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To Chairman Eccles

From Walter R. Gardner

MESSAGE:

This is a revised edition of the document distributed at the Presidents' Conference. Pages 17, 27, and 80 have been revised. All the other copies were held up until the new pages were inserted.

INTERNATIONAL MONETARY FUND

Board of Governors of the Federal Reserve System
Division of Research and Statistics
March 1, 1945

INTERNATIONAL MONETARY FUND

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CHAPTER I. PURPOSES

Explanation

In general the statement of purposes makes it clear that the Fund aims to secure a revival and expansion of world trade, reasonable balance in the international transactions of all member countries, reasonable stability of exchange rates, and elimination of exchange controls. The Fund's resources are intended to help countries to meet temporary deficits and to give them time to take measures to correct unbalanced situations.

Provisions

Article I. The purposes of the International Monetary Fund are:

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its decisions by the purposes set forth in this Article.

CHAPTER II. SETTING UP THE FUND

a. Entry Into Force

Explanation

No part of the Agreement will enter into force or be binding on any country until governments having 65 per cent of the total assigned quotas, that is countries having aggregate quotas of almost 6 billion dollars, have agreed to accept the obligations of membership, and in no event before May 1, 1945. Governments accept membership by signing the agreement and depositing an instrument stating that it has accepted the Agreement and taken the steps necessary to carry out its obligations under the Agreement. There is a special provision that countries which have been under enemy occupation may sign the Agreement and become original members, but may postpone actual acceptance of the obligations of membership until six months after their territories have been liberated from the enemy. No government actually becomes a member until the Agreement enters into force.

When governments sign the Agreement they must make a very small payment in gold to help meet the administrative expenses of the Fund. This payment will be returned to the government if the Agreement does not enter into force before December 31, 1945.

Only governments which were represented at Bretton Woods can accept membership before December 31, 1945. It is stipulated that the Agreement must come into force before December 31, 1945, or not at all.

Provisions

Article XX, Section 1., Entry into force. - This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2 (a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Article XX. Sec. 2., Signature - (a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one per-cent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

b. Inauguration of the Fund

Explanation

When countries having 65 per cent of the total quotas have accepted the obligations of membership and the Agreement comes into force, the United States, having the largest quota, will call a meeting of the Directors

appointed by the members. The Board of Directors will arrange for the selection of provisional executive directors to serve until a regular election of Executive Directors can be held as soon as is practicable after January 1, 1946.

Provision

Article XX, Sec. 3., Inauguration of the Fund. - (a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member having the largest quota shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries for which the largest quotas are set forth in Schedule A shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule C and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

c. Initial Determination of Par Values

Explanation

The first task of the Fund will be to arrange for the fixing of the initial par values and for the commencement of exchange operations in member currencies. When the Fund decides that it will shortly be in a position to begin exchange transactions it will undertake to establish initial par values. It will ask each member country to communicate the par value of its currency based on the rates of exchange prevailing 60 days before the Agreement entered into force. The date will therefore be sometime between March 1, 1945, and October 31, 1945. If either the Fund or the member is of the opinion that this par value is unsatisfactory, it must say so within 90 days. The Fund can object to this par value if it appears that it can not

be maintained without leading to undue use of the resources of the Fund either by that member or by other members. The Fund and the member must agree on an initial par value within a reasonable period, and if no agreement is reached the member will be deemed to have withdrawn.

Special provisions for countries which have been occupied by the enemy allow these countries to postpone communicating the par value of their currencies until major hostilities have ceased in their territories, or until such later time as the Fund may determine, and also allow these countries and the Fund more than 90 days in which to register objections to the communicated par value. Such countries may also use the Fund before their initial par values have finally been established, in amounts and under conditions prescribed by the Fund, and may in the meanwhile alter their communicated rates by agreement with the Fund without prejudice to their ability to alter their rates after initial par values have finally been established.

Provisions

Article XX, Sec. 4., Initial determination of par values. - (a) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (d) below shall apply.

(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period determined by the Fund in the light of all relevant circumstances, agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(d) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (b) above shall apply, subject to the following modifications:

- (i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.
- (ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.
- (iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (a) above.

(e) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (d) (i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (d) above shall apply.

(f) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5 (c).

(g) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2 (g) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. On the basis of the par value so communicated, the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (a), (b) or (d) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (d) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

(j) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2.

d. Beginning of Exchange Transactions

Explanation

Once the initial par values of their currencies have been established, countries become eligible to use the resources of the Fund in accordance with the general provisions of the Agreement; and, as has been noted, occupied countries will become eligible to use the Fund on a limited basis whenever the Fund grants such privileges. The Fund can not begin transactions in exchange until members having 65 per cent of the total quotas have become eligible to draw upon it and until major hostilities in Europe have ceased. Even then the Fund need not start exchange operations if world conditions appear unfavorable to its proper functioning. It has full discretion to wait until the situation has cleared.

There is a provision which gives special power to the Fund to postpone exchange transactions with any particular member, even if that member has become eligible to use the Fund and the Fund has decided to begin exchange transactions. This is when the circumstances of the member are such that, in the opinion of the Fund, exchange transactions with it would lead to use of the resources of the Fund in a manner contrary to the purposes of the Agreement. Under this provision the Fund can protect itself and other members by refusing to deal with a country in an unstable economic or political condition.

Provisions

Article XX, Sec. 4, (c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(h) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(i) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

CHAPTER III. MEMBERSHIP AND SUBSCRIPTIONS

a. Membership

Explanation

The governments represented at Bretton Woods which accept membership before December 31, 1945, will constitute the original members of the Fund. After that time membership will be open to any country on such terms as may be prescribed by the Fund.

Provisions

Article II, Section 1, Original members. - The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2 (e).

Section 2, Other members. - Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

Article XX, Section 2, (e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

b. Subscription Quotas

Explanation

The quotas to be assigned to those countries represented at Bretton Woods were agreed on at the Conference. The quotas of other members will be determined by agreement between the Fund and the members at the time they are admitted.

The United States has a veto power over a change in the quota of any member because a 4/5 vote is required for any change in quotas. This is important because if foreign quotas were increased too much the pressure

on the Fund's supply of gold and dollars would be too great. No country's quota shall be changed without its consent.

Provisions

Article III., Section 1., Quotas. - Each member shall be assigned a quota. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2 (e), shall be those set forth in Schedule A. The quotas of other members shall be determined by the Fund.

Section 2., Adjustment of quotas. - The Fund shall at intervals of five years review, and if it deems it appropriate propose an adjustment of, the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned.

c. Form and Time of Payment of Subscriptions

Explanation

Members must subscribe their quotas in full before the date on which they become eligible to purchase currencies from the Fund. Member countries subscribe to the Fund in gold and national currencies. Each member subscribes its assigned quota, the gold part of the subscription being a minimum of 25 per cent of its quota or 10 per cent of its net official holdings of gold and United States dollars, whichever is the smaller.

A country's net official holdings of gold and United States dollars will ordinarily differ very little from its gross official holdings. The only liabilities which can be subtracted from gross official holdings are holdings of its currency by governments, official institutions or banks in other countries carrying specified rights of conversion into gold or dollars. There is provision for an estimated provisional gold payment in the case of occupied countries which are not able to calculate their net official holdings of gold and dollars. Table I shows the quotas of the countries represented at the United Nations Monetary and Financial Conference, totaling 8.8 billion

dollars, the amount of the required United States gold contribution, and a rough estimate of the required gold contributions of the other countries.

TABLE I

International Monetary Fund Quotas and
Estimated Gold Subscriptions of Members
Represented at the United Nations Monetary
and Financial Conference
(In millions of United States dollars)

Quotas

Australia.....	200
Belgium.....	225
Bolivia.....	10
Brazil.....	150
Canada.....	300
Chile.....	50
China.....	550
Colombia.....	50
Costa Rica.....	5
Cuba.....	50
Czechoslovakia.....	125
Denmark.....	(1)
Dominican Republic.....	5
Ecuador.....	5
Egypt.....	45
El Salvador.....	2.5
Ethiopia.....	6
France.....	450
Greece.....	40
Guatemala.....	5
Haiti.....	5
Honduras.....	2.5
Iceland.....	1
India.....	400
Iran.....	25
Iraq.....	8
Liberia.....	.5
Luxembourg.....	10
Mexico.....	90
Netherlands.....	275
New Zealand.....	50
Nicaragua.....	2
Norway.....	50
Panama.....	.5
Paraguay.....	2
Peru.....	25
Philippine Commonwealth.....	15

Poland.....	125
Union of South Africa.....	100
Union of Soviet Socialist Republics.....	1,200
United Kingdom.....	1,300
United States.....	2,750
Uruguay.....	15
Venezuela.....	15
Yugoslavia.....	60
Total.....	<u>8,800</u>

Estimated Gold Subscriptions

United States.....	687.5
Others.....	<u>2/955.5</u>
Total.....	<u>1,643</u>

1/ The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

2/ Figure based on gross official gold and dollar holdings at the end of March 1944. In cases where gold reserves are not reported officially the figures have been estimated and are subject to revision. In general, gold confiscated in invaded countries is attributed to those countries since their claims will presumably be honored after the war. To the extent that there have been net transfers of such gold to other accounts there is double counting.

There are rather complicated provisions governing payments by or to countries whose quotas are increased or decreased. These provisions aim at seeing that a member eventually makes 25 per cent of its total subscription in gold if its reserves are not less than its quota.

Under the terms of the Agreement a member can substitute non-interest bearing demand obligations of the government for any part of its currency which the Fund does not consider it necessary to hold as an operating or working balance. For purposes of the Agreement the Fund's holdings of the currency of a member include its holdings of such demand obligations.

Provisions

Article III., Section 3., Subscriptions: Time, place, and form of payment. - (a) The subscription of each member shall be equal to its

quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the member becomes eligible under Article XX, Section 4 (c) or (d), to buy currencies from the Fund.

(b) Each member shall pay in gold, as a minimum, the smaller of

- (i) twenty-five percent of its quota; or
- (ii) ten percent of its net official holdings of gold and United States dollars as at the date when the Fund notifies members under Article XX, Section 4 (a) that it will shortly be in a position to begin exchange transactions.

Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars.

(c) Each member shall pay the balance of its quota in its own currency.

(d) If the net official holdings of gold and United States dollars of any member as at the date referred to in (b) (ii) above are not ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4 (c) or (d), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (b) above, and the balance of the member's subscription shall be paid in the member's currency, subject to appropriate adjustment between the member and the Fund when the net official holdings have been ascertained.

Section 4., Payments when quotas are changed. - (a) Each member which consents to an increase in its quota shall, within thirty days after the date of its consent, pay to the Fund twenty-five percent of the increase in gold and the balance in its own currency. If, however, on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold.

(b) If a member consents to a reduction in its quota, the Fund shall, within thirty days after the date of the consent, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of gold as may be necessary to prevent reducing the Fund's holdings of the currency below seventy-five percent of the new quota.

Section 5., Substitution of securities for currency. - The Fund shall accept from any member in place of any part of the member's currency which in the judgment of the Fund is not needed for its operations, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their par value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund.

Article XIX. (h) For the purpose of calculating gold subscriptions under Article III, Section 3, a member's net official holdings of gold and United States dollars shall consist of its official holdings of gold and United States currency after deducting central holdings of its currency by other countries and holdings of its currency by other official institutions

and other banks if these holdings carry specified rights of conversion into gold or United States currency.

(f) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

d. Depositories

Explanation

The Fund's gold will be held in the central banks or other designated depositories of member countries. At the outset, one-half of the Fund's gold will be held in the Federal Reserve System and 40 per cent in the central banks of the United Kingdom, the Union of Soviet Socialist Republics, China, and France.

The currency subscription of a member country, and any subsequent acquisitions by the Fund of the currency of a member country, will be held by the Fund in that member country's central bank or designated depository. Presumably in most countries the Fund will have a deposit account at the Central Bank.

Provisions

Article XIII., Section 2, Depositories. - (a) Each member country shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Directors may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3., Guarantee of the Fund's assets. - Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

e. Guarantee of Fund's Assets

Explanation

The gold value of the Fund's assets will be maintained irrespective of changes in the par or foreign exchange value of a member's currency. Each member is obligated to compensate the Fund for any fall in the gold value of its currency held by the Fund. The Fund, in turn, must reimburse the member for any rise in the gold value of its currency held by the Fund. The Fund may waive this obligation if a uniform proportionate change is made in the par values of all currencies.

Provisions

Article IV., Section 8., Maintenance of gold value of the Fund's assets. - (a) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(c) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is proposed the Fund decides otherwise.

Article XIII., Section 3., Guarantee of the Fund's assets. - Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

CHAPTER IV. NATURE OF TRANSACTIONS WITH THE FUND

a. Through Governmental Agencies

Explanation

Dealings between the Fund and member countries can take place only through the treasuries, central banks, stabilization funds, or similar fiscal agencies of member countries. Ordinary transactions in exchange by nationals of member countries will continue to be effected through the usual channels. Only when a shortage of foreign currencies develops will the market come to the central authorities, which in turn will apply to the Fund.

Provisions

Article V., Section 1., Agencies dealing with the Fund. - Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

b. On Initiative of Member

Explanation

Except for certain special transactions provided for in the Agreement the Fund will never initiate transactions. The Fund deals in currencies only when a member comes to the Fund to purchase currencies.

Provisions

Article V., Section 2., Limitation on the Fund's operations. - Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

c. Purchase Foreign Currencies With Own Currency

Explanation

The essential feature of the Fund arrangement is that member countries are entitled to obtain currencies of other member countries from the Fund in

exchange for their own currencies. In the Fund, a country's currency is an obligation of that country, a claim on its resources. It is important to an understanding of the Fund's operations to recognize that a country's currency, as such, is good only in the issuing country, and that when it acquires foreign currencies from the Fund and pays for them in its own currency, it, in effect, borrows these foreign currencies and gives the Fund, in exchange, demand obligations which constitute a claim on its goods and services. Currencies are obtained from the Fund only for immediate use in making payments in other countries, whereas currencies paid into the Fund in exchange are claims held by the Fund for use when and if a demand for them develops. The transaction has elements of a loan by the Fund to the country which purchases exchange from it, notwithstanding the fact that the currency paid into the Fund for the foreign exchange is money in its own country. This is the explanation of the fact that throughout the Fund Agreement a country's use of the Fund's resources at a given time is measured by the amount of its currency in the Fund's possession in excess of its original contribution.

It is also essential to an understanding of the Fund's operations to realize that the Fund is intended to be a revolving fund. The Fund's holdings of the currencies of individual member countries will vary from time to time. In general the Fund will endeavor to maintain a reasonable balance in its holdings so that it will be in a position to meet the needs of member countries. It is for this reason, particularly, that measures are provided in the Agreement to encourage replacement in the Fund of currencies purchased from it.

Provisions

Article V., Section 3., Conditions governing use of the Fund's resources. - (a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;
 - (ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;
 - (iii) The proposed purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred percent of its quota, but the twenty-five percent limitation shall apply only to the extent that the Fund's holdings of the member's currency have been brought above seventy-five percent of its quota if they had been below that amount;
 - (iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2 (a), that the member desiring to purchase is ineligible to use the resources of the Fund.
- (b) A member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

d. Purchase of Foreign Currencies with Gold

Explanation

Members may also buy foreign currencies from the Fund with gold. Such purchases would not constitute a drain on the Fund. Any member wishing to buy the currency of another member with gold is expected, if it can do so with equal advantage, to acquire the foreign currency through the sale of gold to the Fund. In this way the Fund's holdings of gold, with which it can buy any member's currency, will be steadily replenished. The repurchase provisions described later also tend to replenish the Fund's supply of gold or of currencies in demand.

Provisions

Article V., Section 6., Purchases of currencies from the Fund for gold. - (a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

CHAPTER V. CONDITIONS GOVERNING USE OF THE FUND

a. To Make Payments for Current Transactions

Explanation

Member countries can use the resources of the Fund, in general, only to finance current transactions with other member countries. This is brought out in the statement on the purposes of the Fund which says that the Fund is to assist in the establishment of a multilateral system of payments in respect of current transactions. It is also brought out in the section of the Agreement which states that members may not make net use of the Fund's resources to meet large or sustained outflows of capital, and that the Fund may request a member to exercise controls to prevent such use of the resources of the Fund and declare a member ineligible to use the Fund if it does not exercise appropriate controls. There is a special provision allowing a member to buy foreign currencies from the Fund to make capital transfers when the Fund's holdings of its currency are below 75 per cent of its quota. This would not entail a net use of the Fund's resources for capital transactions.

Payments for current transactions are defined to include payments for goods and services, normal short-term banking transactions, payments of interest and net income from investments, moderate amortization payments, and moderate remittances for family living expenses.

Provisions

Article I (Purposes) (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

Article V, Sec. 3. Conditions governing use of the Fund's resources.-

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement.

Article V, Sec. 3 - (b) A member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

Article VI, Section 1. Use of the Fund's resources for capital transfers.-

(a) A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund. (b) Nothing in this Section shall be deemed

- (i) to prevent the use of the resources of the fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or
- (ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 2. Special provisions for capital transfers. - If the Fund's holdings of the currency of a member have remained below seventy-five percent of its quota for an immediately preceding period of not less than six months, such member, if it has not been declared ineligible to use the resources of the Fund under Section 1 of this Article, Article IV, Section 6, Article V, Section 5, or Article XV, Section 2 (a), shall be entitled, notwithstanding the provisions of Section 1 (a) of this Article, to buy the currency of another member from the Fund with its own currency for any purpose, including capital transfers. Purchases for capital transfers under this Section shall not, however, be permitted if they have the effect of raising the Fund's holdings of the currency of the member desiring to purchase above seventy-five percent of its quota, or of reducing the Fund's holdings of the currency desired below seventy-five percent of the quota of the member whose currency is desired.

Article XIX, (i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

- (1) All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
- (2) Payments due as interest on loans and as net income from other investments;
- (3) Payments of moderate amount for amortization of loans or for depreciation of direct investments;
- (4) Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

b. In Accordance with the Purposes of the Fund

Explanation

It is made clear that members are not intended to use the Fund as a source of permanent financing. The Fund is to be a revolving fund which makes its resources available to members over reasonably short periods of time to help them meet temporary deficits and to provide them with an opportunity to correct balance of payments maladjustments. This is brought out in the third, fifth, and sixth purposes of the proposal as stated in the opening article of the Agreement.

The Fund may limit a member's use of the resources of the Fund if it is of the opinion that the member is using them in a manner contrary to the Fund's purposes. When the Fund so limits a member's use of the Fund it must issue a report to the member. If the member does not make a satisfactory reply to the report, the Fund may continue to limit the member's use of the Fund or declare it ineligible to use the Fund. It is also clearly stated that any member which fails to live up to any of its obligations under the Fund Agreement may be declared ineligible to use the resources of the Fund. In case of an unauthorized change in par values a member automatically becomes ineligible to use the Fund.

Provisions

Article I (Purposes) (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its decisions by the purposes set forth in this Article.

Article V, Section 3. Conditions governing use of the Fund's resources.-

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;
- (iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2 (a), that the member desiring to purchase is ineligible to use the resources of the Fund.

Article V, Section 5. Ineligibility to use the Fund's resources.-

Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

Article XV, Section 2. Compulsory withdrawal.- (a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

Article IV, Section 6. Effect of unauthorized changes.- If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2 (b).

c. Not for Relief and Reconstruction

Explanation

The Fund is not intended to enable member countries to meet all deficits arising from current transactions. The Agreement says that the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

This is in line with the general purpose of the Fund to finance temporary deficits and provide an opportunity for corrective measures,

not to finance chronic deficits or provide resources over a long period of time. Obviously the Fund could not continue to function as intended if its resources were either used up in providing relief or tied up in long term financing of reconstruction needs.

Provisions

Article XIV, Section 1. Introduction.- The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

d. Quantitative Limits

Explanation

A member may not increase the Fund's holdings of its own currency by an amount larger than one-quarter of its quota in any 12-month period, except by special permission, or when the Fund's holdings of its currency had previously fallen below 75 per cent of its quota. In the aggregate, it can not purchase foreign currencies with its own currency in an amount that would bring the Fund's holdings of its currency to more than 200 per cent of its quota, except by special permission. This means that, if a country's quota is 100 million dollars, of which 25 million is contributed in gold and 75 million in currency, the country's net purchases of foreign exchange from the Fund with its own currency could total 125 million, this being the amount that would bring the Fund's holdings of the purchasing member's currency to 200 million dollars or 200 per cent of its quota. This general limit of 200 per cent of a member's quota is equivalent to saying that a member's net purchases of foreign exchange from the Fund with its own currency may not exceed the amount of its quota plus its gold contribution.

These quantitative limits on a member's use of the Fund have been carefully worked out with a view to the need of keeping the Fund in a

position to meet the demands which may be made on the Fund by other member countries. The limits apply in general to all countries, but the Fund can waive them, as well as the other conditions governing a member's purchases of foreign currencies from the Fund. The Fund may decide to waive these limits in the case of member countries which have a record of avoiding large or continuous use of the Fund, or have periodic or exceptional needs for foreign currencies, or are willing to pledge acceptable collateral.

Provisions

Article V, Section 3. Conditions governing use of the Fund's resources.-

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (iii) The proposed purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred percent of its quota, but the twenty-five percent limitation shall apply only to the extent that the Fund's holdings of the member's currency have been brought above seventy-five percent of its quota if they had been below that amount.

Section 4. Waiver of conditions.- The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3 (a) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

e. Scarce Currency Limitation

Explanation

A member may not be able to obtain a certain currency from the Fund even though the member's request satisfies all the conditions listed above if the currency requested has been declared scarce by the Fund.

When a currency has been declared scarce the Fund has the right to ration its existing and accruing supply among members. See Chapter VI on Scarce

Provisions

Article V, Section 3. Conditions governing use of the Fund's resources.- (a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

- (ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce.

Article VII, Section 3. Scarcity of the Fund's holdings.- (a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

f. Charges Levied on Use of Fund

Explanation

Members purchasing foreign exchange from the Fund with their own currencies are required to pay on each purchase a uniform service charge of three-fourths of 1 per cent. This charge may be altered by majority vote to not less than one-half or not more than 1 per cent. If a member's purchases from the Fund raise the Fund's holdings of its currency above its quota, additional charges must be levied by the Fund on its holdings in excess of the quota. These charges are levied in proportion to the Fund's holdings of the currency of a member because, as explained above, this measures the extent of a country's use of the resources of the Fund. Unless a member's monetary reserves are less than half its quota all charges are payable in gold.

The rates charged on holdings in excess of the quota are uniform for all countries and vary with the amount of the currency held and the length of time over which it is held by the Fund. Table II gives the rates charged for each step in the upward scale, both as to amount and as

to time. It should be noted that these are not average charges on the entire amount or over the entire period but charges on each indicated unit of volume and of duration.

The Agreement provides, as indicated in the table, that special consultations between the Fund and a member must take place with a view to decreasing the Fund's holdings of that member's currency when the rate payable by that member on any amount or for any period of time has reached 4 per cent. If the rate rises to 5 per cent, as indicated in the table, and if the amount held or the period of time over which the currency is held continues to increase, the Fund may impose such charges as it deems appropriate. The scale of charges just described may be altered by a three-fourths vote.

It is clear from the more substantial nature of these charges and the fact that the rates charged become progressively higher as a member uses more of the resources of the Fund or uses them over a longer period of time that these charges, unlike the service and handling charges, are intended to act as serious deterrents to countries making large or prolonged use of the Fund's resources. This is consistent with one of the major purposes of the Fund which is to be in a position at all times to help any member to meet a temporary deficit in its balances of payments and give it time to correct maladjustments. The Fund's power to help all member countries would be seriously threatened if unduly large amounts of its total resources were used to meet the needs of any one country, or if any substantial part of its resources were in use over long periods of time. In such cases the Fund's holdings of currencies in demand by most members would shrink and might become inadequate for further operations while its holdings of currencies not in demand accumulated.

Table II

Charges Payable by a Country on Fund's Holdings of Its Currency in Excess of Its Quota

Amount of country's currency held by Fund in excess of country's quota as percentage of coun- try's quota	Per cent per annum payable on amounts in excess of quota							
	1 st Year	2 nd Year	3 rd Year	4 th Year	5 th Year	6 th Year	7 th Year	8 th Year
0 - 25	<u>1/</u> 3/8	1	1-1/2	2	2-1/2	3	3-1/2	<u>2/</u> 4
25 - 50		1-1/2	2	2-1/2	3	3-1/2	<u>2/</u> 4	4-1/2
50 - 75			2-1/2	3	3-1/2	<u>2/</u> 4	4-1/2	<u>3/</u> 5
75 - 100				3-1/2	<u>2/</u> 4	4-1/2	<u>3/</u> 5	<u>3/</u> 5

On additional amounts the Fund may set such terms and conditions as it deems appropriate.

1/ No payment in first three months; 1/2 per cent in next nine.

2/ At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

3/ When the charge reaches 5 per cent the Fund and the member must agree on the charges to be imposed. If no agreement is reached the Fund may impose such charges as it deems appropriate.

Note: No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

Provisions

Article V, Section 8. Charges.- (a) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay a service charge uniform for all members of three-fourths percent in addition to the parity price. The Fund in its discretion may increase this service charge to not more than one percent or reduce it to not less than one-half percent.

(b) The Fund may levy a reasonable handling charge on any member buying gold from the Fund or selling gold to the Fund.

(c) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

- (i) On amounts not more than twenty-five percent in excess of the quota: no charge for the first three months; one-half percent per annum for the next nine months; and thereafter an increase in the charge of one-half percent for each subsequent year.
- (ii) On amounts more than twenty-five percent and not more than fifty percent in excess of the quota: an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.
- (iii) On each additional bracket of twenty-five percent in excess of the quota: an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(d) Whenever the Fund's holdings of a member's currency are such that the charge applicable to any bracket for any period has reached the rate of four percent per annum, the Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (c) above until they reach five percent and failing agreement, the Fund may then impose such charges as it deems appropriate.

(e) The rates referred to in (c) and (d) above may be changed by a three-fourths majority of the total voting power.

(f) All charges shall be paid in gold. If, however, the member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserves bear to one-half of its quota, and shall pay the balance in its own currency.

g. Repurchase Obligations

Explanation

There are two provisions requiring a member in certain circumstances to repurchase its currency from the Fund. The broad purposes of the first of these provisions are to limit a country's use of the Fund when it has ample other means of meeting its international payments and to make it share with the Fund such additions to its monetary reserves as may occur

from time to time, provided it has been using the resources of the Fund.

For these purposes a member whose reserves are in excess of its quota is required at the end of each financial year to examine changes in its reserve position in relation to its use of the Fund's resources and to make adjustment in accordance with the following rules. If the member's reserves have not changed, it must use its reserves to the extent necessary to reduce by one-half the year's increase in the Fund's holdings of its currency. If its reserves have increased, then it must use its reserves, as in the previous case and, in addition, must use half of the increase in its reserves to reduce the Fund holdings of its currency whenever acquired. If the country's reserves have decreased but are still in excess of its quota, it must use enough of its reserves to make the decrease of its reserves for the year equal to the year's increase in the Fund's holdings of its currency.

The second repurchase provision is intended to limit the use of one currency, such as the dollar for example, for financing adverse balances of payments between two other countries. This provision is that if a member country, after having made the repurchases required under the first provision, still shows an increase in its holdings of another country's currency (or of gold acquired from that country) and this increase arises from transactions with a third country, then the member country must turn that increase over to the Fund in exchange for its own currency. This provision is necessary to reduce the absorption of scarce currencies into the financing of balances between other countries.

There are certain limits on the repurchases which must take place under these two provisions. First, no member is required under these repurchase provisions to reduce its monetary reserves to below the amount

of its quota. Second, no member is required by these repurchases to reduce the Fund's holdings of its currency below 75 per cent of its quota. This means that a member is required to make these repurchases only if it has been making net use of the resources of the Fund or if it originally contributed less than 25 per cent of its quota in gold. Third, no repurchases shall raise the Fund's holdings of the currency of any country above 75 per cent of that country's quota. There are also other rules concerning the currencies to be used in connection with the repurchase provision. These rules are framed with a view to protecting the Fund from acquiring currencies under these repurchase provisions of which it already has an ample supply and insuring that the Fund will acquire only such currencies as are in demand.

A member's monetary reserves include a member's net official holdings of gold and convertible currencies, convertible currencies being, in general, currencies of members of the International Monetary Fund that have not taken advantage of the special transitional arrangements and currencies of such nonmembers as the Fund may from time to time specify. There is a special exception by which occupied countries need not include in their monetary reserves gold newly mined in the first five years of the Agreement. The term currency includes coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding 12 months. A member's official holdings means central holdings, i.e., holdings of treasuries, central banks, stabilization funds, and similar agencies and also such holdings of other official institutions or other banks as are substantially in excess of working balances and are deemed official by the Fund after consultation with the member. Net holdings are calculated by deducting from a member's

official holdings its currency liabilities to official institutions or banks in the territories of other members or nonmembers the holdings of the currencies of which are included in the member's official holdings.

Provisions

Article V, Section 7. Repurchase by a member of its currency held by the Fund.- (a) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota.

(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with gold or convertible currencies, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to one-half of any increase that has occurred during the year in the Fund's holdings of its currency plus one-half of any increase, or minus one-half of any decrease, that has occurred during the year in the member's monetary reserves. This rule shall not apply when a member's monetary reserves have decreased during the year by more than the Fund's holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a member's holdings of another member's currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(c) None of the adjustments described in (b) above shall be carried to a point at which

- (i) the member's monetary reserves are below its quota,
- or
- (ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or
- (iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned.

Schedule B.

1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7 (b), shall be made with each type of monetary reserve, that is, with gold and with each convertible currency, the following rule, subject to 2 below, shall apply:

(a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

(b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.

(c) If after all the repurchases required under Article V, Section 7 (b), had been made, the result would exceed any of the limits specified in Article V, Section 7 (c), the Fund shall require such repurchases to be made by the members proportionately in such manner that the limits will not be exceeded.

2. The Fund shall not acquire the currency of any nonmember under Article V, Section 7 (b) and (c).

3. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), no account shall be taken, unless deductions have otherwise been made by the member for such holdings, of any increase in those monetary reserves which is due to currency previously inconvertible having become convertible during the year; or to holdings which are the proceeds of a long-term or medium-term loan contracted during the year; or to holdings which have been transferred or set aside for repayment of a loan during the subsequent year.

4. In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

Article XIX. In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following:

(a) A member's monetary reserves means its net official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify.

(b) The official holdings of a member means central holdings (that is, the holdings of its Treasury, central bank, stabilization fund, or similar fiscal agency).

(c) The holdings of other official institutions or other banks within its territories may, in any particular case, be deemed by the Fund, after consultation with the member, to be official holdings to the extent that they are substantially in excess of working balances; provided that for the purpose of determining whether, in a particular case, holdings are in excess of working balances, there shall be deducted from such holdings amounts of currency due to official institutions and banks in the territories of members or non-members specified under (d) below.

(d) A member's holdings of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangements under Article XIV, Section 2, together with its holdings of the currencies of such non-members as the Fund may from time to time specify. The term currency for this purpose includes without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months.

(e) A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above.

(f) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

(g) The Fund, after consultation with a member which is availing itself of the transitional arrangements under Article XIV, Section 2, may deem holdings of the currency of that member which carry specified rights of conversion into another currency or into gold to be holdings of convertible currency for the purpose of the calculation of monetary reserves.

CHAPTER VI. SCARCE CURRENCIES

Explanation

If a country sells goods or services to the rest of the world in larger amount than it buys abroad, then the rest of the world must either be borrowing the difference or drawing upon its monetary reserves or the Fund to pay for its purchases. The maladjustment in the sphere of trade, services, and capital may be of so persistent a character as to force heavy drafts upon limited national reserves or resources in the Fund. In such a case, there is danger that the increasing difficulties of obtaining the currency may start a scramble to obtain it before it is too late. Rather than let things develop to this critical point, the Fund, long before the situation has become acute, may inform members that a general scarcity of the currency is developing and may issue a report analyzing the causes of the scarcity and recommending measures designed to bring it to an end.

Should the Fund's holdings of the particular currency become scarce, the Fund may require the member concerned to sell its currency to the Fund for gold and all members undertake to buy gold offered to them by the Fund if it is in need of their currencies. Or the Fund may make an effort, with the approval of the member concerned, to borrow its currency. It will have the choice of borrowing from the member itself or from other members which happen to have a supply of the desired currency. But aside from the original subscription, no country is obliged to lend its currency to the Fund, since the total commitment of each country is limited to its original subscription to the Fund.

If the demands on the Fund are so great that the Fund's ability to supply the scarce currency is seriously threatened, the Fund must

formally declare the currency to be scarce and apportion its supply among member countries. In doing this the Fund must take into consideration the relative needs of member countries, the general international economic situation, and any other pertinent factors. It must also issue a report concerning its action.

Once a currency has formally been declared scarce, any member may limit the freedom of exchange transactions in that currency to the extent necessary to reduce the demand for that currency to the level of its supply. Each member may determine for itself the way in which it limits transactions in the scarce currency provided it does not violate its obligations in regard to exchange rates. Members agree not to invoke the obligations of prior agreements in such a way as to prevent a member from limiting its transactions in the scarce currency to the extent necessary in the circumstances just described; but each member also agrees to give sympathetic consideration to the representations of other members with regard to its administration of the restrictions.

One of the Fund's endeavors will be to prevent the development of a shortage of any currency. But a persistent demand for a country's goods in excess of its purchases of other countries' goods will inevitably result, with or without the Fund, in a shortage of that country's currency. Other countries may meet the shortage temporarily by selling gold to the country whose currency is scarce, or by borrowing from it. But, in the end, such a scarcity can be eliminated only by the re-establishment of balance between the country's exports and its imports.

Provisions

Article VII. Section 1. General scarcity of currency. - If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform the members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 2. Measures to replenish the Fund's holdings of scarce currencies. - The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

- (i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.
- (ii) Require the member to sell its currency to the Fund for gold.

Section 3. Scarcity of the Fund's holdings. - (a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Sec. 4. Administration of restrictions. - Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3(b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Sec. 5. Effect of other international agreements on restrictions. Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

Article V. Sec. 3. Conditions governing use of the Fund's resources. - (a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce.

CHAPTER VII. EXCHANGE RATES (PAR VALUES)

a. Initial Determination of Par Values

Explanation

The first task of the Fund will be to arrange for the fixing of the initial par values and for the commencement of exchange operations in member currencies. When the Fund decides that it will shortly be in a position to begin exchange transactions it will undertake to establish initial par values. Par values of member currencies must be expressed in terms of gold or in terms of United States dollars of fixed gold content. The Fund will ask each member country to communicate the par value of its currency based on the rates of exchange prevailing 60 days before the Agreement entered into force. The date will therefore be sometime between March 1, 1945, and October 31, 1945. If either the Fund or the member is of the opinion that this par value is unsatisfactory, it must say so within 90 days. The Fund can object to this par value if it appears that it can not be maintained without leading to undue use of the resources of the Fund either by that member or by other members. The Fund and the member must agree on an initial par value within a reasonable period, and if no agreement is reached the member will be deemed to have withdrawn.

Special provisions for countries which have been occupied by the enemy allow these countries to postpone communicating the par value of their currencies until major hostilities have ceased in their territories, or until such later time as the Fund may determine, and also allow these countries and the Fund more than 90 days to register objections to the

communicated par value. Such countries may also use the Fund before their initial par values have finally been established, in amounts and under conditions prescribed by the Fund, and may in the meanwhile alter their communicated rates by agreement with the Fund without prejudice to their ability to alter their rates after initial par values have finally been established.

Provisions

Article IV, Section 1. Expression of par values.- The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

Article XX, Section 4. Initial determination of par values.-

(a) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (d) below shall apply.

(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value can not be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period predetermined by the Fund in the light of all relevant circumstances,

agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(d) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (b) above shall apply, subject to the following modifications:

- (i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.
- (ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.
- (iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (a) above.

(e) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (d) (i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (d) above shall apply.

(f) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5(c).

(g) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2(g) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy **while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine.** On the

basis of the par value so communicated, the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (a), (b) or (d) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (d) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

(h) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(i) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

(j) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2,

Explanation b. Obligation to Maintain Established Par Values

Exchange rates and members' obligations in respect to them are a central feature of the Fund agreement. After the par value of a member's currency has been established, in accordance with an agreed procedure, the Fund will prescribe a margin above and below par value for transactions in gold by that member and the member is not allowed to buy gold at a price above par value by more than that margin or sell it at a price below par value by more than that margin. Members undertake to permit

exchange transactions between their currencies and other member currencies only at rates within a prescribed range. This range in the case of spot exchange transactions is one per cent above and below par. A member whose monetary authorities freely buy and sell gold for the settlement of international transactions within the prescribed margin of parity for such transactions is considered to be fulfilling the undertaking not to permit exchange transactions outside the prescribed range. In substance, then, a member undertakes to maintain, if necessary by freely buying or selling gold, the established rate of exchange between its currency and foreign currencies, except as methods for orderly and necessary changes are provided by the Agreement.

Provisions

Article IV, Section 2. Gold purchases based on par values.- The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

Section 3. Foreign exchange dealings based on parity.- The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

(i) in the case of spot exchange transactions, by more than one percent; and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Section 4. Obligations regarding exchange stability.- (a) each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

c. Changes in Par Values

Explanation

The Fund's purpose is to promote exchange stability as an important means for the restoration of world trade, but it recognizes that certain changes in rates may become necessary. No change in a member's rate can be made except on its own proposal and members agree not to propose a change except to correct a fundamental disequilibrium. Member countries are given the right, after consultation with the Fund but without obtaining its concurrence, to alter the par value of their currencies by 10 per cent from that initially established. For any proposed changes beyond 10 per cent the Fund has a right to concur or object, but on changes which do not exceed a further 10 per cent the Fund must either concur or object within 72 hours if the member so requests. There is a special proviso that a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund. It is difficult to conceive of such a situation.

In order to protect member countries from deflationary pressures resulting from inability to adjust exchange rates to world conditions, it is provided that the Fund must concur in a proposed change if it is satisfied that the change is necessary to correct a fundamental disequilibrium. Also it must not reject such a change on account of the domestic social or political policies of the proposing member. It is for the Fund to determine whether or not a change is necessary to correct a fundamental disequilibrium. This places on the Fund the responsibility for acting impartially and rationally on such proposed changes as may come before it.

It is recognized that the postwar transition period will be one of change and adjustment and that during this period the Fund must give

It is certain that during the immediate postwar period more than ordinary flexibility in exchange rates will be required. It would be impossible for the Fund to act immediately after the war with such wisdom as to provide rates of exchange that would in all cases continue to be appropriate as the process of reconstruction proceeds.

The question may be raised whether these provisions would go a long way toward diminishing the hoped-for stability of exchange rates. Their purpose is to accomplish the opposite. Stability does not mean rigidity and rigidity in the past has resulted in extreme instability. A country which finds that its domestic economy is suffering greatly from inability to balance its international transactions at its existing exchange rate and which finds it impossible to correct the situation by other adjustments without seriously harmful consequences, has no alternative but to change its rate. Persistence in attempts to maintain the existing rate is likely to have important disturbing effects both at home and abroad and to result in the necessity of larger and more frequent changes in rates when the changes are eventually made than would have been necessary had the country acted promptly. The provision for orderly changes in rates at such times, in consultation with the Fund and with its concurrence, is, therefore, expected to result in the long run in more rather than less stability of exchange rates. Stability, however, is viewed not as an end in itself but as a means of promoting trade, and, through trade, a high level of employment and income. Insistence on stable rates, irrespective of the effects of those rates on employment and income, might have meant losing sight of this objective.

If a country changes its rate by more than 10 per cent from the initial rate in spite of the objection of the Fund, the country automatically becomes ineligible to use the Fund's resources. In such cases,

if the Fund and the member do not come to an agreement on the rate within a reasonable period, the Fund can require the country to withdraw from membership in the Fund.

Provisions

Art. IV. Sec. 5. Changes in par values.— (a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection;

(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests;

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(d) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (c) above.

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Sec. 6. Effect of unauthorized changes. — If a member changes the par value of its currency despite the objection of the Fund, in

cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Sec. 2 (b).

Sec. 9. Separate currencies within a member's territories. - A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2(g). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

Article XIV. Section 5. Nature of transitional period. - In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

d) Uniform Changes in Par Values

Explanation

There is a special arrangement whereby the Fund may decide to make a uniform proportionate change in the par values of all member currencies. The decision to make such a uniform change requires the approval of a majority of the total votes plus the approval of each country having 10 per cent or more of the quotas, i.e., the United States, United Kingdom, and the Union of Soviet Socialist Republics. Any country, however, may refuse to accept such a change in respect to its own currency provided it notifies the Fund within 72 hours. Such a uniform change in par values would result in no change in the world pattern of exchange rates. Values of currencies in gold would change, but values in terms of other currencies would remain the same.

Provisions

Art. IV, Sec. 7. Uniform changes in par values. - Notwithstanding the provisions of Section 5(b) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members, provided each such change is approved by every member which has ten percent or more of the total of the quotas. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

e) Multiple Exchange Rates

Explanation

No country shall engage in any multiple currency practices without the approval of the Fund. This means that a member cannot have one exchange rate for some transactions and another exchange rate for other transactions.

Provisions

Art. VIII, Sec. 3. Avoidance of discriminatory currency practices. No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

CHAPTER VIII. EXCHANGE RESTRICTIONS

a. General Obligation to Avoid Restrictions

Explanation

Member countries undertake the obligation not to impose restrictions on the making of payments and transfers for current international transactions without the approval of the Fund. Payments for current transactions are defined in the Agreement as including payments due in connection with trade, service, and normal short-term banking and credit activities, payments of interest on loans and of net income from other investments, payments in moderate amount for amortization of loans or for depreciation of direct investments, and moderate remittances for family living expenses. In particular, current transactions do not include payments for the purpose of transferring capital. The Fund is empowered to determine whether specific transactions are current or capital transactions.

Besides the general obligation to avoid restrictions on current transactions, members are obliged not to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund. If a member is engaged in such practices when the Fund Agreement comes into force, it must consult with the Fund as to their progressive removal. The most dangerous form of discriminatory currency arrangements which are ruled out is the bilateral clearing agreement by which a country allows those countries from whom it buys to use the money received in payment only to purchase goods in that country.

Provisions

Article VIII., Section 1., Introduction. - In addition to the obligations assumed under other articles of this Agreement, each member **undertakes the obligations** set out in this Article.

Section 2., Avoidance of restrictions on current payments. -

(a) Subject to the provisions of Article VII, Section 3 (b), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, co-operate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3., Avoidance of discriminatory currency practices. - No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

Article XIX., (i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

- (1) All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
- (2) Payments due as interest on loans and as net income from other investments;
- (3) Payments of moderate amount for amortization of loans or for depreciation of direct investments;
- (4) Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

b. Special Convertibility Obligation

Explanation

In addition to the obligations to avoid restrictions on current transactions and discriminatory currency practices just described there is a special convertibility provision. Subject to specified exceptions this provision assures a member (i.e., a government and its agencies as distinct from the general public) that it can bring home the balances it holds in another member country (1) if the balances have been recently acquired as a

result of current transactions or (2) if their conversion is needed for making payments for current transactions. The first part of this provision assures a member that the proceeds of merchandise exports and other current transactions can be brought home at the parity rate -- an assurance that is implicitly given to the general public as well elsewhere in the Agreement. If, for instance, the French authorities have recently acquired sterling balances as a result of current transactions, France can require England to convert the balances into francs (or, at England's option, into gold which is readily convertible into francs).

The second part of the provision applies to balances acquired at an earlier period or from other than current account transactions. The principle adopted is that these balances, too, which are part of the monetary reserves of the countries concerned, should be convertible for making payments for current transactions. Since each member is free, however, to regulate international capital movements, it is free to restrict the use of balances of this character; and hence it can at its own discretion relieve itself at any time of this second obligation.

There are other limitations to both obligations. In the example given, England will not be obliged to purchase the sterling balances if at that time England is, for any reason, not entitled to purchase foreign currencies from the Fund. The obligations in this special form apply only when England is in a position to fulfill them through purchase of the required currency from the Fund. The obligations lapse, also, if the currency needed for making the purchase, in this case francs, has been declared scarce. England may be able to obtain a certain amount of francs from the Fund but she is authorized to restrict franc transactions as she sees fit and therefore can not be forced to convert sterling balances into francs.

Similarly, the obligations do not apply if England has obtained the approval of the Fund to restrict payments due on current transactions or if the balances have been acquired contrary to England's exchange regulations. Finally, the obligations do not apply to sterling balances accumulated during the transitional period if England has availed herself of the special transitional arrangements.

Although the special convertibility obligations are tied up to the Fund mechanism and lapse when a member is for any reason no longer entitled to purchase foreign currencies from the Fund, the general obligation not to impose restrictions on the making of payments and transfers for current international transactions without permission of the Fund is binding on all member countries, irrespective of whether or not they are entitled at any particular time to draw on the resources of the Fund.

Provision

Article VIII., Section 4. Convertibility of foreign-held balances.- (a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

- (b) The obligation in (a) above shall not apply
 - (i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or
 - (ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or
 - (iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or
 - (iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3 (a); or
 - (v) when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

c. Restrictions on Capital Transfers

Explanation

Each member has a right to control international capital movements provides it does so in a manner which does not restrict payments for current transactions or unduly delay transfers of funds in settlement of commitments.

The Fund has power to determine whether specific transactions are current or capital transactions.

Members may not make net use of the Fund's resources to meet large or sustained outflows of capital and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund and declare a member ineligible to use the Fund if it does not exercise appropriate controls.

Provisions

Article VI., Section 1. Use of the Fund's resources for capital transfers.- (a) A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund.

(b) Nothing in this Section shall be deemed

- (i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or
- (ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 3. Controls of capital transfers.- Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3 (b), and in Article XIV, Section 2.

d. Transitional Arrangements

Explanation

There are provisions by which members may avail themselves of special arrangements made for the postwar transitional period. Members intending to avail themselves of these arrangements must notify the Fund. Under these special arrangements members may maintain and adapt to changing circumstances restrictions on payments and transfers for current international transactions. However, members which maintain restrictions in accordance with this arrangement must take all possible measures to facilitate international payments and must withdraw such restrictions as soon as they believe that they will be able, without the restrictions, to settle their balances of payments without being forced to draw too heavily on the resources of the Fund. Starting three years after the Fund begins operations the Fund must issue an annual report on the restrictions still in force under these transitional arrangements. After the fifth year, any member still imposing such restrictions must consult with the Fund. The Fund may indicate to a member that it is in a favorable position to withdraw any or all of its restrictions and, after a suitable time, may require a member to withdraw from the Fund if it continues to maintain those restrictions.

The reason for these exemptions is that it would be impossible to require all member countries immediately to remove all restrictions on current transactions. If that were done, some members would be forced to rely heavily on the Fund with the consequence that the Fund's resources would be used increasingly in financing deficits in international payments incurred by countries which are as yet in no position to take advantage of the Fund's temporary assistance to balance their trade with

the rest of the world without such restrictions. On the other hand, all member countries are committed gradually to abandon restrictions, and the Fund has the power to refuse the use of its resources to, or require the withdrawal of, a member which is not eliminating its restrictions as rapidly as the Fund believes this should be done.

Provisions

Article XIV., Section 1. Introduction.- The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2. Exchange restrictions.- In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Section 3. Notification to the Fund.- Each member shall notify the Fund before it becomes eligible under Article XX, Section 4 (c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Section 4. Action of the Fund relating to restrictions.- Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of

restrictions, inconsistent with the provisions of any other article of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2 (a).

Section 5. Nature of transitional period.- In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

e. Scarce Currencies

Explanation

Exception to the general rule not to impose restrictions on payments for current transactions is made in respect to scarce currencies. Once a currency has formally been declared scarce, any member may limit the freedom of exchange transactions in that currency to the extent necessary to reduce the demand for that currency to the level of its supply. Each member may determine for itself the way in which it limits transactions in the scarce currency provided it does not violate its obligations in regard to exchange rates. Members agree not to invoke the obligations of prior agreements in such a way as to prevent a member from limiting its transactions in the scarce currency to the extent necessary in the circumstances just described; but each member also agrees to give sympathetic consideration to the representations of other members with regard to its administration of the restriction.

See also the Chapter on Scarce Currencies.

Provisions

Article VII., Section 3. Scarcity of the Fund's holdings.- (a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the

relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV., Sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. Administration of restrictions.- Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3 (b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. Effect of other international agreements on restrictions.- Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

f. Transactions with Non-members

Explanation

All of the obligations of members to avoid restrictions on current transactions apply to transactions with other members. Transactions with non-members may be restricted unless the Fund decides that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

Provision

Article XI., Section 2. Restrictions on Transactions with non-member countries.- Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

g. Consultation on Existing Agreements

Explanation

No explanation necessary.

Provision

Article VIII., Section 6. Consultation between members regarding existing international agreements.- Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements will consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

CHAPTER IX. TRANSITIONAL ARRANGEMENTS

Explanation

The Fund Agreement recognizes that the immediate postwar period will be a very difficult one and therefore makes special arrangements for that period.

First of all it expressly states that the Fund is not intended to finance relief, reconstruction, or settlement of war debts. It is necessary to emphasize that even in the immediate post-war period when needs are so great the Fund is not intended for permanent financing. It is essential that the currencies in demand be lent only for short periods in order to ensure that they will be available when needed.

Secondly the Fund allows members to take advantage of a special arrangement whereby they are allowed to maintain restrictions on payments for current transactions. Countries which have suffered devastation as a result of the war will have such great demands for foreign goods and their ability to export will be so small that they will need to relax controls gradually. Furthermore maladjustments and instabilities resulting from the war may make it necessary to maintain controls for some time. Under these arrangements however, members promise to relax controls as quickly as possible and the Fund's resources will be available to help members as they relax controls. It is specifically provided that a member maintaining controls for more than three years must report to the Fund, and after five years it must consult with the Fund as to their further retention.

At any time the Fund may require a member to relax controls if it is not living up to its promise to relax controls. The Fund must first

explain its position however and give the member a chance to reply. Such action by the Fund is to be taken only in exceptional circumstances. This presumably is intended to indicate that it is expected that members will live up to their promise.

One general clause says that the Fund will recognize that the immediate post-war period is a difficult one and will give the members the benefit of any reasonable doubt when deciding on the reply to any member's request. This clause refers primarily to requests for changes in exchange rates. It is recognized that the initial rates set can hardly be expected to be equilibrium rates which can be maintained indefinitely. It would be a mistake to maintain rates too long by means of exchange controls or loans from the Fund and changes will certainly have to be permitted. The clause may apply also to requests to allow certain controls to be maintained.

Provisions

Article XIV. Section 1. Introduction. - The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2. Exchange restrictions. - In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Section 3. Notification to the Fund. - Each member shall notify the Fund before it becomes eligible under Article XX, Section 4 (c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Section 4. Action of the Fund relating to restrictions. - Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such actions necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2 (a).

Section 5. Nature of transitional period. - In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

CHAPTER X. ORGANIZATION AND MANAGEMENT

a. Board of Governors

Explanation

The Board of Governors, in which all the powers of the Fund will be vested, will consist of one Governor appointed by each member country. Each country shall also appoint an alternate who can vote only in the absence of the Governor. Governors and alternates serve for five years subject to the pleasure of the government appointing them. Governors and alternates receive no compensation from the fund, except for reasonable expenses incurred to attend meetings. The Board may delegate its powers to the Executive Directors, except for the power to decide on certain issues of major economic or political significance. The Board will meet annually, and may meet more often if requested by the Executive Directors or agreed upon by the Board. The Board may set up a procedure for voting without an actual meeting.

Provisions

Article XII. Section 1. Structure of the Fund. - The Fund shall have a Board of Governors, Executive Directors, a Managing Director, and a staff.

Sec. 2. Board of Governors. - (a) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

- (i) Admit new members and determine the conditions of their admission.
- (ii) Approve a revision of quotas.
- (iii) Approve a uniform change in the par value of the currencies of all members.

- (iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).
- (v) Determine the distribution of the net income of the Fund.
- (vi) Require a member to withdraw.
- (vii) Decide to liquidate the Fund.
- (viii) Decide appeals from interpretations of this agreement given by the Executive Directors.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

(g) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and alternates shall serve as such without compensation from the Fund, but the Fund shall pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the Managing Director.

b. Executive Directors

Explanation

The Executive Directors will conduct the general operations of the Fund. There will be at least twelve Executive Directors, five appointed by the five members having the largest quotas, which if all countries represented at Bretton Woods become members will be the United States, the United Kingdom, the Union of Soviet Socialist Republics, China, and France, two elected by the American Republics other than the United States, and five elected by the other members. The procedure by which the elected Executive

Directors are to be chosen is designed to see that each member will have an appropriate voice in the election of at least one of the Directors. The Governors appointed by member countries vote in the election of Executive Directors. Two additional Executive Directors may be appointed to represent the two countries the currencies of which are being used by the Fund in the largest absolute amounts, if these countries are not included in those already entitled to appoint Directors. As new countries become members of the Fund the number of Executive Directors may be increased.

Executive Directors are to be elected every two years, Executive Directors appoint their own alternates. An alternate may attend meetings but may not vote unless the Executive Director appointing him is absent. Executive Directors are to function "in continuous session". The meaning of this phrase is not absolutely clear. It seems apparent however that the job of Executive Director is a full time job. The salaries of Executive Directors are determined by the Board of Governors, alternates to Executive Directors evidently will receive no salary.

Provisions

Article XII. Sec. 3. Executive Directors. - (a) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be not less than twelve directors who need not be governors and of whom

- (i) five shall be appointed by the five members having the largest quotas;
- (ii) not more than two shall be appointed when the provisions of (c) below apply;
- (iii) five shall be elected by the members not entitled to appoint directors, other than the American Republics; and
- (iv) two shall be elected by the American Republics not entitled to appoint directors.

For the purposes of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they become members in accordance with Article XX or in accordance with Article II, Section 2.

When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

(c) If, at the second regular election of directors and thereafter, the members entitled to appoint directors under (b) (i) above do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

(d) Subject to Article XX, Section 3 (b) elections of elective directors shall be conducted at intervals of two years in accordance with the provisions of Schedule C, supplemented by such regulations as the Fund deems appropriate. Whenever the Board of Governors increases the number of directors to be elected under (b) above, it shall issue regulations making appropriate changes in the proportion of votes required to elect directors under the provisions of Schedule C.

(e) Each director shall appoint an alternate with full power to act for him when he is not present. When the directors appointing them are present, alternates may participate in meetings but may not vote.

(f) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the members who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(g) The Executive Directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5 (b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(k) The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

Schedule C. 1. The election of the elective executive directors shall be by ballot of the governors eligible to vote under Article XII, Section 3 (b) (iii) and (iv).

2. In balloting for the five directors to be elected under Article XII, Section 3 (b) (iii), each of the governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5 (a). The five persons receiving the greatest number of votes shall be directors, provided that no person who received less than nineteen percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When five persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected, and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above twenty percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above twenty percent of the eligible votes the twenty percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until twenty percent is reached.

5. Any governor part of whose votes must be counted in order to raise the total of any person above nineteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed twenty percent.

6. If, after the second ballot, five persons have not been elected, further ballots shall be held on the same principles until five persons have been elected, provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by the American Republics under Article XII, Section 3 (b) (iv) shall be elected as follows:

(a) Each of the directors shall be elected separately.

(b) In the election of the first director, each governor representing an American Republic eligible to participate in the election shall cast for one person all the votes to which he is entitled. The person receiving the largest number of votes shall be elected provided that he has received not less than forty-five percent of the total votes.

(c) If no person is elected on the first ballot, further ballots shall be held, in each of which the person receiving the lowest number of votes shall be eliminated, until one person receives a number of votes sufficient for election under (b) above.

(d) Governors whose votes contributed to the election of the first director shall take no part in the election of the second director.

(e) Persons who did not succeed in the first election shall not be ineligible for election as the second director.

(f) A majority of the votes which can be cast shall be required for election of the second director. If at the first ballot no person receives a majority, further ballots shall be held in each of which the person receiving the lowest number of votes shall be eliminated, until some person obtains a majority.

(g) The second director shall be deemed to have been elected by all the votes which could have been cast in the ballot securing his election.

c. Managing Director and Staff

Explanation

The Executive Directors will appoint a Managing Director who will be in charge of the operating staff of the Fund and will conduct the ordinary business of the Fund. The Managing Director can not be a Governor or Executive Director. The Managing Director is chairman of the Executive Directors and has no vote except to cast a deciding vote in cases of an equal division of votes on some question. Managing Directors may participate in meetings of the Board of Governors but may not vote. The principal office of the Fund will be in the United States, since this country will have the largest quota.

Provisions

Article XII. Sec. 4. Managing Director and staff - (a) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of his functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Article XIII. Section 1. Location of offices. - The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

d. Voting Power

Explanation

The voting power of member countries is determined by giving each member country 250 votes plus one additional vote for each \$100,000 of its quota. The voting power of the countries represented at the United Nations Monetary and Financial Conference is indicated in Table III.

For voting on certain matters indicated below, the distribution of voting power shown in the table will be modified. When the Fund is voting on the question of whether or not to waive any of the conditions governing a member's use of the resources of the Fund, or on the question of declaring a member ineligible to use the resources of the Fund because it is using them in a manner contrary to the purposes of the Fund, the votes of member countries will be altered as follows: the voting power of a member country will be increased by one vote for each \$400,000 of net sales of its currency by the Fund and decreased by one vote for each \$400,000 of its net purchases of the currencies of other members, provided net purchases or net sales do not exceed the quota of the member involved. By way of example, if the Fund's net sales of dollars equal one-half of the United States quota (that is, if foreign countries will have drawn on the Fund for 1,375 million dollars) the percentage of total voting power of the United States will be 31.5 per cent rather than 28 per cent. The theory of this provision is that on these problems involving the use of the Fund's resources the voting power of countries which have made substantial use of them should be

decreased and that of countries of whose subscriptions other countries have made substantial use should be increased. These changes in voting power, however, are relatively small.

In voting by the Board of Governors, the Governor appointed by each member has the voting power allotted to that member. The Executive Directors cast the number of votes either of the country by which they are appointed, or, in the case of the elected Executive Directors, of the countries which have elected them. An Executive Director must cast all the votes of which he has control as a unit. He is not permitted to cast some of his votes in one way and some in another. The countries whose votes counted toward his election are precluded from urging him to cast the number of votes which they individually are entitled to in accordance with their particular wishes.

Most decisions of the Fund are by a majority of the votes cast in accordance with the distribution of voting power, but certain specified decisions require more than a simple majority of votes or the approval of a stated proportion of member countries.

Table III

VOTING POWER IN THE INTERNATIONAL MONETARY FUND OF MEMBERS REPRESENTED AT THE UNITED NATIONS MONETARY AND FINANCIAL CONFERENCE

Country	Number of votes	Percentage of total votes ¹
Australia.....	2,250	2.3
Belgium.....	2,500	2.5
Bolivia.....	350	.3
Brazil.....	1,750	1.8
Canada.....	3,250	3.3
Chile.....	750	.8
China.....	5,750	5.8
Colombia.....	750	.8
Costa Rica.....	300	.3

Country	Number of votes	Percentage of total votes ¹
Cuba.....	750	.8
Czechoslovakia.....	1,500	1.5
Denmark.....	(2)	(2)
Dominican Republic.....	300	.3
Ecuador.....	300	.3
Egypt.....	700	.7
El Salvador.....	275	.3
Ethiopia.....	310	.3
France.....	4,750	4.8
Greece.....	650	.6
Guatemala.....	300	.3
Haiti.....	300	.3
Honduras.....	275	.3
Iceland.....	260	.3
India.....	4,250	4.3
Iran.....	500	.5
Iraq.....	330	.3
Liberia.....	255	.2
Luxembourg.....	350	.3
Mexico.....	1,150	1.2
Netherlands.....	3,000	3.0
New Zealand.....	750	.8
Nicaragua.....	270	.3
Norway.....	750	.8
Panama.....	255	.2
Paraguay.....	270	.3
Peru.....	500	.5
Philippine Commonwealth.....	400	.4
Poland.....	1,500	1.5
Union of South Africa.....	1,250	1.3
Union of Soviet Socialist Republics.....	12,250	12.4
United Kingdom.....	13,250	13.4
United States.....	27,750	28.0
Uruguay.....	400	.4
Venezuela.....	400	.4
Yugoslavia.....	850	.8
Total	99,000	100.0

¹The percentage of total votes is calculated on the assumption that only those nations represented at the Conference will join the Fund. As other countries join the Fund, each individual country's share of the total votes will decline.

²To be determined when the Danish Government has declared its readiness to sign the Agreement.

Note.—Of the total number of votes, the British Empire controls 25.3 per cent, Continental Europe, excluding the U.S.S.R., 16.0 per cent, and Latin America 9.7 per cent.

Provisions

Article XII. Sec. 5. Voting. - (a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above, adjusted

- (i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or
- (ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken;

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8 (d) of that Article.

(d) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

Article XII. Sec. 2. - (d) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

Article XII. Sec. 3. - (h) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5 (b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

e. Decisions Requiring other than Single Majority of Voting Power

Explanation

There are very few decisions requiring other than a single majority of the voting power.

A $\frac{4}{5}$ majority of the total voting power is required for any change in quotas or for any increase in the number of executive directors.

A $\frac{2}{3}$ majority of the voting power is necessary to decide to publish a report regarding the conditions in a member which are directly tending to cause international disequilibrium.

The approval of $\frac{3}{5}$ of the members having $\frac{4}{5}$ of the voting power is required to accept any amendment and acceptance by all members is required to alter the right of withdrawal and the provisions which say no change in the quota of a member shall be made without its consent and no change in the par value of its currency except on its proposal.

A majority of total voting power plus approval of every member having 10 per cent or more of the quotas is required to decide on a uniform change in par values.

A majority of the governors having a majority of the total voting power is necessary to require a member to withdraw for failure to live up to any of its obligations.

A unanimous vote of the Board of Directors is necessary for temporary suspension of the operations of the Fund. A $\frac{4}{5}$ vote of the Governors may extend the suspension.

Provisions

Article III, Sec. 2. - A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned.

Article IV, Sec. 7, Uniform changes in par values. - Notwithstanding the provisions of Section 5 (b) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members, provided each such

change is approved by every member which has ten percent or more of the total of the quotas. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Article XII. Sec. 3. - When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

Article XII. Sec. 8. - The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members.

Article XV. Sec. 2. - (b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

Article XVI. Section 1. Temporary suspension. - (a) In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

- (i) Article IV, Sections 3 and 4 (b).
- (ii) Article V, Sections 2, 3, 7, 8 (a) and (f).
- (iii) Article VI, Section 2.
- (iv) Article XI, Section 1.

(b) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(c) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(d) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

Article XVII. - (a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment

is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Fund (Article XV, Section 1);
- (ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);
- (iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5 (b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

CHAPTER XI. MISCELLANEOUS

a. Distribution of Net Income

Explanation

Decision as to what part of the Fund's net income should be distributed to members will rest with the Board of Governors and can not be delegated to the Executive Directors. There are certain rules, however. If income is distributed at all, 2 per cent must be paid to countries on the amount of their currency subscription that has been used by the Fund to meet the needs of other countries. This preferred 2 per cent is noncumulative. Any further amounts distributed must be paid to all members in proportion to their quotas. All payments of income to members shall be paid in their own currency.

Provisions

Article XII. Section 6. Distribution of net income. - (a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(b) If any distribution is made, there shall first be distributed a two percent non-cumulative payment to each member on the amount by which seventy-five percent of its quota exceeded the Fund's average holdings of its currency during that year. The balance shall be paid to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

b. Communication of Views

Explanation

The management of the Fund has the right to make recommendations to any member, whether that member is using the Fund or not. The Fund may communicate its views informally or may, by a two-thirds vote, decide to publish a report regarding a member's monetary or economic condition or developments which are directly tending to produce a serious disequilibrium in the international balance of payments of members.

This provision is designed to make it clear that the Fund can communicate recommendations to any country which is disturbing international relationships even though that country is not using the Fund. The United States is the country most likely to be in that position.

Provisions

Article XII. Section 8. Communication of views to members. - The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an executive director, it shall be entitled to representation in accordance with Section 3 (j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

c. Publication of Reports

Explanation

No explanation necessary.

Provisions

Article XII. Section 7. Publication of reports. - (a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its transactions and its holdings of gold and currencies of members.

(b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

d. Interpretation of Agreement

Explanation

Questions of interpretation of the Agreement are to be submitted to the Executive Directors, and may be submitted on appeal by a member country to the Board of Governors. In special cases involving withdrawal or liquidation a special arbitration tribunal may be appointed.

Provisions

Article XVIII. - (a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director it shall be entitled to representation in accordance with Article XII, Section 3 (j).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

e. Amendment of Agreement

Explanation

Most of the Articles of the Agreement may be amended if the amendment is approved first by the Board of Governors and then by three-fifths of the member countries having four-fifths of the total votes. However, three of the provisions of the Agreement can be amended only with the acceptance of all member countries. They refer to a member's right of withdrawal, a member's right to veto a change in its quota, and the prohibition against a change in the par value of a member's currency being made otherwise than in response to its own proposal.

Provisions

Article XVII. - (a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment.

When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Fund (Article XV, Section 1);
- (ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);
- (iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5 (b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

f. Relations with Other International Organizations

Explanation

No explanation necessary except that this requires the Fund to cooperate with the Bank.

Provisions

Article X. - The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII.

CHAPTER XII. ADDITIONAL OBLIGATIONS OF MEMBERS

a. Furnishing of Information

Explanation

The information a member is required to furnish the Fund will give the Fund as complete a picture as possible of the international position of the member. The required information on domestic conditions is limited to prices and national income. The Fund must have all the information required in order to make decisions on exchange rates, exchange controls, and use of the Fund's resources.

Provisions

Article VIII., Section 5., Furnishing of information. - (a) The Fund may require members to furnish it with such information as it deems necessary for its operations, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters;

- (i) Official holdings at home and abroad, of (1) gold, (2) foreign exchange.
- (ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.
- (iii) Production of gold.
- (iv) Gold exports and imports according to countries of destination and origin.
- (v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.
- (vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.
- (vii) International investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.
- (viii) National income.
- (ix) Price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices.
- (x) Buying and selling rates for foreign currencies.
- (xi) Exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.
- (xii) Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(b) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable, and, so far as possible, to avoid mere estimates.

(c) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

b. Relations with Non-Members

Explanation

This provision was included primarily to make it clear that members can not avoid their obligations and fail to live up to their commitments by carrying on transactions in non-member countries which they are not allowed to carry on in member countries.

Some critics have objected to this whole article on relations with non-members on the ground that it provides for an economic boycott of non-members. This was not intended. The principal effect on non-members will be that members do not promise not to restrict transactions with non-members. However they will probably be interested in trading with non-members and the Fund can require them not to restrict transactions with non-members if such restrictions are disturbing.

Provisions

Article XI., Section 1., Undertakings regarding relations with non-member countries. - Each member undertakes:

- (i) Not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;
- (ii) Not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

- (iii) To cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

Section 2., Restrictions on transactions with non-member countries. - Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

c. Immunities and Privileges

Explanation

No explanation necessary.

Provisions

Article IX., Section 1, Purpose of Article. - To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2., Status of the Fund. - The Fund shall possess full juridical personality, and in particular, the capacity

- (i) to contract;
- (ii) to acquire and dispose of immovable and movable property;
- (iii) to institute legal proceedings.

Section 3., Immunity from judicial process. - The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4., Immunity from other action. - Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5., Immunity of archives. - The archives of the Fund shall be inviolable.

Section 6., Freedom of assets from restrictions. - To the extent necessary to carry out the operations provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7., Privilege for communications. - The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

Section 8., Immunities and privileges of officers and employees. - All governors, executive directors, alternates, officers and employees of the Fund

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity;

- (ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;
- (iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9., Immunities from taxation. - (a) The Fund, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to executive directors, alternates, officers or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held

- (i) which discriminates against such obligation or security solely because of its origin; or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10., Application of Article. - Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

CHAPTER XIII. WITHDRAWAL, SUSPENSION, AND LIQUIDATION

a. Voluntary Withdrawal

Explanation

Any member has a right to withdraw from the Fund at any time by giving notice in writing. This right of withdrawal is useful in convincing countries that they are not giving up their sovereignty. A country which has decided not to live up to its obligations would carry out this decision whether it had the right to withdraw or not. The United States' position is not weakened by the fact that other countries have the right to withdraw. In fact, it is strengthened by our own right to withdraw and to obtain a fair settlement of accounts if we do withdraw. When countries in debt to the Fund withdraw they are obliged to settle their accounts in gold or convertible currencies.

Provisions

Article XV. Section 1. Right of members to withdraw. - Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

b. Compulsory Withdrawal

Explanation

If any member fails to fulfill any of its obligations under the Fund Agreement, it may first be declared ineligible to use the resources of the Fund, and if it persists in its failure, it may be required to withdraw from membership in the Fund. Neither of these steps will be taken without first informing the member of the situation and giving the member an opportunity to be heard. Compulsory withdrawal of a member requires the approval of the majority of the member countries having a majority of the voting power.

It is clearly stated that this provision does not limit the Fund's power to declare a member ineligible to use the resources of the Fund in a manner contrary to its purposes or to finance a large or sustained outflow of capital. Neither does it limit the fact that a member may automatically become ineligible to use the Fund if it makes an unauthorized change in the par value of its currency.

Provisions

Article XV. Section 2. Compulsory withdrawal. - (a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section, Section 6, Article V, Section 5, or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

c. Settlement of Accounts

Explanation

In case a member withdraws either voluntarily or otherwise, a member's accounts with the Fund are settled either by agreement with the Fund or according to a carefully worked out formula. All obligations to the withdrawing country shall be met in its currency.

If the Fund's holdings of its currency do not suffice (which will be the case in general if the Fund's holdings of a country's currency is less than its quota) settlement must be made in gold or in such other manner as may be agreed. If agreement cannot be reached in 6 months the Fund shall pay the balance in 10 half-yearly installments either in the member's currency or in gold. If the Fund fails to meet the payments the member can require payment in any currency the Fund holds which has not been declared scarce.

If the Fund's holdings of a member's currency exceed the amounts due that country (in general if the Fund's holdings exceed its quota) and the Fund and the member cannot agree on the method of settling the accounts the member must redeem its currency in excess of what is due to it in gold or convertible currencies in ten half-yearly payments. The Fund may sell the currency in any market. The member must guarantee the use of the currency in its territory.

Provisions

Article XV. Section 3. Settlement of accounts with members withdrawing. - When a member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.

Schedule D. 1. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in gold, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or by the delivery of gold.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in gold or, at its option, in the currencies of members which at the time of redemption are convertible. Redemption shall be made at the parity existing at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the par value of its currency on the date of withdrawal and the value realized by the Fund on disposal under 4 and 5 above.

7. In the event of the Fund going into liquidation under Article XVI, Section 2, within six months of the date on which the member withdraws, the account between the Fund and that government shall be settled in accordance with Article XVI, Section 2, and Schedule E.

d. Temporary Suspension and Liquidation

Explanation

The Executive Directors have power in an emergency by unanimous vote to suspend all transactions of the Fund for a period of 4 months. The Board of Governors may extend the period of suspension for 8 months by a 4/5 majority of the total voting power. A majority of the voting power may terminate suspension at any time.

The Fund may not be liquidated except by decision of the Board of Governors. Once decision is made to liquidate the Fund all transactions except for orderly settlement of accounts must cease. All obligations of members cease once it has been decided to liquidate the Fund except obligations in connection with settlement of accounts with a withdrawing member, obligations with regard to the administration of liquidation, and obligations with regard to settlements of questions of interpretation of the Fund Agreement.

The procedure specified for liquidation is designed to secure fair treatment of all member countries. Liabilities other than repayment of subscriptions must be met first. Gold held by the Fund must be distributed to members whose currencies are held by the Fund in amounts less than their quotas and in proportion to the deficiency in the Fund's holdings. One-half of the Fund's holdings of a member's currency must be returned to the member provided the amount so returned does not exceed

one-half its quota. The rest of the Fund's holdings of each currency is distributed to all members in proportion to amounts still due them. Members promise to redeem amounts of their currency distributed to other members in a manner agreed upon with the Fund.

In so far as possible the Fund will agree with each member to take payment in its own currency and redeem amounts of its currency which would otherwise be distributed to other countries. In so far as a member's currency is distributed to other members the Fund will try to agree with that member to have it redeem its currency in gold or in the currency of the member requesting redemption and in 10 half-yearly installments unless the members concerned agree otherwise.

If any member fails to agree on the manner of redemption the Fund will use currencies of other members which were to be distributed to that member to redeem amounts of that member's currency distributed to other members.

Provisions

Article XVI. Section 1. Temporary suspension. - (a) In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

- (i) Article IV, Sections 3 and 4 (b),
- (ii) Article V, Sections 2, 3, 7, 8 (a) and (f).
- (iii) Article VI, Section 2.
- (iv) Article XI, Section 1.

(b) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(c) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(d) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

Section 2. Liquidation of the Fund. - (a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Fund may be necessary, they may temporarily suspend all transactions, pending decision by the Board.

(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XVIII, paragraph (c), in Schedule D, paragraph 7, and in Schedule E.

(c) Liquidation shall be administered in accordance with the provisions of Schedule E.

Schedule E. 1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

- (a) the currency in which the liability is payable;
- (b) gold;
- (c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

- (a) The Fund shall distribute its holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas. These members shall share the gold so distributed in the proportions of the amounts by which their quotas exceed the Fund's holdings of their currencies.

(b) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty per cent of its quota.

(c) The Fund shall apportion the remainder of its holdings of each currency among all the members in proportion to the amounts due to each member after the distributions under (a) and (b) above.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2 (c) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in gold or, at its option, in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly

period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the par value of its currency on the date of the decision to liquidate the Fund and the value realized by such members on disposal of its currency.