MAINTENANCE OF VALUE IN THE GENERAL ACCOUNT AND VALUATION OF THE SDR IN THE SPECIAL DRAWING ACCOUNT OF THE IMF

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I. INTRODUCTION

The International Monetary Fund maintains two distinct Accounts for conducting its operations and transactions.¹ This was not always the case. When the original Articles of Agreement² were drafted, provision was made only for one Account, which has subsequently been termed the General Account. Through it members of the Fund have been able to purchase the currencies of one another as they have encountered balance of payments difficulties.

After almost a quarter century of operation under the original Articles of Agreement, the Board of Governors of the Fund approved a set of far-reaching proposed amendments that took effect in July 1969.³ These established, among other things, a new Special Drawing Account. In accordance with the provisions relating to this Account, the Fund has made allocations of special drawing rights

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¹ In addition, by Executive Board Decision No. 4773-(75/136), adopted August 1, 1975, the Fund established a Subsidy Account in cooperation with members to assist those members most seriously affected by the current situation to meet the cost of using resources made available through the Fund’s oil facility for 1975. By Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, the Fund established a Trust Fund for the purpose of providing special balance of payments assistance to developing members with the profits from the sale of gold together with other financing that may be available.


(SDRs) to participants in the Account. These allocations were of a new reserve asset and represent the first time that countries have consciously decided to influence the amount of world liquidity.

The concept of value for both Accounts is closely bound up with gold. Operations and transactions in the General Account were premised on the concept of par value. This is a value of a member currency declared in terms, directly or indirectly, of gold. Gold value thus constituted the common denominator of the par value system (although in a case of a fluctuating currency the Fund applied a market rate for the purpose of valuing its holdings of that currency). The special drawing right was declared by the amended Articles of Agreement to have a gold value as well. Nevertheless, despite this similarity in their basic values, the methods of valuation employed in transactions of the two Accounts differed. Transactions of the General Account occurred at par value without regard for the latitude that existed within the margins prescribed by the Articles. By contrast, transactions between participants in the Special Drawing Account were subject to an equal value principle, according to which the value received by a transferor of special drawing rights does not vary materially with the choice of transferee or the currency that is provided in return for special drawing rights. The principle of equal value was devised to deal with certain fluctuations of rates permitted by the Fund through decisions that were greater than those within the margins prescribed by the Articles. It was effected by a rule that employed in calculations (1) representative market rates (rather than par values) for currencies other than the dollar and (2) the par value for the dollar (on the assumption that the United States freely bought and sold gold in accordance with the Articles of Agreement).

While the par value system functioned successfully for approximately a quarter of a century, pressures gradually built up and culminated in the events of August 1971. As floating spread, the relations of currencies to gold became more and more theoretical. The means of valuation both for the General Account and the Special Drawing Account were called into question. Interim solutions were pressed into service but these did not prevent difficult problems from arising. Chief among these solutions is the "basket" method of valuation of the special drawing right. The members of the international financial community are presently seeking to fashion more permanent solutions. It is likely that they will be derived, at least in part, from those that have already been forged.
II. THE PAR VALUE SYSTEM

The financial experience of the 1930's was characterized by economic nationalism, competitive devaluations, restrictions on and shrinkage of international trade. The draftsmen of the Fund's Articles of Agreement wished to avoid a repetition of that experience in the postwar world. The system they devised with this objective in mind is known as the par value system.

One of the key premises of the par value system is that the establishment of and changes in exchange rates are not matters to be relegated to the unfettered discretion of each sovereign state, but rather are properly matters of international concern. Important provisions of the Fund's Articles were designed to give effect to this premise. In accordance with these provisions each original member of the Fund and, by virtue of the membership resolution of subsequent members, each other member must declare a par value of its currency. This par value, agreed between the member and the Fund, represents a fixed relationship of the member's currency to gold. This relationship may be expressed directly or indirectly through the medium of a U.S. dollar, the gold value of which was fixed as of July 1, 1944.

While the set of relationships between currencies that resulted from the establishment by members of par values was intended to be reasonably stable, it was recognized that after a member had established a par value, economic developments might justify a change in that value. Procedures were designed to regulate such a change.  

Members were obligated to ensure that exchange rate transactions involving their own and other members' currencies taking place within their territories are kept within certain margins above and below the declared par value. Under the Articles of Agreement, the margin for spot exchange transactions is one percent, but the Fund found the authority under its power to approve multiple cur-

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1 In accordance with the Articles, a member contemplating a change in the par value of its currency must consult the Fund before the change. The Articles provide that only the member may propose a change in the par value of its currency. A member must not propose a change except to correct a "fundamental disequilibrium." The concurrence of the Fund is required for all changes but two. Generally the Fund has latitude to concur or not in a proposal for change, although in one instance it is required to concur and in another, it cannot object. The Fund can object to a proposed change in par value when the extent of the change, in the Fund's judgment, is not sufficient to correct a fundamental disequilibrium. In accordance with a decision of the Fund, however, in determining the necessary extent of a change, the member will be given the benefit of any reasonable doubt.
rency practices to effect a widening of the margins. By Decision No. 904-(59/32), July 24, 1959, it decided to approve margins of two per cent when they arose from the maintenance of margins of one per cent for transactions involving a member's currency and the convertible currency of another member. The Articles also provide that a member is deemed to be performing its obligation in respect of margins if it freely buys and sells gold for the settlement of international transactions at prices within the limits prescribed by the Fund. The United States availed itself of this provision for many years until August 1971.  

III. THE GENERAL ACCOUNT

The intention of the Articles is that par values should constitute the basic normative values for calculation in the General Account. This follows from article IV, section 1(b) which provides: "All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values." In order to understand the General Account and the problems of valuation to which it gives rise, it is necessary to examine certain of its aspects.

Under the Fund's Articles of Agreement, each member country is assigned a quota. This represents the member's financial participation in the Fund. A member's quota is important for several reasons. From it flow a member's voting rights as well as, generally, its entitlement to purchase currencies of other members from the Fund. It is also the basis of allocations of special drawing rights from the Special Drawing Account.

A member's quota is equal to its subscription. The latter must be paid in gold and the member's own currency. The amount that a member must pay in gold is normally 25 percent of its quota. The remaining 75 percent is payable in the member's currency although it should be noted that in certain circumstances the Articles of Agreement permit variations from this norm.

As a consequence of the subscriptions of its members the Fund owns and holds in its General Account substantial resources of gold and currencies, the value of which must be accounted for in the Fund's financial statements. These resources are augmented by the receipt of charges the Fund makes for the use of its resources by

5 See generally Gold, The Legal Structure of the Par Value System, 5 L. & POLICY IN INT'L BUS. 155 (1973) [hereinafter cited as Gold, Legal Structure].
members. They may be augmented in the course of borrowing by the Fund.

A member may use the Fund's resources by purchasing from the Fund currencies of other members in return for an equivalent amount of the member's own currency or gold. In order for the Fund's resources to revolve for the benefit of other members, a purchase must not remain outstanding for more than a temporary period.

There are two basic methods of ensuring that the use of the Fund's resources by a member are not unduly prolonged. The first method is a member's repurchase from the Fund of its own currency. This may be effected by the payment of gold, special drawing rights or the convertible currencies of other members.

The second basic method of ensuring a temporary use of the Fund's resources in the General Account so that they can revolve for the benefit of others is the sale by the Fund of a purchasing member's currency to other members. To the extent that this is done, the purchasing member's obligation under the Articles of Agreement as well as the repurchase declaration that it makes at the time of its initial purchase are discharged.

IV. MAINTENANCE OF VALUE IN THE GENERAL ACCOUNT

From the summary description of the General Account above, it may be appreciated that a mechanism of value maintenance is necessary for at least two good reasons.

In the first place, it is apparent that a mechanism is necessary to deal with changes in the par values if these changes are not to result in haphazard profits or losses to the Fund on its currency holdings.

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4 The character of this transaction does not fit the legal analysis of a loan, among other reasons, since payment by the member is made at the time it receives the currencies of other members from the Fund. On the other hand, from an economic standpoint, the member is receiving a form of financial assistance from the Fund that must be unwound.

7 Under the Articles of Agreement there is no fixed date by which a member must repurchase its own currency from the Fund. There are, however, detailed provisions in the Articles that give rise to an obligation to repurchase as a member's balance of payments position improves and its monetary reserves increase. Since this change in position may not be accomplished with certainty within a temporary period, this obligation to repurchase under the Articles of Agreement may not be activated for some time. Accordingly, upon making a purchase from the Fund, it has become the practice of a member to state, pursuant to Fund policy, that it will repurchase not later than three to five years after the date of purchase. This practice, often obligatory, derives from the policy set out in Executive Board Decision No. 102-(52/11), adopted Feb. 13, 1952, reprinted in INT'L MONETARY FUND, SELECTED DECISIONS OF THE INT'L MONETARY FUND AND SELECTED DOCUMENTS 37-40 (7th Issue 1975) [hereinafter cited as IMF Decisions & Documents].
Undesired profits and losses might arise not only from changes in the par values of member currencies, but from changes in their market values as well, even if the stated par values remained constant. In the second place, if a mechanism is to deal with this problem, it is necessary from its construction to understand upon whom the obligations will rest during the course of transactions.

The provision in the Fund’s Articles of Agreement that provides for the maintenance of value of the Fund’s holdings of member currencies in the General Account is article IV, section 8. This provision reads:

Section 8. Maintenance of gold value of the Fund’s assets
(a) The gold value of the Fund’s assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.
(b) Whenever (i) the par value of a member’s currency is reduced, or (ii) the foreign exchange value of a member’s currency has, in the opinion of the Fund, depreciated to a significant extent within that member’s territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.
(c) Whenever the par value of a member’s currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.
(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.

The circumstances in which the provision is operative are: (a) devaluation; (b) revaluation; (c) depreciation; and (d) appreciation.8

(a) A member must pay to the Fund an amount of its currency equal to a reduction in the gold value of its currency held by the Fund whenever the par value of the member’s currency is reduced. This change in value of a currency constitutes a devaluation.

While the Fund is thus clearly assured that it will not suffer loss as a result of a member’s devaluation, the mechanism of distribut-

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8 In order to aid in the understanding of this provision, the explanation that follows assumes the functioning of the par value system in the manner that prevailed prior to the events of August 1971. Changes in the application of the provision made necessary by the faltering of this system are described subsequently.
ing the risks involved needs to be considered in the context of General Account transactions.

If a member whose currency has been purchased from the Fund in a transaction by another member devalues subsequent to that purchase, the devaluing member is required to pay to the Fund an additional amount of its currency equivalent in gold value to the gold value of the amount of currency that the Fund holds immediately before the devaluation. Since the Fund's holdings of the currency that undergoes devaluation have been partially depleted by the sale of that currency to another member, the devaluing member's obligation to restore gold value extends only to the balance of its currency remaining with the Fund at the time of the devaluation and not to balances that the Fund previously held. Moreover, the devaluing member has no obligation to pay any amount to the member that purchased its currency from the Fund even if the purchaser can show that, at the time of devaluation, it had yet retained all or some of that currency in its holdings.

While the purchasing member will not benefit by any obligation of the devaluing member to restore gold value inasmuch as that obligation runs only to the Fund, it may find that its purchase obligation has been affected in one case. At the time that the purchase was made, the purchaser transferred in gold value an equivalent amount of its own currency to the Fund. There is no requirement that the purchaser must repurchase with the currency that was the object of its purchase. Nevertheless, if the member does repurchase with that currency, the calculation of repurchase will be made at the new (devalued) par value of the currency rather than at the former par value on which the purchase price was calculated so that more units of that currency will be repaid than were purchased.

(b) The Fund must return to a member an amount of its currency equal to the increase in the gold value of its currency held by the Fund whenever the par value of the member's currency is increased. This change in value of a currency constitutes a revaluation.

This mechanism is the obverse of that of a devaluation. The Fund is not permitted to accrue a profit and must adjust its holdings of

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* As has been noted earlier, repurchases may be made in gold, special drawing rights, or, subject to certain limitations, the convertible currencies of other members. They may be prescribed in accordance with the provisions of article V, § 7(b), and schedule B of the Articles of Agreement, supra note 2.
the revalued currency proportionately. The adjustment is in respect of its actual holdings of currency at the time of the revaluation. A member that had purchased the same currency from the Fund prior to the revaluation has no duty to return any amount of its purchase to the issuer even if some or all of the purchase still remains in the purchaser's holdings on the date of revaluation. If the purchaser should decide, subject to the law and policies of the Fund, to repurchase its own currency from the Fund with the same kind of currency that it had purchased, the repurchase will be on the basis of the new par value rather than that prevailing at the time of purchase. Accordingly, it will part with fewer currency units of the revalued currency than those that it acquired at the time of purchase.

(c) A member must pay to the Fund an amount of its currency equal to a reduction in the gold value of its currency held by the Fund when, in the opinion of the Fund, the foreign exchange value of the member's currency has fallen to a significant extent within the member's territories—even though no change has been made in its par value. This change in value of a currency constitutes a depreciation.

The section of the Fund's Articles that governs the maintenance of gold value of the Fund's assets is not limited to situations in which the par value of a member's currency is changed. By express language, article IV, section 8(b) requires a member to make payments to the Fund when "the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories . . . ."10 While the Articles nowhere expressly provide for it, as a necessary implication of this language the Fund has substituted a book rate for the par value of a currency that depreciates. While the book rate does not constitute a new par value, it provides a basis for making more realistic computations when a significant depreciation from par value has occurred. The book rate, determined in relation to the U.S. dollar, approximates the exchange rate of the affected currency on the market.11

10 Articles of Agreement, supra note 2, art. IV, § 8(b).
11 Executive Board Decision No. 321-(54/32), adopted June 15, 1954. This decision was terminated by Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972, reprinted in IMF Decisions & Documents, supra note 7, at 32, which, in conjunction with Executive Board Decision No. 4667-(75/82), adopted May 16, 1975, prescribes that computations are to be made on the basis of representative market rates determined in accordance with rule 0-3.
(d) The Fund must return to a member an amount of its currency equal to an increase in the gold value of its currency held by the Fund, whenever, in the opinion of the Fund, the foreign exchange value of the member's currency has risen within the member's territories to a significant extent—even though no change has been made in its par value. This change in the par value of a currency constitutes an appreciation.

While express provision is made in the Articles to govern the case of depreciation, by oversight or otherwise, the draftsmen did not explicitly cover the case of appreciation in the same language. The matter became acute during a consideration of how the Fund should deal with a fluctuating exchange rate.

Under the Articles, members must ensure that exchange transactions within their territories are within the permitted margins which, in the case of spot transactions, are alternatively one percent or two percent if the latter results from the maintenance of margins of not more than one percent from parity for a convertible currency. If a member did not observe this obligation, its currency would be floating if it were either observing no margins or margins greater than those permitted.

In a decision of the Executive Directors, the Fund held that, even though express authority does not appear in article IV, section 8, as a necessary implication of the general enabling language of subsection (a) of that section, the Fund may adjust its holdings of a currency by returning an amount to a member in the event of appreciation. The decision provided for the establishment by the Fund of an account payable in the event of appreciation (and an account receivable in the event of depreciation) of a member's currency, together with provision for settlement.

While the discussion thus far has centered on the standard maintenance of value mechanism in the Fund's General Account, a consideration of the maintenance of value provisions in the Fund's Articles applicable to this Account would not be complete without a reference to article IV, section 8(d). This subsection, in conjunct-

11 Articles of Agreement, supra note 2, art. IV, § 3(i).
13 Executive Board Decision No. 321-(54/32), adopted June 15, 1954. See note 13 supra, where it is indicated the termination of the agreement. The Articles provide: "The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member." Id. art. IV, § 8(a). See Articles of Agreement, supra note 2.
tion with article IV, section 7, covers the possibility of uniform changes in the par values of all member currencies in relation to gold. This is equivalent to a change in the price of gold in terms of member currencies. Subsection (d) of section 8 deals with the consequences of this unusual action in terms of the maintenance or non-maintenance of gold value. Section 7 deals with the majority necessary to take such action and the method by which an individual member can opt out of such action. It should be noted that these provisions have never been used. They were designed to affect the production of gold, the size of the Fund and world liquidity in general. The last of these items may now be affected by the allocation and cancellation of special drawing rights.

An examination of subsection (d) discloses two possible courses of action that the Fund might take in the event of a uniform proportionate change in par value. If it does not expressly waive the maintenance of gold value provisions of section 8, these will apply. Accordingly, each member that does not opt out of the decision would have to pay to the Fund an additional amount of its own currency upon a uniform proportionate devaluation while the Fund would have to return to each such member an amount of its currency in the event of a uniform proportionate revaluation. On the other hand, the Fund may, by a decision taken with 85 percent of the total voting power, decide to dispense with transfers of currency after a uniform proportionate change. The possible effects of such a decision are analyzed in depth elsewhere.\(^5\)

Putting to one side a uniform proportionate change in par values, one should understand, by way of conclusion, that the functions of the standard maintenance of value mechanism in the Fund’s General Account are several. The gold value of the Fund’s holdings is assured regardless of change in the par values of foreign exchange values of member currencies. This carries with it the corollary that the Fund is insulated from fortuitous gains and losses that would arise from uncompensated changes in the values of its currency holdings. At the same time, stability of value is imported into the financial relations of the Fund and its members. These relations have several aspects. First, the Fund’s adjusted holdings of the member’s currency as a percentage of its quota remain constant. Second, the value of the entitlements of other members to purchase

the currency whose value has changed remains unaffected. Third, the repurchase obligations of members are not disturbed.16

V. THE SPECIAL DRAWING ACCOUNT

On August 5, 1969 the amendments to the Articles of Agreement providing for a Special Drawing Account became effective.17 Henceforth, while the Fund would continue to constitute a single juridical person, its operations and transactions would be conducted through two different Accounts. Subsequent to the amendments, approximately 9.3 billion units of SDRs were allocated to member countries that became participants in the Account.18 The allocations were made on the basis of their quotas.

Three basic methods of using SDRs were envisaged. (1) In what has been described as the central transaction in special drawing rights, a participant having a balance of payments need or one arising out of developments in its reserves is entitled to transfer special drawing rights to another participant that has been designated by the Fund in return for convertible currency.19 (2) In another transaction, useful particularly to a reserve currency country whose currency is held in the reserves of other countries, a participant having the requisite need may enter into a transaction with another participant even though the latter has not been designated by the Fund, if the two parties agree between them. In this type of transaction, the reserve currency country transfers special drawing rights to the transferee and the transferee provides in return currency of the transferor.20 (3) Transfers of special drawing rights may be made by a participant to the Fund’s General Account for the purpose of repurchasing its own currency or paying charges on the use of the Fund’s resources.21

Unlike the General Account, the Special Drawing Account does not hold gold and currencies which must be maintained in gold

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14 See generally id.
18 See generally, W. Habermeier, OPERATIONS AND TRANSACTIONS IN SDRs (1973).
19 Articles of Agreement, supra note 2, art. XXV, § 2(a).
20 Id. art. XXV, § 2(b)(i).
21 Id. art. XXV, §§ 7(b) and (c). SDRs can be used in discharge of an article V, § 7(b) repurchase obligation only to the extent that the obligation arises in SDRs, but not in substitution of other media. SDRs can be used to discharge voluntary repurchases by Executive Board decision. For the use of SDRs in repurchases outside article V, § 7(b), see Executive Board Decision No. 2901-(69/122) G/S, adopted Dec. 18, 1969, reprinted in IMF Decisions & Documents, supra note 7, at 155, 157.
value. In contrast to the General Account, the Fund's Special Drawing Account was not created by the transfer of resources from participants. Article XXI, section 2 of the Fund's Articles fixes the value of a unit of SDRs in terms of gold: "The unit of value of special drawing rights shall be equivalent to 0.888671 gram of fine gold." It is then necessary to translate the value of the SDR into the currency that forms its countervalue in a transaction.

VI. **EQUAL VALUE PRINCIPLE SELECTED OVER PAR VALUE FOR TRANSACTIONS IN THE SPECIAL DRAWING ACCOUNT**

During the drafting of the provisions relating to the Special Drawing Account, the possibility was considered that SDRs should be exchanged at the par values of currencies by analogy with the General Account. Most of the considerations that led to a rejection of this possibility focused on what was thought to be the more likely transactions in SDRs, i.e., those by designation. In this kind of transaction, a participant with the requisite balance of payments or reserve need may transfer its special drawing rights to a participant designated by the Fund. The designation is made on the basis of a judgment by the Fund that the prospective transferee's balance of payments and reserve position is sufficiently strong. In a transaction by designation, the transferor of SDRs has no choice as to which participant will be designated. The designated participant, however, has a choice as to which "currency convertible in fact" it may provide in exchange for SDRs. Because of these two considerations the draftsmen of the SDR provisions sought to avoid the possibility that if a designated transferee of special drawing rights were able to satisfy its obligation by providing currency at par value, it might decide to tender to the transferor a currency that was at a discount at the market (even if within the prescribed or subsequent wider margins). The result would be a loss to the transferor. To avoid the

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22 The transferor of special drawing rights in a designated transaction is allowed to select the currency convertible in fact that it wishes to receive while the transferee of the special drawing rights is permitted to choose the currency convertible in fact that it will provide. The reconciliation of these concepts through the obligation of the issuer of the currency provided is explained infra.

23 Executive Board Decision No. 904-(59/32), adopted July 24, 1959, reprinted in IMF Decisions & Documents, supra note 7, at 13, allowed margins of two percent if they result from the maintenance of margins of not more than one percent from parity for a convertible currency.

24 As is discussed afterwards in this paper, a system of even wider margins was recognized by Executive Board Decision No. 3463-(71/126), adopted Dec. 18, 1971, reprinted in IMF Decisions & Documents, supra note 7, at 14, and by Executive Board Decision No. 4083-(73/104), adopted Nov. 7, 1973, reprinted in IMF Decisions & Documents, supra note 7, at 18.
possibility of such a loss, a different system of value was devised for the purpose of translating the value of the SDR, expressed in terms of gold, into a value in terms of the currency being used.

In a transfer of special drawing rights from one participant to another, when the transferor is using them to meet balance of payments needs or in light of developments in its reserves, the transferee designated by the Fund must provide "currency convertible in fact" although, it may not, in the first instance, be the currency desired by the transferor. In fact, this concept involves two distinct categories.

The first category (described in article XXXII(b)(1)) is defined by several conditions. First, the currency must be convertible in terms of article VIII or article IV, section 4(b). In accordance with the second condition, any currency of the first category must be interconvertible with any other currency of that category. This ensures that if the transferee provides a currency of the first category other than that desired by the transferor of special drawing rights, procedures must exist by which the issuer of the currency provided will convert the balances of its own currency into the currency that the transferor wants. Finally, there is a requirement, to be discussed subsequently, of "equal value." It may be noted that three currencies—the French franc, the pound sterling and the U.S. dollar—became currencies of the first category.

A currency of the second category (described in article XXXII(b)(2)) is defined by two conditions. The first condition is that satisfactory procedures must exist for conversion of balances by the issuer into one or more of the currencies of the first category.

25 Article XXXII provides:
(b) Currency convertible in fact means:
(1) a participant's currency for which a procedure exists for the conversion of balances of the currency obtained in transactions involving special drawing rights into each other currency for which such procedure exists, at rates of exchange prescribed under Article XXV, Section 8, and which is the currency of a participant that
(i) has accepted the obligations of Article VIII, Sections 2, 3, and 4, or
(ii) for the settlement of international transactions in fact freely buys and sells gold within the limits prescribed by the Fund under Section 2 of Article IV: or
(2) currency convertible into a currency described in paragraph (1) above at rates of exchange prescribed under Article XXV, section 8.

Articles of Agreement, supra note 2, art. XXXII. See generally J. Gold, THE FUND'S CONCEPTS OF CONVERTIBILITY 37 (1971) [hereinafter cited as Gold, CONVERTIBILITY].

26 I.e., the participant is buying and selling gold within the meaning of article IV, § 4(b) of Articles of Agreement, supra note 2.

27 See Gold, CONVERTIBILITY, supra note 24, at 42.
While every currency of the first category must be interconvertible with all other currencies of that category, a currency of the second category need not be convertible into other currencies of its category. The procedures for conversion of a currency of the second category into a currency of the first category must ensure that the conversion will be at the rates prescribed so as to effect equal value. Five currencies—the Belgian franc, the deutsche mark, the Italian lira, the Mexican peso and the Netherlands guilder—became currencies of the second category.

The interaction between the two categories of currency may briefly be described as follows. A transferor of special drawing rights may request and is entitled to any currency of the first category. The transferee, while not obligated to provide the specific currency requested, must provide currency convertible in fact of either category. The currency provided will be convertible, directly or indirectly, into the currency requested. A transferor may not insist on receiving a currency of the second category although the transferee may choose to provide it.

As has been noted, a vital condition of both the first and second categories of currency is that the conversion envisaged must be at rates of exchange prescribed in a manner to give “equal value” in accordance with article XXV, section 8(a). The latter provision states:

(a) The exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

The objective of the equal value principle is that the value of the amount of currency received by the transferor of special drawing rights will not differ materially between different transferees and currencies. The principle is applied so as to require the transferee to provide an amount of currency that, after conversion by the issuer, would result in the same value that would have been received had the desired currency been furnished the transferor in the first instance.28 The official monetary authorities of the currency provided by the transferee of the SDRs are responsible in conversion (even if conducted through the market) for seeing that equal value is made available in accordance with the Fund’s Rules and Regulations.

In order to make effective the equal value principle, the Fund adopted rule 0-3 of its Rules and Regulations. According to this rule, certain specified procedures for determining rates of exchange were to be applied to ensure equal value for transactions in the Special Drawing Account. The exchange rate of the U.S. dollar was to be its par value. The rates of other currencies would be their representative rates, as communicated by their authorities to the Fund usually on the basis of an agreed formula involving an average or midpoint in the market. Following the rule, if a participant had an exchange market in which the Fund found a representative rate for spot delivery of the U.S. dollar, this representative rate for its currency would apply. For other currencies, a cross rate would be determined on the basis of representative rates and if this could not be done, the Fund would determine the rate.

It should be noted that, under the original rule 0-3, computations involving the representative rates were made in terms of these rates against the dollar, which was considered to have a fixed relationship to the SDR based on their common relationships to gold. The key role of the U.S. dollar in the functioning of the original version of rule 0-3 was based on its central position in the par value system and the assumption that this system would continue in operation. This position was, in turn, premised not only on the fact that the U.S. dollar served as the primary intervention (and reserve) currency of most Fund members but also upon the continuing undertaking of the United States authorities to sell gold to, or buy it from,
the monetary authorities of other members in exchange for dollars in the settlement of international transactions within the margins established by the Fund for gold transactions. The latter undertaking was the means by which the United States elected to perform its obligation31 consistent with the Fund's Articles of Agreement concerning margins. While other members actively intervened in their exchange markets buying and selling their own currency against an intervention currency (usually the U.S. dollar) in order to prevent exchange transactions from occurring outside the margins, the United States remained passive in its exchange markets. As long as the United States chose to comply with its obligation by freely buying and selling gold in the manner indicated, other Fund members might consider the dollar "as good as gold" in the course of performing their correlative obligations with respect to margins.

VII. WEAKNESS IN THE PAR VALUE SYSTEM

The years that ushered in the Special Drawing Account also gave rise to some profound upheavals in the international financial system. After a time of unprecedented prosperity coupled with a regime of stable exchange rates, the par value system had come under pressure. By May 1971, the authorities of major currency issuers were considering various actions under the circumstances. In that month both the German and the Dutch authorities advised the Fund that, for a time, they would not maintain the exchange rates for their currencies within the prescribed margins. A fundamental weakness in the U.S. balance of payments culminated in the events of August 15, 1971. On that day the United States authorities announced a suspension of the convertibility of the U.S. dollar into gold and other reserve assets in other than exceptional circumstances. The United States would no longer freely buy and sell gold for the settlement of international transactions,32 nor would it convert holdings of dollars by the monetary authorities of other member countries into gold or the currencies issued by those authorities.33 Insofar as the U.S. authorities had no plans to intervene in the exchange market in support of the dollar, there was no longer an assurance that exchange transactions between the U.S. dollar and the currencies of other members would occur within the prescribed

31 See Articles of Agreement, supra note 2, art. IV, § 4(b), and rule F-4 of the Fund's Rules and Regulations.
32 See Articles of Agreement, supra note 2, art. IV, § 4.
33 Id. art. VIII, § 4.
margins in the United States. In theory, the system might have continued if members other than the United States had persevered in intervening within their own exchange markets but these members were reluctant to risk accumulating holdings of U.S. dollars in consequence of such intervention if these were not to be convertible by the United States into other reserve assets. In practice, after the announcement most countries no longer took action to ensure that exchange transactions occurring within their territories would be related to par values. While exchange rates fluctuated in the markets, most major currencies began to appreciate against the dollar.

VIII. THE EVOLUTION OF AN INTERIM SYSTEM

By autumn of 1971, agreement had begun to emerge for an early return to an orderly exchange system. A resolution was adopted in October by the Fund’s Board of Governors calling on all members to collaborate with the Fund and with each other to maintain a satisfactory structure of exchange rates within appropriate margins. On December 17 and 18 the Ministers and Central Bank Governors of the Group of Ten met at the Smithsonian Institution in Washington. They agreed on the realignment of the currencies of their countries. On December 18 the Fund adopted a decision entitled “Central Rates and Wider Margins: A Temporary Regime” setting out practices that members could follow in collaborating with the Fund to promote exchange stability during a “temporary period preceding the resumption of effective par values with appropriate margins.” While the two key features of the decision, central rates and wider margins, are both incompatible with certain provisions of the Fund’s Articles of Agreement, they were thought appropriate under the circumstances. The decision stated that if members chose to act in accordance with its provisions, their conduct, although not consistent with other obligations under the Articles, would be deemed to be consistent with their obligation under article IV, section 4 to collaborate with the Fund “to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.”

In accordance with the decision, members could communicate to the Fund a central rate (which differed from the existing par value) in terms of gold, special drawing rights, or another member’s currency. The latter two methods of expression would be translated by

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34 See INT’L MONETARY FUND, ANNUAL REPORT 38 (1972).
35 See Gold, Legal Structure, supra note 5, at 192.
the Fund into terms of gold for the purpose of computations. Margins of up to 2¼ percent on either side of parity between the two currencies involved in a spot exchange transaction might then be observed by members. These margins were to be calculated on the basis of either central rates or par values and would relate to the movement of members’ exchange rates against their intervention currencies. If a member maintained the rates for its currency within these margins in terms of its intervention currency, it was recognized that margins of up to 4 ½ percent in relation to currencies other than its intervention currency might result. Under the decision, these wider margins were possible. They were not, however, mandatory and members might choose instead to observe the narrower margins prescribed by article IV, section 3 of the Fund Agreement and Decision No. 904-(59/32).

The central rate decision was subsequently revised in November 1973 to allow a member that maintains a stable rate in terms of an intervention currency to declare that rate to the Fund as a central rate even though the intervention currency itself is floating. The revision represented a fundamental change. The original decision of 1971 permitted a fixed grid of relationships among the currencies of Fund members as had the par value system. The fixed grid had given way to blocks of currencies freely floating against one another and the revised decision took note of this evolution in the interim system.

IX. The Interim System Encounters Problems

An interim system conceived in an emergency was not likely to be exempt from problems relating to the Fund’s methods of valuation. The basic problem that arose was how to value members’ currencies in the General Account and the Special Drawing Account. In what follows two aspects of this problem are discussed. The first aspect was how to reflect in the Fund’s Accounts a situation that occurred twice, in which for a period the exchange markets already reflected a prospective devaluation in the U.S. dollar. The second aspect concerned the valuation of special drawing rights for use in the EEC narrow margin arrangement.

The Smithsonian Agreement of December 1971 envisaged a re-

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36 In certain circumstances further margins of up to one percent might occur. See Executive Board Decision No. 3463-(71/126), adopted Dec. 18, 1971, reprinted in IMF Decisions & Documents, supra note 7, at 14.

alignment of currencies that included a prospective devaluation of the U.S. dollar from a par value of $35 to one of $38 per fine ounce of gold. While the decision was prospective in nature, it was expected that its effect would be felt in the exchange markets immediately. Accordingly, the decision of the Fund on central rates and wider margins was drafted in terms of "effective parity rates." In this way, the decision permitted margins to be calculated as if the par value change had already been made. The same principle was reflected in another decision that was taken to allow the Fund to act as if the prospective change in par value had already been made for the purposes of transactions and operations involving currencies conducted through the General Account and the Special Drawing Account. According to this decision, whenever a transaction with the Fund through its General Account involved a purchase or sale of a currency of a member other than the one entering into the transaction, concerning which wider margins or a central rate had been opted for by the issuer, an adjustment of the Fund's holdings of currency would be made. The basis for the adjustment was the ratio of the representative rate for the member's currency to the effective parity relationship between that currency and the member's intervention currency. At the time of the adjustment the Fund established accounts payable or receivable for subsequent settlement based on the amount payable by or to the member under article IV, section 8 in accordance with the change in gold value of the member's currency held by the Fund.

By virtue of the same decision, a temporary change was made in rule 0-3 which, as has been noted, governs the rates of exchange at which participants in the Special Drawing Account provide or convert currency when special drawing rights are transferred between participants. Under the original version of the rule that exchange rate for the U.S. dollar was taken to be its par value and the rates for other currencies were representative rates in the exchange markets for the spot delivery of U.S. dollars. In view of the prospective U.S. devaluation, it was recognized that the existing par value of the dollar could not be used for calculating the amounts of dollars to be provided in return for special drawing rights. Accordingly, the decision suspended rule 0-3(i) and adopted a temporary formula

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38 The official change in par value occurred on May 8, 1972.
40 The decision also provided for other times concerning which an adjustment would be made. It did not require the United States to adjust the Fund's holdings of dollars.
under which sterling or French francs could be provided on the basis of their par values adjusted by reference to their effective parity relationships to the U.S. dollar and their representatives rates. When the official par value of the dollar was changed on May 8, 1972, the Fund adopted another decision that terminated the temporary suspension of rule 0-3(i), thereby restoring the par value of the dollar for use in the relevant computations.41

An interesting development occurred after the first central rates and wider margins decision. Six members of the European Economic Community—Belgium, Denmark, France, Germany, Luxembourg, and the Netherlands—decided to maintain a maximum of 2.25 percent for rates in exchange transactions in their official markets between each other's currencies. It may be recalled that this margin was less than the maximum possible under the Fund decision. At the same time, they decided not to undertake to maintain margins against the U.S. dollar. In order to maintain the narrow margins between their currencies, the six members agreed to intervene in the exchange markets. In March 1973 they agreed that special drawing rights would constitute one of the means of settlement of obligations arising from their intervention in the markets. Subsequent to this agreement the market rates of several of these countries appreciated against the dollar. As a consequence, the countries participating in the narrow margins arrangement became reluctant to use SDRs in settlement of their obligations with one another. Their reluctance to use their SDRs derived from the provision of rule 0-3 that, in implementing the equal value principle of article XXV, section 8(a), provided for calculations to be made on the basis of the U.S. dollar at par value. The effect of this was that, as their currencies appreciated vis-à-vis the dollar in the markets, these countries

41 When once again the decision was made to devalue the dollar in 1973, the problem of how to reflect its prospective value for Fund purposes reappeared. As in the earlier case, market rates reflected the prospective change. The Fund decided that until the value was officially changed, for purposes of rule 0-3, the par value of the dollar in calculations involving other currencies would be regarded in terms of its prospective value. Executive Board Decision No. 3965-(73/12) G/S, adopted Feb. 16, 1973. Accordingly, once again when computations were made for the purpose of transactions of the General Account involving currencies for which the margins of the Articles of Agreement, supra note 2, or the margins of Executive Board Decision No. 904 (59/32) adopted July 24, 1959, reprinted in IMF Decision & Documents, supra note 7, at 13, were not being maintained, the basis of such computations being the representative rate under rule 0-3, it was provided that they would be made on the basis of the “effective parity relationship” (implying the prospective U.S. par value) between the currency involved and the U.S. dollar. This decision lapsed and the provisions of rule 0-3 applied in the usual way after the establishment of the new par value of the U.S. dollar on October 18, 1973.
saw the value of their SDRs declining in terms of their own currencies.42

The solution of the problem was to suspend temporarily the operation of article XXV, section 8(a), pursuant to article XXIX, section 1. The result was a temporary suspension of the equal value principle but only in the case of transactions by agreement under article XXV, section 2(b)(i)43 and not for the case of transactions by designation. Transactions by agreement, under this decision, could now be undertaken by the countries observing the narrow margins arrangement among themselves based on their par values or central rates as an alternative to the valuation method of rule 0-3. These transactions involved purchases by the user of the SDRs of balances of its own currency held by another participant. Transfers of SDRs other than in this category continued to take place at the rates prescribed in accordance with rule 0-3. The suspension of the equal value principle, which had been made by the Executive Directors for a period of 120 days was extended by a Board of Governors resolution for an additional period of 240 days and ended on October 31, 1974.44

X. SDR Basket Valuation

Before the amendments to the Fund's Articles were drafted that would give rise to the Special Drawing Account, much consideration was given to the matter of setting a value for the SDR. As has been noted, it was decided to link its value to gold and, accordingly, the value of the SDR was set out in article XXI, section 2 in terms of 0.888671 gram of fine gold. Calculation of this value in terms of gold into currency rates of exchange presented little difficulty so long as the par value system remained intact.

Criticism of the method of calculating exchange rates for the SDR arose after August 15, 1971, when the United States authorities announced that they would no longer freely buy and sell gold. It may be recalled that under the original form of rule 0-3, the exchange rate for the U.S. dollar in terms of SDRs was determined by reference to the par value of the dollar while exchange rates for other currencies were derived from their representatives rates against the dollar. These computations proceeded on the basis of a fixed relationship between the dollar and the SDR based on their common

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43 See note 19 supra and accompanying text.
44 Board of Governors Resolution No. 29-2, effective March 4, 1974.
relationships to gold and variable relationships between the dollar (and hence the SDR) and other currencies. When the U.S. authorities made their announcement of August 15, 1971, doubts began to arise as to whether the gold value of the dollar was sufficiently meaningful for the SDR to be founded on a fixed relationship with the dollar. The criticism grew when, as the major European currencies appreciated in 1973 against the dollar, the countries involved found the value of their SDRs declining in terms of their own currencies.

Gradually a consensus developed in favor of replacing the translation of the gold value of the SDR into currencies through the medium of a single currency (the dollar) by substituting a "basket" of currencies. While the theoretical gold value of the SDR would thus be preserved, a different approach would be sought for its calculation into currencies. By January 1974, the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (Committee of Twenty) agreed that, for an interim period and without deciding the method of valuation to be adopted in a reformed system, the valuation of the SDR should be based on a basket of currencies. The Committee requested the Fund's Executive Directors to develop the composition of such a basket and other matters concerning it.

During the discussions of the Executive Directors, various approaches had been suggested. One suggestion, for example, was that the SDR might be stabilized in terms of commodities. In effect this would be indexing the SDR and it was decided that the result of this might be to accelerate inflation. Another proposal that was discarded involved tying the SDR to what was, from time to time, "the strongest currency," with reference to its appreciation vis-à-vis other currencies. Ideas crystallized around four concepts and the standard basket idea finally prevailed.

On July 1, 1974, the Fund put into effect its new SDR valuation technique. The Executive Directors had selected sixteen currencies

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1 See Cutler & Gupta, SDRs: Valuation and Interest Rate, Finance & Development, Dec. 1974, at 18 [hereinafter cited as Cutler & Gupta].

4 See J. Polak, Valuation and Rate of Interest of the SDR 12 (1974).

6 The three leading contenders were the asymmetrical basket, the adjustable basket, and the par value technique. For an explanation of these concepts, see Outline of Reform, Annex 9, in Int'l Monetary Fund, Int'l Monetary Reform: Documents of the Committee of Twenty 43-45 (1974).

46 See generally Int'l Monetary Fund Press Release No. 74/34 (July 1, 1974), Steps Used in Valuation by New Method Outlined, in IMF Survey, July 8, 1974, at 1; Cutler & Gupta, supra note 45; Cutler, The Valuation of the SDR, in Euromoney, Aug. 1974, at 27.
to comprise the basket and assigned to each a percentage weight. The currencies that were selected were those having a share in world exports of goods and services averaging more than one percent over the period 1968-1972. The relative weights for each currency are broadly proportionate to the issuer’s exports, but reflect some modification in recognition that share in trade alone does not necessarily provide a sufficient measure of a currency’s significance in the international economy. The currencies chosen and their relative weights, as a percentage of the basket, are:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Units of Currency in One SDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>33</td>
</tr>
<tr>
<td>Germany</td>
<td>12.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9</td>
</tr>
<tr>
<td>France</td>
<td>7.5</td>
</tr>
<tr>
<td>Japan</td>
<td>7.5</td>
</tr>
<tr>
<td>Canada</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.5</td>
</tr>
<tr>
<td>Australia</td>
<td>1.5</td>
</tr>
<tr>
<td>Spain</td>
<td>1.5</td>
</tr>
<tr>
<td>Norway</td>
<td>1.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.5</td>
</tr>
<tr>
<td>Austria</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>1</td>
</tr>
</tbody>
</table>

Before putting the basket into operation, it was necessary to convert these percentages into amounts of each currency. An important objective was to ensure a continuity of valuation so that on the last day of the old valuation, June 28, the value for the SDR in terms of the old method (SDR 1 = US $1.20635) that employed the par value of the dollar exactly equalled the value calculated on the basis of the new basket. Thereafter, of course, the value has changed from day to day in accordance with movements in the foreign exchange markets. The amounts of each currency in the basket were calculated on June 28, 1974 as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Units of Currency in One SDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. dollar</td>
<td>0.40</td>
</tr>
<tr>
<td>Deutsche mark</td>
<td>0.38</td>
</tr>
<tr>
<td>Pound sterling</td>
<td>0.045</td>
</tr>
<tr>
<td>French franc</td>
<td>0.44</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>26</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>0.071</td>
</tr>
<tr>
<td>Italian lira</td>
<td>47</td>
</tr>
<tr>
<td>Netherlands guilder</td>
<td>0.14</td>
</tr>
<tr>
<td>Belgian franc</td>
<td>1.6</td>
</tr>
<tr>
<td>Swedish krona</td>
<td>0.13</td>
</tr>
<tr>
<td>Australian dollar</td>
<td>0.012</td>
</tr>
<tr>
<td>Danish krone</td>
<td>0.11</td>
</tr>
<tr>
<td>Norwegian krone</td>
<td>0.099</td>
</tr>
<tr>
<td>Spanish peseta</td>
<td>1.1</td>
</tr>
<tr>
<td>Austrian schilling</td>
<td>0.22</td>
</tr>
<tr>
<td>South African rand</td>
<td>0.0082</td>
</tr>
</tbody>
</table>
These currency amounts appear in the amended rule 0-3 of the Fund's Rules and Regulations.\textsuperscript{19}

In calculating the exchange rate for the SDR against any given currency, for example the deutsche mark, it would be possible to value each of the currency components at its market rate against the deutsche mark. The sum of the deutsche mark equivalents of each currency component would give the exchange rate for the SDR in terms of the deutsche mark. This method of calculation would, however, occasion some inconvenience to the Fund. Accordingly, the Fund uses market rates for the U.S. dollar. Except for the yen, these rates are ordinarily the middle spot-exchange rates between buying and selling rates quoted at noon in the London Exchange market.\textsuperscript{20} The rates of currencies other than the dollar are derived from the SDR/dollar rate and the representative market exchange rates for these currencies. It will be noted that, as under the initial version of rule 0-3, in order to calculate the rate for the SDR in terms of a currency other than the U.S. dollar, it is first necessary to calculate the rate for the SDR in terms of the dollar. This is a matter of practice and does not confer any special status on the dollar. The vital distinction between the old and the new methods of valuation in this context is that the SDR/dollar relation is no longer fixed, but varies daily.

After the SDR/dollar rate is determined, the Fund is able to calculate rates for the SDR against other currencies by using their market rates against the U.S. dollar. These rates are the representative rates that have been agreed between members and the Fund and are reported to the Fund by the appropriate central bank.

The effect of the new method of valuation of the SDR has gone beyond its primary purpose of serving calculations in respect of the Special Drawing Account. Since early in 1972 when the Fund found it necessary to decide that calculations based on par value had become largely inappropriate, calculations in the General Account have generally been made on the basis of the representative rates that were being applied for the purposes of the Special Drawing Account.\textsuperscript{21} When the Fund decided to employ its new method of valuation in the Special Drawing Account, it also decided to carry

\textsuperscript{19} The amended rule 0-3 is set out in the Appendix to this article.

\textsuperscript{20} See rule 0-3(b) and Executive Board Decision No. 4234-(74/67), adopted June 13, 1974. Provision is made to obtain the rates from New York, or failing this, from the Frankfurt market if they cannot be obtained from the London market. The rate for the yen is its representative rate.

\textsuperscript{21} Executive Board Decision No. 3537-(72/3) G/S, adopted Jan. 4, 1972. In accordance with this decision, the Fund adjusted its holdings of members' currencies under article IV, section
over this method for determining the exchange value of its currency holdings\textsuperscript{52} and for transactions between the Fund and participants in special drawing rights. In accordance with the decisions presently in force, the Fund makes adjustments in its currency holdings on the basis of the representative rates in accordance with rule 0-3 in respect of each currency for which rates within the margins of article IV, section 3 or Executive Board Decision No. 904-(59/32) are not maintained:

(i) whenever calculations are made for a transaction with the Fund involving the sale or purchase of that member's currency by another member;\textsuperscript{53}

(ii) annually on April 30;

(iii) at the close of the last business day of each month with respect to the Fund's holdings of U.S. dollars; and

(iv) whenever a member requests the Fund to adjust the Fund's holdings of its currency.\textsuperscript{54}

XI. Conclusion

The Fund's experience with valuation in its Accounts may be seen as a gloss on the maxim that "Experience is the life of the law." Rules designed for use under one set of circumstances necessarily have given way to other rules intended to measure and preserve value during a time when members have been compelled to depart from crucial obligations under the Fund's Articles of Agreement. The earlier distinctions between the methods of ascertaining values in the General Account and the Special Drawing Account have been replaced by a uniform method of valuation evolved in the latter and now used, as well, in the former Account. The experience gained is likely to contribute to the further improvement of the international monetary system.\textsuperscript{55}

\textsuperscript{52} on this basis in respect of currencies for which a central rate had been established or a wider margin elected. The decision was superseded by Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972, reprinted in IMF Decision \\& Documents, supra note 7, at 32.

\textsuperscript{53} Executive Board Decision No. 4257-(74/76), adopted June 28, 1974, reprinted in IMF Decisions \\& Documents, supra note 7, at 34.

\textsuperscript{54} Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972, reprinted in IMF Decisions \\& Documents, supra note 7, at 32.

\textsuperscript{55} Executive Board Decision No. 4667-(75/82), adopted May 16, 1975.

\textsuperscript{54} See generally Address by Gold, Law and Reform of the International Monetary System, Seventh Conference on the Law of the World, in Washington, D.C., Oct. 1975. In March 1976, the Executive Directors presented to the Board of Governors of the Fund a Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund. This Amendment, which was adopted effective April 30, 1976 by the Board of Governors, will introduce a number of important and extensive changes in the Fund's Articles of Agreement. A number of countries have already accepted the Amendment. Public Law No. 94-564 (Oct. 19, 1976) authorizes its acceptance by the United States.
APPENDIX

AMENDED RULE 0-3

0-3. (a) For the purpose of determining the exchange rate in terms of special drawing rights for a currency provided in a transaction between participants or involved in a conversion associated with such a transaction one special drawing right shall be deemed to be equal to the sum of:

- U.S. dollar 0.40
- Deutsche mark 0.38
- Pound sterling 0.045
- French franc 0.44
- Japanese yen 26
- Canadian dollar 0.071
- Italian lira 47
- Netherlands guilder 0.14
- Belgian franc 1.6
- Swedish krona 0.13
- Australian dollar 0.012
- Danish krone 0.11
- Norwegian krone 0.099
- Spanish peseta 1.1
- Austrian schilling 0.22
- South African rand 0.0082

(b) One special drawing right in terms of the United States dollar shall be equal to the sum of the equivalents in United States dollars of the amounts of the currencies specified in (a) above, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the Fund.

(c) One special drawing right in terms of a currency other than the United States dollar shall be determined on the basis of the rate of the special drawing right in terms of the United States dollar as established in accordance with (b) above and an exchange rate for that currency determined as follows:

(i) for the currency of a member having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar can be readily ascertained, that representative rate;

(ii) for the currency of a member having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar cannot be readily ascertained but in which a representative rate can be readily ascertained for spot delivery for a currency as described in (i), the rate calculated by reference to the representative rate for spot delivery for that currency and the rate ascertained pursuant to (i) above for the United States dollar in terms of that currency;

(iii) for any other currency, a rate determined by the Fund.