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# The IMF Council of Governors

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This paper summarizes discussions that have taken place over the past 40 years regarding the creation of a Council of Governors within the IMF. The proposed Council would have decision-making authority and serve as a permanent organ of the Fund. The Fund's Articles of Agreement establish that a special majority of 85 percent of the membership's voting power is required to activate the Council, but this has not yet occurred. The paper presents the main themes and areas of concern in past debates, and it highlights issues that warrant further consideration if discussions on activating the Council are renewed. The paper does not take a position on the establishment of the Council.

## Introduction[1]

This paper summarizes discussions that have occurred over the past 40 years regarding the creation of a Council of Governors (hereinafter

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[1]The evidence for this paper is based upon primary research from internal sources including minutes of Fund Executive Board meetings and related background documents from 1966 to 2009; Summary Proceedings of the Annual Meetings of the Board of Governors from 1971 to 1980; Fund Communiqués; and Documents of the Committee of Twenty. Other references include volumes by Fund historians Margaret Garritsen de Vries and James Boughton, and numerous publications by the Fund's former General Counsel Joseph Gold.

referred to as the Council). The proposed Council would serve as a high-level political decision-making body and a permanent organ of the institution. This paper aims to present the history of the debates and context so as to better recognize and understand these themes.

Authority for the establishment of the Council is enshrined in the Fund's Articles of Agreement (Art. XII, Section 1). The Council's proposed composition and processes have been largely determined, although some important issues remain unresolved. To establish the Council would require a special majority of 85 percent of the membership's voting power. To date, the Council has not been activated.

Discussions within the IMF surrounding the creation of a Council of Governors have occurred in four phases, corresponding roughly with: (1) responses to the international liquidity crisis of the 1960s and the need to reform the international monetary system (1969–74); (2) development of the Second Amendment to the IMF Articles of Agreement and an increased focus on surveillance (1974–80); (3) the post-Asian financial crisis period and attempts to strengthen decision making regarding the international monetary and financial system (1998–99); and (4) efforts to reform the institution's governance system amid renewed concern regarding the Fund's legitimacy (2008). Over the years, the two main rationales expressed for the establishment of the Council have been: (1) to enhance the IMF's legitimacy as the center of decision making regarding the international monetary system; and (2) to guarantee the representation of all Fund members in such decision making.

Some country positions and the leading proponents or opponents have not changed over the decades, while the positions of some other countries have shifted. For example, the U.S. supported establishment of the Council in the 1970s and was a leading advocate in the 1980s, while in the late 1990s the main champion was France. Other countries from among developed, developing, and emerging nations have held varying views on the Council throughout the years.

While the debate and context surrounding Council discussions may have evolved over the past 40 years, they have featured the same recurrent themes. Arguments for the Council include the inability of the Board of Governors to act effectively as the locus of decision making on the international monetary system. The arguments offered by various stakeholders against the creation of the Council include the belief that it would diminish the authority of the Executive Board, as well as the unwillingness of some members to support the creation of a high-level decision-making body in the context of multilateral surveillance. Over the decades, discussions have ranged from consideration of a temporary, *ad hoc* advisory committee to a permanent decision-making body; and the Fund has moved, in practice, from creating a committee to advise on reform of the international monetary system to an advisory body that is charged with supervising the management and adaptation of the international monetary and financial system.

This paper aims to present the history of the debates and context so as to better recognize and understand these themes. Box 1 shows the main milestones in the discussions within the Fund relevant to the Council proposal over the past 40 years. Following this introduction, the next section lays out the positions expressed over the years by various countries and constituencies regarding the creation of the Council. The third section concludes the paper. The paper does not take a position on the establishment of the Council.

**Box 1. Key Events Within the Fund on the History of the Council Proposal**

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| **Phase 1: International Monetary Reform and the Committee of Twenty (1969–74)** | |
| 1969 | Several Executive Directors express interest in establishment of a committee to advise the IMF Board of Governors on issues affecting the international monetary system. |
| 1971 | Following the collapse of the Bretton Woods system of fixed exchange rates, the Board of Governors calls on the Executive Board to advise on reform of the international monetary system. |
| 1972 July | Board of Governors establishes the advisory Ad Hoc Committee on Reform of the International Monetary System and Related Issues (C-XX). |
| 1973 October | Reviewing the Committee's progress, Governors call for the Fund to be more involved in management and decision making regarding the international monetary system, and for the Fund to strengthen its systems. |
| 1974 January | The C-XX Rome Communiqué calls for establishment of a permanent and representative Council of Governors. |
| 1974 June | C-XX Outline of Reform calls for the establishment of an Interim Committee to supervise the management and adaptation of international monetary system, pending the establishment of the Council. |
| **Phase 2: Interim Committee, the Second Amendment, and the Focus on Surveillance (1974–80)** | |
| 1974 July | Executive Directors begin consideration of composite resolution for reform of the international monetary system, including the establishment of a permanent Council. |
| 1974 October | Board of Governors establishes the Interim Committee of the Governors of the IMF, which succeeds the C-XX. They also request the Executive Directors to prepare draft amendments to the Articles of Agreement for the reform of the international monetary system, including the establishment of a permanent Council. |
| 1976 October | Board of Governors adopts the Second Amendment to the IMF Articles of Agreement, including the enabling authority for establishing the Council. |

**Box 1** ***(concluded)***

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| 1978–80 | The United States attempts unsuccessfully to create the Council, to strengthen the Fund's surveillance powers. |
| **Phase 3: Strengthening and Transforming the Interim Committee (1998–99)** | |
| 1998 October | The IMF Governor for France revives the Council proposal, supported by two other Fund Governors and the Managing Director. The Interim Committee mandates the Executive Board to study the Committee's strengthening and/or transformation. |
| 1999 April | The Interim Committee asks Deputies and Executive Directors to explore the scope for institutional improvements, including to the IC. |
| 1999 September | The Executive Board advances a resolution without recommending establishment of the Council. Board of Governors transforms the Interim Committee into the International Monetary and Financial Committee, extending the IC's jurisdiction to cover the global financial system and strengthening its role as the permanent advisory committee to the Board of Governors. |
| **Phase 4: Governance Reform (2008)** | |
| 2008 April | Board of Governors adopts quota and voice reforms, including revision of the quota formula and enabling African constituency EDs to appoint an additional Alternate Director. |
| 2008 May | IMF Independent Evaluation Office evaluation on IMF Governance recommends establishment of the Council as part of a package of broader governance reforms. |
| 2008 Summer | An Executive Directors' Working Group develops and approves a work plan in response to the evaluation but with no proposed follow-up on the Council recommendation. |
| 2008 October | Three Governors note their position regarding the Council, but without further discussion. |

## Positions

This section describes the various positions expressed by Fund member authorities and Executive Directors over the past 40 years in connection with the establishment of the Council and related advisory bodies.

### Backdrop: Events Prior to 1969

Even before 1969, there were discussions about creating a committee of governors. Concerned about how to deal with an international liquidity crisis, in May 1966 the Group of Ten (G-10) considered the creation of a special advisory committee to be established by the Governors of the Fund. The group's view was that an advisory committee "could be asked to work out a specific plan for deliberate reserve creation for subsequent decision by the Board of Governors." A U.S. variant of this proposal recommended that the committee comprise Governors or Deputies of 20 countries, including the G-10 and 10 other countries. Instead, the G-10 recommended a series of joint meetings between G-10 Deputies and the Executive Directors.

A number of non-G-10 countries were not in favor of suggested joint meetings because they believed they would be relegated to a subordinate negotiating position. They emphasized the need for a fully representative IMF to remain at the center of decision making regarding the international monetary system. While conveying the dissenting views, the Managing Director endorsed the start of informal joint meetings, which were subsequently approved by the Executive Board. Joint meetings began in October 1966 and continued through 1967.[2]

### Phase One: International Monetary Reform and Committee of Twenty (1969–74)

In 1969, a number of Fund Executive Directors "expressed interest in the idea that the Board of Governors should establish an advisory committee to consider issues affecting the international monetary system." The Legal Department prepared a discussion paper outlining previous practices concerning committees, but no Executive Board action was taken at that time.

Following the collapse of the par value system in 1971, the Board of Governors called upon the Executive Directors to report on measures necessary or desirable to reform the international monetary system. The EDs reviewed the discussion paper and other plan outlines prepared by staff. In 1972, they advanced to the Board of Governors a resolution to create the Committee of Twenty (C-XX) as "a new forum at a high policymaking level in which further progress can be made on major policy issues relating to international monetary reform." The remainder of this section discusses how Fund members viewed the rationale for the creation of the C-XX; and it illustrates the range of positions taken on the Committee's terms of reference, whether the Committee should be a permanent body, and operational considerations such as composition, size, and voting.

*Rationale.* Directors most often cited two rationales for the creation of a Committee of Governors. One was "to ensure a fair representation of

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[2]Mr. Saad, the Egyptian Executive Director, did not attend these meetings.

Fund members," as many Governors from non-G-10 countries believed that such a committee would provide a more balanced representation of their interests than the G-10. The other rationale was that "the Fund should remain the center of the international monetary system"—a prevailing sentiment that has since been echoed repeatedly in Executive Board and ministerial discussions regarding the C-XX and the Council. During these initial discussions, the Nordic ED stated that the "erosion of the authority of the Fund and of the Executive Board was reflected in the many activities taking place outside the Fund. The main reason for such activities was the fact that the Executive Board did not carry much political weight." Accordingly, he noted that "the task of reforming the international monetary system required a body to resolve the political conflicts that would arise." Related to this view was the need to establish "a Committee of Governors that would help bring back to the Fund the capacity to take decisions on international monetary problems," as expressed by the Vietnamese Alternate ED.

*Positions taken.* There was broad consensus among the Executive Directors in favor of creation of the Committee of Twenty. Directors formally met five times in June 1972 to discuss the creation of the C-XX. A number of Directors or constituency authorities had supported the formation of a Committee of Governors for many years prior to the introduction of the draft resolution on the C-XX. They included the chairs from Brazil, Republic of China, France, Kenya, India, Italy, the U.K., and most countries in the Chilean constituency. Directors of a number of other constituencies expressed support for the establishment of a committee when the resolution was initially introduced in the Executive Board: Australia, Belgium, Germany, the Netherlands, Norway, and the U.S. On the other hand, there was opposition from some EDs, most notably from the Egyptian ED who, along with the Indonesian ED, believed that discussions on monetary reform should take place at the Executive Board. The Indonesian ED noted that he would support the creation of a Committee of Governors as a second-best solution. Additionally, some constituencies were split. Among the Australian constituency, New Zealand expressed reservations, as did the Irish authorities within the Canadian constituency. The French ED was against the final resolution.

The terms of reference for the proposed committee were among the most controversial elements of the resolution. Considerable time was spent discussing whether the committee should focus only on international monetary reform or also on other aspects of international economic cooperation. Some believed that such issues are related and difficult to dissociate, while others believed that monetary matters should be kept separate from matters of the general structure of the balance of payments or trade arrangements. At the urging of the G-77, the proposed terms of reference also noted the importance of the inter-relationship between the international monetary system and development objectives, capital flows and investment, and trade arrangements. France and New Zealand were in favor of limiting the terms of reference, and the U.S. was in favor of broader terms of reference. The Indian ED was not satisfied with the terms of reference. The French ED withheld support for the resolution because of disagreements over the terms of reference.

Opinions also differed regarding whether a committee should be *ad hoc* or permanent. The resolution as drafted by staff provided for a permanent committee. Some authorities and Directors believed that reform of the international monetary system could be resolved relatively quickly and that a permanent committee would not be needed. Others supported a permanent ministerial-level body within the framework of the Fund. The Kenyan ED thought there was "still a need for a permanent committee to provide political leverage in periods of crisis." The Brazilian ED underscored that the need for such a committee was overdue and stated: "If such a Committee, established, say, to discuss the question of special drawing rights, had been in existence in August 1971, it might have been very useful."

Many issues that were agreed when the C-XX was created continued to be relevant with regard to the Council. Such issues included operational considerations (e.g., committee membership, size, and composition) and the role of Executive Directors, Deputies, and advisors. Some EDs expressed a preference for keeping Committee membership open only to Governors. Others pointed out, however, that such a stipulation might not be feasible since some Governors (e.g., heads of central banks) did not carry much political weight. It was agreed that members would include governors, ministers, or others of comparable rank. Although the resolution was silent about the Chair, the C-XX chair was a Fund Governor from the Committee. Some EDs were concerned regarding possible erosion of the Executive Board's authority, and about potential conflicts between the Executive Board, on one hand, and the Committee and Deputies, on the other. There was extensive discussion about EDs' attendance and participation at meetings of the Deputies. The Alternate ED for Italy thought that EDs' participation would help avoid "a further blow to the already shaken prestige of the Executive Board." The Indonesian chair believed that EDs' participation would "substantially contribute to the expeditious working of the Committee"; and the Venezuelan chair added that the ED was the only person who was elected by all countries in the constituency, while he believed that Deputies' views would reflect their responsibility to only one country. Ultimately, the Board resolution supported EDs' participation at Deputies' meetings. Many authorities were concerned that including advisors would cause Deputies' meetings to become too large to operate efficiently; but it was acknowledged that advisors would help provide better representation for multi-country constituencies. The Kenyan ED noted that most of his authorities preferred to have as compact a committee as possible.

The issue of voting in the Committee was discussed from the start. The initial draft resolution for the establishment of the C-XX stated that the Chairman of the Committee would be expected to "establish the sense of the meeting." The U.S. proposed an amendment related to SDRs to allow weighted voting in cases where the Chairman could not establish the sense of the meeting. The Kenyan ED was opposed because he believed that weighted voting would give veto power to economically stronger countries. The Indonesian and the Canadian EDs pointed out that since the Committee was to be an advisory body, voting would be carried out by the Board of Governors. The General Counsel also noted that it was not permitted. While weighted voting was not a possibility for the Committee, the debate marked the first time that split voting was mentioned. The Alternate ED for Italy pointed out that weighted voting might require split voting because, for instance, not all in his constituency would vote with the Common Market. Years later, split voting became a feature of the proposed Council—unlike in the Executive Board where Directors must vote en bloc on behalf of their constituency.

### *Effectiveness of the Committee of Twenty*

In June 1972 the Executive Board transmitted, and in July 1972 the Board of Governors approved, a resolution to create a high-level temporary body to advise on international monetary system reform.[3] The Committee of Twenty would comprise 20 principals (based on the Executive Board constituencies), as well as per country not more than two deputies, two associates, and a number of advisors to be determined by the Committee. When the Governors met two months later in September 1972, they expressed overwhelming support for the newly established Committee. Many welcomed it as a forum that would enable the entire membership, both developed and developing countries, to participate in reform of the international monetary system, as well as one that would restore the Fund

[3]A handful of country votes could not be recorded due to technical difficulties. No votes were cast against the resolution. The only abstention was Algeria (SM/72/122, Supplement 4, July 27, 1972).

as the locus of decision making on the international monetary system. The Governor for India recounted that throughout the previous year's crisis, "decisions on international monetary matters were being taken by a small group of countries and that this disturbing tendency was having a very adverse impact on the image and effectiveness of the Fund." He expressed the hope for "an end of the dangerous trend, so much in evidence in the recent past, to treat the International Monetary Fund as a merely a forum for ratifying what has already been settled among a few important members." With the creation of the new high-level body, a number of Governors heralded the return of the Fund as the central forum for consideration of international monetary reform (Egypt; Indonesia; Ireland; Jamaica, on behalf of The Bahamas, Barbados, Jamaica, and Trinidad and Tobago; New Zealand; and Nigeria).

At the 1973 Annual Meeting, Governors provided views about the Committee's effectiveness. Several Governors expressed concerns that developing country needs and issues were not being sufficiently advanced in the Committee's work. The Governor for India recalled that developing countries supported the C-XX because they would be able to participate in the international monetary reform debate; and he noted that "the aspirations of the developing countries can be fully met only if" there is political will. Several other Governors believed that while the Committee had made progress, the outcome was unsatisfactory to developing countries (Pakistan; and Brazil also noted that the issue of real resource flows from developed to developing countries needed to be taken up by the C-XX). The Governor for Thailand believed that while the special circumstances of developing countries had been recognized, they had not been acted upon; and the Governor for Singapore called for a better understanding of the needs of emerging countries in the Committee's work.

Governors believed that the while the Committee had made some progress, more needed to be done to address the need for international monetary system reform. By January 1974, the C-XX stated in its Rome Communiqué that a permanent and representative Council of Governors should be established, with 20 members (the same number as the Executive Board). The Council would have the necessary decision-making powers "to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system, while maintaining the role of the Executive Board." The C-XX's *Outline of Reform* was released in June 1974 and called for an Interim Committee of the Board of Governors of the Fund, pending establishment of the Council. During its two-year existence, the C-XX met six times and the Deputies, who had formed a number of working groups, met twelve times. A number of Executive Directors or their designees served as advisors.

**Phase Two: Interim Committee, the Second Amendment, and the Focus on Surveillance (1974–80)**

In response to the *Outline of Reform*, at the Annual Meeting in October 1974 the Board of Governors asked the Executive Directors to prepare draft amendments to the IMF Articles of Agreement for the reform of the international monetary system, including the establishment of a permanent Council. Pending the establishment of the Council, the Governors created the Interim Committee of the Board of Governors of the IMF, and the C-XX ceased to exist.[4] There was widespread support for the creation of the IC and several Governors expressed hopes that the IC would help to intensify efforts to reach a lasting solution to international monetary reforms. Those for Australia, Canada and Mauritania stressed that the IC must become a viable political authority. The Governors of Mauritania (on behalf of African Governors) and Mauritius supported the establishment of the Interim Committee and the Development Committee. The Governor for the Yemen Arab Republic noted that the IC must take developing country matters into account. The Governor for France remarked that the institutional structure of the Fund needed updating in order for it and the IC to discharge its functions.

A number of Governors also expressed their support for the establishment of the Council (including Canada, Ivory Coast, New Zealand, Romania, and Singapore). The Governor for Nicaragua stated that recurrent problems could not be dealt by *ad hoc* bodies. The Governor for Egypt also supported the establishment of the Council at this juncture, noting the "vastly changing conditions compared with the time of Bretton Woods." The Governor for Zaïre believed that a Council/permanent body needed more examination, and the Governor for the Netherlands stated that he was in favor of a gradual process of reforms and amendments.

Beginning in July 1974, the Executive Board considered amendments to the Articles of Agreement and met over 20 times to discuss creation of the Council. After eight months, while many issues were decided, some political items could not be resolved in time to meet the deadline that Governors had set for the amendments. In addition to the outstanding

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[4]The Joint Ministerial Committee of the Boards of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) was also created at this time.

issues, a number of Directors expressed the belief that there was "an urgent need to deal with the problems of the real world." In its January 1975 meeting, the IC asked the Executive Board to give priority to further efforts regarding establishment of the Council. Although the MD did not include the Council in the Executive Board work plan following the IC meeting, EDs continued their deliberations on the Council through December 1975.

At the 1975 Annual Meeting, Governors expressed varying levels of support for establishing the Council. The IC Chairman, Governor Turner of Canada, noted his support. He also discussed the delegation of powers and reiterated that the IC was supposed to be a body of, and with, political responsibility. He stated that not only should it be expected to make political decisions but that the questions put to it should be of a political nature, while technical issues should be resolved by Executive Directors. Turner also noted that while an 85 percent decision-making majority for items of a certain nature was high, it was appropriate because it would ensure broad consent. The Governor for China also supported this element. The Governor for Kenya, although amenable to having a permanent Council, stated that there was no need for the body at that time while negotiations on reform were still in progress. A few months prior, the Governor for South Africa had stated that "it might be preferable to gain more experience with a non-decision-making body before delegated powers of decision making are conferred on an organ such as the Council." He believed that a majority of 70 percent and 85 percent of total voting power, respectively, for operational questions and political/structural questions seemed "reasonable and practicable" but also thought it "would be desirable if guidelines were established to assist in determining how these concepts would in practice be applied to particular decisions." But such guidelines were not developed.

In 1975, the Executive Board submitted a report on recommendations for international monetary reform to the Interim Committee, noting that "an enabling power" for establishment of the Council as an organ of the Fund would be included in the proposed Second Amendment to the Articles of Agreement. The Board of Governors adopted the resolution in April 1976 and the Second Amendment to the Articles of Agreement entered into force in April 1978. Enabling authority for the Council was included in Article XII, Section 1, subject to provisions in Schedule D.

The Executive Board remained divided about the establishment of the Council even after the 1978 ratification of the Second Amendment. At the 1980 annual discussion of surveillance, the chairs for the U.S., Belgium, France, and Italy agreed that the "establishment of the Council would be an important move in indicating that a permanent and functioning monetary system is in place, under the control of Governors." Several constituencies, on the other hand, did not support establishing a Council at that time (Brazil, Canada, Germany, Indonesia,[5] Japan, the Netherlands, Uganda, and the U.K.). Directors from among developed and developing countries were concerned that a Council would diminish the authority of both the Executive Board and the Board of Governors. Some believed the Interim Committee was functioning well and with more flexibility than would the Council. The Chairman of the Board concluded that the proposal for the establishment of a Council had "encountered objections that were already well known," and that he would discuss the question of the title of the Interim Committee with the IC Chairman. The Council proposal, however, would not be considered for nearly another two decades.

### Phase Three: Strengthening and Transforming the Interim Committee (1998–99)

This section outlines the reconsideration of the Council by Executive Directors and Fund Governors in 1998–99, and briefly notes the action by the Board of Governors to transform the IC into the IMFC as well as Governors' statements in connection with the IMFC and Council.

The attempt to establish the Council was revived in 1998, in reaction to the difficulties the Fund faced in dealing with the East Asian and other crises. The idea was revisited initially by the Governor for France and supported by the Governors for Belgium and Greece, as well as by the MD. In May 1998, in London, the MD noted that the IMF was facing renewed challenges including structural reforms, governance issues, and the prevention of crises. He also stated that the IMF's political governance, accountability, and legitimacy must be increased by vesting larger direct powers in the political representatives of all member countries, in order to make sure that the points of view of all members were accurately reflected and taken into account. He envisioned that this would be possible with a Council of Governors, particularly because split voting was a permissible feature of the Council. At the Annual Meeting in October 1998, the Interim Committee mandated the Executive Directors to study the possibility of strengthening and/or transforming the Committee.

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[5]Indonesia did "not favor the establishment of a Council that would have authority to take decisions. Such authority would impair the position of the Board of Governors . . . and create problems for multicountry voting groups." The Indonesian chair also noted further that the IC as an advisory body was adequate because its views, coming from Governors, carried weight.

Over the course of three Executive Board meetings, Directors revisited many of the issues discussed during earlier attempts to establish the Council, e.g., legitimacy of the Fund; the representativeness of the Council; trade-offs between representation and effectiveness during IC meetings; and the division of powers and responsibilities between the Executive Board and the Council. A majority of Directors opposed establishing the Council at that time. Some Directors believed that the Council should be pursued over the long term, while for the time being strengthening the IC's effectiveness seemed in order. A number of Directors believed that the creation of the Council would not result in additional legitimacy; and some believed it was "bad politics" for the Executive Board to question the legitimacy of the Fund or any of its organs. Some Directors reiterated the importance of the representativeness of the Council and the advantages of allowing split voting. A majority of Directors believed that improving interaction in IC meetings should not come at the expense of representation.

Directors were amenable to the Council making decisions regarding the strategic direction of the Fund. A number of Directors characterized the division of powers as operational (to be exercised by Executive Directors) and strategic (to be exercised by the Council), and an exchange ensued regarding the difficulties at times of distinguishing between these two types of decisions. Many Directors were opposed to having Deputies for the Council/Interim Committee so as not to potentially duplicate efforts or conflict with the Committee's political nature. They also envisaged that the preparatory work for the IC would rest with the Executive Directors.

At the Spring Meeting in April 1999, the IC asked the Executive Directors, along with IC Deputies, to explore the scope for institutional improvements at the Fund, including to the IC. Throughout August and September 1999, the Executive Board reviewed options including: (1) broadening the Interim Committee (transforming the IC into a joint World Bank–Fund Committee; creating an overarching group; creating another new structure); (2) establishing the Council; and (3) transforming the IC.

Executive Board members were divided on these options, especially with regard to the establishment of a Council. Eight Directors were not in favor or convinced of the need for establishment of the Council; three noted that their constituency was not in agreement; one preferred the Council option but deferred; and four believed further discussion was needed regarding the Council option. One Director explained that for member countries to seriously consider the idea, they would need "a clear understanding of what a Council will (or will not) do and its impact on the working of the Executive Board." One Director suggested that the resolution to be submitted to the Board of Governors should refer to the "'possible" rather than the "pending" establishment of a Council; and two Directors noted that there was no longer any need to mention the Council in the resolution. At the conclusion of these discussions, the Executive Board advanced a resolution to the Board of Governors for consideration at the Annual Meeting in September 1999, recommending the transformation of the IC into a permanent advisory committee.

At the Annual Meeting in September 1999, the Board of Governors adopted the resolution transforming the IC into the International Monetary and Financial Committee (IMFC) and strengthening its role as the permanent advisory committee of the Board of Governors. A number of ministers expressed support for the transformation, including the Governors of the Fund for Canada, China, the EU, Germany, Japan, the Netherlands, Saudi Arabia, and Venezuela. The Governors for Argentina and France were the only ones to mention the Council explicitly, the former being against and the latter in favor.

### Phase Four: Governance Reform (2008)

Since 1999, there has been no further consideration by the Board of Governors regarding the establishment of the Council, although individual Governors made remarks in connection with the 2008 discussions on quota and voice reforms and the renewed discussion regarding strengthening the Fund's legitimacy and governance system.

In May 2008, the IMF Independent Evaluation Office (IEO) released an evaluation report on IMF Governance in which it recommended a package of governance reforms, including that the Council be established. In preparation for the May 2008 Board meeting to discuss the IEO Evaluation on IMF Governance, most Directors noted that they did not support the establishment of the Council. One Director stated that he could support the recommendation, while a handful of Directors noted that they would be open to further discussion. At the meeting, an Executive Directors' Working Group on IMF Corporate Governance was established, and a work plan detailing a framework for further consideration was subsequently formulated, discussed, and approved. The work plan did not include any proposed follow up on the Council, which would require direct intervention by the Board of Governors.

At the 2008 Annual Meetings, three Governors made statements regarding the Council. The Governor for the U.K. expressed his support for a Council, while the Governor for the Netherlands noted his opposition and the Governor for Switzerland stated he was not convinced that the Council should be established.

## Summary

Discussions within the IMF to establish a high-level political decision-making Council of Governors have taken place over the past 40 years. The debate and context have evolved over time, yet decades later the same themes and concerns that raised interest in a Committee of Governors remain. This paper has attempted to provide the historical background to better recognize and understand these themes.

Two main rationales have been expressed for the establishment of this high-level ministerial decision-making body: (1) to enhance the IMF's legitimacy as the center of decision making regarding the international monetary system; and (2) to ensure a more balanced representation of all Fund members in decision making on the international monetary system. The authority for the Council is enshrined in the Fund's Articles; and the proposed Council's composition and processes have been largely agreed, although some issues remain unresolved.

Thus far, Governors have chosen not to establish the Council. Rather, in 1972, the Board of Governors established an *ad hoc* Council of Twenty (C-XX) to advise on reform. In 1974, the C-XX was superseded by the Interim Committee (IC), an advisory body created to supervise the management and adaptation of the international monetary system, pending establishment of the Council. In 1999, the IC was transformed into the permanent International Monetary and Financial Committee (IMFC), which continues with the mandate above (now including the global financial system), also on an advisory basis.

Over the past decades, many countries have changed their position regarding the establishment of the Council or important considerations related to such a decision. Some of the major issues debated and presented in this paper include: the need to explicate the division of responsibilities among the Executive Directors, the Council, and the Board of Governors; whether the Council should have Deputies; whether the Council should be an *ad hoc* or a permanent body; terms of reference; and how to address the needs and interests of developing countries and multi-country constituencies.