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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

ASIAN DEVELOPMENT BANK (ADDITIONAL SUBSCRIPTION) BILL 1994

EXPLANATORY MEMORANDUM

(Circulated by Authority of the Treasurer, the Hon Ralph Willis, MP)



EXPLANATORY MEMORANDUM**ASIAN DEVELOPMENT BANK (ADDITIONAL SUBSCRIPTION) BILL 1994****OUTLINE**

In May 1994, the Board of Governors of the Asian Development Bank adopted Resolution No 232 (Increase in Authorized Capital Stock and Subscriptions thereto) which increased the Bank's authorized capital stock by 1,770,497 shares and authorized the acceptance of increases in individual members' subscriptions. A copy of the Resolution and associated schedule detailing the shares allocated for subscription is attached. The capital increase is one in which each member may subscribe to additional shares equal to its present subscription. Therefore if all members subscribe fully, the capital of the Bank will be doubled, and the relative shareholdings of members will remain unaltered.

This Bill empowers the Treasurer to make the necessary agreement with the Asian Development Bank for the purchase by Australia of its entitlement of 2,047 additional paid-in shares and 100,323 additional callable shares, of the capital stock of the Bank.

The Bill empowers the Treasurer to make this agreement on such terms and conditions as the Treasurer determines and, where appropriate, to issue promissory notes to the Bank in payment. The Bill also appropriates the funds necessary to make payments under such agreement.

FINANCIAL IMPACT STATEMENT

The total cost of 2,047 paid-in shares is \$US24.69 million (equivalent to \$A34.30 million at the exchange rate of \$A1 = \$US0.72). This amount is payable over a ten year period. The value of 100,323 callable shares is \$US1,210.25 million (equivalent to \$A1,680.90 million).

NOTES ON CLAUSES

Clause 1 - Short Title

Self-explanatory.

Clause 2 - Commencement

Self-explanatory.

Clause 3 - Interpretation

Self-explanatory.

Clause 4 - Agreement for Purchase of Additional Shares

To subscribe to the capital increase, the Treasurer, as Governor for Australia of the Bank, is required to submit, before 31 December 1995, to the Bank, an "Instrument of Subscription" setting out the number of additional paid-in and callable shares to which Australia will subscribe on the terms and conditions laid down in the Resolution.

Under the Resolution, Australia is entitled to subscribe to 2,047 paid-in shares valued at \$US24.69 million and 100,323 callable shares valued at \$US1,210.25 million.

Payment for the paid-in shares is required to be made, at the option of the subscribing member, either in 4 equal instalments beginning from 1996, 5 equal annual instalments beginning from 1995, or in 6 equal annual instalments beginning from 1995. It is intended that the third option, which is the least cost option, will be exercised. The first instalment is to be paid within 90 days after the date on which the subscription becomes effective (ie. of notification by the Bank that the documentation required to be lodged is satisfactory to the Bank), or by 30 March 1996, whichever is later. Remaining instalments are to be paid not later than the anniversary of the first payment date. Of

each instalment, the subscribing member shall pay 40 per cent in convertible currency and 60 per cent in the currency of the subscribing member. (For the purposes of such payments, the Australian dollar is deemed to be a convertible currency.) The 60 per cent portion can be paid either in cash or by non-negotiable, non-interest-bearing promissory notes. Such notes are liable to be encashed in annual instalments, commencing from the year 2000.

Payment in respect of the callable shares of Australia's subscription may be called only if required by the Bank to meet its obligations in respect of borrowings and guarantees. No calls have been made on this part of the Bank's capital so far and, if the Bank continues to operate prudently as it has done in the past, it is highly unlikely that a call will be made in the future for borrowings and guarantees. The callable capital of the Bank serves as security for its extensive borrowing operations on world capital markets.

Clause 5 - Issue of Promissory Notes

Sub-section 5(3) provides that Section 5 of the Asian Development Bank Act 1966, which relates to authorization of the issue of securities by the Governor-General, does not apply in relation to payments made under an agreement made under Sub-section 4(1). Under Sub-section 5(1) the Treasurer has the authority to make and issue promissory notes to the Bank.

Clause 6 - Appropriation

Self-explanatory.