INTERNATIONAL MONETARY FUND

Report of the Managing Director to the International Monetary and Financial Committee on a New Income and Expenditure Framework for the International Monetary Fund

April 9, 2008

The October 2007 Communiqué of the IMFC called on the Executive Board to develop specific proposals on a new income model and a new expenditure framework by the time of the 2008 Spring Meetings. I am pleased to report that on April 7, 2008, following extensive discussions, the Executive Board endorsed a new income model for the Fund and considered a new medium-term budgetary envelope for financial years 2009–11, which includes deep spending cuts, and approved administrative, restructuring, and capital budgets for financial year 2009. As a key element of this new income-expenditure framework, the Executive Board recommended the adoption by the Board of Governors of an amendment of the Articles of Agreement to expand the Fund's investment authority (see the Executive Board's Report to Governors, attached). The Executive Board's recommendation was sent to the Board of Governors, with the voting period running through 6:00 p.m., Washington time, May 5, 2008.

This is a landmark agreement that will put the Fund on sound financial footing and modernize its structure and operations. The medium-term budget implies substantial real savings in administrative expenditures, of over 13½ percent over the medium-term, requiring difficult but necessary choices. To preserve the effectiveness of the Fund in fulfilling its core mandate, these savings are underpinned by a strategic plan of refocusing the Fund on its areas of comparative advantage in order to become more efficient in serving the needs of our members. For example, even with the sharp expenditure cuts, the budget allows for an increase in the level of resources allocated to multilateral and regional surveillance by shifting resources from non-core to core business of the institution.

The revamping of the income model is based on the principles set out in the report of the Committee of Eminent Persons chaired by Mr. Andrew Crockett, which proved invaluable in building consensus in this complex area. Under the new income model, the Fund will no longer rely primarily on lending to finance its diverse activities. Instead, the Fund would have new and more robust sources of income, including an endowment funded by limited gold sales conducted under strong safeguards to avoid any risk of market disruption, and an expanded investment authority that would enable the Fund to enhance returns in manner consistent with the public nature of the funds to be invested. Together, the expenditure adjustment in the medium-term budget and the timely implementation of the new income model will close the Fund's income shortfall and ensure its financial sustainability, demonstrating the commitment of the Fund's membership to enhancing the institution's credibility and effectiveness.

INTERNATIONAL MONETARY FUND

REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF GOVERNORS ON THE PROPOSED AMENDMENT OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND TO EXPAND THE INVESTMENT AUTHORITY OF THE INTERNATIONAL MONETARY FUND

PART I. INTRODUCTION

1. The October 20, 2007 Communiqué of the International Monetary and Financial Committee (the "IMFC") recognized the need for more predictable and stable sources of income to finance the Fund's diverse activities. It welcomed the progress made in developing guidelines to implement the recommendations on a new income model that had been made by the Committee of Eminent Persons chaired by Mr. Andrew Crockett (the "Committee"), and noted that both income and expenditure would need to contribute to put the Fund's finances on a sustainable footing. The IMFC saw the need for greater efficiency and saving through Fund-wide priority setting, and called for this to be achieved through a new medium-term budget envelope, while preserving the effectiveness of the Fund in fulfilling its core mandate. The IMFC therefore called upon the Executive Board to develop specific proposals on a new income model and a new expenditure framework by the time of the 2008 Spring Meeting, and to agree on a new and detailed medium-term budgetary envelope for the FY2009 budget that is consistent with the emerging income and expenditure framework.

2. Consistent with the above request, the Executive Board has agreed on a new and sustainable income-expenditure framework, the key features of which are summarized below.

A. Budgetary Framework

3. The strategic considerations underpinning the medium-term budget are to refocus the Fund on its areas of comparative advantage and to modernize the Fund's administration, in order to better serve the needs of members with more limited resources. On this basis, the Executive Board has approved a medium-term budgetary envelope for FY2009–11 that would allow the Fund to lower annual administrative spending by an additional $100 million in real terms. In addition to the implied real expenditure reduction of over 13½ percent relative to the FY2008 budget, this budget provides for substantial refocusing of the Fund's activities, for example, by increasing resources for priorities such as multilateral and regional surveillance. The Fund's commitment to low-income countries is maintained, and program work and capacity building would remain priorities.

B. Income Framework

4. Regarding the development of a new income model, the Fund has undertaken an intensive work program in the past year. The Executive Board's extensive discussions have

built upon the broad principles for a new income model set out in the report of the Committee.[1] In particular—and recognizing the public good aspects of many Fund activities—efforts have been directed towards the development of an income model that relies on broader and more sustainable income sources, rather than continuing to rely primarily on income from General Resources Account financial support to members to cover the Fund's general administrative expenses. There is also broad support for the related principle, as recommended by the Committee, that the margin for General Resources Account lending should only cover the Fund's intermediation costs and the buildup of reserves. With respect to the specific recommendations made by the Committee, there is general support within the Executive Board for the following:

(a) ***Expanding the Fund's Investment Authority****:* As proposed by the Committee, it is recommended that the Fund's Articles of Agreement be amended to broaden the range of instruments in which the Fund may invest. Such an expansion of the Fund's investment authority would enable the Fund to adapt its investment strategy over time without the need for further amendments of the Articles. As discussed below, given the public nature of the funds to be invested, the implementation of a broader investment authority would be conducted pursuant to investment policies that take into account, *inter alia*, a careful assessment of acceptable levels of risk. It is recognized that the evolution of the Fund's investment policies will need to proceed gradually. For the foreseeable future, it is intended that these policies will rely, to the extent possible, on a passive investment approach that closely tracks widely used benchmark indices.

(b) ***Establishing an Endowment****:* The Committee recommended that an endowment funded by the profits from the sale of a strictly limited portion of the Fund's gold holdings be established, with the objective of generating income while preserving the long-term real value of these resources. Consistent with this recommendation, there is broad support within the Executive Board for the sale of the 403 metric tons of gold acquired by the Fund after the date of the Second Amendment of the Articles of Agreement ("post-Second Amendment gold"). While no decision has yet been taken to sell post-Second Amendment gold, all Executive Directors have indicated either that they are ready to vote in favor of such a decision, or that they will seek approval from their domestic legislature to enable them to vote in favor of such a decision. With respect to the modalities for future gold sales, the Executive Board has reaffirmed the long-standing principle that the Fund has a systemic responsibility to avoid causing disruptions that would adversely impact gold holders and gold producers, as well as the functioning of the gold market. To that end, the Executive Board has reached agreement on a number of guidelines to govern the envisaged gold sales.[2]

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[1] *Report to the Managing Director by the Committee of Eminent Persons on the Sustainable Long-Term Financing of the Fund,* http://www.imf.org/external/np/oth/2007/013107.pdf.

[2] Specifically, it has been agreed that: (i) sales should be strictly limited to the current stock of post-Second Amendment gold; (ii) the Fund's sales should not add to the announced volume of sales from official sources; (iii) the scope for sales of gold to one or more official holders should be explored, given the advantages of this approach; (iv) absent sufficient interest from other official holders to purchase gold directly from the Fund, phased on-market sales would represent the most appropriate modality for gold sales; and (v) gold sales

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Finally, and consistent with the recommendations of the Committee, the Executive Board has agreed that all profits arising from sales of post-Second Amendment gold should be placed in the Investment Account and, taking advantage of the Fund's expanded investment authority, invested in an endowment with the objective of generating investment returns to contribute to the Fund's income while preserving the long-term real value of these resources. As is described in Part II, the proposed amendment is being designed to ensure that all profits from such sales would be transferred to the Investment Account.

(c) ***Reimbursement of the General Resources Account****:* Another important element of the new income model recommended by the Committee is the resumption of the reimbursement of the General Resources Account for the administrative expenses of the PRGF-ESF Trust. The Executive Board has adopted a decision to resume reimbursement beginning the financial year in which the Fund adopts a decision authorizing the sale of the current stock of post-Second Amendment gold. This decision notes expressly that the PRGF-ESF Trust's capacity for concessional lending will be kept under close review, and that the Fund should temporarily suspend reimbursement if the resources of the Trust are likely to be insufficient to support anticipated demand for PRGF-ESF assistance and the Fund is unable to obtain additional subsidy resources. The decision also notes that, upon suspension, the Fund will engage donors with a view to restoring the sustainability of the PRGF-ESF Trust. As discussed below, the proposed amendment of the Articles to expand the Fund's investment authority would also apply to resources of the Special Disbursement Account (including Special Disbursement Account resources held in the PRGF-ESF Trust); this, in turn, would be expected to increase the Trust's income from the investment of these resources, which would further support the Trust's capacity for concessional lending.

(d) ***Dividend Policy****:* The Committee recommended that, in the event that the Fund generates income in excess of that necessary to cover its running costs and the accumulation of all necessary reserves, it should institute a dividend policy to redistribute these resources to members in proportion to quotas. Consistent with this recommendation, there is broad support for the view that, in future circumstances when precautionary balances are fully adequate, it would be appropriate for the Fund to consider making payments of dividends to members in proportion to their quotas, as provided for in the Articles. In that context, it has been recognized that dividends could be a useful tool for budget discipline, by helping to ensure that excess income does not translate into additional current expenditure.

5. The Committee had also recommended that the Fund invest an equal proportion of the quota resources subscribed by all members as a further source of income for financing of the Fund's public good activities that could be varied over the medium-term, while involving potentially broad participation by the membership. This proposal, which would require an amendment of the Fund's Articles, was discussed extensively by the Executive Board.[3] While

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conducted by the Fund should have a strong governance and control framework with a high degree of transparency.

[3] In this context, there was also some support for reviewing and modifying the framework for unremunerated reserve tranche positions established by the Second Amendment of the Articles of Agreement.

it received strong support from many Executive Directors, some Executive Directors could not support this option. Accordingly, the investment of quota resources has not yet gained sufficiently broad support from the membership to make it a viable component of the new income model.

6. Looking forward, the medium-term budget and new income model are expected to put the Fund's finances on a sustainable path. The new income model is projected to generate some $475 million in additional income in the medium term. In conjunction with the new expenditure envelope, this additional income is expected to close the Fund's income shortfall. It must be emphasized, however, that the Fund's current careful management of expenditures will be a necessary and permanent feature of the income-expenditure framework. In the future, medium-term expenditure and income decisions should be taken together.

7. The Executive Board envisages further work in a number of areas in order to implement the proposed new income model. Over the next several months, the Fund will conduct a review of the role and adequacy of precautionary balances under the proposed new income model, with the aim of setting out a transparent framework for reserve accumulation. The Fund will also complete the review of charges and maturities on General Resources Account facilities. In the latter context, there is also a need to operationalize the framework for setting the margin for the rate of charge under the new income model, which, as recommended by the Committee, should cover the Fund's intermediation costs and the building of reserves.[4] Finally, work will continue on the design of the investment policies that the Fund will adopt to implement the expanded investment authority, taking into account the principles identified below.

8. The remaining sections of this Report are organized as follows: Part II provides a Commentary on the amendment of the Fund's Articles of Agreement to expand the Fund's investment authority. The procedure for amending the Fund's Articles is described in Part III. Part IV contains the Resolution that the Executive Board is recommending be adopted by the Board of Governors in order to approve the proposed amendment. The text of the proposed amendment is attached to the Resolution.

PART II. COMMENTARY

A. Permissible Investments for the Investment Account

9. With respect to currencies held in the Investment Account, the amended Article XII, Section 6(f)(iii) will authorize the Fund to use such currencies for investment as it may determine, thereby enabling the Fund to adapt its investment strategy over time, without the need for further amendments of the Articles. In that regard, under the amended Article XII, Section 6(f)(iii), several limitations set forth in the present text of this provision will be

[4] The margin for the rate of charge for FY2009 will be set as part of the upcoming regular review of the Fund's income position.

removed. First, the requirement that all resources in the Investment Account be invested in marketable obligations of a member or an international organization will be eliminated. Second, investments will no longer require the concurrence of the member whose currency is being used to make the investments. Finally, the Fund will no longer be required to invest exclusively in obligations denominated in special drawing rights or in the currency used for investment. The Fund will have the authority to convert currencies held in the Investment Account for purposes of exercising its investment authority.

10. Notwithstanding the elimination of the above limitations, the amended Article XII, Section 6(f)(iii) will require that all investments of currencies held in the Investment Account be made in accordance with rules and regulations to be adopted by the Fund by a 70 percent majority of the total voting power. Accordingly, the Fund could only exercise its expanded investment authority once the rules and regulations are in place.[5] While these rules and regulations would not be adopted until the proposed amendment has entered into force, the Executive Board discussions to date reflect a consensus that the design of these rules and regulations would be guided by certain principles:

- First, given the Executive Board's responsibilities under the Articles, the governance arrangements to be established will ensure that the Executive Board plays a central role both in determining the Investment Account's investment policies (e.g., determining eligible investments and establishing the strategic asset allocation) and in monitoring their implementation.

- Second, the Investment Account's investment policies will take into account a number of factors, including: the Fund's mandate, investment objectives, income needs, an assessment of acceptable levels of different types of risk (particularly in light of the public nature of the funds to be invested) and the investment practices of other public institutions. For example—and consistent with the recommendation of the Committee—an "endowment" funded through gold profits would have the objective of generating investment returns to contribute to the Fund's income while preserving the long-term value of these resources.

- Third, because the Fund receives non-public information in the performance of its other responsibilities, the rules and regulations (as under the current arrangements for the Investment Account) will include safeguards to ensure that the Fund's implementation of its expanded investment authority would not give rise to an actual or perceived conflict of interest.

11. As at present, the rules and regulations of the Investment Account will also need to be consistent with Article XII, Sections 6(f)(vii) through (ix), which govern the distribution of assets upon termination of the Investment Account or reduction in the amount of investment.

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[5] Until new rules and regulations are adopted under the expanded investment authority following the entry into force of the proposed amendment, the rules and regulations adopted under the present Article XII, Section 6(f)(vi) will remain effective and govern the investment of all resources in the Investment Account.

B. Permissible Investments for the Special Disbursement Account

12. The amended Article V, Section 12(h) will expand the Fund's investment authority with respect to currencies held in the Special Disbursement Account in the same manner that the investment authority for the Investment Account is expanded. Accordingly, the amendment would eliminate those limitations specified in Article V, Section 12(h) that are being removed from Article XII, Section 6(f)(iii).

13. As is the case for the Investment Account, the amended Article V, Section 12(h) will also require that all investments of currencies held in the Special Disbursement Account be made in accordance with rules and regulations adopted by the Fund by a 70 percent majority of the total voting power. However, the rules and regulations applicable to the investment of resources in the Special Disbursement Account may differ from those applicable to the Investment Account. For example, the overall investment strategy for these resources will be guided by the specific objectives of the Special Disbursement Account, which include the provision of balance of payments assistance on special terms to developing members.

C. Investment of Profits from Sales of Post-Second Amendment Gold

14. As noted in the Introduction of this Report, the Executive Board intends that all profits from sale of the Fund's current stock of post-Second Amendment gold should be placed in the Investment Account and invested. Under the present Articles, however, the profits of such sales are required to be placed first in the General Resources Account, where they are taken into account for purposes of determining the Fund's net income in the financial year of the sale.[6] Given the Fund's current financial circumstances, there is a risk that the Fund's ability to effect a subsequent transfer of these profits to the Investment Account may be constrained by the transfer limit set forth in Article XII, Section 6(f)(ii), pursuant to which cumulative transfers to the Investment Account of currencies held in the General Resources Account (and Special Disbursement Account) may not exceed the total amount of the Fund's general reserve and special reserve at the time of the transfer decision. The Fund has transferred currencies from the General Resources Account equal to the full amount of its reserves at April 30, 2006 (SDR 5.9 billion) and, since then, reserves have declined and are expected to continue to do so in the immediate future as the Fund experiences annual operating losses. Accordingly, if the Fund were to sell gold at a time when its reserves continue to be lower than their level at end-April 2006, a portion of the profits would need to be retained in the General Resources Account to build up reserves, and transfers to the Investment Account could only take place when—and to the extent that—reserves exceed the end-April 2006 level.

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[6] While the Articles themselves do not provide an explicit framework for the disposition of post-Second Amendment gold sale proceeds, the Commentary to the Second Amendment states that "any profits or losses on sales of this [post-Second Amendment] gold would be taken into account in determining the Fund's annual income." *Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund – A Report by the Executive Directors to the Board of Governors*, March 1976, Part II, Section I, paragraph 8(d).

15. To ensure that the full amount of the profits arising from the envisaged sale of gold can be transferred to the Investment Account, the amendment would require that all profits derived from the sale of post-Second Amendment gold be placed directly in the Investment Account upon a sale of such gold. A new provision (Article V, Section 12(k)) will specify that, whenever post-Second Amendment gold is sold, an amount of the proceeds equivalent to the acquisition price of the gold shall be placed in the General Resources Account, and any excess (i.e., profits) shall be placed in the Investment Account for use pursuant to the provisions of Article XII, Section 6(f).[7] This placement would not be subject to the transfer limit in Article XII, Section 6(f)(ii), as that limit only applies to transfers into the Investment Account of: (i) proceeds from the sale of gold held by the Fund on the date of the Second Amendment (made pursuant to Article V, Section 12(g)), and (ii) currencies held in the General Resources Account.[8]

16. Profits from sale of post-Second Amendment gold that are placed in the Investment Account pursuant to the amendment will be subject to the same requirements as other resources held in the Investment Account. Thus, for example, as specified in Article XII, Section 6(f)(iv), the income from investment of these profits may be invested, held in the Investment Account, or used to meet the expenses of conducting the business of the Fund. Similarly, upon termination of the Investment Account prior to liquidation of the Fund (Article XII, Section 6(f)(viii)) or reduction of the amount of the investment (Article XII, Section 6(f)(ix)), assets of the Investment Account derived from such profits—like other Investment Account assets not derived from the Special Disbursement Account—will be transferable to the General Resources Account for "immediate use" in the Fund's operations and transactions.[9]

17. It is possible that sales of post-Second Amendment gold will occur prior to the date of entry into force of the proposed amendment. To ensure that the full amount of profits arising from such sales will enter the Investment Account in all circumstances, the second sentence of Article V, Section 12(k) provides that, notwithstanding the transfer limit set forth in Article XII, Section 6(f)(ii), for any post-Second Amendment gold sold after April 7, 2008

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[7] Article XII, Section 12(k) will thus establish an explicit framework for the disposition of post-Second Amendment gold sale proceeds that will operate in parallel with the framework that currently applies to the disposition of pre-Second Amendment gold sale proceeds. Specifically, when pre-Second Amendment gold is sold, pursuant to Article V, Section 12(f), an amount equivalent to the official price of gold at the time of the Second Amendment (one SDR per 0.888671 gram of fine gold, or SDR 35 per ounce) is placed in the General Resources Account and, subject to a specific exception, the excess is held in the Special Disbursement Account.

[8] Profits from the sale of post-Second Amendment gold would not be "currencies held in the General Resources Account" within the meaning of Article XII, Section 6(f)(ii), as these profits would be placed directly in the Investment Account upon the sale and would, thus, never enter the General Resources Account.

[9] The term "immediate use" covers transfers of currencies that are disposed of immediately so as to avoid having any impact on members' positions in the General Resources Account. As regards transfers from the Investment Account, including the proceeds of profits from the sale of post-Second Amendment gold, this term includes transfers of currencies to the General Resources Account for immediate distribution either pursuant to Article XII, Section 6(a) or Article XII, Section 6(c).

(the date of the Executive Board's adoption of this Report), but prior to the entry into force of this new provision, the Fund shall transfer from the General Resources Account to the Investment Account an amount of currencies that is equivalent to the difference between the sales price of such gold and the acquisition price, less any amount of such profits that may have already been transferred to the Investment Account. As a result, any profits that had not been transferred prior to the amendment's entry into force would be transferred upon the entry into force of the amendment.

PART III. PROCEDURE

18. The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XXVIII. Under this Article, a proposed amendment is to be communicated to the Chairman of the Board of Governors for consideration by the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund is to ask all members whether they accept it. When three-fifths of the members, having eighty-five percent of the total voting power, have accepted the proposed amendment, the Fund is to certify that fact by a formal communication addressed to all members. Under Article XXVIII(c), an amendment enters into force for every member, whether or not it has accepted the amendment, three months after the date of this formal communication unless a shorter period is specified. In the case of the amendment now being proposed, the Executive Board recommends that it should enter into force on the date of the formal communication.[10]

19. Special considerations apply to members whose voting rights have been suspended under Article XXVI, Section 2(b).[11]

20. Part IV of this Report contains the text of a Resolution, to which is attached the text of the proposed amendment discussed above. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund should bring the Resolution and proposed amendment before the Board of Governors for its approval. It is pursuant to this request that the Secretary is transmitting this Report to the Board of Governors.

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[10] The Executive Board has also adopted a report entitled "Enhancing Voice and Participation in the Fund: Report to the Board of Governors". The amendment proposed under that report is separate from the amendment proposed under this Report, although it is possible that members will consider them at the same time. In the event that either or both of these amendments enter into force prior to the entry into force of the proposed Fourth Amendment (providing for a special one-time allocation of Special Drawing Rights), the term "Fourth Amendment" used in Schedule M of that proposed amendment shall be corrected to accurately reflect the order in which that proposed amendment shall actually enter into force.

[11] Such members cannot participate in the adoption of a proposed amendment of the Articles, or be counted in the total number of members for that purpose (except in the case of certain limited amendments that require unanimous acceptance by all members, or in the case of amendments pertaining exclusively to the SDR Department) (Schedule L, paragraph 1(a)). The number of votes allotted to the member shall not be included in the calculation of the total voting power (except for purposes of the acceptance of a proposed amendment pertaining exclusively to the Special Drawing Rights Department) (Schedule L, paragraph 2). Such members also may not appoint a Governor or Alternate Governor that could vote on the Resolution of the Board of Governors approving an amendment (Schedule L, paragraphs 1(b) and 3(a)).

21. In the judgment of the Executive Board, and particularly in view of the desirability of an early completion of the amendment process, the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Board, pursuant to Section 13 of the By-Laws, requests Governors to vote without meeting. To be valid, votes must be received at the seat of the Fund before 6:00 p.m., Washington time, on May 5, 2008. The Resolution will be adopted if replies are received from a majority of the Governors exercising not less than two-thirds of the total voting power, and if a majority of the votes is cast in favor of the Resolution. The Resolution must be voted on as a whole.

PART IV. RESOLUTION

WHEREAS the International Monetary and Financial Committee has asked the Executive Board to develop specific proposals for a new income model and a new expenditure framework by the time of the 2008 Spring Meeting of the International Monetary and Financial Committee, and the Executive Board has put forward such a proposal; and

WHEREAS the implementation of certain aspects of this proposal requires an amendment of the Articles of Agreement and the Executive Board has proposed and recommended that the Board of Governors approve such an amendment, and has prepared a Report on the same; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposal of the Executive Board before the Board of Governors; and

WHEREAS the Report of the Executive Board setting forth its proposal has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Board has requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors, noting the recommendation and the said Report of the Executive Board, hereby RESOLVES that:

1. The proposed amendment of the Articles of Agreement of the International Monetary Fund (Proposed Amendment of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund) that is attached to this Resolution is approved.

2. The Secretary of the Fund is directed to ask all members of the Fund, by circular letter, telegram or other rapid means of communication, whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the Proposed Amendment of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund.

3. The communication to be sent to all members in accordance with 2 above shall specify that the Proposed Amendment of the Articles of Agreement of the International

Monetary Fund to Expand the Investment Authority of the International Monetary Fund shall enter into force for all members as of the date on which the Fund certifies, by a formal communication addressed to all members, that three-fifths of the members, having eighty-five percent of the total voting power, have accepted the Proposed Amendment of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund.

PROPOSED AMENDMENT OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND TO EXPAND THE INVESTMENT AUTHORITY OF THE INTERNATIONAL MONETARY FUND

The Governments on whose behalf the present Agreement is signed agree as follows:

1. The text of Article XII, Section 6(f)(iii) shall be amended to read as follows:

"(iii) The Fund may use a member's currency held in the Investment Account for investment as it may determine, in accordance with rules and regulations adopted by the Fund by a seventy percent majority of the total voting power. The rules and regulations adopted pursuant to this provision shall be consistent with (vii), (viii), and (ix) below."

2. The text of Article XII, Section 6(f)(vi) shall be amended to read as follows:

"(vi) The Investment Account shall be terminated in the event of liquidation of the Fund and may be terminated, or the amount of the investment may be reduced, prior to liquidation of the Fund by a seventy percent majority of the total voting power."

3. The text of Article V, Section 12(h) shall be amended to read as follows:

"(h) Pending uses specified under (f) above, the Fund may use a member's currency held in the Special Disbursement Account for investment as it may determine, in accordance with rules and regulations adopted by the Fund by a seventy percent majority of the total voting power. The income of investment and interest received under (f)(ii) above shall be placed in the Special Disbursement Account."

4. A new Article V, Section 12(k) shall be added to the Articles to read as follows:

"(k) Whenever under (c) above the Fund sells gold acquired by it after the date of the second amendment of this Agreement, an amount of the proceeds equivalent to the acquisition price of the gold shall be placed in the General Resources Account, and any excess shall be placed in the Investment Account for use pursuant to the provisions of Article XII, Section 6(f). If any gold acquired by the Fund after the date of the second amendment of this Agreement is sold after April 7, 2008 but prior to the date of entry into force of this provision, then, upon the entry into force of this provision, and notwithstanding the limit set forth in Article XII, Section 6(f)(ii), the Fund shall transfer to the Investment Account from the General Resources Account an amount equal to the proceeds of such sale less (i) the acquisition price of the gold sold, and (ii) any amount of such proceeds in excess of the acquisition price that may have already been transferred to the Investment Account prior to the date of entry into force of this provision."