

# INTERNATIONAL MONETARY FUND

## **Borrowing Agreement with the Government of Japan**

Prepared by the Finance Department and the Legal Department

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### **I. INTRODUCTION**

1. The Prime Minister of Japan announced Japan's willingness to lend up to \$100 billion to the Fund to help overcome the current crisis in the lead up to the November 2008 summit of the Leaders of the Group of Twenty. The loan proposed by the Government of Japan would make a substantial contribution to the multilateral effort to ensure the adequacy of the Fund's financial resources. The Government of Japan intends that the proposed loan be used to support the Fund's ability to provide timely and effective balance of payments assistance to its members in the current global financial turbulence, including to the emerging market economies that are expected to continue their roles as drivers of global growth.
2. Fund staff and the Japanese authorities initiated discussions on the possible elements of the proposed borrowing arrangement late last year, with the aim of being able to move as quickly as possible to put such an agreement in place once the Board had considered the overall adequacy of the Fund's resources and the options for supplementing them.<sup>1</sup> These discussions progressed well, benefiting from the excellent cooperation received from the Japanese authorities. This paper presents for the approval of the Executive Board the draft borrowing agreement between the Government of Japan and the International Monetary Fund (the "Agreement") that is the outcome of these discussions.
3. Section II summarizes general considerations related to the Agreement, including with respect to the management of the Fund's financial risks. Section III describes the key terms of the Agreement, summarizes the Executive Board decision that is proposed to approve the Agreement and presents the proposed decision. The Agreement is set forth in the Attachment to this paper.

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<sup>1</sup> See *Review of the Adequacy of and Options for Supplementing Fund Resources*, January 2009.

## II. GENERAL CONSIDERATIONS

4. By historical standards, the loan commitment by Japan is large in both absolute and relative terms. The total commitment of US\$100 billion is currently equivalent to SDR 67 billion, or 31 percent of total Fund quotas. While the initial commitment is for one year, this may be extended by the Fund for up to a total of five years, in view of the uncertainty surrounding the duration of the crisis and to help provide a bridge to the next general increase in Fund quotas.

5. The benefits of this substantial commitment are enhanced by the flexible use of these resources allowed under the Agreement, as discussed in detail in Section III. The Agreement also includes provisions to facilitate management by the Fund of the financial risks associated with borrowing.<sup>2</sup> In particular, the Agreement has SDR-based terms that limit exchange and interest rate risk for the Fund, including the use of an SDR-denomination for all drawings and associated repayments, and use of the SDR interest rate as the rate payable on drawings under the Agreement. Moreover, in light of the potential scale of the borrowing, the Agreement also includes a number of features to facilitate the management of potential liquidity risks, including flexible arrangements for transfers of loan claims within the official sector, and a modified version of the traditional encashment provision that would allow the Fund to repay as soon as is practicable within a 12-month period (rather than immediately).

6. The Agreement is envisaged as a key first step in temporarily supplementing Fund resources on a scale sufficient to reinforce the confidence of members in the adequacy of the Fund's resources to address the current crisis. In view of the expectation of additional borrowing, the Agreement also allows drawings to be made in support of a repayment of other official borrowing, if such borrowing provides reciprocal repayment arrangements for amounts drawn under the Agreement. The development of a set of borrowing sources with such reciprocal treatment would maximize flexibility in the use of borrowing and moderate the need for an additional liquidity buffer in the GRA.

7. It is expected that the Board will soon discuss the operational guidelines to govern the use of borrowed resources, including under the Agreement. The Japanese authorities' expectation is that broadly balanced use of the various sources of bilateral borrowing will be made over time, and this would be one aspect of the guidelines to be discussed by the Board. The Agreement is sufficiently flexible to allow the Fund to begin drawing down resources to supplement quota resources at an early stage. Such early use of borrowed resources would help preserve a core liquidity buffer in the GRA to protect the liquidity of members' reserve positions in the Fund and allow for the possibility of substantial additional borrowing.

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<sup>2</sup> For a more detailed discussion of these risks, see section IV.D. of *Review of the Adequacy of and Options for Supplementing Fund Resources*.

### III. KEY PROVISIONS OF THE PROPOSED AGREEMENT

8. This section summarizes the main provisions of the Agreement. While reflecting the specific terms agreed in the discussions between staff and the authorities of Japan, the Agreement also draws broadly on the terms and structure of previous Fund loan agreements, including bilateral agreements with Japan and other official lenders and the New Arrangements to Borrow (NAB).

#### *Term of the Agreement*

9. The Agreement has an initial term of one year, which defines the period within which drawings can be made under the Agreement. This period will begin to run on the date of the first drawing or May 1, 2009, whichever is earlier (Paragraph 2(a)). The initial one-year term can be extended for additional one-year periods, up to a total drawing period of 5 years (Paragraph 2(b)), which implies the possibility of up to 4 extensions. The Fund is authorized to make these extensions, after consultation with Japan, if warranted in light of the Fund's overall liquidity situation and actual and prospective borrowing requirements (Paragraph 2(b)).

#### *Uses and Limits on Drawings*

10. The Agreement authorizes the use of drawings in connection with both (i) the Fund's provision of General Resources Account ("GRA") financial assistance to members, and (ii) the payment of the Fund's outstanding indebtedness under certain other kinds of official sector borrowing (Paragraph 3(a)):

- The authority under (i) does not reference any particular GRA facility or policy; it thus enables use of drawings under the Agreement to fund any Fund GRA credit to members (e.g., in the credit tranches or under special facilities like the Short-Term Liquidity Facility).
- The authority to draw under (ii) has a reciprocity requirement, as it can be exercised only if the other borrowing to be repaid has terms that would allow the Fund to draw down such other borrowing to repay Japan under the Agreement. The approach of allowing the use of drawings to repay other borrowing is similar to that found in the NAB (and also the General Arrangements to Borrow (GAB)), as the Fund has authority, in specified circumstances, to request the draw down of participants' NAB/GAB credit arrangements in order to fund an early repayment request of another NAB/GAB participant.<sup>3</sup> The authority under (ii) will support the Fund's

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<sup>3</sup> See Paragraphs 11(e) of the NAB and GAB. Under both the NAB and GAB, such a request may be made to other participants if the Fund's holdings of currencies in which early repayment should be made to a participant are not wholly adequate.

liquidity management in the context of potential additional borrowing, by providing an additional source to assist in meeting unexpected liquidity needs arising from such borrowing, particularly in connection with possible requests for early repayment.

11. Drawings (for all purposes allowed under the Agreement) are to be preceded by consultation with Japan, and the Fund must also take into account its liquidity position and the desirability of achieving, over time, broadly balanced drawings under the Fund's bilateral borrowing agreements (Paragraph 3(a)).<sup>4</sup>

12. The amounts that can be drawn under the Agreement are subject to short-term limits in addition to an overall limit. Regarding the short-term limits, the Fund may only draw more than the equivalent of SDR 4 billion during any calendar week, or more than the equivalent of SDR 15 billion during any calendar month, with the consent of Japan (Paragraph 3(b)). Regarding the overall limit, the Fund may not make a drawing if it would result in overall resources drawn under the Agreement exceeding US\$100 billion (Paragraph 3(c)).<sup>5</sup> Given that drawings are SDR-denominated, the Agreement establishes a valuation rule that is used for purposes of applying this overall U.S. dollar limit, which fixes the U.S. dollar value of each drawing at the time of each drawing (Paragraph 11(b)).

### ***Maturity***

13. Each drawing under the Agreement has an initial maturity of three months. However, upon the giving of notice by the Fund—which must be made at least 5 business days before the applicable maturity date—the maturity for any drawing (or part of any drawing) is automatically extended for an additional three months. Moreover, such notices from the Fund and corresponding automatic extensions of maturity can be provided successively, up to a total maturity period of five years for each drawing (Paragraph 5(a)). To the extent that the Fund intended to repay part of a drawing at the next maturity date, it would notify Japan of a correspondingly smaller amount for which the maturity would be extended.

14. Other bilateral agreements, including with Japan, have included similar extendable maturity provisions (albeit for slightly longer, generally six-month, durations). The design of the Agreement's maturity provisions is intended to address Japan's preference for very short (but extendable) maturities, while still providing the Fund with assurances of the availability of resources, given the relative automaticity afforded by the extension provision.<sup>6</sup> The

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<sup>4</sup> "Bilateral borrowing agreements" used in this clause would cover both bilateral loan agreements and borrowing under any other modalities entered into through bilateral agreements.

<sup>5</sup> In addition—and consistent with the cumulative nature of the Agreement's overall limit—the Agreement clarifies that repayments do not increase the amount that can be drawn (Paragraph 5(d)).

<sup>6</sup> Reflecting the fact that the extension of the maturity of a drawing is not itself a new drawing, the Agreement clarifies that such extensions do not reduce the amount that can be drawn (Paragraph 5(d)).

3-month maturity feature also corresponds to the maturity structure of purchases made under a Stand-By Arrangement (8 quarterly repurchases beginning 3¼ years from the purchase and ending 5 years after the purchase, under the obligation schedule). Hence, the maturity structure of the Agreement will also facilitate a “pass-through” of repurchases by borrowing members into repayments to Japan, minimizing timing mismatches and the impact on Fund liquidity.

15. The option for the Fund to make an early repayment of drawings is also provided for, after consultation with Japan (Paragraph 5(c)). For example, the Fund may seek to make an early repayment in the case of a significant advance repurchase by a borrowing member.

### ***Denomination and Media of Payment***

16. Consistent with the Fund’s long-standing practice of denominating its borrowing in SDRs, each drawing and corresponding repayment under the Agreement will be denominated in SDRs (Paragraph 7(a)). The denomination of drawings and repayments in SDRs would match the denomination of Fund credit, thereby ensuring that the Fund does not incur exchange rate risk.

17. With respect to the media of payment, although drawings and repayments are generally to be made in Japanese yen, the Agreement provides for some flexibility. Specifically, with agreement of the Fund, Japan could provide currencies other than Japanese yen for drawings (Paragraph 7(b));<sup>7</sup> similarly, and after consultation with Japan, the Fund could opt to repay drawings in SDRs or other freely usable currencies (Paragraph 7(d)). Further, while interest is generally to be paid in SDRs, the Agreement also allows the Fund, in agreement with Japan, to pay interest in Japanese yen or any other freely usable currency (Paragraph 7(e)).

### ***Interest Rate***

18. As with the New Arrangements to Borrow, the Agreement provides for interest at the SDR interest rate (Paragraph 6(a)). The use of the SDR interest rate, which is also the basis for setting the Fund’s rates of charge and remuneration, would limit the Fund’s exposure to interest rate risk and enable it to accumulate reserves against credit risk in the event of an increase in lending.

19. The Agreement also contains a “most-favored creditor” clause, pursuant to which Japan would automatically become entitled to receive any higher interest rate that the Fund pays on comparable borrowings for as long as the Fund pays the higher rate on the

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<sup>7</sup> As required under Article VII, Section 1(i), the concurrence of the member issuing the other currency would also be required for such transactions.

comparable borrowing (Paragraph 6(a)). Interest accrues daily and is to be paid on a quarterly basis (Paragraph 6(b)).

### ***Termination of Drawings and Encashment***

20. Consistent with the approach found in other Fund borrowing agreements, the Agreement would authorize the termination of Japan's commitment to meet drawings if Japan were to be faced with a deterioration of its balance of payments (BOP) and reserve position (Paragraph 8). In addition to a representation of BOP need from Japan, the Agreement requires a determination by the Fund—having given Japan's representation the overwhelming benefit of any doubt—that no further drawings should be made in light of Japan's BOP and reserve position.

21. The Agreement contains the traditional “encashment” provisions that have been found in borrowing agreements to date, with an important modification reflecting the large amount committed by Japan. The traditional provision is for the immediate repayment of outstanding amounts in the event of a member's representation of a BOP need. In the Agreement, the Fund is required (i) to begin to repay “as soon as practicable” the drawings for which Japan has requested (and the Fund has determined that there is a need for) early repayment on BOP grounds; and (ii) to repay all such drawings within a 12-month period (Paragraph 9). From the Fund's perspective, this modification of the traditional encashment provision will provide a significant element of protection against the liquidity risks associated with borrowing, particularly given the magnitude of the amounts that could become outstanding under the Agreement. For example, it would facilitate the Fund's ability to arrange transfers of loan claims and, potentially, make drawings on other borrowing, to mitigate the impact of a requested encashment on Fund liquidity.

### ***Transferability***

22. The Agreement enables Japan to transfer, at any time, part or all of any claim on the Fund to a set of transferees within the official sector, without the need for consent by the Fund (Paragraphs 10(b) through (h)). These detailed arrangements reflect a similar approach to that used for the NAB and GAB.<sup>8</sup> Similar to the approach in other transfer provisions, a transferee would acquire Japan's right to request early repayment only if it is a member (or its central bank or fiscal agency) whose currency is being used for transfers under the Financial Transactions Plan (Paragraph 10(c)(i)). For transferees besides those listed in Paragraph 10(b), rights and obligations under the Agreement are only transferable with the prior consent of the Fund (Paragraph 10(a)).

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<sup>8</sup> Transfers of claims do not require approval under the Agreement where the transferees are other Fund members, their central banks or other fiscal agencies, and official entities that are prescribed holders of SDRs (Paragraph 10(b)). In comparison, NAB claims may be transferred without approval to other NAB participants (see Paragraph 1 of Decision No. 11429-(97/6), January 27, 1997).

***Non-Subordination***

23. The Agreement precludes the Fund from taking any action that would have the effect of making Japan's claims under the Agreement subordinate in any way to claims under other borrowing agreements (Paragraph 13). This provision would prevent the Fund from granting seniority to other lenders (e.g., through the granting of collateral).

***Implementation of the Agreement***

24. Consistent with the practice under other bilateral agreements, the Managing Director would be given broad powers to conclude and implement the Agreement on behalf of the Fund, with respect to actions that the Fund may or is obligated to take under the Agreement. This would include the power to provide notices and make drawings, as well as the power to extend the maturity of drawings and the term of the Agreement. The Managing Director's exercise of these powers would need to be consistent with all applicable Board policies and guidelines.

25. The decision contains reporting provisions to facilitate Executive Board oversight of the implementation of the Agreement. These include a requirement for quarterly reports by the Managing Director, along with an express requirement for reports to be provided more frequently where warranted by developments.

**PROPOSED DECISION**

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

1. The Fund deems it appropriate, in accordance with Article VII, Section 1(i) of the Articles of Agreement, to replenish its holdings of currencies in the General Resources Account by borrowing from Japan on the terms and conditions set forth in the draft Borrowing Agreement between the Government of Japan and the International Monetary Fund that is set out in the Attachment (the “Agreement”).
2. The Executive Board approves the Agreement and authorizes the Managing Director to take such actions as are necessary to execute the Agreement on behalf of the Fund.
3. The Managing Director is authorized, following the execution of the Agreement, to make such determinations and take such actions as are necessary to implement the Agreement, including but not limited to the making of drawings, the extension of the term of the Agreement and the maturity of drawings thereunder, and the determination of the media for drawings and payments in light of the Fund’s operational needs. Such determinations and actions shall be consistent with the policies and guidelines on borrowing and the use of borrowed resources that are adopted by the Executive Board.
4. The Executive Board shall be informed of developments related to the implementation of the Agreement in reports to be furnished by the Managing Director on a quarterly basis throughout the term of the Agreement, with reports to be furnished more



frequently in the event of significant developments related to the Agreement. Such reports shall cover all aspects of the implementation of the Agreement, including, as applicable, drawings made, disposition of amounts borrowed, and repayment of drawings.

**ATTACHMENT. Draft Borrowing Agreement Between the Government of Japan  
and the International Monetary Fund**

1. Purposes and Amounts.

In light of the multilateral effort to ensure the adequacy of the financial resources available to the International Monetary Fund (the “Fund”), and with a view to supporting the Fund’s ability to provide timely and effective balance of payments assistance to its members, the Government of Japan (“Japan”) agrees to lend to the Fund an SDR-denominated amount up to the equivalent of U.S. \$100 billion, on the terms and conditions set out below.

2. Term of the Agreement.

(a) Subject to subparagraph (b), the Fund may make drawings in accordance with the terms of this agreement for a period of one year commencing on the date of the first drawing or May 1, 2009, whichever is earlier. Unless otherwise agreed between Japan and the Fund, the Fund shall give Japan at least five business days’ (Tokyo) notice of its intention to draw, and shall provide payment instructions at least two business days (Tokyo) prior to the value date of the transaction by SWIFT.

(b) After consultation with Japan, the Fund may, if warranted in light of the Fund’s overall liquidity situation and actual and prospective borrowing requirements, extend the term of this agreement for successive one-year periods for a total drawing period of up to 5 years, effective upon notice being given by the Fund at least 1 month prior to expiration of the then current term.

3. Uses, Estimates and Limits on Drawings.

(a) After consultation with Japan, and taking into account both the Fund’s liquidity position and the desirability of achieving, over time, broadly balanced drawings under the Fund’s bilateral borrowing agreements, the Fund may make drawings under this agreement in connection with (i) the provision of any Fund financial assistance to its members from the General Resources Account, or (ii) the payment of the Fund’s outstanding indebtedness under other official sector borrowing effected pursuant to Article VII, Section 1(i) of the Fund’s Articles of Agreement, in circumstances where the terms of such other borrowing permit the Fund to make drawings under such other borrowing in connection with the payment of the Fund’s outstanding indebtedness under this agreement.

(b) Unless otherwise agreed between Japan and the Fund, the Fund shall not draw more than the equivalent of SDR 4 billion during any calendar week, nor more than the equivalent of SDR 15 billion during any calendar month.

(c) The Fund shall not make a drawing under this agreement if such drawing would result in the cumulative amount drawn under this agreement exceeding U.S. \$100 billion at the time of such drawing, as calculated pursuant to paragraph 11(b).

(d) Prior to the beginning of each quarter of the Fund's financial year, the Fund shall provide Japan with its best estimates of the amounts that it expects it will draw under this agreement during the forthcoming quarter, and shall provide revised estimates during each quarter where this is warranted.

4. Evidence of Indebtedness.

(a) At the request of Japan, the Fund shall issue to Japan non-negotiable instruments evidencing the Fund's indebtedness to Japan arising under this agreement. The form of the instruments shall be agreed between the Fund and Japan.

(b) Upon repayment of the amount of any instrument issued under subparagraph (a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of such an instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as the old instrument.

5. Maturity.

(a) Except as otherwise provided in paragraph 9(b), each drawing under this agreement shall have a maturity period of three months; provided that, effective upon the giving of notice by the Fund at least 5 business days (Tokyo) prior to the applicable maturity date for any drawing, the maturity of such drawing, or of any part thereof, shall be hereby extended for periods of three months each; and provided further that the total period that any drawing remains outstanding shall not exceed five years.

(b) The Fund shall repay the principal amount of each drawing or relevant part thereof on the maturity date applicable to that drawing or part thereof pursuant to subparagraph (a).

(c) After consultation with Japan, the Fund may make an early repayment in part or in full of the principal amount of any drawing prior to the maturity date applicable to the drawing pursuant to subparagraph (a).

(d) Repayments of drawings shall not increase the amount that can be drawn under this agreement. Conversely, the extension of the maturity of a drawing or of any part thereof pursuant to subparagraph (a) shall not reduce the amount that can be drawn under this agreement.

(e) If a maturity date is not a business day in the place where payment is to be made, the maturity date shall be on the next succeeding business day in that place.

6. Rate of Interest.

(a) Each drawing shall bear interest at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement; provided however that, if the Fund pays an interest rate higher than the SDR interest rate on outstanding balances from any other borrowing on comparable terms that has been effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement, and for as long as the payment of such higher interest rate remains in effect, the interest rate payable on drawings under this agreement shall be equivalent to the interest rate paid by the Fund on such other comparable borrowing.

(b) The amount of interest payable on each drawing shall be calculated based on the outstanding amount of the drawing. Interest shall accrue daily and shall be paid promptly by the Fund after each July 31, October 31, January 31 and April 30.

7. Denomination, Media and Modalities of Drawings and Payments.

(a) The amount of each drawing and corresponding repayment under this agreement shall be denominated in SDRs.

(b) Unless otherwise agreed between the Fund and Japan, the amount of each drawing shall be paid by Japan, on the value date specified in the Fund's notice under paragraph 2, by transfer of the SDR equivalent amount of Japanese yen to the account of the Fund at the Bank of Japan, Tokyo.

(c) Japan shall collaborate with the Fund and other members to enable exchanges between Japanese yen and other freely usable currencies in accordance with Article V, Sections 3(e)(ii) and 7(j)(ii) of the Fund's Articles of Agreement.

(d) Repayments by the Fund of principal under this agreement shall be made in Japanese yen; provided that the Fund, after consultation with Japan, may make repayments of principal in SDRs or other freely usable currencies as determined by the Fund.

(e) Payments by the Fund of interest under this agreement shall normally be made in SDRs; provided that the Fund, by agreement with Japan, may make interest payments in Japanese yen, U.S. dollars or any other freely usable currency.

(f) All payments made by the Fund in Japanese yen shall be made by crediting the amount due to the account of the Government of Japan at the Bank of Japan, Tokyo. Payments in SDRs shall be made by crediting Japan's account in the Special Drawing Rights Department. Payments in any other currency shall be made to an account specified by Japan.

8. Termination of Drawings at Request of Japan.

Japan's commitment to meet drawings under this agreement shall be terminated at the request of Japan if (i) Japan represents that its balance of payments and reserve position does not justify further drawings, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing should be made in light of Japan's balance of payments and reserve position.

9. Early Repayment at Request of Japan.

(a) At the request of Japan, Japan shall obtain early repayment at face value of all or a portion of the drawings outstanding under this agreement, in accordance with subparagraphs (b) and (c), if (i) Japan represents that its balance of payments and reserve position justifies such repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for early repayment as requested by Japan in light of Japan's balance of payments and reserve position.

(b) Upon the Fund's determination under subparagraph (a), the Fund shall cease to provide notices of extension of maturity under paragraph 5(a) for all outstanding drawings for which Japan has requested repayment, and the maturity date of each such drawing shall be changed to the date that is 12 months after the date of the Fund's determination.

(c) The Fund shall begin to repay the drawings for which Japan has requested repayment as soon as practicable after the Fund's determination under subparagraph (a), and shall, in any event, make full repayment of all such drawings within the 12-month maturity period specified in subparagraph (b).

10. Transferability.

(a) Except as provided in subparagraphs (b) through (h) below, Japan may not transfer its obligations under this agreement, or any of its claims on the Fund resulting from outstanding drawings under this agreement, except with the prior consent of the Fund and on such terms or conditions as the Fund may approve.

(b) Japan shall have the right to transfer at any time all or part of any claim on the Fund to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Fund's Articles of Agreement ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(c) The transferee of a claim transferred pursuant to subparagraph (b) shall, as a condition of the transfer, assume the liability of Japan pursuant to paragraph 5(a) regarding the extension of the maturity of drawings related to the transferred claim. More generally,

any claim transferred pursuant to subparagraph (b), shall be held by the transferee on the same terms and conditions as the claim was held by Japan, except that (i) the transferee shall acquire the right to request early repayment under paragraph 9 only if it is a member, or the central bank or other fiscal agency of a member, and at the time of transfer the member's balance of payments and reserve position is considered sufficiently strong in the opinion of the Fund that its currency is used in transfers under the Financial Transactions Plan, (ii) if the transferee is a member or the central bank or other fiscal agency of a member, the reference to Japanese yen in paragraph 7 shall be deemed to refer to the transferee's currency, and in other cases it shall be deemed to refer to a freely usable currency determined by the Fund, (iii) payments related to the transferred claim shall be made to an account specified by the transferee, and (iv) references to business days (Tokyo) shall be deemed to refer to business days in the place where the transferee is situated.

(d) The price of a claim transferred pursuant to subparagraph (b) shall be as agreed between Japan and the transferee.

(e) Japan shall notify the Fund promptly of the claim that is being transferred pursuant to subparagraph (b), the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

(f) A transfer notified to the Fund under subparagraph (e) shall be reflected in the Fund's records if it is in accordance with the terms and conditions of this paragraph 10. The transfer shall be effective as of the value date agreed between Japan and the transferee.

(g) If all or part of a claim is transferred during a quarterly period as described in paragraph 6(b), the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

(h) If requested, the Fund shall assist in seeking to arrange transfers.

#### 11. Effective Exchange Rate.

(a) Unless otherwise is agreed between Japan and the Fund, all drawings, exchanges, and payments of principal and interest under this agreement shall be made at the exchange rates for the relevant currencies in terms of the SDR established pursuant to Article XIX, Section 7(a) and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment. If this exchange rate determination date is not a business day in Tokyo, such date shall be the last preceding business day of the Fund that is also a business day in Tokyo.

(b) For purposes of applying the limit on drawings specified in paragraphs 1 and 3(c), the U.S. dollar value of each SDR-denominated drawing shall be determined and permanently fixed on the value date of the drawing based on the U.S. dollar/SDR exchange rate established pursuant to Article XIX, Section 7(a) and the rules and regulations of the

Fund thereunder for the second business day of the Fund before the value date of the drawing. If this exchange rate determination date is not a business day in Tokyo, such date shall be the last preceding business day of the Fund that is also a business day in Tokyo.

12. Changes in Method of Valuation of SDR.

If the Fund changes the method of valuing the SDR, all transfers, exchanges and payments of principal and interest made two or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation.

13. Non-Subordination of Claims.

The Fund agrees that it will not take any action that would have the effect of making Japan's claims on the Fund resulting from outstanding drawings under this agreement subordinate in any way to claims on the Fund resulting from any other borrowing effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement.

14. Settlement of Questions.

Any question arising under this agreement shall be settled by mutual agreement between Japan and the Fund.