsager to this process and we are assured by the commitment of the U.S. authorities.

We agree that the Board should resume the work on the Fifteenth Review of quotas as soon as the quota increases under the Fourteenth Review become effective. In the meantime, the feeling of disappointment should not impact the morale of the institution, nor its effectiveness and legitimacy, as the work program and the challenges facing the Fund remain significant. Therefore, the Fund should continue with its work to meet the needs of its membership with the same strong spirit.

On the positive side, it is also important to emphasize that thanks to the significant financial contributions made by willing members, the Fund continues to have access to ample resources. These resources have allowed the institution to meet members' needs during the height of the crisis and are still available. In fact, the credit capacity of the Fund stands at an all-time high of SDR 669 billion, compared to only SDR 166 billion before the crisis. The Fund is in a unique position to respond to and to serve its members' needs, and with the availability of these resources, the Fund will continue to be relevant and at the center of global economic stability.

Mr. Hockin made the following statement:

I would first like to express our chair's regrets about the delay in implementing the quota increases related to the Fourteenth Review and the

Board reform amendment. The passage of these reforms remains necessary to preserve the Fund’s continued effectiveness and legitimacy. That being said, the purpose of this meeting should not be to blame members who have not yet consented to the quota increases or agreed to the Board governance reforms. I note Mr. Eapen’s eloquent warning. It does not blame, instead it expresses frustration, but is constructive in tone. That is the way we should proceed.

We are gathered to discuss what should be an objective report without any coloring. The report should explain that we have not been able to complete our work in connection with the Fifteenth Review within the prescribed timetable set forth by our Governors. In that regard, the report circulated by the staff depicts accurately and objectively the circumstances leading to our inability to complete this work on time.

Having been in negotiations with the United States many times in the last 25 years—whether it is soft wood lumber, which took 17 years; whether it is the Keystone Pipeline, which will take who knows how long—the U.S. Congress is a somewhat mercurial body. We do not like that, we resent it, but that is what we have to deal with. It would be counterproductive to undertake work on the Fifteenth Review before the completion of the Fourteenth Review, as it could undermine the efforts to secure passage of the Fourteenth Review. Putting the two together might overload the request to the point that the U.S. Congress would not be able to digest it. Although I fully understand management’s desire to set new targets for the presentation of our proposal on the Fifteenth Review to the Board, we should not underestimate the reputational risks that could be associated with another failure to meet our targets, as Mr. Yoon noted.

Finally, the Board will need appropriate time to discuss the Fifteenth Review. There is no doubt about that. We should not be unnecessarily rushed in our deliberations. In that context, and taking note that it may be difficult to achieve progress in the passage of the Fourteenth Review before the November congressional elections, we wonder if it is realistic to expect the Board to complete its work before January 2015.

Mr. Mojarrad made the following statement:

We thank the Secretary for the brief note and welcome the opportunity to discuss the draft report of the Executive Board to the Board of Governors on the Fifteenth Review. We would like to make the following comments.

Quota and governance reforms are critical to enhancing this institution's credibility, legitimacy, and effectiveness, as well as its quota resources. These objectives will only be achieved through substantially increased voice and representation of EMDCs, including that of the most dynamic countries and the poorest members, without such an outcome coming at the expense of the other EMDCs. We all hope that the 2010 Quota and Governance Reforms, once in effect, will be an important additional step in this crucial process.

Although we appreciate the effort made by management, and the U.S. administration, we are deeply disappointed by the delay in implementing the 2010 Quota and Governance Reforms, as well as by the considerable uncertainty as to when it will enter into force. This delay would significantly undermine the credibility of this process.

Under the circumstances, we agree that the immediate priority is the effectiveness of the Fourteenth Review and that additional time will be needed to complete the work on the Fifteenth Review in tandem with continued discussions on the quota formula.

We agree with those chairs that proposed advancing the deadline by six months to end-June 2014, and we expect management to come up with a menu of options to move the agenda forward in the meantime.

Consequently, we support the proposed decision and join others in incorporating the necessary amendments to the report, urging the remaining members to accept the 2010 reforms expeditiously, and look forward to early completion of the Fifteenth Review.

Mr. Prader made the following statement:

I share the frustration expressed by many colleagues that the Fourteenth Review has not been ratified by the U.S. Congress, despite the relentless efforts of the U.S. authorities and the Chairman to successfully conclude this quota review. I appreciate the assurances given by Ms. Lundsager that the U.S. authorities are exploring all options to conclude the quota review. I am equally interested in the staff's answer to Directors' request to explore other options on the part of the Fund. I wonder what we can do given the fact that we cannot move without the major shareholder.

I am concerned about one accidental outcome of this debate in the U.S. Congress—the implicit assignment of a quantified risk of

US$315 million of any quota contribution by the United States. Accountants in other central banks will take note of this, and this will make it difficult to pass any quota increase in the future, because it will simply change the understanding of what the quota increase means in terms of the risk assessment of central banks' reserves. I wonder whether Ms. Lundsager could explain the role of the Congressional Budget Office, and whether it is relevant for such accounting questions.

Although I understand that some colleagues would like to make the reasons for this failure of the U.S. efforts more explicit in the report, I would caution against going down that road. This would only give ammunition to those who are already strong skeptics of the Fund, and even worse, to those who are indifferent to the purpose of this institution. We need to be diplomatic and realistic. We will need these people who have not supported the Fund in this endeavor, so we need to look forward and not alienate them. I have sympathy for calls to bring the target forward from the January 2015 target, but like Mr. Hockin, I have doubts about whether this is realistic, as failing to meet yet another deadline would do even more damage to the Fund's reputation.

I ask myself whether the work on the Fifteenth Review and other elements such as the quota formula should continue when we have not yet completed the Fourteenth Review. We should not be distracted by the fact that one of the four elements Mr. Nogueira Batista has mentioned has not been completed. We can still work on other elements, such as on governance reform, and it is possible to do something in terms of governance reform. Some work needs to be done without hiding behind the U.S. Congress.

I therefore support the proposed factual report to our Governors. I do not share the opinion that this is a weak report. It is a typical, understated IMF report, and we cannot expect passionate reports from the IMF staff.

Mr. Groenn made the following statement:

Like others, we regret that the reforms have not come into effect and strongly urge the members who have not done so to ratify as soon as possible. I would like to express our appreciation for the Chairman's efforts to accomplish this in order to preserve the effectiveness and legitimacy of this institution.

I also welcome Ms. Lundsager's statement on the commitment of the U.S. authorities to the IMF, and the intention to explore and review options in the near future to conclude the Fourteenth Review. This chair remains committed to engaging in constructive discussions on the quota formula and the Fifteenth Review as an integrated package, and to arriving at a result that is acceptable to the broad membership.

We find the draft report to be clear, concise, and factual, and we support its submission to the Board of Governors. We accept the timeline as outlined in the draft report, recognizing that the effectiveness of the Fourteenth Review is the immediate priority.

Finally, we emphasize the importance of conducting and anchoring discussions and negotiations on IMF governance and quotas within the relevant IMF bodies, as Mr. Snel emphasized.

Mr. Santoso made the following statement:

I thank the Chairman and the staff for putting together the draft report, as well as Ms. Lundsager and her team for trying to convince the legislative authorities in the United States to ratify the 2010 reforms. I also thank Ms. Lundsager for her statement about the efforts of the U.S. authorities.

I would like to join other Directors in expressing disappointment at the current state of affairs on the 2010 reforms, which was a watershed not only in terms of the Fund’s history, but also in terms of enlarging the voice of the EMDCs and doubling the Fund’s resources.

I share the disappointment expressed by Directors. In fact, we are not sure that in the future the uncertainty will not remain. I echo the view of the Chairman that we must remain fully committed to pursuing the implementation of the governance reform to make the Fund an even more effective and representative institution.

Nevertheless, we have to address how to deal with the uncertainty. We have to address how the Fund can deal with its short-term funding. In the medium to long term, we have to decide whether to maintain the status quo in terms of having no decision from one member on the ratification of the Fourteenth Review, and whether any other option is available to deal with the uncertainty. It is important for the Board of Governors to hear about the possible options to deal with the uncertainty.

With regard to the discussion on the Fifteenth Review, we have done many things in the discussion. We need to keep discussing the issue, either in a formal or informal meeting, to make sure that we are not losing the topic of discussion and to keep a sense of how to improve the situation, because there are some outstanding disagreement on elements of the Fifteenth Review.

In terms of the timing for the extension, before we decide on how many months or years to extend the timing of the commitment, we have to be clear on the rationale of the timing. Then we must have many discussions on how to communicate the urgency of the reforms, and also about how to be realistic about the timing. It is important to strike a balance between those two to make sure that we will not meet another failure after several months, as Mr. Yoon and Mr. Hockin mentioned.

Mr. Zhang made the following statement:

I thank the Chairman for her opening remarks. Having listened to statements of Directors, my sense is that there is normally substantial disagreement on this topic. Today, I sense a consensus. We share our disappointment on the failures and we expressed our commitment to the reforms. We remain hopeful and we all agree to adopt a constructive approach to move forward. These are positive sentiments. This is the foundation for us to continue work on this topic. That is encouraging. Regardless of this disappointment and frustration, it is never too late to catch up.

In that sense, I can go along with the main thrust of the draft report. At the same time, I share the view expressed by many Directors that the report can be strengthened in how it reports what is happening to our Governors.

The report is short. I agree that there are too many footnotes. If report is meant to be short, why does it need so many footnotes? If that is the IMF's style, I do not believe in that. When I started working at the Fund, I was told that IMF staff members were all good writers and that a plain explanation could always be communicated in IMF papers. We should stick with that, and write a plain report to our Governors. Most of our Governors do not have enough time to read the footnotes, so we should be as plain as possible.

I believe we should write more on the progress and efforts that were made. This is not meant to add emotion whatsoever, just to highlight what we have done and what we have not achieved, for whatever reason, and the current status.

I encourage the staff to seek all options possible to move forward, including seeking the guidance of Governors. When we report to them that we have failed to deliver, we should tell them what has been done, for what reasons, and what we expect to do next. The Board of Governors' guidance is needed at this point. Some political support and commitment are also needed. That is important.

On the other side, many Directors have mentioned that we should go out, together with our membership, to explain why the reforms are still necessary and important. So far, the media coverage does not provide the whole picture. The media coverage of this issue just mentions the shift of power to emerging markets. I agree with Mr. Eapen that this is not just about giving power to emerging markets. It is for the benefit of the entire membership and the institution, and most importantly, we have all committed to the reforms, and it is our obligation to make that happen. This is the campaign we need to strengthen. It is a bit late, we should have done it earlier, but it is never too late.

Because we are discussing the Fifteenth Review, and this is one part of the package of the entire reforms, we should continuously consider that as a full package. The goal is not to single out any particular item of the reform, but to deliver on the entire package. In that sense, I am open to any of the deadlines, either realistic or ambitious. Once we deliver, we have to deliver it as a whole package.

Mr. Rojas made the following statement:

We appreciate all the efforts of the U.S. government and Ms. Lundsager's diligence on this matter. We knew that this was a possible outcome, and beyond being disappointed or frustrated, this institution has the means to overcome and to look for any solution. The first point is that in accordance with the spirit of cooperation of the Fund, we have to be all together with all our members at any time, in any circumstances, and to know how to deal with any situation. This is a challenge for the institution, and it is a good opportunity to show what the IMF is capable of.

Taking this as a fact, and being sure that the democratic process of the United States will yield a good result—and I believe they will achieve all the objectives in the budget, and all the complex procedures of the budget—we have to be aware that the 2010 reforms have not entered into force, and that the January 2014 deadline for the Fifteenth Review will not be met. It is important to keep that in mind and to continue working to complete these reforms as soon as possible.

We understand the reason, and it is important that the members of the institution ratify this reform, and it is a matter of respect that we have to accept this situation.

What should we do in this situation? First, the report should provide our Governors with an account of what is happening. The institution has to be aware of this situation, and take into account the restrictions, so it can determine how to remove these restriction and go forward. Second, we should remain committed to the discussions on the Fifteenth Review and the work on the approval of the reforms. Third, we should continue discussing them as an integrated matter in order to achieve a more consistent and efficient result, as we have agreed to do.

When we do everything, it is in our hands and we continue to have restrictions, and we have to help our Governors, it has to be in consultation with our Governors. It is a solution, maybe a political one, with all our Governors. Perhaps they can talk among colleagues and have a better understanding.

I agree with Mr. Zhang and Mr. Hockin that we have to continue working out of disappointment and frustration. It is a reality.

We have to encourage our teams, encourage the Chairman to continue with this challenge. It is a big opportunity. We have confronted the crisis in 2008, the crisis in Europe. This is not a crisis situation. We have to confront it. My chair is optimistic. We support going ahead with this report, and we invite the Board to continue working on this.

The Chairman adjourned the Board for a brief recess.

Mr. Temmeyer made the following statement:

I thank the Chairman, the staff, and the U.S. authorities for their efforts to implement the quota and governance reform. In the end, it did not happen, and it is regrettable that the Fourteenth Review could not be implemented and the work on the Fifteenth Review has been delayed. It is not only regrettable for the emerging market economies, because they have to wait again for higher quota shares. It is also regrettable for the whole membership and the Fund as an institution because it has implications for the effectiveness of the Fund, including on its funding side, and also implications for the review of the Flexible Credit Line and Precautionary and Liquidity Line.

What about the way forward? I agree with Mr. Prader that this is not a weak report, and we broadly can go along with the draft. However, we are open to considering how the report could perhaps be improved and strengthened. Mr. Zhang made some proposals. We should discuss these proposals in a constructive manner and also perhaps include other options.

For example, the footnote explaining the consensus achieved could be lifted into the main text. Moreover, as emphasized by others, most prominently by Mr. Mozhin, we believe the IMF should continue to be a quota-based institution, because at the moment borrowed resources play an important role. We should consider informing Governors of the relative importance in the level of use of quotas in borrowing.

As regards the link between the quota reviews, we should not start the Fifteenth Review before we have concluded the Fourteenth Review.

Regarding the deadline, we agree that it should be ambitious but also realistic. Mr. Hockin remarked about the upcoming election in the U.S. Congress and we share his view that it could be unrealistic to set the deadline prior to these elections.

Finally, as also mentioned by others, the process should be fully anchored in the appropriate bodies of the Fund.

Mr. de Villeroché made the following statement:

Like others, we are deeply concerned and disappointed that we missed the deadline. The reform of the institution is, like Mr. Temmeyer noted, our reform, because it is a reform and its implementation remains essential to strengthen the ownership of the IMF.

We share the Chairman’s frustration and we thank her for all her efforts. We thank her for having actively intervened to the U.S. administration and the U.S. Congress. I also share Ms. Lundsager’s frustration, and thank her for the last-ditch effort to pass the reform.

I welcome the fact that the U.S. authorities will explore all avenues to ratify the Fourteenth Review in the near future. The main risk is to stay where we are now and enter into a long period of uncertainty. If we need to strengthen the staff report, this is the risk we should address as the main objective. We should emphasize repeatedly the importance of ratifying the Fourteenth Review.

In that sense, I do not have a strong view on accelerating the deadlines of the Fifteenth Review, but I fear it will have low credibility. I do not expect that we will deliver on it in a six-month period. Without having a clear prospect of ratification of the Fourteenth Review, it does not make much sense. If it helps, why not? If it is counterproductive and sends the wrong signal to the U.S. Congress, we should take that into account.

In conclusion, we need to keep pressure on the most important goal, which is to achieve the ratification of the Fourteenth Review, and whatever should be done to reach this should be taken into account in our discussion, and our report to the Governors.

Mr. Field made the following statement:

Like others, this chair is disappointed that the budget deal did not include what we were seeking on the quota reform. This is a long and frustrating process for all those concerned. Directors have been right to recognize the efforts made by the staff and management and by Ms. Lundsager and the administration in trying to push this through. But thus far, they have been unsuccessful.

With regard to the report to governors, there are three issues. The first issue is about the report, and is largely presentational. Some have said the report looks a bit weak. Others believe it covers the right issues.

My own sense is that it is a bit thin. This is an important issue for all of the membership, and yet we report back to Governors in six paragraphs and two pages. There have been some good suggestions of ways to strengthen the report. It would be worth looking at some of those suggestions to see if we can be clearer about what has happened, about what progress has been made, the implications of where we are currently. It is worth looking at whether we can strengthen the report.

The second issue is the January 2015 deadline. I can see the arguments on both sides for setting the deadline in January of 2015. Other chairs have suggested bringing it forward. There is a way through that was suggested by Mr. Eapen, which is to look at whether there can be some milestones during the course of the next year, and looking ahead to the meetings of the IMFC, there are clearly opportunities for a proper discussion.

The final issue is whether the Fourteenth and Fifteenth Reviews should be sequential or concurrent, and whether we can work on the Fifteenth Review. We have had a clear strategy thus far, which is not to begin the Fifteenth Review until we have concluded the Fourteenth Review and there were reasons for that strategy. Before moving away from that strategy, we should think through the implications and ensure that we are comfortable that it would not be counterproductive.

The Director of the Finance Department (Mr. Tweedie), in response to questions and comments from Executive Directors, made the following statement:

I want to address an important point made by Mr. Lischinsky on the sequencing of the 2008 reform and the 2010 reform and its implications for the issue we are dealing with—whether to start on the Fifteenth Review when the Fourteenth Review is not yet done. He mentioned correctly that the 2008 reform only came into effect in March 2011, which was after the 2010 reform had been agreed on at the end of 2010.

That is correct. He raised the question whether that is not a precedent for starting work on the Fifteenth Review even though the Fourteenth Review is not completed. From the staff's perspective, there are two important reasons why it is not a precedent.

The first is that the specific issue we are dealing with now is that the 2010 reform will come into effect when the United States ratifies it. This did not apply in the case of the 2008 reform. The United States had already ratified the 2008 reform in June 2009, among a number of IMF reforms, including the increase in the NAB. The United States had ratified the reform well before work started on the 2010 reform.

The Committee of the Whole for the 2010 quota review was formed in September 2009. Work did not start until early 2010. The first substantive paper was a paper on the size of the Fund in March 2010.

The situation with the United States did not arise in 2008. It is true the reform had not achieved the necessary threshold. This was a similar situation because there was also an amendment of the Articles. It required an 85 percent majority and three-fifths of the membership. We had not reached those thresholds and the approvals were continuing to come in. We did not have a situation where the member with a veto over the ratification had not yet come in.

Mr. Nogueira Batista noted that Mr. Lischinsky's point was that there was no legal impediment to starting the Fifteenth Review before the ratification of the Fourteenth Review.

The Director of the Finance Department (Mr. Tweedie), in response to further questions and comments from Executive Directors, made the following additional statement:

> I can confirm that there is no legal impediment. The concern that the staff and management had on this issue, and it has been echoed by many other chairs, is the risk with starting work on the Fifteenth Review for the ultimate ratification of the Fourteenth Review. It is not a legal issue. There is a concern about the potential risk when the Fourteenth Review is very close to being achieved. It only requires one further action from one member. It does not require the full round of ratification from the whole membership, which has already happened to a large extent.
>
> This is one difference. I would say the other difference relative to the 2008 reform is that the 2008 reform, as far as quotas were concerned, comprised ad hoc increases for members. It was not a substantial increase in the Fund's financial resources. It was an increase of slightly less than 10 percent. In terms of one of the key goals of the 2010 reform—which is to double quotas and to provide the Fund with a more adequate resource base—that issue did not apply in the 2008 reform.
>
> The key issue is that the United States had already ratified the 2008 reform before the discussion started on the 2010 reforms.

Mr. Mozhin made the following statement:

> As a practical matter, we will not be able to start discussing the Fifteenth Review before we finalize the Fourteenth Review. We cannot have a discussion when the United States is not ready to discuss it, and when others may be reluctant to discuss the Fifteenth Review before we know the outcome of the Fourteenth Review. The argument is not so much about this point. The argument is about how we present it in the report.
>
> The way it is presented in the report is that it is linked directly to the decision of the U.S. Congress, which I am unhappy about because this is an explicit recognition that this institution has become a hostage of the decision. I would suggest adjusting the language. I am not arguing that we should immediately discuss the Fifteenth Review. I know it is not realistic. But it is different from the issue of how we frame it, what kind of language we have in the report on that matter.

The Chairman noted that management was strongly committed to all four components of the 2010 reforms, but that in order to succeed, the right strategy had to be in place. She adjourned the Board for a brief recess, after which a revised version of the draft report was circulated to Directors.

The Director of the Finance Department (Mr. Tweedie), in response to further questions and comments from Executive Directors, made the following additional statement:

> There are two substantive changes in the draft in terms of actions, and a number of drafting changes.
>
> One substantive change is that the Board would propose and seek a new resolution from the Board of Governors. The original draft report called for the Board to report to the Board of Governors, but did not seek a new resolution from the Board of Governors. A number of chairs suggested that we should elevate this issue politically and seek guidance from Governors, so this revised draft would seek a new Board of Governors' resolution.
>
> The second element is a proposal that the Board of Governors' resolution would request the chairman of the IMFC to consult with the membership and to advise by the Spring Meetings on progress with implementing the Fourteenth Review and the Board amendment, and its implications for the Fifteenth Review.
>
> With that background, I will go through the redlined document point by point. There are a number of red lines on the first page, but this is simply what is required to implement a vote by the Board of Governors. Previously, the text was in line with a report that would be submitted to the Board of Governors, but would not require any action on their part. Now, the proposal would be to seek a Board of Governors vote. All the changes on that first page simply reflect that elevation.
>
> We have broadened the title, because while we are reporting on the Fifteenth Review, which had to be completed by the end of January, a key issue is the 2010 reforms, and so we broadened the title to cover both of those issues.
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> The next change is on paragraph 4, which is now paragraph 5. In response to a number of comments, we have added to the report where we are on the Board reform amendment and the Fourteenth Review in terms of approvals—all the information that was in the footnote we have now elevated

to the main text. There are no other changes. We have broken paragraph 4 into a separate paragraph, taken the last sentence of what was previously paragraph 4 and started a new paragraph, and then brought in the information from what was previously footnote 7.

In paragraph 6, we have strengthened the language on regretting the delay.

The next major change is in paragraph 7, where we have added language responding to the comment that a number of Directors made on the broader goal of this exercise—the 2010 reforms as a package and their importance for strengthening the Fund’s effectiveness and legitimacy.

This paragraph highlights that point, including its resource implications, that the Fund is a quota-based institution, and that a key goal of this reform was to ensure the Fund has adequate permanent resources implicitly without relying on borrowing, and that its governance structure evolves. The paragraph then highlights the importance of implementing all elements of the package agreed in 2010, including the forward-looking elements—the quota formula review and the Fifteenth Review.

Finally, on the report itself, we now have a much expanded paragraph 8. This contains a number of elements. The first, which was already in the previous draft, proposes the deadline for the Fifteenth Review be moved by one year, from January 2014 to January 2015.

The second element is to document what is in the resolution. This includes the expression of deep regret at the delay in implementing the Fourteenth Review and the Board reform amendment, and that the Fifteenth Review has not been completed by January 2014.

To urge members that have not yet accepted the Fourteenth Review quota increases and the Board reform amendment to do so without further delay, there is a strengthening of the language from the previous draft.

The final element is a request from the Board of Governors that the IMFC chairman consult with the membership and advise the IMFC during the Spring Meetings on progress in making the Fourteenth Review and the Board reform amendment effective, and its implications for achieving the objective of completing the Fifteenth Review by January 2015. The reasoning for this addition is that if we were to retain the one-year deadline for the Fifteenth Review, it would be useful to have a milestone earlier. The intention is to have a milestone at the time of the Spring Meetings, and also to allow a process of consultation so that we can take stock of where we stand on the Fourteenth Review and the Board amendment, and what it implies for the objective of completing the Fifteenth Review by January 2015.

The rest is all new, because this is now a Board of Governors' resolution. This contains background to the resolution, beginning with recalling the key elements of Resolution 66-2, the 2010 reforms; its goal in terms of strengthening the Fund's legitimacy and effectiveness; the point of members committing to use best efforts to take the necessary steps to complete the effectiveness of the Fourteenth Review and the Board reform amendment by the 2012 Annual Meetings; the acceleration in the timetable for the Fifteenth Review to January 2014; the point that the Board reform amendment and the Fourteenth Review have not become effective, and therefore the proposals of the Board on how to proceed; then the request for a vote.

What follows are the key recommendations—first, that the Board of Governors deeply regrets that the Fourteenth Review and the Board reform amendment have not become effective, and that the Fifteenth Review could not be completed by the January 2014 deadline. The Board of Governors urges members who have not yet accepted the Fourteenth Review quota increases and the Board reform amendment to do so without further delay.

Finally, the chairman of the IMFC would be requested to consult with the membership and advise the IMFC at the 2014 Spring Meetings on progress in making the Fourteenth Review and the Board reform amendment effective, and the implications for achieving the objective of completing the Fifteenth Review by January 2015.

Ms. Lundsager made the following statement:

I am broadly fine with the changes, with one concern. In the report to the Board of Governors, the information that was previously in the footnote has been brought into the text, which mentions the United States as the reason the 2010 reforms have not become effective. This is perfectly true, but we should not make it more complicated for the U.S. authorities to make the argument that this reform is important for the international system and for the United States. Singling the United States out might make it more complicated.

I remember when we were waiting for the NAB to become effective, we had agreed and we had the quota reforms, and we got it through the U.S.

Congress quickly, which was wonderful, but a number of other countries took much longer. For example, the Bundesbank had a number of concerns in terms of the text of the NAB agreement, and it took many more months to conclude. In Switzerland, it took time to get the approval of the cantons. That is why it took so long to get the 2008 NAB agreement and that quota increase done. I do not recall that we ever singled out those two countries that were key for NAB effectiveness and the whole package to become effective. I know the text in the report is factual. I know the world knows that the United States is holding up the reform. But I do not want to make it more difficult to get to that final agreement.

Mr. Nogueira Batista made the following statement:

These are preliminary reactions, somewhat off the cuff, because there have been significant changes in the approach, and I assume that we will come back to this in a follow-up meeting. How can we send the text for the approval of our Governors without giving them due notice for consultations? This meeting was convened to consider a Board report to Governors, not a text for the Governors' approval. We can go that route. There are arguments in favor of that. But we then need more time, a follow-up meeting so we can consult among ourselves and inform our capitals.

I recognize one or two points made by some emerging market chairs were taken onboard. But our report to the Board of Governors still seems weak. For example, India asked for milestones during 2014, and was supported by some chairs, including by some advanced country chairs. This version still has none.

One can argue that the request to the IMFC chair would be a milestone. That would be a slight abuse of language. I do not disagree that it may be useful for the IMFC chair to do what is being requested in this draft, but it will not make that much of a difference. The language in this draft asks the IMFC chairman to report on progress—that more or less amounts to asking him to report on what is obvious. He should be asked to propose possible ways of making progress on the four elements of the IMF reforms.

I am speaking at length because I do not have time to be brief. The Chairman did not give me time to be brief. It is correct—and Mr. Hagan may want to say a few words about that—to propose that we have a Board of Governors' resolution. It should have been done before. Because in the draft report of the Executive Board to the Board of Governors, there is a formal mistake. In paragraph 6, we were telling the Board of Governors that we did not manage to meet their request to complete the Fifteenth Review by January 2014, and we set a new date. The lower level tells the higher level that it did not complete the task, and then informs it that it is setting itself a new date. That is a mistake. We need a Board of Governors' resolution to propose a new date. I am okay with that, to that extent.

I do not see why we need a full year. I have given the reasons—the staff did not take them on board—the observations made by many that a shorter delay would be more useful in keeping the pressure.

We only meet and discuss this issue because we have a target date. The risk we run is that what the Chairman is asking for is what she has been asking of us since October 2012, when we missed the target date for the entry into force of the 2010 reforms—patience, silence, inaction. This has not worked. Results have not been forthcoming. To ask again for patience, silence, and inaction has less credibility now.

I want to ask the Legal Department a question. What is the majority required? This decision can be taken in the Board by simple majority of weighted voting. But what is the majority required, and the quorum required for the proposed Board of Governors' resolution?

Some of the changes are simply formal in nature. For example, the new paragraph 5 simply incorporates the footnote into the text of the draft decision, and even that is complicated for Ms. Lundsager. If we follow the concerns expressed by Ms. Lundsager, we might drop the word "deeply" as well. Why say "deeply?" It may also alarm the U.S. Congress and create problems for her. Let us drop the word "deeply."

In any case, this is a little more transparent, but it is still not clear. The sentence that was brought from the footnote at the end of page 3 reads, "Acceptance by the United States is needed to reach the required acceptance threshold." That is correct. But it may give outside readers the impression that the U.S. administration has not accepted, which is not the case. There is no explanation that the problem is acceptance by congress and that the U.S. administration has reiterated that it is in full agreement. It might be useful to mention that acceptance by the U.S. Congress would be sufficient to allow the entry into force of the Fourteenth Review, but I mention this without hope that it will be taken on board.

Paragraph 7 refers to the forward-looking elements. That is language we are used to. It was introduced by the BRICs in 2010. But it is cryptic. It would be useful to say what these forward-looking elements are.

One of them is the review of the new quota formula we were supposed to achieve by January 2014, as we decided in January 2013. There is no reference to it, not even in the Board of Governors' draft resolution. The 2010 reforms are mentioned, but the new quota formula is not referred to.

Mr. Temmeyer made the following statement:

We believe the revised draft is a substantial improvement over the previous draft, and we could go along with the new draft. With regard to mentioning the United States in paragraph 5, we should comply with past standards. If we have not done it in the past, we should not do it now to single out an individual member, and that is why I am open to not mentioning the United States in this paragraph.

In the same paragraph, there might be a typo. The footnote refers to 154 members, but the paragraph notes it is 157 members. Has something changed?

On paragraph 7, including the forward-looking elements just mentioned by Mr. Nogueira Batista, this is mentioned in paragraph 1. In line 7, the elements are mentioned followed by a sentence that reads "these forward-looking elements were part of," so it is clear what is meant by forward looking. We are happy with the amended draft, and are open to not mentioning the United States.

Mr. Groenn made the following statement:

I must express appreciation for what the staff and management have done on short notice to revise this decision and make it into a resolution. As Mr. Temmeyer noted, this is a huge improvement, or a real strengthening of this decision. In particular, I note two things.

First, in paragraph 7, where we are now referring explicitly to the Fund as a quota-based institution that needs to have sufficient permanent resources, this is an important issue that can be stated explicitly.

Second, toward the end of the new paragraph 8, we elevate the process to the political level. We anchor the next steps with the IMFC chairman, who shall consult and advise the IMFC in the Spring Meetings. This constitutes an important milestone, and it involves the entire membership. That is a clear paragraph.

I find this new draft to be a balanced resolution and I can go along with it. I believe that this forms a good basis to agree on this urgent matter.

Mr. Chodos made the following statement:

The most important thing we can do now is look at the situation from the perspective of progress, and determine how we can make the most efficient progress and try to minimize the problems. For example, we agree with Mr. Temmeyer about having no specific need to single out of the United States, and even with Mr. Nogueira Batista's reference to the word "deeply." It does not add much. It is already clear that we are concerned.

On the other hand, there is the possibility of the delinking the Fifteenth Review from the Fourteenth Review, and within the latter, the quota increase from the Board reform. In paragraph 5, it is clear that we reach one of the thresholds, and we did not reach the other one of the thresholds. Some work could be done on the formula even if the review itself is on a different path.

We wonder whether it could be possible to have a delinking of sorts, especially since we will be sending it to the Board of Governors. We would like to see if there is a possibility of better defining a possible delinking of the work track, especially if we are going to refer it to the Board of Governors.

Mr. Hockin made the following statement:

Paragraph 3 states that valid votes must be received at the seat of the Fund by 6 p.m., February 5. This is a short turnaround for many capitals. I wonder if it should be moved to a later time, and perhaps I can be told why we need this date, and whether we could move it to the middle of February.

Second, I stand with a few countries that we represent that have not ratified the 2010 reform, and that may help for the language on paragraphs 4 and 5, where there is reference to the United States. The 2008 voice and participation amendment entered into force on March 3, 2011, acceptance by more members who have not yet ratified is needed, to take advantage of my revelation that there are other countries that have not ratified.

Third, in paragraphs 6 to 8, we are urging the Board of Governors to do something emotional, which is to express “deep” regret. I do not believe one can ask an inanimate body to express “deep” regret.

Mr. Snel made the following statement:

The staff has done a remarkably good job on short notice to find new language that incorporates the several requests and remarks made earlier today. This new draft gives puts more flesh on the bone of the report. It also puts more flesh on the bones of our frustration. I am not sure, as Mr. Hockin said, that we can ask this body to show deep regret, but we can at least try. The use of the phrase “deeply regret” is an enrichment of the text.

There are some references in the new text that are relevant for us. It is important that the IMFC is the relevant body. There is a milestone in the Spring Meetings. We mention that the Fund is a quota-based institution, which is important to see that permanent resources are not net resources, but quota-based resources. This point is helpful.

All in all, we try to put some flesh on the bones, without being counterproductive with respect to the United States. That is helpful. In fact, the reference to the United States is factually true. Everybody knows it. On the other hand, if it is only counterproductive, it is not helping us and everybody knows it anyhow. Why put it in there? I could live with deleting that sentence. It makes one point that was also made by Mr. Hockin that indeed the countries that did not ratify could now decide that they have to wait for the United States to ratify first. It would be smaller countries. We need to push them as we did before, so that all members ratify and not only the United States.

For that reason, I agree with Mr. Hockin that the deletion of the sentence could help to push the other countries. We support this well-balanced draft and we should try to take a decision on it today.

Mr. Prader made the following statement:

I could have accepted the original text, but I understand the need for compromises and consensus building. From that point of view, we see progress. When one makes consensus, one has to accept that one will not get 100 percent, but maybe 50 percent, and more than 50 percent of the demands of emerging markets were included in this draft.

We should not have a follow-up meeting because it would look bad if the Chairman has to report that the Board was not even able to conclude a discussion on the report in one day. For the sake of demonstrating the efficiency of the IMF, it would be good to conclude today.

I understand Ms. Lundsager's concern about singling out the United States. The IMF is not in the business of isolating member countries. If the United States believes this is not a good strategy, we should accept it. The U.S. authorities would know better how this is perceived in congress.

In terms of presentation of forward-looking elements, part of the progress in the discussion on a quota formula was that we agreed that we cannot look at the formula in isolation, but that we also have to look at the size of the increase and other elements. This comprehensive element suddenly disappeared. If these elements can be taken into consideration, I am happy, but most of all I want to appeal to the Board to conclude this discussion today, because we have answered most of the demands of the meeting.

Mr. de Villeroché made the following statement:

I would like to explain why I can go along with this proposal. On the one hand, I understand the frustration we all have expressed. On the other hand, in terms of building a strategy, a tactic of frustration is not a good idea. The main objective is to maximize the chances to get ratification as soon as possible. We should do everything in our power to maximize the possibility of achieving this objective.

I have some sympathy for the idea that explicitly blaming the U.S. Congress is not the best way to maximize our chances of achieving our goals. I recognize it is risky, but we do not have any better solution.

What we are doing is upgrading our frustration. But in a way, this gives a mandate to the IMFC chair and requests him to consult with the membership, which includes the United States. It gives us a stronger capacity to lobby, but to lobby without making public our strong frustration, which could be counterproductive. I will go along with the draft. I do not believe we need another meeting to discuss this. We do not have many options.

I thank the Secretary's Department for its work on finding a solution. Let us hope it works. I know the hopes are not so high, but if there is a sense of hope, we should try to build on it.

Mr. Field made the following statement:

> I am happy with the report as redrafted. The changes that have been made strengthen the report respond well to some of the comments that have been made during our discussion.
>
> The milestone of the IMFC meeting is the right one. That is the right body to be thinking about this. It seems sensible for the IMFC chair to be reporting back at the Spring Meetings. I agree with others that we should try to agree on this today. I do not see any great benefit to prolonging this discussion. We should put it to bed and move on with the next steps.
>
> On the issue of the United States, I agree with what others have said. I do not see the benefit of singling out the United States in this way. In fact, it can be counterproductive for a number of reasons, both incentives for others and also the incentives for congress. For that reason, I would go along with others and suggest we scrap that sentence.

Mr. Alshathri noted that his chair could go along with the revised draft. He agreed with other Directors that the Board should not postpone a decision on the revised draft. He also agreed that there was no benefit to singling out the United States, and that it would be counterproductive to mention the country specifically in the report.

Mr. Heller remarked that the new draft was an excellent compromise and he supported it. It was not exactly what his chair wanted, but the same was likely true for all chairs. The revised draft captured the sense of the discussion well. The key elements of the new draft were the new resolution, the language that reiterated that the Fund was a quota-based institution, and also the elevation of the topic to the level of the IMFC.

Mr. Mozhin made the following statement:

> The failure to approve the 2010 reform has been interpreted as somehow related to the ideology of some in congress vis-á-vis the Fund. There are other interpretations that have nothing to do with ideological positions of legislators. From that point of view, whatever we write or say would not make much of a difference for the prospects of ratification of this reform.
>
> But more fundamentally, I wonder how long we should continue to attempt to read the signs in the tea leaves. We cannot know the intricacies of what is happening on the Hill, and anything we say about it is widely speculative at best.

I would be much more happy if we were to simply say what we believe is right rather than attempting to foresee how a particular sentence will be taken by some group of legislators on the Hill. We cannot know that at all.

With regard to the text of the draft itself, I accept that this is an improvement. I would still suggest we make more efforts. Most of the proposals raised by EMDC representatives have been rejected. We asked to bring the new deadline forward. This was rejected. We asked for some language on the menu of options. This was rejected. It is not mentioned in the text.

In paragraph 7, when the text mentions the need to ensure that the Fund has sufficient permanent resources, it would be logical to note that the Fund is effectively out of its permanent resources, which is factual. The concept of borrowed resources is not introduced in the text.

I am eager for and in favor of a compromise, but at the same time I ask myself what kind of a compromise this is when everything is rejected? I also noted that even though Ms. Lundsager requested to revert the sentence about the United States to a footnote, a number of speakers suggested that it should be dropped altogether, which is more than even Ms. Lundsager has requested.

These are the points that I would suggest we look at again. It will also be difficult for me to take any position today without having a chance to consult with my authorities.

Mr. Rojas made the following statement:

We can go along with the draft report, but we have some recommendations and reservations. Like Mr. Hockin, my chair also represents countries that have not yet ratified the amendment. I support his proposal to phrase this in a general way to encourage the countries that have not yet approved the reforms to do so. Perhaps this can be done in the same way as is in the second point of the resolution, by saying that we urge the members who have not yet accepted to do so.

We have another observation in paragraph 8. In the third line before the end, all the sentence says is that the chairman of the IMFC has to advise during the 2014 Spring Meetings on progress toward making the Fourteenth Review effective. Perhaps we can be more specific and exhort the chairman to propose options for this matter.

The IMF has been always a political institution, but perhaps this is the first time that the IMF has truly had a political issue to deal with. It is important that the IMF take into account that the chairman and the authorities have to manage a political issue. The Fund should use good practices, that perhaps will go along with the U.S. authorities, the U.S. Congress, and others, so as to lead to a good negotiation or at least to gain information, without interfering in the domestic matters of any country, but that can make the institution grow in its culture if dealing with country members.

It is important. This applies even to my country. It is a matter of determining how to deal with reluctant authorities? It is a different problem. Maybe the world is changing and we need to learn how to develop political skills.

Mr. Yoon made the following statement:

I consider the changes to be appropriate and I welcome the improvements made to the revised report. For example, I note the slightly stronger expression of regret. The new draft also explains why the effort failed in polite and diplomatic language. It also clarifies the sequencing. The revised sentence has better clarity on the timing for the Fourteenth Review. I am fine with the proposed revision and can go along with the proposed resolution.

I have questions on the procedure. Paragraph 3 of the proposed decision requests that the Board of Governors cast a vote on February 5. I wonder if it is usual practice for the Executive Board to make a request directly to the Board of Governors on such an important issue. The problem is that the Board of Governors does not have enough time to discuss this issue.

A possible alternative would be to let them decide during the Spring Meetings, rather than ask them to cast a vote at this moment. I would like to know what the steps are, and the reason for requesting a vote from the Board of Governors.

Similar to what Mr. Nogueira Batista mentioned, this resolution contains some issues that require a supermajority and double majority. It seems straightforward to see it as requiring majority voting, but I would appreciate knowing why this applies.

Mr. Zhang made the following statement:

> I appreciate the staff's efforts to improve the draft report in such a short time, and I find the revision satisfactory. I can go along with the revisions, but I have the three comments.
>
> The timing is now one year. Many Directors, particularly those from emerging markets, want this to be shortened to six months. We can argue about whether this is important, but the real question is which time period highlights the urgency of this issue? I wonder whether there is some way of adding words to express the urgency of the situation in paragraph 7. Language such as, "the Executive Board reiterates the importance and urgency of the…" would communicate the sense of urgency.
>
> Because this is a report on the 2010 reforms and the Fifteenth Review, I wonder paragraph 5 should mention the 2008 vote and participation amendment or whether this is part of the 2010 reform? If not, it is better to drop it, because the Governors already know it.
>
> In terms of the appendix and resolution No. 1, which states that the Board of Governors deeply regrets that the Fourteenth Review and Board reform amendment have not yet become effective, the language should refer to the fact that the approved 2010 reforms have not yet become effective, because all we are addressing is the 2014 deadline, and the new resolution is more logical.

Mr. Assimaidou remarked that the draft was an improvement and reflected the many concerns expressed by Directors. His chair agreed with many other Directors that the United States should not be mentioned specifically in the report. He supported the draft report.

Mr. Momma remarked that it was more important to be productive and move things forward rather than simply report on the current situation. Consequently, he fully supported Ms. Lundsager's points and supported the current draft. He noted that he would have preferred it if the document were even simpler, but he agreed with Mr. Prader that it was more important that the Board take a decision that day.

Mr. Eapen made the following statement:

> We acknowledge efforts made by the staff and the Chairman in substantially improving the earlier draft, and many of our concerns have been taken into account in this new draft. We still have issues about many of the

points that have been added to the draft, as articulated by Mr. Mozhin and Mr. Nogueira Batista.

Overall we feel that this draft would require us to enter into a process with our authorities before we can come back and provide a clear answer on what we think about the draft. Given the significant revisions, it would be ideal if Board members were given some time to consult with their capitals.

We are also concerned about the short time period in which the Board of Governors is asked to resolve this new resolution. We join Mr. Yoon and Mr. Hockin in asking for the reason for such a shortened time period of just a few days before we request the Board of Governors to approve to this resolution.

Mr. Santoso supported the revised draft, particularly the involvement of the IMFC chair before the final report was issued in January 2015. He supported Mr. Zhang's statement about the importance of expressing the urgency of implementing the Fourteenth Review without delay. He supported that the report did not single out any individual country. If the United States were to be singled out, the report would also have to mention the many other countries that had also not yet approved the reforms.

The General Counsel (Mr. Hagan), in response to questions and comments from Executive Directors, made the following statement:

The procedure for the adoption of the resolution is that the Executive Board would be relying on Section XIII of the By-Laws, which allows for a vote without a meeting in circumstances where the Board does not feel it is appropriate to postpone the decision until the next meeting, which would be in April. However, it can be extended by a week. The vote could take place on February 12 rather than February 5.

On the question on the majority, a majority of votes cast is required. But the quorum would be a majority of Governors having two-thirds of the voting power. That is the quorum stipulated under the Articles of Agreement and the By-Laws.

In response to Mr. Chodos's question, it would be possible for the Board to decide to delink the discussion of the formula with the discussion of the increase, although this is precisely what was discussed one year ago, when the Executive Board submitted a report to the Board of Governors saying that in light of the difficulty of reaching an agreement on the formula, it decided to have them proceed in an integrated way.

> The point that Mr. Nogueira Batista has made—regarding the fact that in paragraph 7 the forward-looking elements are stated in general terms, without any greater specificity as to what it means—can be addressed by having a reference to the forward-looking elements described in paragraph 1.
>
> Mr. Zhang asked why we are including a reference to the voice and participation amendment. The reason is that the original Board of Governors resolution for the increase under the Fourteenth Review identified a number of conditions. One of the conditions was the voice and participation amendment that had not come into force at that time.

Mr. Chodos remarked that the argument for linking the two issues had been that the quota formula would be a slower process and more difficult to advance than the Fifteenth Review. However, the opposite had proven true, so the same rationale could be used to delink the issues.

The Chairman asked if Mr. Chodos was merely raising the issue and did not necessarily feel strongly about it.

Mr. Chodos responded that he felt strongly about the issue but believed that it should be decided by consensus.

Mr. Prader remarked that the reason that some had argued for a comprehensive view of the quota formula together with the quota increase was that the formula itself explained only about 45 percent of the whole quota issue. It was not a matter of the slow process of discussing the quota formula.

Mr. Nogueira Batista made the following statement:

> On this point, and on another point made by Mr. Hagan, he went beyond the legal aspect in replying on the quota formula. It is not a legal issue. It is a matter of effectiveness. The revised draft has no reference to the fact that we did not reach a new quota formula by January 2013, as mentioned in paragraph 1. We agreed in January 2013 to reach a new quota formula in the context of the Fifteenth Review. I find no reference to that in the draft.
>
> The point made by Mr. Chodos is valid. Nothing impedes the Board from advancing work on the new quota formula, even if the Fifteenth Review is not progressing. Why? Because we can make simulations under different scenarios of quota increases and see the implications for the different

applications of the quota formula. There is a tendency to inaction that is not justified.

> On the majority issue, the Board of Governors' resolution that was approved in December 2012 was approved with an 85 percent majority. Now we have a proposal for a new Board of Governors resolution that effectively amends that previous one. Should we not then have the same required threshold since we are amending a resolution that required an 85 percent majority to pass? Or can we have different requirements for voting between the original and the amended versions of the resolution?

The Chairman asked Mr. Nogueira Batista if his point on the quota formula could be addressed if the words "forward-looking elements" were replaced by the quota formula review and the Fifteenth Review.

Mr. Nogueira Batista responded that it would better reflect what had been decided in January 2013. It was just a matter of removing cryptic language.

The Chairman remarked that her proposal would call a spade a spade—instead of referring to "forward-looking elements" it would directly refer to the new quota formula review and the Fifteenth Review.

Mr. Nogueira Batista remarked that the Chairman's proposed language would introduce a mistake.

The Chairman asked Mr. Nogueira Batista to make a proposal.

Mr. Nogueira Batista noted that the Chairman's proposal was not factually correct because the reform package agreed upon in 2010 did not agree on a new quota formula.

The Chairman remarked that after the package had been agreed upon, the Board decided to link the two issues. The current discussion addressed the issue as it had evolved over time. She encouraged him to make a specific proposal if he had one in mind.

The General Counsel (Mr. Hagan), in response to further questions and comments from Executive Directors, made the following additional statement:

> Under the general rules under the Articles, unless specifically stated, it is a majority of votes cast. One of the exceptions to the general rule is an increase in quotas. Whenever one is proposing an increase in quotas, and there is a resolution that has an increase in quotas, that portion of the resolution that proposes an increase in quotas requires an 85 percent majority.

> The Fund has always taken the position that in cases where that increase is made conditional on several conditions precedent, if one of those conditions is removed, it requires an 85-percent majority. This is why when the issue of possibly delinking the quota increase from the effectiveness of the amendment has come up in the past—because the effectiveness of the amendment was a condition precedent to the quota increase—it required an 85 percent majority. There is no change in that for purposes of this resolution. All this resolution will do, among other things, is ask the IMFC to report and acknowledge the fact that since the earlier deadline has passed for the Fifteenth Review, a new deadline is needed.

The Chairman adjourned the Board for a brief recess, after which a revised version of the draft report was circulated to Directors.

The Director of the Finance Department (Mr. Tweedie), in response to further questions and comments from Executive Directors, made the following additional statement:

> The changes to the document are highlighted in yellow. On the first page, we have changed the date from the February 5 to February 12.
>
> Turning to page 4, we have moved the sentence that references the United States. We have kept the sentence but moved it back to a footnote and kept the rest of that paragraph on the status of the reforms in the main text.
>
> In paragraph 7, we have made two changes. In the first line, we have added the reference to urgency as well as to the importance of implementing the 2010 reforms. At the end of that paragraph, we have spelled out the two elements. We have taken out the reference to forward-looking elements—that is a bit tricky because what was in the 2010 package was a comprehensive review. The Board has now moved from that and its January 2013 report talked about agreement on a new quota formula. The current language reads, "agree on implementing all elements of the reform package including agreement on a new quota formula and completion of the Fifteenth Review."
>
> Finally, in both the text and the resolution, in the last part that refers to the request to the IMFC chairman, we have changed the word "implications" and replaced that with "available options." This is intended to go some way toward meeting the requests of those chairs that wanted a broader reference to options. This would be all encompassing. The IMFC chairman would look at all available options at the time for completing the Fifteenth Review by January 2015.

Ms. Lundsager expressed concern that the United States was explicitly mentioned in isolation. It was mentioned in a factual context, and she agreed to mention it in a footnote. However, the United States was now mentioned in isolation, since the other language that was previously in the footnote remained in the body of the text.

Mr. Snel made the following statement:

> It is always tricky to have a drafting session, which is not what we should do. As was also spelled out by Mr. Tweedie, the last element of paragraph 7 is slightly tricky for the reason he mentioned, but also for the reason that we are now saying that it includes an agreement on the new quota formula. However, some of us would argue that it was about the review and not the new quota formula.
>
> I understand why the drafting was done this way. It was of the forward-looking element that the staff wants to describe. But as Mr. Temmeyer noted, we already did that in paragraph 1, so perhaps we should stick to the language we had, and just scratch the language used through the last words, including the forward-looking elements, so that we have a full stop after "all elements of the reform package agreed in 2010." That is clear. Everybody can go back to that point. The language is the same. My preference would be to stick to that language instead of trying to reintroduce new language on an agreement on the new quota formula.

The Chairman clarified that Mr. Snel had proposed to keep the sentence as it was so that it read: "To this end, the Executive Board further stresses the importance of implementing all elements of the reform package agreed in 2010."

Mr. Alshathri supported the points raised by Mr. Snel.

Mr. Nogueira Batista made the following statement:

> Paragraph 7 is now totally correct, consistent with the decision we took in January 2013. It is more clear, less cryptic than the previous version. There are not many changes relative to the version that we discussed previously. However, I would like to raise a procedural issue.
>
> Some Directors mentioned that we would like to have a follow-up meeting. In reality there is no need to present a report to the Board of Governors before the end of this month. I see no reason why the request to have a few more days to consult cannot be taken on board. If the Chairman is

away, we would have the option of having a meeting chaired by the First Deputy Managing Director or the Chairman could join the follow-up meeting by videoconference. This is far too important an issue to be rushed.

On the inclusion of the available options on page 5, what we asked for was available options, not just to complete the Fifteenth Review, but to make progress on all four elements of the reform, including making effective the quota increase agreed on in 2010, what we called Plan B.

This does not capture what we intended. Moreover, it transfers the responsibility of discussing this to the chairman of the IMFC, when we thought it was necessary to have a discussion between management, the staff, and the Board.

Mr. Temmeyer made the following statement:

On paragraph 7, I am in favor of including language about the Fund's status as a quota-based institution, and we welcome this proposal. The Fund's status as a quota-based institution is the focus of this paragraph. However, the focus is not about forward-looking elements or the new quota formula or the completion of the Fifteenth Review. This has been mentioned in paragraph 1. That is why I fully share the views of Mr. Snel, and suggest a full stop after 2010.

I wonder if we should mention the available options in paragraph 8. What should the IMFC chair do? He has to consult and advise the IMFC, but it would be the staff and the Managing Director who would propose options, not the IMFC chair. Furthermore, in terms of the division of responsibilities among different governing bodies, I am skeptical about including this language about available options. It should be in the hands of the Board and management.

Mr. Groenn agreed with Mr. Snel's recommendations for the last sentence of paragraph 7.

Mr. Mozhin made the following statement:

The changes in the report are a decent effort by the staff to move forward with the objective of reaching a compromise, so I welcome this intention.

On the footnote, I would be prepared to be flexible, but I would want Ms. Lundsager to formulate what she would be willing to accept. For example, what is written in the revision is factual—namely, that the United States needs to accept the reform—but one can add a sentence that several small countries also have yet to ratify. I would simply like to see what is acceptable to Ms. Lundsager.

On paragraph 7 and the forward-looking elements, some Directors want this to be presented in more detail. We should see how it would be possible meet each other halfway. For example, we can use the phrase, "including the completion of the comprehensive review of the quota formula," because that is exactly the language of the original resolution—"the completion of the comprehensive review of the quota formula, and of the Fifteenth Review." If we stick to the language of the original resolution, I do not see why this would be objectionable.

I am happy that there is this language about the available options, although it is not exactly what we wanted. We wanted to have some language on available options for the completion of the Fourteenth Review. This is referring to the completion of the Fifteenth Review. Can we make it a bit vague? Can we use language like, "available options for achieving the objectives of the IMF quota reform," without being specific about whether this is only about the Fifteenth or Fourteenth Reviews? Language such as, "the available options for achieving the objectives of the IMF quota and governance reform," would be a little vague, but could be seen as a real compromise.

For procedural reasons, it is difficult for some Directors, including myself, to make the final vote today. At the same time, I understand that it is important to come to a decision on this issue. Hence, I would be prepared to take a risk and violate my instructions not to vote without further consultation. However, I would like to see how the few final sentences are finalized.

Mr. de Villeroché noted that he was not entirely comfortable with the phrase "available options," which was unclear, and he supported Mr. Temmeyer's comments in this regard. The word "implications" was better. If the Fund were to put options on the table, it would be a poisonous gift to the IMFC chairman, because it was not easy to find different options. He recommended using more neutral language, such as "the way forward for achieving the objective of completing."

Mr. Santoso supported including a phrase like "available options" in paragraph 7 as a way to explore contingency plans to complete the new quota formula and the Fifteenth Review.

Mr. Prader thanked Mr. Mozhin for acting in the spirit of consensus, and remarked that he was correct about paragraph 8. More general language, such as "all options that exist for completing the reform agenda" would be a factual point. He concurred with Mr. Snel and Mr. Temmeyer on paragraph 7, and remarked that the Board should not reopen the discussion on the Fifteenth Review. It was better to use language from the past, rather than compromise and change the direction of the discussion. He also supported Ms. Lundsager's point.

Mr. Nogueira Batista noted that the proposal in paragraph 7 was exactly consistent with what the Board had decided one year ago—a new quota formula as part of the Fifteenth Review. He was mystified after listening to various European Directors object to language that had been agreed to one year ago. The language was entirely factual.

Mr. Field noted that Mr. Mozhin had made a good suggestion of using language that had already been agreed upon by the Board. With regard to the issue of reporting on available options to the IMFC, he remarked that it was asking much of the IMFC chairman to lay out the options to the IMFC at the Spring Meetings. One possibility would be to ask the IMFC chairman to consult with the membership on the available options, and then to advise on making the reforms effective. There would be consultation with the IMFC on options, but the advice that would come from the chairman would be related to making those reforms effective.

Mr. Yoon supported the revision, but noted that paragraph 8, which referred to available options, should also apply to completing the Fourteenth Review, not just the Fifteenth Review. It would be good to use broader language that would incorporate the completion of the Fourteenth Review.

The General Counsel (Mr. Hagan) remarked that one solution could be to replace the phrase "available options" with "options going forward, taking into account the objective of completing the Fifteenth Review by January 2015."

The Chairman asked if the staff could incorporate Mr. Field's comments into the revised language.

Mr. Mozhin suggested the phrase "for achieving the objectives of completing the IMF quota reform." That language would be more general. The purpose would be not to overload the IMFC chairman, but simply to ask him to consider all possible options related to the Fourteenth and Fifteenth Reviews.

The Chairman noted that Mr. Tweedie had made a substantive comment in that the quota reform was an ongoing process that was never completed.

Mr. Mozhin suggested the phrase “completing this round.”

The Chairman suggested the phrase “the pending quota reforms” as both the Fourteenth and Fifteenth Reviews were pending. She confirmed that the phrase, “current round of quota reforms” was acceptable to the staff and the Board.

The Director of the Finance Department (Mr. Tweedie), in response to further questions and comments from Executive Directors, made the following additional statement:

> With regard to footnote 8, one possibility that broadens it is to start with the statement of where things stand, which is that 47 countries have yet to accept the Board Reform Amendment. The footnote could go on to state that acceptance by the United States is needed to reach the required acceptance threshold. It would be clear that 47 countries have yet to accept the Board Reform Amendment, not just the United States, but also that the threshold cannot be reached without the United States. The Chairman noted that Ms. Lundsager agreed with the suggested formulation.
>
> On paragraph 7, in terms of what is factually correct, it is a question of how much to elaborate. It is correct that one could insert a full stop after the phrase “agreed in 2010.” The formulation we proposed was picking up on what was already agreed upon by the Board in its report to the Board of Governors in January 2013. The wording, “agreement on a new quota formula,” was already part of the January 2013 Board report. That is why we thought we would not add anything in terms of new ground to state that. I would like to read from the conclusion of that Board report.
>
> “In sum, the Executive Board’s discussions under the review have provided important building blocks on agreement for a new quota formula that better reflects members’ relative position in the global economy. The outcome of this comprehensive review of the quota formula will form a good basis for the Executive Board to agree on a new quota formula as part of its work on the Fifteenth Review, and building the needed consensus on a reform package that can garner the broadest possible support.”
>
> We are not adding anything new in this statement. It is a matter of whether there is a consensus to elaborate or to stop.

Mr. Snel suggested sticking to the original language—"to complete the comprehensive review of the quota formula"—as Mr. Mozhin had suggested. Another option would be to have a full stop after the phrase "2010 reform package" and then readers could refer back to the original language. By creating a new sentence that used part of one sentence and not the other part, the report was creating a new reality.

The Chairman asked Mr. Tweedie to address Mr. Snel's point and clarify which formula would be referred to.

The Director of the Finance Department (Mr. Tweedie) asked Mr. Snel to clarify which language he was referring to.

Mr. Snel responded that he was referring to the language used in the letter sent to all Governors in 2013. The language in the letter used the phrase "requested that the Executive Board complete a comprehensive review of the quota formula by January 2013." That was the latest official language that had been used.

The Chairman noted that Mr. Snel did not want to create new language in the report because there were already multiple formulas and the report should account for the work that had already been done.

Mr. Nogueira Batista noted that it was not new language. The proposal made by the staff at the end of paragraph 7 was simply restating the language in the report for the Executive Board to the Board of Governors in January 2013.

The Director of the Finance Department (Mr. Tweedie), in response to further questions and comments from Executive Directors, made the following additional statement:

> I believe that the difference is that the Board was asked to complete a comprehensive review of the quota formula by January 2013. The Board did so. In that review, it said it made progress in narrowing the differences and identifying the key issues, but that the further work on the quota formula should continue in parallel with the Fifteenth Review rather than in isolation, and that the discussions had provided important building blocks for agreement on a new quota formula. The final part in the report that the Board sent to the Board of Governors was that the outcome of this comprehensive review, which was the review that had been completed in January 2013, would form a good basis for the Executive Board to agree on a new quota formula as part of its work on the Fifteenth Review.
>
> The review was completed. Progress was made. But there were still differences. It was agreed to continue the discussions in the context of the

Fifteenth Review. The current language being discussed would basically say that there is agreement. The agreement on a new quota formula will be reached in the context of the Fifteenth Review, not separately.

Mr. Alshathri made the following statement:

The language is misleading. It is as if we have already agreed on a new quota formula. However, last year's report notes that we agreed on elements that could form the basis for the new quota formula, and that we agree it would be integrated with the Fifteenth Review. We have not yet agreed on the new quota formula, but we have agreed to integrate all the processes—the agreement on the new quota formula and all the elements of the quota formula.

I suggest modifying the text by saying, "implementing all elements of the reform package" and refer to the report, using the statement from a paragraph in the report, which says "referring to the elements that could form a basis for the final agreement on a new quota formula," instead of specifying that we agreed on a new quota formula by itself.

The Chairman asked Mr. Tweedie if it was possible to use the beginning of the sentence up to 2010, and then incorporate a reference to the specific paragraph in the January 2013 report.

Mr. Temmeyer noted that the focus of the paragraph was on the Fund's status as a quota-based institution and its permanent resources. That was why he recommended a full stop after 2010, or even after the phrase "forward-looking elements," because it had been defined in paragraph 1.

The Chairman asked Mr. Temmeyer if he would accept her proposal to incorporate language from the previous year's report.

Mr. Temmeyer responded in the affirmative.

The Chairman noted that there was agreement on incorporating the suggestions made by Mr. Mozhin with respect to paragraph 8. She asked Mr. Nogueira Batista if he could go along with the modifications.

Mr. Nogueira Batista noted that the Chairman was rushing him. He asked why Directors were not being given time to consult with their authorities or have a follow-up meeting.

The Chairman noted that there was strong support in the Board to conclude the discussion that day.

Mr. Nogueira Batista noted that he could not guarantee that his Governors would support the resolution. The procedure was wrong and excessively rushed. There was no persuasive reason why there could not be a follow-up meeting to consider the issue more carefully. He was surprised that despite the fact that Mr. Tweedie had read aloud the Board decision from one year ago, several Directors still expressed reluctance to repeat the same language that had already been agreed upon. It showed the extent to which some members were eager to go back on agreements that had been made.

The Chairman remarked that paragraph 17 had been approved and incorporated by reference and thanked the Board for acting in the spirit of compromise. She noted that the Board adopted the report to the Board of Governors as amended and approved the related decision that was circulated in that document.

The Executive Board took the following decision:

2010 Reforms and Fifteenth General Review of Quotas—Report of the Executive Board to the Board of Governors

1. The Executive Board adopts the report entitled "2010 Reforms and Fifteenth General Review of Quotas-Report of the Executive Board to the Board of Governors" that is set forth in the Annex to SM/14/22, Supplement 1, 1/23/2014 (the "Report") and recommends the adoption by the Board of Governors of the resolution set forth in the Appendix to the Report (the "Resolution").

2. The Executive Board authorizes and directs the Secretary to send to each member of the Fund the proposal of the Executive Board set forth in the Report, with a request for a vote by each Governor on the Resolution.

3. The Board of Governors is requested, pursuant to Section 13 of the By-Laws, to vote without meeting on the Resolution. To be valid, votes must be received at the seat of the Fund before 6:00 p.m., Washington D.C. time, on February 12, 2014. Votes received after that time will not be counted.

4. 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.

5. The effective date of the Resolution shall be the last day allowed for voting.

6. The Secretary is authorized to take such action as he shall deem necessary or appropriate in order to carry out the purposes of this decision. (SM/14/22, Supplement 1, 01/23/14)

Decision No. 15525-(14/6), adopted
January 22, 2014

APPROVAL: December 15, 2014

JIANHAI LIN
Secretary