In order to make sure that surplus countries with large reserves of gold and foreign exchange acquire and hold SDRs in an equitable way related to their surplus and their reserve position, the IMF is empowered to designate the countries to which SDRs will be transferred for convertible currencies. Article XXV, Section 5(a) (i) of the Fund Agreement as amended states:

"A participant shall be subject to designation [to provide a convertible currency for SDRs] if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such a manner as will promote over time a balanced distribution of holdings of SDRs among them."

On the other hand, to make sure that deficit countries use their other reserve assets as well as SDRs, particularly if they have a relatively large cumulative deficit, Article XXV, Section 6(a) of the Fund Agreement as amended requires participants that use their SDRs to reconstitute their holdings in accordance with the rules for reconstitution. The initial rule for reconstitution as stated in Schedule G of the Fund Agreement as amended is as follows:

"A participant shall so use and reconstitute its holdings of SDRs hat, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of SDRs over the most recent five-year period will not be less than thirty per cent of the average of its daily net cumulative allocation of SDRs over the same period."

When a cumulative deficit country has used a considerable amount of the SDRs allocated to it, and particularly if its holdings of SDRs are less than the minimum amount determined by the reconstitution provision, the IMF may require the country to transfer convertible currency to another country for SDRs. Article XXV, Section 5(a) (ii) of the Fund Agreement as amended states:

"Participants shall be subject to designation [to provide a convertible currency for SDRs] in order to promote reconstitution under . . . this Article; [or] to reduce negative balances in holdings of SDRs."

An alternative method of reconstitution is provided in Schedule G, 1(a) (iv) of the Fund Agreement as amended, particularly when no other countries are transferring SDRs for currency. The provision states:

"A participant that needs to acquire SDRs to fulfill this obligation [of reconstitution] shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient SDRs cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify."

Finally, to avoid excessive reliance on SDRs rather than other reserve assets. the reconstitution provision, Schedule G, 1(b), states: "Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings to SDRs and their holdings of gold and foreign exchange and their reserve positions in the Fund."

Some rules governing the use of reserves are necessary in an international monetary system with multiple reserve assets. It may be questioned, however, whether the rules set out in the Articles and Schedules in the Amendment authorizing the Special Drawing Account are the best way of achieving the appropriate use of all reserve assets. The limitation on the amount of SDRs that surplus countries are required to accept and hold (three times their cumulative allocations) and on the amount of SDRs that deficit countries may use (an average of 70 per cent of their average cumulative allocations over the preceding five years) indicates that participants are very much concerned with the reserve assets they transfer or that are transferred to them in balance of payments settlements.

A requirement for the balance used of all reserve assets cannot be dispensed with so long as countries have a preference for gold rather than other reserve assets. But the rules can be made simple and automatic, so that they will not require constant guidance, designation, specification and reconstitution—a process which underlines the preference for different reserve assets and serves to intensify it. Most important, the rules in the Amendment to the Fund Agreement deal only with the preference for other reserve assets relative to SDRs, a minor problem in the international monetary system. They do not deal with the most disruptive preference of all, the preference for gold over foreign exchange, a preference that may become greater after the SDRs are activated.

The great advantage of a composite gold standard is that it can be applied automatically on a cumulative basis to all countries regardless of the composition of