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GROUP OF TEN

COMMUNIQUÉ OF MINISTERS AND GOVERNORS

AND

REPORT OF DEPUTIES

"... on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed..."

July 1966

Communiqué

of the

Ministerial Meeting of the Group of Ten

on July 25th and 26th 1966 in The Hague

1. *The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in The Hague on 25th and 26th July under the chairmanship of Mr. Anne Vondeling, Minister of Finance of the Netherlands. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the Secretary-General of the O.E.C.D., the General Manager of the B.I.S., and the Minister of Finance of Switzerland.*

2. *The Ministers and Governors considered a report of Working Party 3 of the O.E.C.D. on possible improvements in the balance-of-payments adjustment process. They expressed their appreciation of the O.E.C.D.'s work on this report. Recognising that the smooth functioning of the international monetary system, as well as the general confidence in its stability, depend very much on progress toward the elimination of imbalances, they agreed that improvements in the adjustment process were needed and possible. They expressed the hope that Working Party 3 would continue to work for improvements in this field on the lines indicated in its report.*

3. *The Ministers and Governors also discussed a comprehensive report by their Deputies on other possible improvements in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed. This report also contains several suggestions for improving the existing system otherwise than through reserve creation. These suggestions should be given further study by the appropriate bodies. The report will be published in the next few weeks.*

4. *As regards international liquidity, the Ministers and Governors were in full agreement that there is at present no general shortage of reserves. On the other hand, it was thought unlikely that the existing sources of reserves would provide an adequate basis for world trade and payments in the longer run. Large U.S. deficits are not a satisfactory source of future reserve increases for the rest of the world nor are they acceptable to the United States. Moreover, gold alone is not likely to supply sufficient additions to monetary reserves in the future. Consequently, it was agreed that, at some point in the future, existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets.*

5. *As to the way in which such a future contingency could be met, the Deputies, in their report to the Ministerial Group, have achieved a consensus on a number of basic principles and elements of any such contingency planning, although they have not reached agreement on all points or presented a fully developed plan.*

Among the agreed basic principles, the Ministers and Governors particularly stressed the following:

- *Deliberate reserve creation, when decided upon, should be neither geared nor directed to the financing of balance-of-payments deficits of individual countries, but should take place on the basis of a collective judgment of the reserve needs of the world as a whole.*

- *All countries have a legitimate interest in the adequacy of international reserves. However, a group of major countries with a key role in the functioning of the international monetary system has a particular responsibility for the financial backing for any newly created reserve assets. Consequently, there is agreement that deliberately created reserve assets, as and when needed, should be distributed to all members of the Fund on the basis of I.M.F. quotas or of similar objective criteria. The major countries should be ready to provide adequate financial backing through the extension of special lines of credit to the Fund or through commitments to accept and hold such reserve assets.*

6. *A. There should be a clear distinction between the establishment of any contingency plan and the activation of that plan which would involve the first actual creation of reserves. The prerequisites for such an activation should be laid down. They should include the attainment of a better balance-of-payments equilibrium between members and the likelihood of a better working of the adjustment process in the future.*

   B. Organisational arrangements for decisions on the activation of any contingency plan and for subsequent decisions on reserve creation may vary according to the type of scheme adopted. Whatever scheme is adopted, it is essential that the organisational arrangements for such decisions should reflect two principles, namely, (I) the interest of all countries in the smooth working of the international monetary system and (II) the particular responsibilities of a limited group of major countries with a key role in the functioning of the international monetary system and which in fact must provide a substantial part of the financial strength behind any new asset. This could best be achieved by a procedure whereby proposals for reserve creation would be considered both by the limited group and by the Fund. The requisite majorities and voting procedures would have to give due recognition to the two principles set out above and this recognition would be a necessary condition for any decisions on reserve creation.

   C. One Delegation did not agree with the views set out in subparagraphs A and B.

7. *The Ministers and Governors instructed their Deputies to continue their studies on a number of unresolved questions. However they also thought it appropriate to look now for a wider framework in which to consider the questions that affect the world economy as a whole. With this in view, the Ministers and Governors, after consulting with the Managing Director of the Fund, recommended a series of joint meetings in which the Deputies would take part together with the Executive Directors of the Fund. The Ministers and Governors of the Group of Ten would expect a report from their Deputies not later than the middle of 1967. One Delegation did not join in making this aforementioned recommendation.*

REPORT TO MINISTERS AND GOVERNORS
BY THE GROUP OF DEPUTIES

7th July 1966

GROUP OF TEN

July 8, 1966

Letter of Transmittal

To the Ministers and Governors:

In their communiqué of 28th September, 1965, the Ministers and Governors of the Group of Ten instructed their Deputies to determine and report to them "what basis of agreement can be reached on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy."

On behalf of the Deputies, I transmit herewith the report which we were instructed to make.

In preparing the report, we have maintained close relations with the International Monetary Fund, and with the Organisation for Economic Co-operation and Development and the Bank for International Settlements. Representatives of the Managing Director of the I. M. F. and of the other two institutions have taken part in our discussions and have made valuable contributions to the work of the Group. Our discussions have also benefited from the presence of representatives of the Swiss National Bank.

Otmar Emminger
Chairman, Group of Deputies

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I. Introduction

1. This report is presented in response to the requests of Ministers and Governors in their communiqué of 28th September, 1965. That communiqué read, in part, as follows:

"5. The Ministers and Governors noted in particular that the deficit in the U.S. balance of payments which had for years been the major source of additional reserves for the rest of the world is being corrected and that the United States has expressed its determination to maintain equilibrium in its balance of payments. They welcomed this development in the United States international payments position which in itself contributes to the smooth functioning of the international monetary system. At the same time, they concluded that it is important to undertake, as soon as possible, contingency planning so as to ensure that the future reserve needs of the world are adequately met.

6. The Ministers and Governors recalled the mandate given to their Deputies in October, 1963, to 'undertake a thorough examination of the outlook for the functioning of the international monetary system and of its probable future needs for liquidity'. They noted that their Deputies had submitted to them an interim report on these problems in July, 1964, and had arranged for a detailed examination of various proposals for the creation of reserve assets by a Special Study Group. The report of this Group, which has now been published, will facilitate, through its exposition of the elements necessary for the evaluation of various proposals for reserve creation, the acceleration of the work of contingency planning.

7. Therefore, as the first phase of contingency planning, the Ministers and Governors gave instructions to their Deputies to resume on an intensified basis the discussions which were the subject of the Annex to the Ministerial Statement of August, 1964. The Deputies should determine and report to Ministers what basis of agreement can be reached on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy. The Deputies should report to the Ministers in the spring of 1966 on the progress of their deliberations and the scope of agreement that they have found. During the course of their discussions, it would be desirable for the Deputies to continue to have the active participation of representatives of the Managing Director of the International Monetary Fund, and also of the Organisation for Economic Co-operation and Development, and the Bank for International Settlements. The Swiss National Bank will also be invited to continue to send its representative to the meetings of the Group.

8. The Ministers and Governors recognized that the functioning of the international monetary system would be improved if major and persistent international imbalances would be avoided. They recalled that, in their statement of August, 1964, the Ministers and Governors had invited Working Party 3 of the Organisation for Economic Co-operation and Development to make a thorough study of the measures and instruments best suited for achieving this purpose compatibly with the pursuit of essential internal objectives. They expressed the hope that Working Party 3 would be in a position to make their views known at about the same time as the Deputies of the Group of Ten report to the Ministers and Governors.

9. The Ministers and Governors recognize that, as soon as a basis for agreement on essential points has been reached, it will be necessary to proceed from this first phase to a broader consideration of the questions that affect the world economy as a whole. They have agreed that it would be very useful to seek ways by which the efforts of the Executive Board of the Fund and those of the Deputies of the Group of Ten can be directed toward a consensus as to desirable lines of action, and they have instructed their Deputies to work out during the coming year, in close consultation with the Managing Director of the Fund, procedures to achieve this aim, with a view to preparing for the final enactment of any new arrangements at an appropriate forum for international discussions."

2. Our discussions represent a sequel to those which resulted in our Report to the Ministers and Governors of July, 1964, and in the Report of the Study Group on the Creation of Reserve Assets. In our Annex to the Ministerial Statement of 1st August, 1964, we set out the major elements of the present international monetary system and the way in which it functions. We noted, among other things, that the monetary system is in constant evolution and that it has shown great capacity for adapting itself to changing circumstances. We also noted the increasingly close co-operation between central banks and the development of short-term credit facilities as significant features supporting the system. This capacity for adaptation has permitted it both to withstand successfully intermittent periods of considerable strain and to accommodate unprecedented growth.

3. Nevertheless, as indicated in our earlier report, the system is confronted with certain actual or potential problems. These can be grouped

under three main headings: *(1)* insufficient effectiveness of the adjustment process, *(2)* the risk of instability resulting from shifts between reserve assets, *(3)* the probable inadequacy of gold and reserve currencies as a source of new reserves in the future.

4. As to the *first* problem, our report of August 1964 stressed that the smooth functioning of the international monetary system depends on the avoidance of major and persistent imbalances. It would be impossible, and inappropriate, to attempt to eliminate imbalances entirely; reserve movements up and down can serve to cushion the effects of divergencies in national economic developments which are inevitable and often desirable. But, large and prolonged imbalances often have undesirable repercussions on the economies of the partner countries. Moreover, such imbalances can foster doubts about the stability of exchange rates and the effectiveness of government policies and ultimately threaten confidence in the payments system as a whole. The speed and efficiency of adjustment policies in correcting payments imbalances also influence the need for international reserves. In view of the importance of this problem, Working Party 3 of the O. E. C. D. was invited by the Ministers and Governors of the Group of Ten to examine possible improvements in the adjustment process and to report at about the same time as the present report is submitted.

5. As to the *second* problem, a system in which gold and foreign exchange reserves exist side by side and can be freely exchanged into one another entails certain risks of instability; in particular, shifts may occur from one currency into another or from currencies into gold. Not all such shifts are destabilising; but where they are due to, or give rise to, confidence movements out of reserve currencies they can put strains on the system. We have considered various suggestions for dealing with such strains. These suggestions are outlined in chapter II of our report.

6. As to the *third* problem, our report of 1964, which stressed the importance of maintaining the established price of gold, indicated that the growth in the stock of monetary gold has not been, and is not expected to be, adequate to meet the reserve needs of the international monetary system. In the past, official needs for reserves beyond those served by gold have been met in the main by increases in official holdings of reserve currencies, especially U. S. dollars. For a variety of reasons, further substantial increases of dollar reserves are unlikely to occur and in our view it would indeed be undesirable that the increase in the external short-term indebtedness of the U. S. should continue as in the recent past. Paragraph 7 of our mandate therefore specifically instructed us to determine what basis of agreement could be reached on arrangements for the future creation of reserve assets as and when needed. We have accordingly studied ways in which the responsibility for meeting overall reserve needs could be more widely shared and in which those needs could be met in a more deliberate and systematic way than hitherto, rather than being left to the outcome of individual countries' balance-of-payments deficits.

7. In so doing, we were able to start from agreed basic ideas, which had in part already found expression in our 1964 report and in the 1965 report of the Study Group on the Creation of Reserve Assets. Briefly stated, these ideas are the following:

(a) There is at present no general shortage of international reserves.

(b) It is, however, likely that a need for larger international liquidity will develop in time, which might call for the creation of new or additional international reserve assets.

(c) There is no single, unique manner in which the growing requirements for liquidity have to be met.

(d) In the past the need for international liquidity has been met by improving credit facilities, as well as by additions to reserves. In the future, credit facilities can no doubt continue to play a constructive role, but their use can be only a partial and temporary substitute for reserves which are at the full disposition of the country holding them.

(e) We have been exploring arrangements whereby new reserve assets could be created not in connection with balance-of-payments deficits of individual countries, but by deliberate decision on the basis of global reserve needs.

(f) We have been aware that the problem of ensuring a proper supply of international reserves is of interest and concern to all countries of the international community. We have, therefore, from the beginning taken account of the needs of all countries. In doing so, we have treated reserve creation as a problem distinct from the provision of capital for developing countries.

8. We are conscious that deliberate creation of new reserve assets represents a bold venture. The possibilities are numerous, the pitfalls are substantial and the consequences weighty. One member indeed expressed the view that, in the present imbalance of world payments, it would be inadvisable to formulate a complete and detailed plan which could be adopted in case a shortage of reserves should occur; this member, therefore, felt unable to participate in the discussion of the technical aspects of reserve creation. Most of us feel nonetheless that it would be prudent to embark on full-scale contingency planning now. Failure to anticipate future needs, especially when new territory has to be explored and the length of time required to set in motion new arrangements is inevitably great, could place strains on the payments system.

9. In their Mandate, Ministers and Governors have indicated (paragraph 9) that as soon as a basis for agreement on essential points has been reached among the Ten, it will be necessary to proceed from the first phase of discussions in the Group of Ten to a broader consideration of the questions that affect the world economy as a whole.

II. Possible improvements in the present system

10. In response to our mandate, we review in this chapter possible areas of agreement with respect to improvements in the international monetary system, other than future reserve asset creation. The question of reserve asset creation will be dealt with in subsequent chapters. We agreed that promising areas for improvement of the present system lay in the field of the adjustment process and of multilateral surveillance. Furthermore, we examined possibilities for improvement regarding certain aspects of reserve policies and I.M.F. practices and procedures in relation to quasi-automatic drawing rights. Finally, recognising the growing role of short-term credit facilities in the functioning of the system, we agreed to keep such facilities under review for their potential further contribution. The possibility of special long-term loans of reserves was also considered.

11. On balance, it was generally agreed that improvements in these areas might be potentially useful and that they deserved further study. By contributing to the smoother working of the system they might, furthermore, in some respects lessen the demand for additional reserves. Nevertheless, they cannot be regarded as an alternative to new reserve asset creation or take precedence over contingency planning. Nor of course should contingency planning for reserve creation be regarded as a substitute for, or take precedence over, progress in improving other aspects of the existing system.

1. Improvements in the adjustment process

12. We have not sought to anticipate any of the findings of Working Party 3 in its broad study of the adjustment problem. We do, however, wish to highlight the importance of the adjustment process and of the need for improvements in adjustment policies by both deficit and surplus countries in order to assure the smooth functioning of the international monetary system. Insufficient adjustment efforts by deficit countries may put an undesirable burden on the real resources and monetary stability of other countries and thereby contribute to inflationary tendencies in the world. On the other hand, the absence of appropriate efforts by surplus countries towards reaching equilibrium may result in a large-scale accumulation of reserves by these countries, leading to deflationary and restrictive international policies elsewhere.

13. Persistence of such disequilibria could clearly endanger the soundness of the international monetary system. This is particularly true of large and prolonged deficits of reserve currency countries which may give rise to uncertainty and doubts as to the stability of the system as a whole. On the other hand, a harsh and abrupt adjustment process could endanger the objectives we all share for the growth and stability of the world economy. We have recognised that the supply of international reserves has a bearing on the functioning of the adjustment process. Indeed, in assessing the need for reserves, this relationship is highly relevant.

2. Strengthening of multilateral surveillance

14. In their Statement of 1st August, 1964, the Ministers and Governors decided to institute a procedure for multilateral surveillance of the ways and means of financing external surpluses and deficits of Group of Ten countries, comprehending the various elements of international liquidity, both official and private, that are available or used for this purpose. This decision was based on recognition of the fact that the way in which balance-of-payments deficits and surpluses are financed has implications for countries other than those directly concerned. It also took account of the fact that a significant development of the system during the last few years has been the emergence of a wide range of bilateral and multilateral credit facilities, intended mainly to cope with speculative movements and sudden pressures.

15. This procedure for multilateral surveillance came into operation late in 1964. Since then it has been in constant evolution and has proved itself to be useful, in addition to the consultations that take place within the I.M.F., in judging international monetary trends, both in individual countries and from a more general point of view. Its starting point is the statistical information which participants provide every month confidentially to the B.I.S. on their external monetary positions. This information is regularly reviewed both at the B.I.S. and in Working Party 3 of the O.E.C.D., and it gives participants a clearer and more up-to-date view of events in this field than they had in the past. At the same time, it helps them in forming a collective judgment on developments in individual countries of the Group, as regards both the methods used to finance external surpluses and deficits and the trend of their overall balance-of-payments positions. As such, it should strengthen the self-discipline of countries participating in it. Furthermore, and because of the importance in international monetary affairs of the participating countries taken as a group, multilateral surveillance has proved useful in understanding and assessing the working of the monetary system as a whole.

16. We are in agreement that the processes of international consultation, including particularly those of multilateral surveillance, will have an increasingly important role to play in future international monetary co-operation. We suggest that their functioning should be strengthened, and it is widely felt that multilateral surveillance has a useful function to perform by providing for the periodical review of policies with regard to traditional reserve assets. Furthermore, a future decision to proceed with the deliberate creation of new reserve assets would call for collective judgments and decisions, arrived at in the appropriate bodies specified in the contingency plan, as to global reserve needs. Such judgments would be facilitated by the experience gained with the existing multilateral surveillance procedures. It was also suggested that, should a new reserve asset be introduced, the fears sometimes expressed regarding its possible impact on holdings of existing reserve assets could be allayed by agreeing, at least during a transitional period, on some understandings concerning reserve policies within the framework of multilateral surveillance.

3. Lessening possible strains on the international monetary system

17. The foreign exchange element in reserves, which within the Group of Ten consists mainly of dollar holdings, has grown considerably in the course of the last decade and represents an appreciable part of total official reserves. While it has been recognised that the contribution of dollar holdings to the growth of reserves is unlikely to continue as in the past, it has been felt that a sudden and massive contraction would impair the stability of the international monetary system. Such strains on the system could result from, or take the form of, sudden and

appreciable increases in countries' gold ratios, or movements of funds from low gold ratio to high gold ratio countries. Various proposals were put before us with a view to minimising such strains, in full recognition that they would not deal with all the fundamental causes underlying such strains.

(a) Harmonisation of reserve policies

18. One proposal put forward would involve a very gradual approach, within the framework of strengthened multilateral surveillance, towards harmonising members' practices relating to the composition of their reserves, in particular as regards the gold element. According to this proposal, high gold ratio countries would settle deficits mainly in gold and accumulate surpluses mainly in other reserve assets, whereas low gold ratio countries would do the opposite. In this way, members would make an effort to narrow down the existing discrepancies between their gold ratios by bringing each individual ratio, progressively and by stages, towards a band established around the average ratio of the Group. In view of the use of its currency as a reserve asset by other countries, participation of the U.S. in a harmonisation scheme would call for further study.

19. This proposal has not found general acceptance in the Group. Some members, while concurring in the objectives of this proposal, consider that its administration would raise practical difficulties and that it would interfere unduly with the freedom of choice of monetary authorities as regards the composition of their reserves. Several members pointed out, however, that in the longer run some understanding with regard to the composition of reserves would become necessary in any case in order to adjust reserve policies to the declining share of gold in total reserves which will inevitably come about.

(b) Other possible arrangements

20. A second proposal, by another member, envisages that a new reserve asset might be used not only in order to satisfy additional reserve needs but also to prevent the existing stock of reserves from shrinking. According to this proposal, there should be full freedom to convert any part of existing reserve currency balances into the new asset through a Trust Account, which would issue supplementary reserve units in return for them. The facility should not, however, become a means of financing deficits of the reserve centres themselves. Several members of our Group expressed doubts about this proposal.

21. It was widely felt that progress towards the aims which have prompted the proposals under (*a*) and (*b*) above and which most members of the Group would share, could be achieved by periodical review of reserve policies within the framework of strengthened multilateral surveillance.

4. Improvement of the quality of existing reserve positions in the Fund

22. As a consequence of the increase in the operations of the International Monetary Fund, net creditor positions in the Fund of member countries whose currencies are drawn from the Fund, either under quotas or under the G.A.B., have been rapidly increasing over the past few years. "Reserve Positions in the Fund", which include these creditor positions and gold tranche drawing rights, amounted at the end of 1965 to about \$ 5½ billion, of which \$ 4½ billion, or 84 per cent, were held by members of the Group of Ten.

23. As was already noted in the Annex to the Ministerial Statement of 1st August, 1964, and elaborated in the Report of the Study Group on the Creation of Reserve Assets, gold tranche positions, which represent quasi-automatic drawing rights on the Fund, have many of the qualities of a reserve asset. They have also been included in the statistics of reserves as presented by the Fund and the Deputies. They do not, however, have all the characteristics that several members would think desirable in order for them to be counted as owned reserves together with gold and reserve currencies. It was therefore suggested to us that their nature and characteristics should be improved so as to make them acceptable to all countries as fully-fledged reserve assets. It was felt by some members that this would facilitate not only the inclusion of Fund reserve positions in countries' official reserves, but also their development as an instrument for deliberate reserve creation should the need arise.

24. It was suggested to the Group that gold tranche positions could be improved by changes in their juridical status (namely their liquidity and unconditionality) and in their presentation in the accounts of the Fund (so as to reflect the international unit of account implicit in the Articles of Agreement), as well as by measures to facilitate their use (e. g. in the field of service charges, conditions of convertibility into national currencies, transferability and repurchase obligations). It was further suggested that the "super gold tranche" (i. e. that part of the gold tranche position which comes into being through the Fund's net use of a member's currency for other members' drawings) should carry a reasonable remuneration.

25. While full automaticity, changes in accounting procedures and transferability of Fund reserve positions might raise problems (e. g. requiring a change in the Fund's Articles, or interfering with the Fund's established policies on the selection of currencies to be drawn), and doubts were expressed as to the feasibility or desirability of some of these proposals, the Group was of the opinion that it was worthwhile to pursue them and it was suggested that the Fund should examine them further.

5. Short-term credit facilities between monetary authorities

26. As the international monetary system evolves and the volume of freely transferable private funds increases, there will be a continuing need for official short-term credit facilities to help provide stability to the payments system. The principal existing network of reciprocal credit (or "swap") arrangements extends between the U.S. authorities and the monetary authorities of a number of other countries. These facilities have been utilised from time to time, in both directions, in response to short-term variations in payments flows between the United States and other countries and on some occasions have been called into play in response to swings in payments not involving the United States. A further refinement and extension of existing facilities are possible. Such a development might take the form of one or more additional swap networks. The most recent development in this field has been the arrangements, announced in June, 1966, between the Bank of England, other central banks, and the B. I. S.

27. Whatever form they take, it is important that such credits be of a short-term nature and that they be used only when it appears likely that the flows to be offset are of a temporary and reversible character; information on the availability and use of such credit should continue to be fully and regularly communicated to other participants and discussed within the framework of multilateral surveillance, under the agreed procedures described in paragraph 15.

6. Long-term loans of reserves

28. The Annex prepared by the Deputies in 1964 noted that, while countries are ordinarily expected to overcome balance-of-payments difficulties within a reasonably short period of time, there may be exceptional cases where longer-term lending for monetary purposes on an ad hoc basis, by members of the Group of Ten, might be in the general interest. Although in the two years since the 1964 Report no such loans have been made, occasions may arise when the interests of the international community would be served by a loan of reserves from countries which have built up substantial reserves to a country whose reserves are not large enough to handle within a short period of time the various demands that might be made upon them. It was agreed that, while there was no need for immediate action, it might be useful to examine further the problems involved in such long-term loans.

III. Deliberate reserve creation

A. General principles

1. The need for reserves

29. Provision for adequate growth of monetary reserves is of major importance to the monetary system and to the world economy. Reserves can be and are supplemented by short-term credit facilities arranged by monetary authorities, and by short- or medium-term credit facilities through the International Monetary Fund; any future assessment of reserve needs will have to take into account the availability of such credit facilities. But these facilities, important as they are, cannot be a complete substitute for owned reserves. Countries will wish to hold a significant stock of unconditional liquid assets on which they are able to count unquestionably and under all circumstances. Such a stock of reserves is generally thought indispensable, not only to allow time, in case of an adverse balance of payments, for corrective measures to have their full effect, or until foreign credits can be negotiated, but also as a basis for keeping trade and payments free from restrictions and for maintaining international confidence in the currency in general. Very often countries are able to obtain foreign credit only if they have a reasonable amount of reserves.

30. It is the global need for reserves with which we have been concerned. We use the word "global" in two senses: first, to take account of the interest in this problem not only of the Group of Ten, but also of other countries; second, to direct attention not to the reserve needs of specific countries in particular deficit situations, but to the provision of adequate monetary reserves for the system as a whole.

31. Although factors such as regional integration, improvements in the adjustment process, and equilibrating capital flows could, over a long period, lead to an economy of reserves, we expect that the global needs of the world will increase over time, for the following reasons:

(I) The secular growth of world trade and payments is likely to be accompanied, on average, by larger swings in payments imbalances (at least in absolute amounts).

(II) Partly for this reason, but also for more general reasons, most countries will try to achieve an increase in their reserves over time, whereas no country appears to be willing to accept a secular decline in reserves; the United States, which has been an exception to this latter statement, can no longer be expected to take this position.

32. We turn now to the prospects for the future supply of reserves. Gold going into monetary stocks has become a shrinking proportional addition to total reserves. Over the decade to 1964, the annual increase in official world gold stocks has averaged about $ 600 million, which provided about one third of the average annual increase in official reserves. In 1965, it shrank to $ 250 million. For a number of years, the United States has provided a large part of reserve additions to the rest of the world in the form of gold and dollars. But, as noted in paragraph 6, a continuance of large U. S. deficits must be ruled out as a source of future reserves for the rest of the world.

33. On the basis of these considerations, we have come to the conclusion that the supply of reserves from traditional sources – gold and reserve currencies – is unlikely to keep pace with legitimate demands, at any rate in the long run. Supplementary means are therefore likely to be needed in order to provide for an adequate secular growth in world reserves. One of us, however, in view of the uncertainty that inevitably exists concerning the future evolution both of global needs and of the overall supply of reserves, was prepared to accept the notion of a shortage of reserves sometime in the future only as a legitimate working hypothesis.

34. As regards determining the optimum rate of growth of reserves, we recognise that there is no satisfactory quantitative formula at hand. No direct proportionality between the need for reserves and the growth in the volume of world trade and payments can be established, especially in the short run. Nor, for a variety of reasons, would a projection of the tendencies

noted in the recent past provide an accurate guide to the desirable rate of growth in reserves in the future. On the one hand, the postwar growth in reserves of countries other than the United States and United Kingdom represented partly a reconstitution from what were unusually low levels; moreover, during recent years, the growth of reserves in some parts of the world has been felt by a number of countries to have been more than adequate, an impression supported by the inflationary tendencies that have prevailed. On the other hand, the decline in the United States reserves, which made possible much of the reconstitution of reserves elsewhere, has largely run its course. No firm conclusions, then, can be drawn from examining this past experience. Nevertheless some of our members consider it significant that over the recent past the growth of reserves, even for Group of Ten countries excluding the United States, has lagged far behind the expansion of international trade.

35. Nor will it be easy to evolve qualitative criteria for a collective judgment on the need for additional reserves in the future. Nevertheless, despite the difficulties involved, some of us think it important to pursue the investigations into this subject with the aim of arriving at a generally agreed set of principles. The problem of evaluating the reserve needs for a certain period ahead is, in many respects, similar to that of evaluating the need for conditional liquidity at five-year intervals on the occasion of the quinquennial review of members' quotas in the I.M.F., as provided for in the Articles of Agreement of the Fund. Some other members questioned whether it will be possible to arrive at a common judgment regarding such criteria, as member countries may differ considerably in the relative weight that they would attach to various factors. They consider that an analysis of the decisions taken will in the course of time provide precedents, derived from the test of actual experience, from which criteria can be developed.

36. We have not, at the present stage, gone into this question in more detail. We wish, however, to stress that, even without more elaborate calculation and estimates and in spite of the difficulties and uncertainties involved in any evaluation of the need for reserves, it may safely be said that the additions to the stock of world reserves to be expected from gold alone will in all likelihood be insufficient to meet global requirements over time. As we noted in paragraph 32, the annual increase in gold reserves has averaged about $ 600 million over the decade to 1964, a figure which is less than 1 per cent of total world reserves of $ 70 billion. Thus, a global shortage of reserves calling for deliberate reserve creation is a contingency with which we must reckon, even if it is at present uncertain when it will arise.

2. The aims of deliberate reserve creation

37. As has already been said in chapter I, we are agreed that deliberate reserve creation should be neither geared nor directed to the financing of balance-of-payments deficits of individual countries but rather that it should provide for the global needs of the system. This implies distribution of additional reserve assets to all participating countries in accordance with an agreed general formula. The direct purpose would be to permit countries to achieve adequate secular growth in reserves, without relying on deficits of individual countries, in particular the reserve centres. This in turn will facilitate the achievement of wider aims.

38. One of these wider aims, in our view, is the maintenance of overall monetary stability in the world. A general shortfall in the supply of reserve assets may lead to widespread deflationary tendencies, damaging controls on trade and payments and unstable exchange rates. On the other hand, an excessive supply of reserve assets may weaken the constraints on domestic economic policies and thereby contribute both to inflationary pressures and to persistent payments imbalances. The supply of reserves should therefore be such as to promote a proper functioning of the adjustment process.

39. Another aim is the maintenance of confidence in the international monetary system in general, and in particular in the capacity of the monetary authorities to maintain control over the provision of reserves. This implies, on the one hand, that they should be seen to be able to prevent a serious shortage of reserves from developing; on the other hand, there must be

adequate safeguards to prevent risk or apprehension that such a new instrument might be misused. It was widely felt in our Group that the drawing-up of a convincing scheme, combined with improved adjustment processes, might lead to less hoarding of gold and thus reduce the quantity of new reserve assets needed.

40. We are agreed that deliberate reserve creation is not intended to effect permanent transfers of real resources from some countries to others. We are furthermore agreed that, since we are dealing essentially with the problem of secular additions to world reserves, it follows that the deliberate provision of reserve assets should not be adjusted to short-term fluctuations in the international level of demand. Indeed, by its very nature it cannot be used as an instrument for short-term "demand management" on an international scale. Variations in the global supply of reserves, at least when they do not originate in large deficit and surplus positions, do not usually have effects on the international level of demand in the short run.

3. Creating reserves on the basis of a trend

41. In view of the foregoing, we consider it advisable that decisions on the amount of reserves to be deliberately created should be taken for periods of some years ahead. Such decisions, even though subject to possible revision within certain limits, (e. g., in situations when actual additions to monetary gold differ widely from those anticipated at the time the decision was taken) would help to strengthen general confidence in the system and would in particular allow the gold and exchange markets to operate on the basis of more certain expectations.

4. Role of the I. M. F.

42. Most members believe that reserve creation should be carried out within the International Monetary Fund or in close association with it. The Fund already undertakes a number of functions in support of, and it has come to play an increasingly large role in, the world's monetary system. Its most important present function is the provision, under adequate safeguards, of short- or medium-term facilities for countries in balance-of-payments difficulties. The role of the Fund in any future reserve creation scheme could have two main aspects: one relates to the creation and/or use of new reserve assets, the other to the process of decision-making, to both of which we shall return later in this Report. If the Fund were to undertake important new responsibilities in connection with the deliberate creation of reserves, this function should be kept distinct from its traditional function as a source of conditional credit.

5. Allocation of newly created reserves

43. As stated in paragraph 37, there is general agreement that distribution of additional reserve assets should take place in accordance with an agreed general formula. Most members consider that allocations of newly created reserve assets should be determined on the basis, either of I.M.F. quotas, or of I.M.F. quotas plus G.A.B. commitments, or of a formula similar to the one on which present I.M.F. quotas are based.

6. Contingency planning

44. We are in agreement that there is no global shortage of reserves at the present time and that no immediate action to create reserves is called for. In our discussion of how to proceed in the future we have therefore drawn a distinction between planning for the contingency that most of us visualise and activating, at a later stage, any systematic procedure for deliberate reserve creation.

45. Most members consider that, while the precise moment for the activation of reserve creation is not clearly discernible at present, it would be prudent to establish a contingency plan now. A contingency plan, of course, implies not only basic agreement on the various elements involved, but also a possible combination of those elements into a plan that would establish the broad lines of appropriate institutional arrangements for eventual parliamentary ratification *). In support of the view that it is essential to proceed with the development of a contingency plan in the sense set forth above, several reasons have been advanced.

(a) The prospective imbalance between the aggregate world demand for reserves and the supply requires that assurance be given

*) A brief description of the main schemes put before us is given in Annex I to this report.

to the world that the monetary authorities are determined not to let a potential shortage of reserves disrupt the world economy in general and the international monetary system in particular. Such planning, when successfully completed, should discourage speculation and hoarding of gold by dispelling uncertainty as to this disparity between demand for and supply of reserves.

(b) Even after full agreement on a contingency plan, the process of legislative approval by a sufficient number of countries to make the plan effective could easily require a year or two.

(c) The absence of a coherent and well-prepared contingency plan might force resort to hasty and ill-considered measures.

46. One member, while not excluding the possibility that there might be an insufficiency of reserves in the long run, considers that contingency planning, in the sense of trying to reach agreement on all the major elements of a scheme, would at the present time be inadvisable and even risky.

(a) In the view of this member the Group does not, at the present time, have sufficient experience of collective decisions in international monetary matters to enable it safely to manage a scheme for the deliberate creation of reserves. Before taking such a step, it would be necessary to ascertain what the practical possibilities of collective management in this field are. From that point of view, improvements in the multilateral surveillance system and in the adjustment process would be obvious prerequisites.

(b) This member considers that, if contingency planning were undertaken too long in advance, in circumstances which might prove quite different from those prevailing at the time when a definite need emerged, there would be a great risk that the mechanism provided would turn out to be ill-adapted or unsatisfactory in actual use.

(c) Furthermore, this member considers that the drafting of an international agreement for the deliberate creation of reserves would, in present circumstances, give rise to an irresistible temptation to activate the agreement prematurely. He feels that the prevailing tendencies in both reserve currency countries and developing countries make it unlikely that the activation of an agreed scheme could in practice be deferred until a real need for additional reserves arose.

(d) This member considers that the present difficulties of the international monetary system are due not to the likelihood of a shortage of reserves in the near future but to the persistent imbalances of the reserve currency countries. If the problem of creating new reserve assets were given precedence over other, more necessary, reforms, the authorities in those countries would find it harder actively to pursue their current efforts to eliminate their balance-of-payments deficits; in particular, their action in this field would be hampered by the presumed availability of new financing facilities. Far from helping to reinforce confidence, then, contingency planning at this stage might further delay necessary adjustments and thus aggravate the insecurity and instability of international payments.

This member therefore believes that contingency planning, in the sense accepted by the majority of the Deputies, is premature and that it could even prove inopportune if decided on in circumstances widely different from those taken into account by the Ministers and Governors in September 1965 when they contemplated a prompt redressment of the U.S. balance of payments. This member nevertheless considers that the Group of Ten should keep the problem of global needs under constant review, and that it should continue to analyse the possible solutions and to specify the various elements that would need to be taken into consideration if and when it should become necessary to set up a reserve creation mechanism.

7. Activation

47. All those members who think it desirable now to undertake contingency planning agree that it is essential to distinguish very clearly between the working out of a contingency plan and the activation of that plan. It is their belief that a decision to activate can only be taken on the basis of a general assessment of the situation

and that it will be necessary to establish in advance a definite procedure for taking such decisions. An established procedure for reserve creation would, in any case, be necessary before the requisite legislative action could be taken in most countries.

48. It is agreed that activation should not take place unless it was decided, on the basis of a collective judgment, that a clear need for reserves would arise in the near future. In making this judgment, the availability of other elements of liquidity, as well as the aims of deliberate reserve creation set out in paragraphs 37–40 would be taken into account. Moreover, we are agreed that the circumstances in which a decision to activate a contingency plan could appropriately be taken should include:

the attainment of a better balance-of-payments equilibrium between members;

the likelihood of a better working of the adjustment process in the future.

49. The process of reaching this collective judgment on activation would have three main elements:

first, the regular and periodic evaluation of the factors bearing upon the basic long-term need for reserve growth;

second, the formulation of a proposal on the timing and amount of new reserve creation; and

third, decisions taken in appropriate forums and under specified voting procedures.

The same elements are relevant to subsequent decisions on reserve creation. We shall return to this matter of decision-making later in our report.

50. There was not unanimous agreement on the necessity to set out now a full-scale contingency plan. Those members, representing all but one of us, who consider it prudent to do this, proceeded to study the practical means by which reserves could be deliberately created. The member who considers that such contingency planning is premature refrained from participating in the discussion and drafting of the remaining paragraphs of this chapter.

B. Elements to be considered in contingency planning

1. Nature and form of new reserve assets

51. Any new reserve asset would be held only by monetary authorities and would, therefore, not be an instrument for direct official intervention in the exchange market. It is generally assumed that the existing system of market intervention, whereby a country's foreign exchange deficit is normally covered by the central bank selling U.S. dollars in the market, would in any case be preserved. The normal use of a new reserve asset, whatever form it might take, would therefore consist in transferring it to another country in exchange, directly or indirectly, for dollars.

52. The two basic forms of reserve asset that we have considered are drawing rights and reserve units. Whichever of these forms the asset might take, it would always essentially represent the right to obtain currencies from other participants through an automatic giving and receiving of credit. Although drawing rights and reserve units have distinctive attributes, as noted below, it was recognised that at the margin their characteristics tend to merge. If drawing rights were made directly transferable (which would not be possible under the present procedures of the Fund) they would be rather similar to units. And units that involved guided transferability by an agent would be rather close to drawing rights. Nevertheless most members see significant differences in the manner of transferring reserve units and drawing rights and especially in the attitudes of monetary authorities and of the general public toward the two types of assets.

53. Deliberately created *drawing rights* would be used in a similar way to gold tranche drawing rights under I.M.F. procedures and would presumably be subject to policies similar to those that govern the selection of currencies to be drawn from the Fund. Currencies drawn would be provided by lines of credit from member countries and, as these lines of credit were used,

the country providing its currency would accumulate additional drawing rights. The similarity of the proposed new drawing rights to existing claims on the Fund is a feature that recommends them to those members that stress the desirability of building on the familiar drawing techniques of the Fund.

54. *Reserve units* would, at least in normal circumstances, be directly transferable between participants in exchange for their currencies, which in turn would ordinarily be converted into dollars for use in the exchange market. Such reserve units would, it was thought, be more in line with the reserve assets traditionally held by monetary authorities and would be more readily seen by them, by the markets and by the public at large as a supplement to gold. In the longer run, when countries might be holding a substantial part of their total reserves in the form of new reserve assets, units might be more suitable than drawing rights. As to the technical way in which the unit accounts might be established, two possibilities were mentioned: one is deposits, and the other an overdraft facility, in the books of an agent. Advantages were claimed for each.

55. Preferences for units or for drawing rights, or for some combination of the two, tend to be associated not only with their particular attributes but also with members' views about other features of contingency planning, especially the scope and nature of participation by countries in reserve creation.

2. Participation

56. We have considered the size and composition of the group of countries which is to participate in a scheme for the deliberate creation of new reserve assets. Participation has three aspects: participation in drawing up the scheme and in subsequent decision-making, participation in the distribution of reserve assets, and participation in the obligation to accept and hold (and, in the event of liquidation, to redeem) reserve assets. Any arrangements made must conform to two important realities: first, that the aim of deliberate reserve creation is to meet the reserve needs of the world as a whole; and, second, that a particular responsibility for the successful working of any scheme must in practice rest on the major countries with a key role in the functioning of the international monetary system.

57. For reasons given in paragraph 54, most of us consider that a reserve unit should be brought into existence. Indeed several members consider that the deliberate creation of supplementary reserves should, for the main industrial countries, take the form exclusively of units.

58. A number of arguments have been but forward in favour of limiting participation in a reserve unit scheme. Not all of these arguments are accepted by all those of us who find a limited group reserve unit scheme acceptable.

59. A first argument was that a reserve unit scheme would consist of a network of mutual financial obligations; but that, as there would be no formal provisions for ensuring that countries which made use of their allocations of units should reconstitute them within a given period of time, these obligations could only be undertaken by a coherent group of countries. Participants in such a scheme must be willing and able to share the burden of temporary payments disequilibria and of restoring equilibrium within the framework of co-ordinated adjustment policies. Such a framework already exists between the members of the Group of Ten and we have proposed that it should be strengthened.

60. A second argument was that full acceptance of such reserve units requires that they be backed by major trading and financial countries which, in the event of liquidation or withdrawal, would be able to convert them into other usable assets. More generally, confidence in deliberately created reserve units would be likely to be the better maintained the more the units were limited to a coherent group of countries and the more they were backed only by major trading and financial countries.

61. A third argument was that countries, especially those which traditionally hold their reserves largely in gold, would find a reserve unit more convincing as a supplement to gold if it were created by a limited group of countries which together hold a substantial amount of gold.

62. Those of us who favour the creation of reserve units by a limited group have not, however, suggested that the group should necessarily be

restricted to the present Group of Ten. In their view, participation should be based on agreed qualifications, so that the group could be an open-ended one. At the same time, they consider that the group should not be too large and that its membership should not be changed frequently.

63. Furthermore, all of us, including those who favour a limited group reserve unit scheme, recognise that a legitimate need for reserves can arise for all countries and that, therefore, any reserve creation scheme should also include arrangements for countries outside the limited group.

64. Those who favour the unit approach for a limited group consider that the reserve needs of non-group countries could be met either by creating special drawing rights for them in the I.M.F. or by distributing units to them. In the case of drawing rights, group countries would extend lines of credit to the Fund in their own currencies, to finance these facilities. Thus the group members, as well as financing the reserve unit scheme among themselves, would also provide the necessary supplementary finance for the facilities placed at non-group countries' disposal. It was suggested that the Fund should make a proportionate use of these lines of credit, so that the group countries would share the financing burden pro rata to the size of their individual lines of credit. Some members held that claims on the Fund arising out of the use of these facilities by non-group countries should not have the character of primary liquidity. If units rather than drawing rights were distributed to non-group countries, group countries would undertake to accept units from non-group countries. The latter would not necessarily undertake acceptance obligations. The choice between the two alternatives would be left over for the second stage of discussions, when the views of non-group countries would be available.

65. Another view on participation, that was put to us and supported by some members and by the Managing Director of the Fund, is that there is no clear basis for distinguishing a priori between those countries that might, and those that might not, be in a position to accept the obligations of a reserve-creating scheme. Many countries, in different stages of development and throughout the world, have shown a willingness and capability to meet a major requirement underlying these obligations, namely, to achieve over time a balance between external deficits and surpluses; and indeed they have added to their reserves. All countries should therefore, according to this view, fully participate in the decisions to create reserve assets and in their distribution, and fully share in the responsibility of being obliged to accept them.

66. Those who take this view favour the creation of new reserve assets jointly by and for all Fund members on a uniform basis. It was proposed to us that special reserve drawing rights should be created in the Fund, financed by special lines of credit to be provided by all Fund members. Another proposal put before us, based on this view, provides for the creation of reserve units for all Fund members, each of them undertaking the corresponding obligation to accept transfers of units under procedures and rules to be established. It is recognised that in such schemes, too, the main burden of financing would rest with a relatively limited number of countries whose currencies would be mainly requested by the users of the scheme.

67. One member favours a solution which would provide (a) reserve units for a limited group of countries, together with facilities for all other Fund members financed by the limited group, and (b) special drawing rights for all Fund members on a uniform basis, financed by lines of credit extended to the Fund by each member. This proposal is designed to combine the advantages of a universal approach and an approach involving different arrangements for different groups of countries. The point was made that the total amount of new reserve assets to be created under this dual or combined approach would not necessarily be different from that which would be created under any alternative system.

3. Provisions for acceptability and use

68. Any new reserve asset would, of course, enjoy a high degree of acceptability for each individual member of the scheme owing to the obligations of the other participating countries to accept it. However, since the world will be unaccustomed to it, there is general agreement that such a new asset would have to have certain additional features to enhance its acceptability. Three general categories of provisions to accomplish this objective were discussed: a gold

value guarantee, interest and provisions on holding and use.

(a) Gold value guarantee

69. There was a consensus that new reserve assets should, as a step towards assuring their full acceptability, have a gold value guarantee. It was assumed that if the assets took the form of drawing rights created under the Fund's Articles of Agreement, they would be covered by the Fund's maintenance of value guarantee. There was a consensus that in other cases a gold value guarantee of the kind that attaches to claims under the G.A.B. would be appropriate.

(b) Interest

70. We consider that interest should be paid on new reserve assets, mainly in order to encourage the holding of them as a supplement to gold and reserve currencies. A number of suggestions were made as to a rate that would satisfy this objective, while not being so high as to compete with that obtainable on reserve currency holdings. We did not think it necessary at this stage to reach an agreed view on these matters.

(c) Holding and use

71. Proposals under this heading have the general objective of enhancing the willingness of monetary authorities to accept the new assets. Some of them are also intended to serve other purposes, such as promoting the working of the adjustment process. (We return to this aspect in paragraph 81 below.) Primary attention was given to two basic techniques. One was a holding limit under which a participant would not be required to hold more of the new assets than an agreed multiple of his cumulative allocation. The other was to link the use of assets to the use of gold or total reserves. Under a drawing right scheme a participant's obligation to accept and hold the reserve asset would be limited by the size of the credit line which he would have to provide to the Fund. The discussion of the above-mentioned techniques, therefore, concerns mainly schemes which are based on units and not on drawing rights.

72. It was suggested that a holding limit technique would make it possible for individual participants to avoid acquiring a disproportionate share of the units. While no participant would be required to hold them beyond his limit, the obligation to accept them would continue. Various suggestions as to the size of the holding limit were put forward.

73. Those who favour holding limits recognise that, in any reserve unit scheme with such limits and in which the obligation to accept units would continue beyond the limits, it would be necessary to have agreed provisions as to what happens beyond the limits. Under one suggestion, a participant acquiring units in excess of his holding limit could continue to hold such units, or, at his option, transfer them to an agent, who would redistribute them among other participants in exchange for their currencies, on the basis of appropriate criteria. While transfers within the holding limits could take place freely and directly without the intervention of an agent, the proponents of holding limits were of the view that the use of an agent to redistribute units held in excess of holding limits would not be a significant interference with their transferability. Another proposal was that excess holdings of units be converted under an agreed formula into gold provided by participants who are below their limits. In both proposals, it is envisaged that, as experience was gained in the use of units, holding limits might over time be less needed or even discarded.

74. One member who favours a holding limit considers that this by itself would not suffice to ensure orderly transfers of units and to avoid making the acceptance obligations unduly burdensome. He therefore suggested that there should be an understanding among participants according to which transfers would tend towards an equitable distribution of units, among countries not in balance-of-payments difficulties, broadly in proportion to other forms of reserves.

75. The second major technique of providing for the acceptability of units would be a transfer ratio linking the use of the reserve unit to gold. In the scheme put before us each transfer of units would be accompanied by an equivalent transfer of gold. The participant receiving the units could, if he wished, waive his right to receive gold.

76. Another proposal, which would make partial use of a transfer ratio, would not require it to be

employed except by an individual participant who had become a net debtor of the system to an extent that reduced his holding of units to some "lower holding limit" expressed as a percentage of his cumulative allocation of units. Below that limit any transfer of units would have to be associated with a transfer of gold or other reserve assets in a ratio which might be either fixed or progressive.

77. Another suggestion would be to require that the use of units be linked not to gold alone but to gold plus other reserves. Some other possibilities were also put forward, including the suggestion that participating countries hold units broadly in uniform proportion to the total of other reserves.

78. It was recognised that the use of newly created units might have special implications for reserve centres, arising out of the probability that countries using units would normally want to acquire dollars for operations in exchange markets. Such countries would find it more convenient to sell units to the United States than elsewhere, but the dollars so acquired could pass to other countries that might wish to convert them into gold. Various suggestions were made for dealing with this problem. Under a system of holding limits, it was suggested that a country providing gold convertibility should have the option to transfer units to other participants directly against delivery of its own currency. Under a gold transfer ratio system, such a country should have the option to convert its currency into gold and units at the transfer ratio. It was agreed, as a general principle, that reserve units should not be used solely to change the composition of a member's reserves.

79. Proponents of a holding limit suggested that this method of assuring the acceptability of reserve assets was the one most consistent with the objective of creating an independent reserve asset. In their view, linking the use of new assets to other assets and especially to gold would have the following disadvantages: it would compromise their standing as an independent and full supplement to gold; it would also make for difficulties in the circulation outside the limited group if that were desired; countries would have a disincentive to use units when in deficit, but would tend to use dollars instead, and this could mean that the reserve centre, although in equilibrium itself, would be faced with conversions of dollars into gold by surplus countries on a larger scale than would occur if deficit countries were more willing to use units. Furthermore, in this view, if a gold transfer ratio were established, it would become more difficult to convince the public that the world's monetary authorities had been able to break their dependence on new gold supplies for increases in reserves; in addition, countries outside the group would be inclined to increase the proportion of gold in their reserves, while countries inside the group that maintain low gold ratios would have to acquire additional gold in order to be in a position to make desired use of reserve units. For these reasons, there could be an increase in demand for gold, which would tend to converge on the reserve centre.

80. Those who favour a gold transfer ratio consider that it would have the following advantages: it would allow direct transfers of units between participants without any guidance by an agent; it would bring units nearer to an equal footing with gold than would holding limits; and it would make units more acceptable to monetary authorities, and more convincing to the market, as a supplement to monetary gold. In their view the unit system would thereby demonstrate beyond doubt that the monetary authorities had been able to break their dependence on new gold supplies for increases in reserves. Thus, one of the main factors that has contributed to gold hoarding and that has given rise to doubts about the long-run stability of the established price of gold would disappear and demand for gold could be expected to lessen. Moreover, there are in their view no grounds for expecting that a gold transfer ratio would in other respects lead to additional demand for gold. Countries outside the group, seeing that group countries had broken their dependence on gold, would have little reason to increase the proportion of gold in their reserves. As regards countries inside the group with low gold reserves, it was pointed out that they were in any case not likely to be faced with a problem for some years and that the problem could be met when it arose by channelling new gold supplies to these countries or by relatively modest gold reshuffles. The proponents of a gold transfer

ratio are of course aware that over the longer run the gold element in the ratio would have to be lowered, since the relative share of gold in world reserves would decline. In order to safeguard the United States' gold stock, they envisage that dollars presented to the United States for conversion could be converted either into gold (as at present) or fractionally (up to the transfer ratio) also into units. Proponents of a gold transfer ratio also consider that it would tend to strengthen balance-of-payments discipline for deficit countries.

81. Many members consider that, in order to maintain full confidence in the operation of a system of deliberate reserve creation, there must be arrangements to prevent misuse of the new assets and to lessen the risk of long-term transfers of real resources. In their opinion it would not be enough, given the uncertainties mentioned in paragraph 34 with respect to the quantitative assessment of reserve needs, to rely solely on the safeguard that new reserves will be created in judicious amounts. They therefore believe that it will be wise to provide for some additional safeguards. The gold transfer ratio discussed in the preceding paragraph would, in the view of its proponents, be such a safeguard. Other safeguards suggested were that reserve drawing rights should be used pari passu with an acquisition of currencies from the Fund, either by means of a gold payment or by the use of other available drawing rights; that countries with drawings outstanding in their Fund credit tranches should use their allocations of new assets in the first place for repurchasing their currencies from the Fund; and that persistent debtor positions in new assets could be avoided by rules concerning the average net use to be made of the assets over a longer period.

82. Other members, while agreeing fully on the need to improve the adjustment process, believe that it would be inappropriate to attach special disciplinary provisions to the use of reserves that are designed to be unconditional. Such special provisions would in their view be inconsistent with the character of reserve assets, the loss of which in any event imposes in their opinion restraint on countries in deficit. Furthermore, they consider that the proposed conditions on the use of reserves would be asymmetrical, since they would not impose corresponding pressures on countries in surplus. Instead of attaching built-in disciplinary restraints to the use of new assets, these members would rely on reserves being created in judicious amounts and only in response to a collective judgment regarding global needs for reserves.

4. Decision-making

83. Organisational arrangements for decisions on the activation of a contingency plan and for subsequent decisions on reserve creation may vary according to the type of scheme adopted. Whichever scheme is adopted, it is essential that the organisational arrangements for such decisions should reflect the two principles outlined in paragraph 56, namely, (a) the interest of all countries in the smooth working of the international monetary system, and (b) the particular responsibilities of a limited group of major countries with a key role in the functioning of the international monetary system and which in fact must provide a substantial part of the financial strength behind any new asset.

84. Thus, there is agreement that, with any type of scheme, decisions on the timing and amount of new reserve creation should be taken on the basis of a proposal from an independent authority. A proposal could also come from participating countries, in which case it would be referred to the independent authority for his advice. This independent authority could be the Managing Director of the I.M.F. In the view of some of our members, proposals should also be referred to the Secretary-General of the O.E.C.D. and the General Manager of the B.I.S. for their advice.

85. Furthermore, a majority of members favoured a two-stage procedure whereby, whichever scheme is adopted, a proposal would first be considered and decided upon by the members of the limited group and, on being accepted by the requisite qualified majority vote, would be submitted to the appropriate body of the Fund which will decide, according to a specified voting procedure, whether it will be accepted or not. Some members believe that the requisite qualified majority vote in the limited group should be on the G.A.B. model. Others believe that if a proposal obtained the requisite weighted vote in the

limited group, but was opposed by less than a majority of the unit votes in that group, it could be referred to a vote in the Fund, where a heavy qualified majority would then be required for final approval.

86. Some members held the view that, if reserves were created and distributed on a world-wide basis through the Fund, or a Fund affiliate, the only proper forum would be the Fund itself, or its affiliate. In this view, the decision-making procedures should recognise the particular responsibilities of certain countries by providing that decisions to create reserves in the Fund, or a Fund affiliate, would become effective only with the support of some qualified majority of Fund members.

87. It has been suggested that any member dissenting from a decision to activate a contingency plan should be allowed to opt out of the rights and obligations implicit in the initial distribution of reserve assets, while retaining the possibility of taking part in the scheme later. As far as subsequent decisions on reserve creation are concerned, the view was put forward by some Deputies that a participant should not be allowed to opt out of individual decisions, while retaining his membership in the scheme.

5. Liquidation, withdrawal and amendment

88. We have not given detailed consideration to possible liquidation and withdrawal provisions. We believe that a contingency plan should contain provisions for liquidation and withdrawal, and that these should be consistent both with the long-term nature and with the monetary character of the arrangements envisaged. In order to reinforce the acceptability of new reserve assets, there should be provisions assuring holders that they would be able to realise their claims within a reasonable period, if a withdrawal or liquidation actually occured; but the withdrawal provisions should adequately safeguard the interests of the continuing members.

89. Any contingency plan should contain provisions for review and, if necessary, amendment which will balance the need for stability in the arrangements with the need to adapt them to changing circumstances.

IV. Conclusions

90. In our mandate we were asked to "determine and report to Ministers what basis of agreement can be reached on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed". In this concluding part of our report we wish to summarise the bases for agreement that we have reached on the varied aspects of the international monetary system which we have discussed.

91. We wish to stress our general agreement that the stability and smooth working of the international monetary system depend in a direct and substantial way upon the maintenance of a satisfactory equilibrium of the balances of payments of the larger countries. The restoration of such an equilibrium is important in maintaining confidence in the monetary system and in avoiding the danger of massive and possibly damaging conversions of one type of reserve asset into another. We, therefore, attach the greatest importance to the adoption of internal economic policies which are conducive to success in adjusting payments imbalances.

92. We agree that improvements in the adjustment process are needed and possible; but we realise that progress is bound to be gradual and this makes it the more necessary to keep the possibilities for improving the process under constant and active review within the appropriate bodies.

93. We are in agreement that the processes of international consultation, including those of multilateral surveillance which were instituted by Ministers and Governors following our first Report of 30th May, 1964, have proved to be of great value and should be continued and strengthened. Since these processes permit nations to learn of the effects of their policies upon others and to explain their policies to others they offer important opportunities both of advancing

knowledge and understanding of the adjustment process and of avoiding conflicts of policy respecting reserves and the balance of payments which could threaten the international monetary system. We are also agreed that efforts should be pursued within the framework of strengthened multilateral surveillance to avoid, by periodical review of reserve policies, any sudden and massive contraction of reserves.

94. We have examined some suggestions for improving the status of I.M.F. reserve positions as reserve assets and we are agreed that the Fund should be asked to examine these suggestions further.

95. We are agreed that, while global reserves are sufficient at present, the existing sources of reserves are unlikely to provide an adequate basis for world trade and payments in the longer run, because a continuance of large U.S. deficits must be ruled out as a source of future reserve increases for the rest of the world, and because gold alone is not likely to supply sufficient additions to monetary reserves.

96. Accordingly, we are agreed that at some point in the future existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets.

97. Most of us are agreed that, although the precise moment for deliberate reserve creation is not clearly discernible at present, it would be prudent to begin preparing for such a contingency now. One member did not share this view. This member refrained from participating in the discussion and drafting of all those passages of this report that relate to the technical elements of contingency planning. The reasons underlying these different attitudes towards contingency planning for reserve creation are spelled out in detail in paragraphs 45 and 46.

98. While those members who are in favour of going forward with contingency planning would not all proceed in the same way as regards all technical details, they are agreed that any contingency plan should encompass the following principles and elements:

(1) Deliberate reserve creation should be neither geared nor directed to the financing of balance-of-payments deficits of individual countries, but should take place on the basis of a collective judgment of the reserve needs of the world as a whole.

(2) Deliberate reserve creation cannot be aimed at dealing with short-run or cyclical problems of international demand management but should be geared to long-term trends in global needs for reserves.

(3) The amounts to be created should be such as to assure sufficient growth in reserves to avoid world-wide deflationary pressures, disruptive external economic policies or excessive strain on the monetary system, but not so large as to create inflationary pressures or undermine balance-of-payments discipline and the general stability of the system.

(4) Any contingency plan should rest on the principle of creating reserves for distribution to all members of the I.M.F., on the basis either of I.M.F. quotas, or of I.M.F. quotas plus G.A.B. commitments, or of a formula similar to the one on which the present I.M.F. quotas are based.

(5) The supplementary reserve assets should be unconditional in principle; nevertheless there must be arrangements to prevent misuse of the new assets and to lessen the risk of long-term transfers of real resources. It was, moreover, agreed that such assets should not be used simply to change the composition of a country's reserves; this might be achieved by some provisions regarding the holding and use of new reserve assets.

(6) The need for supplementary reserves, as ascertained by collective judgment, should be met through issues of a new reserve unit which is directly transferable between monetary authorities and/or through special reserve drawing rights in the I.M.F. Both kinds of asset would originate in an automatic giving and receiving of credit and would confer the right to obtain other participants' currencies. New reserve assets would be held only by monetary authorities and could, therefore, not be used for direct market intervention. The existing system of official intervention in the exchange market would not be changed.

(7) All countries have a legitimate interest in the adequacy of international reserves. However, the major countries with a key role in the functioning of the international monetary system have a particular responsibility regarding the financial backing for any newly created reserve assets in terms of accepting and holding such assets or of extending special lines of credit to the Fund. Therefore, the organisational arrangements for decisions on the creation and management of reserve assets should reflect both (a) the interest of all countries in the smooth working of the international monetary system, and (b) the particular responsibilities of a limited group of countries.

(8) It is essential to distinguish clearly between the working out of a contingency plan and the activation of that plan. Activation should not take place unless it was decided, on the basis of a collective judgment, that a clear need for reserves would arise in the near future. In making this judgment, the considerations in subparagraphs *(1)*—*(3)* as well as the availability of other elements of liquidity should be taken into account. Moreover, the circumstances in which a decision to activate a contingency plan could appropriately be taken should include:

- the attainment of a better balance-of-payments equilibrium between members;
- the likelihood of a better working of the adjustment process in the future.

(9) The decision on activation of a contingency plan and subsequent decisions on the creation of supplementary reserve assets would be taken on the basis of probable needs over a period of three to five years ahead, with provision for adjustment in the light of circumstances.

99. Most of us favour, as part of a contingency plan, the creation of a new reserve unit by the limited group referred to in subparagraph *(7)* of the preceding paragraph. The creation of such a reserve unit should take place in close association with the I.M.F. As regards the corresponding reserve asset creation for Fund members outside the limited group, the character of these assets and further particulars attaching to them should, regardless of whether they were units or drawing rights, be among the questions to be discussed in a wider forum at the second stage. The limited group should be willing to provide, in a manner to be agreed upon, the additional resources for the financing of these assets.

100. In the opinion of certain others of us, any additional reserves should be created in a uniform way for all Fund members, either special reserve drawing rights in the Fund or reserve units in a Fund affiliate. Financing would be provided, either by a sufficient number of countries with strong currencies or by all Fund members, through special lines of credit or acceptance obligations. In any case the main financing would be supplied by the group of countries mentioned in subparagraph *(7)* of paragraph 98.

101. A dual or combined approach was also suggested by one member. This would comprise reserve units along the general lines proposed in paragraph 99 and drawing rights for all Fund members financed by lines of credit from all Fund members.

102. As concerns the institutional arrangements and voting procedures for taking decisions, both on the activation of any contingency plan and on the amounts and timing of subsequent reserve asset creation, we have not yet reached agreement. For a discussion of these questions, we refer to paragraphs 83—87.

103. There are also other problems of particular interest to the Group on which further work remains to be done. In the field of deliberate reserve creation, this is for instance the case with regard to the provisions which should govern the use and acceptability of new reserve assets, a problem on which we have not yet reached a conclusion. Apart from future reserve creation, there is also further work to be done on some of the possible improvements in the international monetary system which we have discussed in chapter II of our report. Thus, the rôle of multilateral surveillance in reviewing reserve policies, and the techniques for minimising strains on the system through better adjustment policies should be given further consideration in our Group. We recommend that the Deputies continue to study these questions, together with any other questions of common interest to the Group concerning international monetary reform.

ANNEX I

Description of main schemes

1. In our work we have considered a number of proposals for the deliberate creation of reserve assets. In what follows we present a brief description of the main schemes put before us.

2. A personal proposal has been made to us by the Secretary-General of the O.E.C.D. that, as a step which should be taken immediately and without waiting for the outcome of contingency planning, the existing lines of credit to the I.M.F. under the G.A.B. should be made available to the Fund for use in exchange transactions not only with G.A.B. participants but also with other I.M.F. countries.

Scheme A

3. The main features of one proposal for contingency planning can be summarised briefly as follows: a group of countries establishes a scheme for the creation and holding of reserve units. Membership of the limited group would be open-ended. It would be open to countries that qualify for assuming the obligations attaching to participation in the G.A.B., that have currencies which are convertible and available for use in short-term international assistance operations, that assume the obligations of multilateral surveillance and that accept any agreement that may be reached on the adjustment process. In addition, members of the group would be required to provide the Fund with usable currencies by extending lines of credit to the Fund in a certain proportion to the reserve units created; this would enable the Fund to create drawing rights (or other special facilities) for non-group members. The Managing Director of the I.M.F. (or the Managing Director of the I.M.F. together with the Secretary-General of the O.E.C.D. and the General Manager of the B.I.S.) would participate in the process of decision-making by having the right to initiate proposals, or giving advice on proposals originating from members, with regard to reserve unit creation by the group.

4. A clear distinction is drawn between the agreement on contingency planning and the agreement to activate the scheme. Both decisions should be unanimous. As concerns activation a qualified majority vote under a special procedure could also be envisaged. The decision on activation would be taken in the light of circumstances, for instance, after a better balance-of-payments equilibrium within the group was attained, and after rules for improved adjustment policies had been agreed upon. At the time of the activation the group would decide to create reserves for a period of several years, with the possibility of adjusting such decisions within certain limits during that period.

5. The asset would take the form of a reserve unit with an absolute gold value guarantee of the G.A.B. type, and would have interest attached to it. It would be directly transferable to other participants in the books of the Agent (I.M.F.). Participants would have to supply against the reserve units their own currency, of which they assure convertibility. A special feature of this scheme is that, not only for ensuring acceptability but also for other reasons (see para. 80), each transfer of reserve units would have to be accompanied, at least initially, by an equivalent transfer of gold; this obligation could be waived at the option of the country receiving reserve units. To safeguard the position of the United States against conversions of reserve units into gold via dollars, provision is made for the United States to have the option of converting dollars presented to them by members not only into gold, but fractionally (up to the transfer ratio) also into reserve units.

6. This scheme attaches particular importance to the role of multilateral surveillance as a framework for consultations on the use of the reserve

units and on reserve policies in general, and in particular on the role of traditional reserve currencies in the new reserve system.

7. The details of how non-group countries would participate would be left for later discussions in a broader framework. One possibility mentioned was that the Fund should, on the basis of the lines of credit extended to it by the group, provide unconditional drawing rights to those Fund members not participating in the scheme. Such unconditional drawing rights would carry with them some obligation to assure the temporary use of the asset and to avoid a permanent transfer of real resources from the group countries to individual non-group countries, since such transfers are not considered to be in line with the strictly monetary aims of deliberate reserve creation.

Scheme B

8. Another proposal provides for the simultaneous creation of reserve units by a limited group of countries and of special reserve drawing rights (S.R.D.R.) to be created by and distributed to all members of the Fund including those of the limited group. The constitutional decision to establish this scheme would be taken under the auspices of the Fund Board of Governors and would enter into effect after approval by a qualified majority of participants with a specified share of the allocations. Proposals for reserve creation, containing equal amounts of reserve units and S.R.D.R.'s, would be put forward, by the Managing Director of the Fund (or by members), and decisions on them would be taken under separate voting procedures by the limited group and the Executive Directors of the Fund. These decisions would become effective for the limited group, and for the Fund, when participants with a qualified majority of the shares of allocations of each reserve asset had signified that they had completed all requirements necessary to bring the decisions into effect in accordance with their law. The Managing Director of the Fund would play a co-ordinating role in consideration of reserve creation proposals by the two decision-making bodies. A participant accepting allocations of reserve units would also be required to accept drawing rights created at the same time.

9. S.R.D.R.'s would be created for each member country in the Fund in proportion to its quota and would be available at the discretion of the holder on terms of use similar to those applying to the gold tranche. All participants would be required to provide unconditional lines of credit to the Fund in their own currencies at least as large as the allocation of S.R.D.R.'s and would also agree to make these currencies fully convertible when called by the Fund. When a country's line of credit is called, that country's S.R.D.R.'s would increase by the same amount. This proposal would extend S.R.D.R.'s fully to all Fund members, without regard to whether they had Fund drawings outstanding since deliberate reserve creation should take no account of the balance-of-payments positions of individual countries. The S.R.D.R.'s used by a country would be reconstituted, either by its own payments of convertible currencies to the Fund or by drawings of its currency from the Fund by other countries exercising their special drawing rights, in accordance with policies to be established by the Fund.

10. As regards reserve units created by the limited, but open-ended, group, and allocated in proportion to participants' share of Fund quotas plus G.A.B. and similar commitments to the Fund, their transferability and acceptability would be assured by an initial holding limit for each participant, together with a gold value guarantee. Such holding limits would be defined as a multiple of three times each participant's cumulative allocation of reserve units or 2/3 of the total reserve units outstanding, whichever is smaller. If units are presented to a participant beyond his holding limit, he would accept them, but could in turn transfer them to an agent who would redistribute them among other participants on the basis of appropriate criteria. To ensure that the unit will serve to supplement aggregate reserves and that its purpose will not be frustrated by destabilising shifts in the composition of reserves, any participating country

which fulfills its exchange stability obligations under the Fund Agreement by freely buying and selling gold may, at any time, at its option, present units to another participating country against payment in the presenting country's own currency, unless the receiving country would be forced thereby to exceed its holding limit.

11. Members of the limited group would also be required to allocate an appropriate proportion of reserve units created by them, or alternatively amounts of their own currencies, to the Fund which would administer these funds for the benefit of non-group members of the Fund; the use of these resources would be decided by the Fund. Such a provision of resources would be in addition to the lines of credit which members of the group would have to extend as participants in a scheme for special reserve drawing rights as outlined in paragraph 9 of this Annex.

Scheme C

12. According to this scheme (described by its authors as a sample scheme), the members of the G.A.B., plus Switzerland, would agree on an initial agreement for deliberate creation of reserve units, a proportion of which would be reserved for use by non-G.A.B. countries. The uses to which these setaside units would be put are left to be determined in the second phase of wider international negotiation. So far as the initial agreement is concerned, the management and fundamental obligations would rest with its members, together with the Managing Director of the I.M.F., whilst participation in the distribution of the reserve units would be worldwide under conditions to be agreed in an extended arrangement.

13. The initial agreement to create reserve units would become binding as a contingency plan on those who adhered to it when a specified number of G.A.B. members representing a specified percentage of total G.A.B. credit lines signified their adherence. The initial agreement would come into operation for adhering members when a specified number of them representing a specified percentage of such countries' G.A.B. credit lines decided, on the proposal of the Managing Director of the I.M.F., to activate it. Those countries that agreed to activate the scheme would become operating members of it. The same procedure would apply for subsequent decisions to create units, with the proviso that any operating member could opt out of any such decision, and of the vote on it, in advance.

14. The operating membership of the scheme would be open-ended, since there would be a review of membership every four years. At the same time the number of operating members would be limited by the fact that all operating members would undertake the following obligations: to buy units without limit against their own currencies; to buy from a withdrawing member any units held by him in excess of his cumulative allocations; to assume the obligations of multilateral surveillance and to accept any agreements that might be reached on the adjustment process and on reserve policies; and to set aside an agreed amount of any units created for use, under the extended arrangement, by countries that were not operating members.

15. Reserve units would be denominated in terms of a given weight of gold; they would be fully gold-guaranteed; they would bear a low rate of interest and they would be directly transferable between monetary authorities, including those of countries that were not operating members, and the I.M.F.

16. Units would be allocated to operating members in proportion either to their Fund quotas or to their Fund quotas plus G.A.B. commitments. The rules governing allocations to non-operating members have been left for later determination in the second phase.

17. Each operating member, whilst obliged to buy units without limit against his own currency, would have an upper and a lower holding limit. The upper holding limit would be defined in terms of a uniform multiple of his cumulative allocations. Any accumulation of units by an operating member above his upper holding limit would, at that member's option, be convertible into gold by other operating members who were

below their upper holding limits. The lower holding limit would be defined in terms of a uniform fraction of each operating member's cumulative allocation. Any transfer of units by an operating member whose holding of units was below his lower holding limit would be accompanied by the transfer of an agreed proportion of gold or other reserve assets.

18. Backing for the units in the event of liquidation or withdrawal would be ensured by a provision that all recipients of units, whether operating members or not, would undertake in such event to return to the I.M.F., as agent for the scheme, the same number of units as they had cumulatively been allocated since joining the agreement.

Scheme D

19. According to this proposal, of which there are a number of variants, special reserve drawing rights (S.R.D.R.) would be deliberately created, consisting of unconditionally available drawing rights which would be additional to the existing unconditional and conditional drawing rights of Fund members. S.R.D.R.'s would be distributed to all members of the Fund, broadly in proportion to their I.M.F. quotas. Financing and transfer of the reserves so created would be accomplished by each member providing to the Fund an unconditional line of credit in its own currency at least equal to the amount of S.R.D.R.'s allocated to it.

20. Particular S.R.D.R. proposals differ primarily in the degree to which the special drawing rights would automatically and immediately be made available to all Fund members for adding to their monetary reserves and for use in settlements. One proposal would make S.R.D.R.'s available only to countries which are not, at the time of the creation, making use of their conditional drawing rights, while providing conditional drawing rights for Fund members which are making such use. A second proposal envisages that S.R.D.R.'s would be available without policy conditions, but that they would be used pari passu with an equivalent acquisition of currencies from the Fund, obtained either by means of a gold payment or by the use of other available drawing rights. A third proposal would extend unconditional drawing rights to all Fund members independently of their position in the Fund.

21. In order to ensure adequate financial backing of such S.R.D.R.'s it would be necessary that a sufficient number of member countries with strong currencies should put up large enough credit lines in favour of the scheme. One proposal, put forward by the Managing Director of the Fund, provides therefore that, while decisions on the creation of S.R.D.R.'s would be taken by a majority of "weighted" votes, they would only become effective when members having ²/₃ of total quotas under the scheme have agreed to grant to the Fund a credit in their own currency, provided that this includes a special majority of certain specified members. Another variant proposes that a limited group of countries with "strong" currencies should, as a group, take separate decisions on the provision of credit lines to the Fund both at the beginning and on the occasion of any further increase in S.R.D.R.'s.

Scheme E

22. A reserve unit scheme in which all Fund members could participate could be created through a special affiliate of the Fund ("International Reserve Fund"). This scheme and the previous scheme could be combined by proceeding first with the establishment of special reserve drawing rights in the Fund, to be followed later by a reserve unit scheme.

23. On the adoption of a decision by the I.R.F. to increase reserves, all members of the I.R.F. would exchange claims with the I.R.F. in accordance with the rules of the I.R.F., unless

they decided not to participate in the particular increase. Members participating in this exchange would acquire claims on the I.R.F. expressed in I.R.F. units of gold weight, and the I.R.F. would acquire corresponding claims on the member. The exchange of claims between the I.R.F. and participants in the increases in question would be in amounts broadly proportionate to I.M.F. quotas.

24. On the occasion of any creation of units, participants that had made a net use of conditional drawing facilities of the I.M.F. would be required to reconstitute those facilities through repurchase up to an amount equal to the reserve units they then received.

25. Units and counterclaims would enjoy a gold value maintenance guarantee and would bear interest.

26. Units would be usable only to meet over-all payments deficits. Each country would undertake to accept transfers, against dollars or its own currency, up to a holding limit (e.g. three times its cumulative allocation). These provisions on transferability might be supplemented, to the extent necessary, by rules intended to distribute equitably among net creditor countries those units disposed of by other countries in order to meet payments deficits.

27. In order to ensure adequate financial backing in strong currencies, it will be necessary to have minimum participation requirements for the establishment of the I.R.F., and requirements of majority and effectiveness for the making of decision by the I.R.F., similar to those to be provided for in the case of the S.R.D.R. proposals.

ANNEX II

MEMBERS OF THE GROUP OF DEPUTIES

Chairman
O. Emminger

Vice-Chairman
A. B. Hockin

Belgium	M. d'Haeze C. de Strycker	Ministry of Finance National Bank of Belgium
Canada	A. B. Hockin R. W. Lawson	Department of Finance Bank of Canada
France	M. Pérouse B. Clappier	Ministry of Finance Bank of France
Germany	R. Gocht O. Emminger	Federal Ministry of Economic Affairs German Federal Bank
Italy	G. Rota R. Ossola	Ministry of the Treasury Bank of Italy
Japan	H. Suzuki G. Suzuki H. Mayekawa	Ministry of Finance Ministry of Finance Bank of Japan
Netherlands	Jonkheer E. van Lennep G. A. Kessler	Ministry of Finance Netherlands Bank
Sweden	K. Wickman S. F. Joge	Ministry of Finance Bank of Sweden
United Kingdom	Sir Denis Rickett Sir Maurice Parsons	H. M. Treasury Bank of England
United States	F. L. Deming J. D. Daane	Treasury Department Federal Reserve System

Observer

National Bank of Switzerland	M. Iklé J. Lademann

Representatives of international institutions

Representing the Managing Director of the I.M.F.	J. J. Polak J. P. Sallé
Organisation for Economic Co-operation and Development (O.E.C.D.)	J. Cottier
Bank for International Settlements (B.I.S.)	M. Gilbert

Secretaries

M. G. Dealtry	(B.I.S.)
A. Guetta	(I.M.F.)
H. H. Travers	(O.E.C.D.)