PRELIMINARY CONSIDERATIONS:

The systems and procedures proposed below are built on the risk-taking assumptions that were presented in Paper II (Introduction to the Canadian Proposals), in particular the first assumption which reads:

> - Directors General and Executive Boards of Agencies bear the responsibility to protect the Agencies, their programmes, and the member States by taking all appropriate measures in their command, to reduce or entirely eliminate avoidable risks.

The proposals below also assume that Agencies would be following the type of procedure described in Paper IX and therefore would be budgeting, accounting and receiving assessed contributions in the main currency or currencies of expenditure. It is not that the Exchange Rates Fluctuations Facility would fail to function effectively and efficiently if such assumptions were unfulfilled. Rather it is that the funding level that would then be required to compensate large and rapid adverse fluctuations would be enormous as well as a totally unjustified added burden on the Member States.

The proposals are meant to neutralize the currency fluctuations factor: i.e. they are designed to compensate fully the Agency when the exchange rates are adverse and to soak-up any potential windfall when the rates are favorable. Thus Agencies neither gain nor lose through currency variations. Member States, for their part are assured that in adverse conditions the Work-Programme will be protected, in its "integrity", and that any additional cost to them will be limited to the actual currency variation factor. In favorable rates conditions, Member States are assured that the Work-Programme will remain un-affected and that they will be credited their share of the windfall.

The proposals do not discriminate among Member States. All take the same types of risks and are assessed or credited according to the normal scale of assessments. Over the long run, any temporary gain made by some Members over others should average out and disappear.