

**Modernizing the Legal Framework for Surveillance—
An Integrated Surveillance Decision
Revised Proposed Decisions**

Prepared by the Legal and Strategy, Policy and Review Departments

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July 17, 2012

1. In their grays and their bilateral discussions with staff, Executive Directors have proposed a number of very helpful revisions to the draft Integrated Surveillance Decision (ISD) set out in [*Modernizing the Legal Framework for Surveillance—An Integrated Surveillance Decision*](#). This supplement sets out revised versions of the proposed ISD and the decision approving the ISD that seek to reflect this feedback.
2. In particular, the attached revised ISD:
 - Strengthens the clarification that the Decision cannot be construed to expand or modify members’ obligations under the Articles (Preamble, ¶9) and reinforces the recognition that members have legitimate policy objectives, including domestic social and political objectives, that are beyond the scope of Article IV (Preamble, ¶¶15 and 20);
 - Explicitly states that the Principle for the guidance of members’ domestic economic and financial policies (Principle E) recognizes that, as has been discussed in previous Board papers, the obligations of members governing such policies under Article IV Section 1 are of a best efforts nature (Preamble);¹
 - With respect to bilateral surveillance, more clearly distinguishes between the Fund’s general oversight over members’ policies under Article IV, Section 3 (a) and its firm surveillance over members’ exchange rate policies under Article IV, Section 3 (b) (¶1(a)). It also clarifies that the ad hoc consultation procedure is a form of firm surveillance over members’ exchange rate policies (¶29);

¹ See [*The Fund’s Mandate—The Legal Framework*](#), ¶10; [*2011 Triennial Surveillance Review—Review of the 2007 Surveillance Decision and the Broader Legal Framework for Surveillance*](#), ¶8; and [*Modernizing the Legal Framework for Surveillance—Building Blocks Toward an Integrated Surveillance Decision*](#), ¶11.

- Introduces a degree of flexibility into the definition of the international monetary system (IMS) while more accurately describing its elements and the possible symptoms of its ineffective operation, building on the discussion of these issues in previous Board papers (¶¶10 and 11);²
 - Notes that surveillance is a continuous process and, reflecting the recommendations of the 2011 Triennial Surveillance Review, that surveillance should pay attention to risks (¶14);
 - Consistent with the need to promote global economic and financial stability to ensure the effective operation of the IMS, clarifies that the Fund’s assessments and policy advice should be consistent with a multilateral framework that incorporates relevant aspects of the global and regional economic *and financial* environment (¶16);
 - Clarifies that the overall mix of a member’s policies contributes not only to its balance of payment stability, but also domestic stability (¶19);
 - Aligns the language on what types of spillovers are relevant for multilateral surveillance in the section on multilateral consultations (¶31) with the language in the section on Article IV consultations (¶26); and
 - Reinserts the provision suggested in the previous paper that the Managing Director should consult informally and confidentially with relevant members before recommending to the Executive Board that a multilateral consultation be held with those members and also adds language to indicate that the Managing Director will brief the Board in the course of the discussions with members (¶¶31 and 32).
3. The revised decision approving the ISD extends the transitional period for the ISD’s entry into force from 5 to 6 months to allow for more time for the Fund and members to prepare for the implementation of the ISD.
4. The below revised proposed decision approving the ISD replaces the proposed decision included on page 14 of [Modernizing the Legal Framework for Surveillance—An Integrated Surveillance Decision](#). Attachment I of this Supplement contains the revised proposed ISD. Attachment II presents a redlined version of the revised ISD against the original proposal in Attachment I of [Modernizing the Legal Framework for Surveillance—An Integrated Surveillance Decision](#).

² See for instance [Strengthening the International Monetary System: Taking Stock and Looking Ahead](#).

PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Executive Board adopts the Decision on Bilateral and Multilateral Surveillance set forth in Attachment I of this supplement. The Decision on Bilateral and Multilateral Surveillance will become effective 6 months after the date on which the Decision is approved.
2. Decision 13919-(07/51), adopted June 15, 2007, as amended, (the “2007 Surveillance Decision”) is repealed as of the effective date of the Decision on Bilateral and Multilateral Surveillance.
3. The Decision on Bilateral and Multilateral Surveillance will apply to all Article IV consultations that have not been completed by the Fund before the effective date of the Decision.

ATTACHMENT I
INTERNATIONAL MONETARY FUND
Bilateral and Multilateral Surveillance
Executive Board Decision—[]

Preamble

Since the adoption in 2007 of the Decision entitled “Bilateral Surveillance over Members’ Policies” (the “2007 Decision”), there have been significant developments in the global economy that have highlighted the extent of trade and financial interconnections and integration and the potential benefits and risks of spillovers across national borders. In light of these developments and in recognition of the increasingly important international dimensions of surveillance and of cross-country spillovers, the Fund is of the view that better integrating bilateral and multilateral surveillance, including through the adoption of an integrated surveillance decision covering both responsibilities, would play an important role in providing guidance to both the Fund and its members regarding their mutual responsibilities under Article IV. The Fund emphasizes that the guidance being provided to members in this Decision relates to the performance of their existing obligations under Article IV; no new obligations are created for members by this Decision. Moreover, the Fund recognizes that members have legitimate policy objectives, including domestic social and political policy objectives, that are beyond the scope of Article IV and, accordingly, beyond the scope of this Decision, although when adopting policies to achieve these objectives, members need to ensure that such policies are consistent with their obligations under Article IV. They are also encouraged to be mindful of the impact of such policies on the international monetary system.

This Decision does not, and cannot be construed or used to, expand or broaden the scope—or change the nature—of members’ obligations under the Articles of Agreement, directly or indirectly, including the obligations set out in Articles IV, VI and VIII. Part I of this Decision is designed to give guidance to the Fund in its conduct of bilateral and multilateral surveillance. The principles for the guidance of members set forth in Part II of this Decision regarding their exchange rate and domestic economic and financial policies respect the domestic social and political policies of members and will be applied in a manner that pays due regard to the circumstances of members, and the need for evenhandedness in the practice of surveillance. Moreover, the Principle for the guidance of members’ domestic economic and financial policies recognizes that the obligations of members governing such policies under Article IV Section 1 are of a best efforts nature. Finally, looking forward, flexibility will be maintained to allow for the continued evolution of surveillance.

1. This Decision provides guidance to the Fund in:
 - (a) its general oversight over members’ exchange rate and domestic policies pursuant to Article IV, Section 3 (a) and its firm surveillance over the exchange rate policies of members pursuant to Article IV, Section 3 (b), (hereinafter referred to as “bilateral surveillance”); and

- (b) the exercise of its responsibility to oversee the international monetary system in order to ensure its effective operation pursuant to Article IV, Section 3 (a) (hereinafter referred to as “multilateral” surveillance).

This Decision also provides guidance to members in the conduct of their domestic economic and financial policies and their exchange rate policies.

2. Part I of this Decision sets out the scope and modalities of bilateral and multilateral surveillance. Part II establishes principles for the guidance of members in the conduct of their exchange rate policies and their domestic economic and financial policies for the purpose of ensuring compliance with their obligations under Article IV, Section 1; it also identifies certain developments which, in the Fund’s assessment of a member’s observance of the principles, would require thorough review and might indicate the need for discussion with the member. Beyond members’ obligations under Article IV, Section 1, Part II also encourages members to consider the effects of their policies on the effective operation of the international monetary system. Part III sets out procedures for surveillance. Part IV makes provision for a review of this decision.

3. Fund surveillance over members’ policies and over the international monetary system shall be adapted to the needs of the international monetary and financial system as they develop. The principles and procedures set out in this Decision, which apply to all members irrespective of their exchange arrangements and balance of payments positions, are not necessarily comprehensive and are subject to reconsideration by the Fund in the light of experience.

PART I - PRINCIPLES FOR THE GUIDANCE OF THE FUND IN ITS SURVEILLANCE

A. The Scope of Surveillance

4. Article IV, Section 3 requires the Fund to conduct both bilateral and multilateral surveillance. While these responsibilities are legally distinct, it is recognized that bilateral and multilateral surveillance are mutually supportive and reinforcing and, accordingly, need to be operationally integrated.

(i) Bilateral surveillance

5. The scope of bilateral surveillance is determined by members’ obligations under Article IV, Section 1. Members undertake under Article IV, Section 1 to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates (hereinafter “systemic stability”). Systemic stability is most effectively achieved by each member adopting policies that promote its own balance of payments stability and domestic stability—that is, policies that are consistent with members’ obligations under Article IV, Section 1 and, in particular, the specific obligations set forth in

Article IV, Section 1, (i) through (iv). “Balance of payments stability” refers to a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements. Except as provided in paragraph 8 below, balance of payments stability is assessed at the level of each member.

6. In its bilateral surveillance, the Fund will focus on those policies of members that can significantly influence present or prospective balance of payments and domestic stability. The Fund will assess whether exchange rate policies are promoting balance of payments stability and whether domestic economic and financial policies are promoting domestic stability and advise the member on policy adjustments necessary for these purposes. Accordingly, exchange rate policies will always be the subject of the Fund’s bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies (both their macroeconomic aspects and macroeconomically relevant structural aspects). Other policies will be examined in the context of surveillance only to the extent that they significantly influence present or prospective balance of payments or domestic stability.

7. In the conduct of their domestic economic and financial policies, members are considered by the Fund to be promoting balance of payments stability when they are promoting domestic stability—that is, when they (i) endeavor to direct their domestic economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to their circumstances, and (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions. It is recognized that there may be circumstances where a member’s domestic instability may give rise to systemic instability even in the absence of balance of payments instability. The Fund in its surveillance will assess whether a member’s domestic policies are directed toward the promotion of domestic stability. While the Fund will always examine whether a member’s domestic policies are directed toward keeping the member’s economy operating broadly at capacity, the Fund will examine whether domestic policies are directed toward fostering a high rate of potential growth only in those cases where such high potential growth significantly influences prospects for domestic, and thereby balance of payments, stability. However, the Fund will not require a member that is complying with Article IV, Sections 1(i) and (ii) to change its domestic policies in the interests of balance of payments stability.

8. This Decision applies to members of currency unions, subject to the following considerations. Members of currency unions remain subject to all of their obligations under Article IV, Section 1 and, accordingly, each member is accountable for those policies that are conducted by union-level institutions on its behalf. In its surveillance over the policies of members of a currency union, the Fund will assess whether relevant policies implemented at the level of the currency union (including exchange rate and monetary policies) and at the level of members are promoting the balance of payments and domestic stability of the union and will advise on policy adjustments necessary for this purpose. In particular, the Fund will assess whether the exchange rate policies of the union are promoting its balance of payments

stability, and whether domestic policies implemented at the level of the union are promoting the domestic, and thereby balance of payments, stability of the union. Because, in a currency union, exchange rate policies are implemented at the level of the union, the principles for the guidance of members' exchange rate policies and the associated indicators set out in paragraphs 21 and 22 of this Decision only apply at the level of the currency union. With respect to the conduct of domestic policies implemented at the level of individual members, the Fund will assess whether a member of a currency union is promoting its own domestic stability and will consider the member to be promoting the balance of payments and domestic stability of the union when it is promoting its own domestic stability. In view of the importance of individual members' balances of payments for the domestic stability of the member and the balance of payments and domestic stability of the union, the Fund's assessment of the policies of a member of a currency union will always include an evaluation of developments in the member's own balance of payments.

(ii) Multilateral Surveillance

9. The scope of multilateral surveillance is determined by the obligation of the Fund under Article IV Section 3 (a) to oversee the international monetary system in order to ensure its effective operation. In the context of multilateral surveillance, the Fund may not and will not require a member to change its policies in the interests of the effective operation of the international monetary system. It may, however, discuss the impact of members' policies on the effective operation of the international monetary system and may suggest alternative policies that, while promoting the member's own stability, better promote the effective operation of the international monetary system.

10. The international monetary system includes, in particular: (a) the rules governing exchange arrangements between countries and the rates at which foreign exchange is purchased and sold; (b) the rules governing the making of payments and transfers for current international transactions between countries; (c) the arrangements respecting the regulation of international capital movements; and (d) the arrangements under which international reserves are held, including official arrangements through which countries have access to liquidity through purchases from the Fund or under official currency swap arrangements.

11. The international monetary system is considered to be operating effectively when the areas it governs do not exhibit symptoms of malfunction such as, for example, persistent significant current account imbalances, an unstable system of exchange rates including foreign exchange rate misalignment, volatile capital flows, the excessive build up or depletion of reserves, or imbalances arising from excessive or insufficient global liquidity. It is recognized that, typically, the international monetary system may only operate effectively in an environment of global economic and financial stability, and that its effective operation contributes to such stability. Both global economic and financial stability and the effective operation of the international monetary system may be affected by, among other factors, members' own balance of payments and domestic stability, economic and financial

interconnections among members' economies and potential spillovers from members' economic and financial policies through balance of payments and other channels.

12. Therefore, in its multilateral surveillance, the Fund will focus on issues that may affect the effective operation of the international monetary system, including (a) global economic and financial developments and the outlook for the global economy, including risks to global economic and financial stability, and (b) the spillovers arising from policies of individual members that may significantly influence the effective operation of the international monetary system, for example by undermining global economic and financial stability. The policies of members that may be relevant for this purpose include exchange rate, monetary, fiscal, and financial sector policies and policies respecting capital flows.

B. The Modalities of Surveillance

13. The Fund's assessment of an individual member's policies and its advice to a member in the context of surveillance will be conducted in a manner that is consistent with the following modalities. Except where they are expressly limited in their application to bilateral surveillance, these modalities shall apply to policy discussions between the Fund and individual members whether they take place in the context of bilateral or multilateral surveillance.

14. Continuous dialogue and persuasion are key pillars of effective surveillance. The Fund, in its surveillance over the policies of individual members, will clearly and candidly assess relevant economic developments, prospects, risks, and policies of the member in question, and advise on these. Such assessments, advice and discussion of alternative policies are intended to assist that member in making policy choices, and to enable other members to discuss these policy choices with that member. The Fund will foster an environment of frank and open dialogue and mutual trust with each member and will be evenhanded across members, affording similar treatment to members in similar relevant circumstances.

15. The Fund's assessment of a member's policies and its advice on these policies will pay due regard to the circumstances of the member. This assessment and advice will be formulated within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and will pay due regard to the member's implementation capacity. Moreover, in advising members on the manner in which they may promote their balance of payments and domestic stability and the effective operation of the international monetary system, the Fund shall, to the extent permitted under Article IV, take into account the member's other objectives and shall respect its domestic social and political policies.

16. The Fund's assessment of a member's policies and its advice to the member will be informed by, and be consistent with, a multilateral framework that incorporates relevant aspects of the global and regional economic and financial environment, including exchange rates, international capital market conditions, and key linkages among members. In the

context of bilateral surveillance, the Fund's assessment and advice will take into account the impact of a member's policies on other members to the extent that the member's policies undermine the promotion of its own balance of payments or domestic stability.

17. The Fund's assessment of a member's policies and its advice to a member will, to the extent possible, be placed in the context of an examination of the member's medium-term objectives and the planned conduct of policies, including possible responses to the most relevant contingencies.

18. The Fund's assessment of a member's policies will always include an evaluation of the developments in the member's balance of payments, including the size and sustainability of capital flows, against the background of its reserves, the size and composition of its other external assets and its external liabilities, and its opportunities for access to international capital markets.

PART II - PRINCIPLES FOR THE GUIDANCE OF MEMBERS' POLICIES

19. It is recognized that a member's overall mix of economic and financial policies, including both exchange rate and domestic policies, contributes to the members' balance of payments stability and domestic stability and may impact the stability of the international monetary system. Set out below are (i) principles that are adopted for the purposes of bilateral surveillance and that provide guidance to members in the conduct of their exchange rate policies and their domestic economic and financial policies; and (ii) guidance that is adopted for the purpose of multilateral surveillance and that provides encouragement to members in the conduct of economic and financial policies with a view to ensuring the effective operation of the international monetary system.

(i) Bilateral surveillance

20. Principles A through D below are adopted pursuant to Article IV, Section 3 (b) and are intended to provide guidance to members in the conduct of their exchange rate policies in accordance with their obligations under Article IV, Section 1. Principle E is adopted pursuant to Article IV, Section 1 and is intended to provide guidance to members in the conduct of their domestic economic and financial policies. The Fund recognizes that members have legitimate policy objectives, including domestic social and political policy objectives that are beyond the scope of Article IV and accordingly beyond the scope of this Decision. The Principles set out in paragraph 21 of this Decision respect the domestic social and political policies of members. The Fund will apply these Principles evenhandedly and pay due regard to the circumstances of members. Members are presumed to be implementing policies that are consistent with the Principles. When, in the context of surveillance, a question arises as to whether a particular member is implementing policies consistent with the Principles, the Fund will give the member the benefit of any reasonable doubt, including with respect to an assessment of fundamental exchange rate misalignment. In circumstances where the Fund has determined that a member is implementing policies that are not consistent with these

Principles and is informing the member as to what policy adjustments should be made to address this situation, the Fund will take into consideration the disruptive impact that excessively rapid adjustment would have on the member's economy.

21. Principle A sets forth the obligation contained in Article IV, Section 1(iii); further guidance on its meaning is provided in the Annex to this Decision. Principles B through E constitute recommendations rather than obligations of members. A determination by the Fund that a member is not following one of these recommendations would not create a presumption that that member is in breach of its obligations under Article IV, Section 1.

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions, which may be characterized *inter alia* by disruptive short-term movements in the exchange rate of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

D. A member should avoid exchange rate policies that result in balance of payments instability.

E. A member should seek to avoid domestic economic and financial policies that give rise to domestic instability.

22. In its surveillance of the observance by members of the Principles set forth above, the Fund shall consider the following developments as among those which would require thorough review and might indicate the need for discussion with a member:

- (i) protracted large-scale intervention in one direction in the exchange market;
- (ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;
- (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
- (iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;
- (v) fundamental exchange rate misalignment;
- (vi) large and prolonged current account deficits or surpluses; and

- (vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

(ii) Multilateral surveillance

23. Beyond members' obligations under Article IV Section 1, and recognizing that a member's policies may have a significant impact on other members and on global economic and financial stability, members are encouraged to implement exchange rate and domestic economic and financial policies that, in themselves or in combination with the policies of other members, are conducive to the effective operation of the international monetary system.

PART III - PROCEDURES FOR SURVEILLANCE

24. In conducting surveillance, the Fund will make use of various procedures and will adapt these to changing circumstances. As described below, Article IV consultations with members serve as vehicles for both bilateral and multilateral surveillance, except for ad hoc consultations referred to in paragraph 29 which are a vehicle for bilateral surveillance. Other procedures serve as vehicles for multilateral surveillance.

25. Each country that becomes a member of the Fund after the adoption of this decision shall, within thirty days of the date of its membership, notify the Fund in appropriate detail of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member, regardless of its date of membership, shall notify the Fund promptly of any changes in its exchange arrangements.

A. Article IV Consultations

26. Members shall consult with the Fund regularly under Article IV to enable the Fund to (i) assess members' compliance with their obligations under Article IV, Section 1 and, in particular, to exercise firm surveillance over the conduct of their exchange rate policies, and (ii) discuss with members the impact of their policies on the operation of the international monetary system. In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles and guidance set forth in paragraphs 21 and 23 of this Decision as well as of a member's obligations under Article IV, Section 1. In addition, they shall include a discussion of the spillover effects of a member's exchange rate and domestic economic and financial policies that may significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability.

27. It is expected that no later than sixty-five days after the termination of discussions between the member and the staff, the Executive Board will reach conclusions and thereby complete the consultation under Article IV, except in the case of consultations with members eligible for financing under the Poverty Reduction and Growth Trust established by Decision

No. 8759- (87/176), ESAF, as amended, where it is expected that the Executive Board will reach conclusions no later than three months from the termination of discussions between the member and the staff.

B. Bilateral Surveillance – Ad hoc Article IV Consultations

28. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and their policies under Article IV, Section 1, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its policies.

29. (a) Whenever the Managing Director considers that important economic or financial developments are likely to affect a member's exchange rate policies or the behavior of the exchange rate of its currency, the Managing Director shall, in the context of the Fund's exercise of firm surveillance over members' exchange rate policies, initiate informally and confidentially a discussion with the member. After such discussion, the Managing Director may report to the Executive Board or informally advise the Executive Directors and, if the Executive Board considers it appropriate, an ad hoc Article IV consultation between the member and the Fund shall be conducted in accordance with the procedure set out in subparagraph (b) below.

(b) A staff report will be circulated to the Executive Directors under cover of a note from the Secretary specifying a tentative date for Executive Board discussion which will be at least 15 days later than the date upon which the report is circulated. The Secretary's note will also set out a draft decision taking note of the staff report and completing the ad hoc consultation without discussion or approval of the views contained in the report; the decision will be adopted upon the expiration of the two-week period following the circulation of the staff report to the Executive Directors unless, within such period, there is a request from an Executive Director or decision of the Managing Director to place the report on the agenda of the Executive Board. If the staff report is placed on the agenda, the Executive Board will discuss the report and will reach conclusions which will be reflected in a summing up.

(c) Unless otherwise decided by the Executive Board, the conduct of an ad hoc consultation with a member will not affect the consultation cycle applicable to the member or the deadline for completion of the next consultation with the member.

C. Other Multilateral Surveillance Activities

(i) Periodic Reports on the International Monetary System

30. The Fund will assess all issues relevant for the effective operation of the international monetary system, as described in paragraph 11 of this Decision. These assessments may take the form of periodic or ad hoc reports produced by staff for discussion by the Executive

Board. In particular, broad developments in exchange rates will be reviewed periodically by the Fund, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct consultations in preparing for these discussions. In order to inform the Fund's oversight of the operation of the international monetary system, the Managing Director may collaborate with other international bodies in conducting assessments of relevant issues.

(ii) Multilateral Consultations

31. Whenever the Managing Director considers that an issue has arisen in a policy area or a member country that may significantly influence the effective operation of the international monetary system, and that requires collaboration among members that is not already effectively taking place in another forum in which the Fund is a party, the Managing Director shall informally and confidentially discuss the issue with the relevant members. When the Managing Director forms the view that a multilateral consultation is necessary, the Managing Director may recommend such a consultation to the Executive Board, which may decide that a multilateral consultation will be held. Members shall consult with the Fund in a manner that is consistent with the decision of the Executive Board.

32. A multilateral consultation will consist of discussions between Fund staff and management and officials of relevant member countries, including, in the case of a currency union, with officials of relevant union-level institutions. The Fund will facilitate discussions among participating members and encourage them to agree on policy adjustments that will promote the effective operation of the international monetary system. In these discussions, the Fund will provide analysis and propose policy options that participating members may adopt, and may advise on the effect of different combinations of policy adjustments. During the course of these discussions, the Executive Board will be briefed by the Managing Director.

33. After the conclusion of these discussions, the Managing Director will report to the Executive Board on the discussions, any agreed policy adjustments and their impact on the participating members and the operation of the international monetary system. The Executive Board will conclude the multilateral consultation with the formal consideration of this report.

PART IV - REVIEW

34. It is expected that the Fund will review this Decision and its general implementation at intervals of three years, and at such other times as consideration of such matters may be placed on the agenda of the Executive Board.

ANNEX**Article IV, Section 1(iii) and Principle A**

1. Article IV, Section 1 (iii) of the Fund's Articles provides that members shall "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." The language of this provision is repeated in Principle A contained in Part II of this Decision. The text set forth below is designed to provide further guidance regarding the meaning of this provision.

2. A member would only be acting inconsistently with Article IV, Section 1(iii) if the Fund determined both that: (a) the member was manipulating its exchange rate or the international monetary system and (b) such manipulation was being carried out for one of the two purposes specifically identified in Article IV, Section 1(iii).

(a) "Manipulation" of the exchange rate is only carried out through policies that are targeted at—and actually affect—the level of an exchange rate. Moreover, manipulation may cause the exchange rate to move or may prevent such movement.

(b) A member that is manipulating its exchange rate would only be acting inconsistently with Article IV, Section 1(iii) if the Fund were to determine that such manipulation was being undertaken "in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." In that regard, a member will only be considered to be manipulating exchange rates in order to gain an unfair competitive advantage over other members if the Fund determines both that: (A) the member is engaged in these policies for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate and (B) the purpose of securing such misalignment is to increase net exports.

3. It is the responsibility of the Fund to make an objective assessment of whether a member is observing its obligations under Article IV, Section 1 (iii), based on all available evidence, including consultation with the member concerned. Any representation made by the member regarding the purpose of its policies will be given the benefit of any reasonable doubt.

ATTACHMENT II.
INTERNATIONAL MONETARY FUND
Bilateral and Multilateral Surveillance
Executive Board Decision—[]

Preamble

Since the adoption in 2007 of the Decision entitled “Bilateral Surveillance over Members’ Policies” (the “2007 Decision”), there have been significant developments in the global economy that have highlighted the extent of trade and financial interconnections and integration and the potential benefits and risks of spillovers across national borders. In light of these developments and in recognition of the increasingly important international dimensions of surveillance and of cross-country spillovers, the Fund is of the view that better integrating bilateral and multilateral surveillance, including through the adoption of an integrated surveillance decision covering both ~~activities~~responsibilities, would play an important role in providing guidance to both the Fund and its members regarding their mutual responsibilities under Article IV. The Fund emphasizes that the guidance being provided to members in this Decision relates to the performance of their existing obligations under Article IV; no new obligations are created for members by this Decision. Moreover, the Fund recognizes that members have legitimate policy objectives, including domestic social and political policy objectives, that are beyond the scope of Article IV and, accordingly, beyond the scope of this Decision, although when adopting policies to achieve these objectives, members need to ensure that such policies are consistent with their obligations under Article IV. They are also encouraged to be mindful of the impact of such policies on the international monetary system.

This Decision does not, and cannot be construed or used to, expand or broaden the scope— or change the nature—of members’ obligations under the Articles of Agreement, directly or indirectly, including the obligations set out in Articles IV, VI and VIII. Part I of this Decision is designed to give guidance to the Fund in its conduct of bilateral and multilateral surveillance. ~~This Decision does not, and cannot be construed or used to, expand or broaden the scope— or change the nature—of members’ obligations under the Articles of Agreement, directly or indirectly, including Articles IV, VI and VIII.~~ The principles for the guidance of members set forth in Part II of this Decision regarding their exchange rate and domestic economic and financial policies respect the domestic social and political policies of members and will be applied in a manner that pays due regard to the circumstances of members, and the need for evenhandedness in the practice of surveillance. Moreover, the Principle for the guidance of members’ domestic economic and financial policies recognizes that the obligations of members governing such policies under Article IV Section 1 are of a best efforts nature. Finally, looking forward, flexibility will be maintained to allow for the continued evolution of surveillance.

1. This Decision provides guidance to the Fund in:

- (a) its general oversight over members' exchange rate and domestic policies pursuant to Article IV, Section 3 (a) ~~and (b)~~ and its, ~~including the Fund's exercise of~~ firm surveillance over the exchange rate policies of members pursuant to Article IV, Section 3 (b), (hereinafter referred to as "bilateral surveillance"); and
- (b) the exercise of its responsibility to oversee the international monetary system in order to ensure its effective operation pursuant to Article IV, Section 3 (a) (hereinafter referred to as "multilateral" surveillance).

This Decision also provides guidance to members in the conduct of their domestic economic and financial policies and their exchange rate policies.

2. Part I of this Decision sets out the scope and modalities of bilateral and multilateral surveillance. Part II establishes principles for the guidance of members in the conduct of their exchange rate policies and their domestic economic and financial policies for the purpose of ensuring compliance with their obligations under Article IV, Section 1; it also identifies certain developments which, in the Fund's assessment of a member's observance of the principles, would require thorough review and might indicate the need for discussion with the member. Beyond members' obligations under Article IV, Section 1, Part II also encourages members to consider the effects of their policies on the effective operation of the international monetary system. Part III sets out procedures for surveillance. Part IV makes provision for a review of this decision.

3. Fund surveillance over members' policies and over the international monetary system shall be adapted to the needs of the international monetary and financial system as they develop. The principles and procedures set out in this Decision, which apply to all members irrespective of their exchange arrangements and balance of payments positions, are not necessarily comprehensive and are subject to reconsideration by the Fund in the light of experience.

PART I - PRINCIPLES FOR THE GUIDANCE OF THE FUND IN ITS SURVEILLANCE

A. The Scope of Surveillance

4. Article IV, Section 3 requires the Fund to conduct both bilateral and multilateral surveillance. While these responsibilities are legally distinct, it is recognized that bilateral and multilateral surveillance are mutually supportive and reinforcing and, accordingly, need to be operationally integrated.

(i) Bilateral surveillance

5. The scope of bilateral surveillance is determined by members' obligations under Article IV, Section 1. Members undertake under Article IV, Section 1 to collaborate with the

Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates (hereinafter “systemic stability”). Systemic stability is most effectively achieved by each member adopting policies that promote its own balance of payments stability and domestic stability—that is, policies that are consistent with members’ obligations under Article IV, Section 1 and, in particular, the specific obligations set forth in Article IV, Section 1, (i) through (iv). “Balance of payments stability” refers to a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements. Except as provided in paragraph 8 below, balance of payments stability is assessed at the level of each member.

6. In its bilateral surveillance, the Fund will focus on those policies of members that can significantly influence present or prospective balance of payments and domestic stability. The Fund will assess whether exchange rate policies are promoting balance of payments stability and whether domestic economic and financial policies are promoting domestic stability and advise the member on policy adjustments necessary for these purposes. Accordingly, exchange rate policies will always be the subject of the Fund’s bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies (both their macroeconomic aspects and macroeconomically relevant structural aspects). Other policies will be examined in the context of surveillance only to the extent that they significantly influence present or prospective balance of payments or domestic stability.

7. In the conduct of their domestic economic and financial policies, members are considered by the Fund to be promoting balance of payments stability when they are promoting domestic stability—that is, when they (i) endeavor to direct their domestic economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to their circumstances, and (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions. It is recognized that there may be circumstances where a member’s domestic instability may give rise to systemic instability even in the absence of balance of payments instability. The Fund in its surveillance will assess whether a member’s domestic policies are directed toward the promotion of domestic stability. While the Fund will always examine whether a member’s domestic policies are directed toward keeping the member’s economy operating broadly at capacity, the Fund will examine whether domestic policies are directed toward fostering a high rate of potential growth only in those cases where such high potential growth significantly influences prospects for domestic, and thereby balance of payments, stability. However, the Fund will not require a member that is complying with Article IV, Sections 1(i) and (ii) to change its domestic policies in the interests of balance of payments stability.

8. This Decision applies to members of currency unions, subject to the following considerations. Members of currency unions remain subject to all of their obligations under Article IV, Section 1 and, accordingly, each member is accountable for those policies that are conducted by union-level institutions on its behalf. In its surveillance over the policies of

members of a currency union, the Fund will assess whether relevant policies implemented at the level of the currency union (including exchange rate and monetary policies) and at the level of members are promoting the balance of payments and domestic stability of the union and will advise on policy adjustments necessary for this purpose. In particular, the Fund will assess whether the exchange rate policies of the union are promoting its balance of payments stability, and whether domestic policies implemented at the level of the union are promoting the domestic, and thereby balance of payments, stability of the union. Because, in a currency union, exchange rate policies are implemented at the level of the union, the principles for the guidance of members' exchange rate policies and the associated indicators set out in paragraphs 21 and 22 of this Decision only apply at the level of the currency union. With respect to the conduct of domestic policies implemented at the level of individual members, the Fund will assess whether a member of a currency union is promoting its own domestic stability and will consider the member to be promoting the balance of payments and domestic stability of the union when it is promoting its own domestic stability. In view of the importance of individual members' balances of payments for the domestic stability of the member and the balance of payments and domestic stability of the union, the Fund's assessment of the policies of a member of a currency union will always include an evaluation of developments in the member's own balance of payments.

(ii) Multilateral Surveillance

9. The scope of multilateral surveillance is determined by the obligation of the Fund under Article IV Section 3 (a) to oversee the international monetary system in order to ensure its effective operation. In the context of multilateral surveillance, the Fund may not and will not require a member to change its policies in the interests of the effective operation of the international monetary system. It may, however, discuss the impact of members' policies on the effective operation of the international monetary system and may suggest alternative policies that, while promoting the member's own stability, better promote the effective operation of the international monetary system.

~~9.~~10. The international monetary system ~~comprises~~includes, in particular: (a) the rules governing exchange arrangements between countries and the rates at which foreign exchange is purchased and sold; (b) the rules governing the making of payments and transfers for current international transactions between countries; (c) the ~~rules governing arrangements respecting~~ the regulation of international capital movements; and (d) the arrangements under which international reserves are held, including official arrangements through which countries have access to liquidity through purchases from the Fund or under official currency swap arrangements.

~~10.~~11. The international monetary system is considered to be operating effectively when the areas it ~~four elements~~ governs do not exhibit symptoms of malfunction such as, for example, persistent significant current account imbalances, an unstable system of exchange rates including foreign exchange rate misalignment, volatile capital flows, ~~or~~ the excessive

build up or depletion of reserves, or imbalances arising from excessive or insufficient global liquidity. It is recognized that, typically, the international monetary system may only operate effectively in an environment of global economic and financial stability, and that its effective operation contributes to such stability. Both global economic and financial stability and the effective operation of the international monetary system may be affected by, among other factors, members' own balance of payments and domestic stability, economic and financial interconnections among members' economies and potential spillovers from members' economic and financial policies through balance of payments and other channels.

11. —Therefore, in its multilateral surveillance, the Fund will focus on issues that may affect the effective operation of the international monetary system, including (a) global economic and financial developments and the outlook for the global economy, including risks to global economic and financial stability, and (b) the spillovers arising from policies of individual members that may significantly influence the effective operation of the international monetary system, for example by undermining global economic and financial stability. The policies of members that may be relevant for this purpose include exchange rate, monetary, fiscal, and financial sector policies and policies respecting capital flows.

~~12. In the context of multilateral surveillance, the Fund may not and will not require a member to change its policies in the interests of the effective operation of the international monetary system. It may, however, discuss the impact of members' policies on the effective operation of the international monetary system and may suggest alternative policies that, while promoting the member's own stability, better promote the effective operation of the international monetary system.~~

B. The Modalities of Surveillance

13. The Fund's assessment of an individual member's policies and its advice to a member in the context of surveillance will be conducted in a manner that is consistent with the following modalities. Except where they are expressly limited in their application to bilateral surveillance, these modalities shall apply to policy discussions between the Fund and individual members whether they take place in the context of bilateral or multilateral surveillance.

14. Continuous dDialogue and persuasion are key pillars of effective surveillance. The Fund, in its surveillance over the policies of individual members, will clearly and candidly assess relevant economic developments, prospects, risks, and policies of the member in question, and advise on these. Such assessments, advice and discussion of alternative policies are intended to assist that member in making policy choices, and to enable other members to discuss these policy choices with that member. The Fund will foster an environment of frank and open dialogue and mutual trust with each member and will be evenhanded across members, affording similar treatment to members in similar relevant circumstances.

15. The Fund's assessment of a member's policies and its advice on these policies will pay due regard to the circumstances of the member. This assessment and advice will be formulated within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and will pay due regard to the member's implementation capacity. Moreover, in advising members on the manner in which they may promote their balance of payments and domestic stability and the effective operation of the international monetary system, the Fund shall, to the extent permitted under Article IV, take into account the member's other objectives and shall respect its domestic social and political policies.

16. The Fund's assessment of a member's policies and its advice to the member will be informed by, and be consistent with, a multilateral framework that incorporates relevant aspects of the global and regional economic and financial environment, including exchange rates, international capital market conditions, and key linkages among members. In the context of bilateral surveillance, the Fund's assessment and advice will take into account the impact of a member's policies on other members to the extent that the member's policies undermine the promotion of its own balance of payments or domestic stability.

17. The Fund's assessment of a member's policies and its advice to a member will, to the extent possible, be placed in the context of an examination of the member's medium-term objectives and the planned conduct of policies, including possible responses to the most relevant contingencies.

18. The Fund's assessment of a member's policies will always include an evaluation of the developments in the member's balance of payments, including the size and sustainability of capital flows, against the background of its reserves, the size and composition of its other external assets and its external liabilities, and its opportunities for access to international capital markets.

PART II - PRINCIPLES FOR THE GUIDANCE OF MEMBERS' POLICIES

19. It is recognized that a member's overall mix of economic and financial policies, including both exchange rate and domestic policies, contributes to the members' balance of payments stability and domestic stability and may impact the stability of the international monetary system. Set out below are (i) principles that are adopted for the purposes of bilateral surveillance and that provide guidance to members in the conduct of their exchange rate policies and their domestic economic and financial policies; and (ii) guidance that is adopted for the purpose of multilateral surveillance and that provides encouragement to members in the conduct of economic and financial policies with a view to ensuring the effective operation of the international monetary system.

(i) Bilateral surveillance

20. Principles A through D below are adopted pursuant to Article IV, Section 3 (b) and are intended to provide guidance to members in the conduct of their exchange rate policies in accordance with their obligations under Article IV, Section 1. Principle E is adopted pursuant to Article IV, Section 1 and is intended to provide guidance to members in the conduct of their domestic economic and financial policies. The Fund recognizes that members have legitimate policy objectives, including domestic social and political policy objectives that are beyond the scope of Article IV and accordingly beyond the scope of this Decision. These Principles set out in paragraph 21 of this Decision respect the domestic social and political policies of members. ~~In applying these Principles,~~ The Fund will apply these Principles evenhandedly and pay due regard to the circumstances of members. Members are presumed to be implementing policies that are consistent with the Principles. When, in the context of surveillance, a question arises as to whether a particular member is implementing policies consistent with the Principles, the Fund will give the member the benefit of any reasonable doubt, including with respect to an assessment of fundamental exchange rate misalignment. In circumstances where the Fund has determined that a member is implementing policies that are not consistent with these Principles and is informing the member as to what policy adjustments should be made to address this situation, the Fund will take into consideration the disruptive impact that excessively rapid adjustment would have on the member's economy.

21. Principle A sets forth the obligation contained in Article IV, Section 1(iii); further guidance on its meaning is provided in the Annex to this Decision. Principles B through E constitute recommendations rather than obligations of members. A determination by the Fund that a member is not following one of these recommendations would not create a presumption that that member is in breach of its obligations under Article IV, Section 1.

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions, which may be characterized *inter alia* by disruptive short-term movements in the exchange rate of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

D. A member should avoid exchange rate policies that result in balance of payments instability.

E. A member should seek to avoid domestic economic and financial policies that give rise to domestic instability.

22. In its surveillance of the observance by members of the Principles set forth above, the Fund shall consider the following developments as among those which would require thorough review and might indicate the need for discussion with a member:

- (i) protracted large-scale intervention in one direction in the exchange market;
- (ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;
- (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
- (iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;
- (v) fundamental exchange rate misalignment;
- (vi) large and prolonged current account deficits or surpluses; and
- (vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

(ii) Multilateral surveillance

23. Beyond members' obligations under Article IV Section 1, and recognizing that a member's policies may have a significant impact on other members and on global economic and financial stability, members are encouraged to implement ~~external exchange rate~~ and domestic economic and financial policies that, in themselves or in combination with the policies of other members, are conducive to the effective operation of the international monetary system.

PART III - PROCEDURES FOR SURVEILLANCE

24. In conducting surveillance, the Fund will make use of various procedures and will adapt these to changing circumstances. As described below, Article IV consultations with members serve as vehicles for both bilateral and multilateral surveillance, except for ad hoc consultations referred to in paragraph 29 which are a vehicle for bilateral surveillance. Other procedures serve as vehicles for multilateral surveillance.

25. Each country that becomes a member of the Fund after the adoption of this decision shall, within thirty days of the date of its membership, notify the Fund in appropriate detail of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member, regardless of its date of membership, shall notify the Fund promptly of any changes in its exchange arrangements.

A. Article IV Consultations

26. Members shall consult with the Fund regularly under Article IV to enable the Fund to (i) assess members' compliance with their obligations under Article IV, Section 1 and, in particular, to exercise firm surveillance over the conduct of their exchange rate policies, and (ii) discuss with members the impact of their policies on the operation of the international monetary system. In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles and guidance set forth in paragraphs 21 and 23 of this Decision as well as of a member's obligations under Article IV, Section 1. In addition, they shall include a discussion of the spillover effects of a member's exchange rate and domestic economic and financial policies that may significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability.

27. It is expected that no later than sixty-five days after the termination of discussions between the member and the staff, the Executive Board will reach conclusions and thereby complete the consultation under Article IV, except in the case of consultations with members eligible for financing under the Poverty Reduction and Growth Trust established by Decision No. 8759- (87/176), ESAF, as amended, where it is expected that the Executive Board will reach conclusions no later than three months from the termination of discussions between the member and the staff.

B. Bilateral Surveillance – Ad hoc Article IV Consultations

28. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and their policies under Article IV, Section 1, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its policies.

29. (a) Whenever the Managing Director considers that important economic or financial developments are likely to affect a member's exchange rate policies or the behavior of the exchange rate of its currency, the Managing Director shall, in the context of the Fund's exercise of firm surveillance over members' exchange rate policies, initiate informally and confidentially a discussion with the member. After such discussion, the Managing Director may report to the Executive Board or informally advise the Executive Directors and, if the Executive Board considers it appropriate, an ad hoc Article IV consultation between the member and the Fund shall be conducted in accordance with the procedure set out in subparagraph (b) below.

(b) A staff report will be circulated to the Executive Directors under cover of a note from the Secretary specifying a tentative date for Executive Board discussion which will be at least 15 days later than the date upon which the report is circulated. The Secretary's note will also set out a draft decision taking note of the staff report and completing the ad hoc consultation

without discussion or approval of the views contained in the report; the decision will be adopted upon the expiration of the two-week period following the circulation of the staff report to the Executive Directors unless, within such period, there is a request from an Executive Director or decision of the Managing Director to place the report on the agenda of the Executive Board. If the staff report is placed on the agenda, the Executive Board will discuss the report and will reach conclusions which will be reflected in a summing up.

(c) Unless otherwise decided by the Executive Board, the conduct of an ad hoc consultation with a member will not affect the consultation cycle applicable to the member or the deadline for completion of the next consultation with the member.

C. Other Multilateral Surveillance Activities

(i) Periodic Reports on the International Monetary System

30. The Fund will assess all issues relevant for the effective operation of the international monetary system, as described in paragraph 11 of this Decision. These assessments may take the form of periodic or ad hoc reports produced by staff for discussion by the Executive Board. In particular, broad developments in exchange rates will be reviewed periodically by the Fund, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct consultations in preparing for these discussions. In order to inform the Fund's oversight of the operation of the international monetary system, the Managing Director may collaborate with other international bodies in conducting assessments of relevant issues.

(ii) Multilateral Consultations

31. Whenever the Managing Director considers that an issue has arisen in a policy area or a member country that may significantly affect-influence the effective operation of the international monetary system, and that requires collaboration among members that is not already effectively taking place in another forum in which the Fund is a party, the Managing Director shall informally and confidentially discuss the issue with the relevant members. When the Managing Director forms the view that a multilateral consultation is necessary, the Managing Director may recommend such a consultation to the Executive Board, which may decide, ~~upon the Managing Director's recommendation~~ that a multilateral consultation will be held. Members shall consult with the Fund in a manner that is consistent with the decision of the Executive Board.

32. A multilateral consultation will consist of discussions between Fund staff and management and officials of relevant member countries, including, in the case of a currency union, with officials of relevant union-level institutions. The Fund will facilitate discussions among participating members and encourage them to agree on policy adjustments that will promote the effective operation of the international monetary system. In these discussions,

the Fund will provide analysis and propose policy options that participating members may adopt, and may advise on the effect of different combinations of policy adjustments. During the course of these discussions, the Executive Board will be briefed by the Managing Director.

33. After the conclusion of these discussions, the Managing Director will report to the Executive Board on the discussions, any agreed policy adjustments and their impact on the participating members and the operation of the international monetary system. The Executive Board will conclude the multilateral consultation with the formal consideration of this report.

PART IV - REVIEW

34. It is expected that the Fund will review this Decision and its general implementation at intervals of three years, and at such other times as consideration of such matters may be placed on the agenda of the Executive Board.

ANNEX**Article IV, Section 1(iii) and Principle A**

1. Article IV, Section 1 (iii) of the Fund's Articles provides that members shall "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." The language of this provision is repeated in Principle A contained in Part II of this Decision. The text set forth below is designed to provide further guidance regarding the meaning of this provision.

2. A member would only be acting inconsistently with Article IV, Section 1(iii) if the Fund determined both that: (a) the member was manipulating its exchange rate or the international monetary system and (b) such manipulation was being carried out for one of the two purposes specifically identified in Article IV, Section 1(iii).

(a) "Manipulation" of the exchange rate is only carried out through policies that are targeted at—and actually affect—the level of an exchange rate. Moreover, manipulation may cause the exchange rate to move or may prevent such movement.

(b) A member that is manipulating its exchange rate would only be acting inconsistently with Article IV, Section 1(iii) if the Fund were to determine that such manipulation was being undertaken "in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." In that regard, a member will only be considered to be manipulating exchange rates in order to gain an unfair competitive advantage over other members if the Fund determines both that: (A) the member is engaged in these policies for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate and (B) the purpose of securing such misalignment is to increase net exports.

3. It is the responsibility of the Fund to make an objective assessment of whether a member is observing its obligations under Article IV, Section 1 (iii), based on all available evidence, including consultation with the member concerned. Any representation made by the member regarding the purpose of its policies will be given the benefit of any reasonable doubt.