

INTERNATIONAL MONETARY FUND

**GRA Lending Toolkit and Conditionality: Reform Proposals**

Prepared by the Finance, Legal, and Strategy, Policy and Review Departments

In consultation with the other departments

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March 13, 2009

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## SUMMARY OF REFORM PROPOSALS

**Rationale.** Modernize the Fund's General Resources Account (GRA) lending toolkit and ensure the Fund is well-equipped to play its role in combating the current and future crises while providing adequate safeguards for the use of its resources.

**Modernizing Conditionality.** Rely more on review-based conditionality by discontinuing performance criteria (PCs) for structural measures in all Fund arrangements, including those under facilities for low-income countries (LICs). Retain PCs on quantitative targets and associated waivers. Apply ex ante conditionality to the new Flexible Credit Line (FCL).

**Streamlining GRA facilities.** Eliminate Supplemental Reserve Facility (SRF), Compensatory Financing Facility (CFF), and Short-term Liquidity Facility (SLF). Retain the Extended Fund Facility (EFF) particularly in light of its usefulness to low-income members graduating from support under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (PRGF-ESF Trust). Discourage use of the EFF for high access to Fund resources by applying the proposed time-based surcharge to the EFF (the Stand-By Arrangement (SBA) would be better suited for such high-access use).

**Flexible Credit Line.** Establish a new instrument in the credit tranches to allow strong performing members to access large upfront Fund resources based on ex ante conditionality (i.e., rigorous qualification criteria) and with sufficiently long repayment terms to deal with all types of balance of payments (BOP) problems. The FCL could be used both on a precautionary (crisis prevention) and nonprecautionary (crisis resolution) basis. Members may request either a six-month arrangement, or a 12-month arrangement with a mid-year review to confirm continued qualification. Arrangements would be renewable. Access would not be subject to a pre-set cap, and would be determined on a case-by-case basis depending on actual and potential BOP needs, but staff expects that access would not normally exceed 1000 percent of quota. *Fund safeguards* include the rigorous qualification criteria and shorter duration relative to other arrangements, high scrutiny and early Board consultation substantively similar to the procedures under the exceptional access framework, and enhanced engagement with the member under post-program monitoring (PPM), where applicable, after a drawing. Experience with the FCL, including its design and purpose, will be reviewed two years after its creation. To mitigate concerns about liquidity risks, such review would be activated earlier if FCL commitments reach SDR 100 billion, which is about half of total current usable resources. The proposed changes to the commitment fees (see below) will also help contain liquidity risks.

**Stand-By Arrangement.** Strengthen the effectiveness of SBAs by providing increased flexibility to frontload access and allow semi-annual frequency of purchases and PCs. These clarifications would apply to both precautionary and nonprecautionary SBAs, increasing the flexibility of this instrument for both crisis prevention and crisis resolution.

**Exceptional Access Policy.** Allow exceptional access for both potential and actual BOP needs stemming from capital and current account pressures, and eliminate ambiguities in exceptional access criteria, including the criterion on debt sustainability.

**Access to Fund resources.** Double global access limits from 100 percent of quota to 200 percent of quota annually and from 300 percent of quota to 600 percent of quota cumulatively. Also, double the threshold for triggering PPM to 200 percent of quota in outstanding credit to the Fund.

**Surcharges.** Eliminate time-based repurchase expectations (TBRE) policy, extending automatically all future repurchases by all members to the obligations schedule effective May 1, 2009. Simplify surcharge schedule in the credit tranches and under the EFF by removing existing 100 bps surcharge for access between 200 percent and 300 percent of quota. (Credit outstanding above 300 percent of quota would continue to be subject to a surcharge of 200 bps.) To create incentives for early repayments, introduce 100 bps time-based surcharge to apply when credit outstanding is above 300 percent of quota for more than three years after May 1, 2009. To avoid making worse off members with Fund credit outstanding or with an existing arrangement at the time the new surcharge decision becomes effective (May 1, 2009), allow such members to choose either the existing or the new surcharge schedule for both credit already outstanding and future purchases under existing arrangements.

**Commitment fee.** To help guard against liquidity risks, strengthen price incentives against unduly large precautionary access by raising the commitment fee at higher levels of access, with a fee schedule as follows: 15 bps for access up to 200 percent of quota, 30 bps for access in excess of 200 percent but up to 1000 percent of quota, and 60 bps for access in excess of 1000 percent of quota. New schedule to apply in assessing any fees due annually after the new schedule becomes effective, including to those charged under existing arrangements.

## I. INTRODUCTION\*<sup>1</sup>

1. The Executive Board has been considering a series of papers to reform the Fund's GRA lending framework, with discussions since September 2008.<sup>2</sup> Under consideration have been reforms to access limits, charges and maturities, the GRA lending toolkit, and conditionality.
2. There has been broad support among Executive Directors on a number of aspects of the reforms considered in earlier papers.
  - **Access limits.** The Board noted that amounts available under the existing access limits have declined significantly relative to global GDP, trade and capital flows, and that an increase in normal access limits was warranted, particularly given the prevailing uncertainty in the global financial markets. It was agreed that higher access limits should be accompanied by rigorous application of the exceptional access policy and other safeguards for Fund resources. In this context, Directors agreed that reforms to the exceptional access policy were required to fix asymmetries in its application to capital and noncapital account crises, clarify the assessment of debt sustainability, and remove limitations on high-access precautionary lending.
  - **Charges and maturities.** There was consensus to replace the TBRE policy with a time-based surcharge to provide a price incentive for early repayment and support the revolving character of Fund resources. However, Directors' views on the overall pricing of high access to the GRA varied. Directors called for a reform of commitment fees to remove the existing embedded incentive to borrow large amounts on a precautionary basis and contain liquidity risks.
  - **GRA lending instruments.** There was support to rely more on the flexible credit tranche framework, which is available to address all types of BOP problems, and less

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\* Subsequent to the issuance of this paper a number of the proposed Decisions were revised and endorsed by the Executive Board on 3/24/2009. The changes made to Decisions IV, VI and VIII are explained and set out in Supplement 1. A further change was made to make Decision I effective from May 1, 2009 and an editorial change was made to Decision IV paragraph 6 a (i and ii). These changes are also included in [Supplement 1](#).

<sup>1</sup> This paper was prepared by a staff team comprising C. Beaumont, M. Rossi, C. Hatch, J. Khaw, and V. Kurcova (FIN) assisted by C. Sanghani (TGS); R. Weeks-Brown, C. Ogada, Y. Liu, D. Eastman, K. Kwak, and W. Bergthaler (LEG), J. Roaf (MCM); and L. Giorgianni, G. Adler, B. Barkbu, M. Goretti, I. Halikias, W. McGrew, U. Ramakrishnan, and A. Stuart (SPR).

<sup>2</sup> See [Review of Access to Financing in the Credit Tranches and Under the Extended Fund Facility, and Overall Access Limits Under the General Resources Account](#), [Review of the Fund's Financing Role in Member Countries \(2/9/08\)](#), [Charges and Maturities—Proposals for Reform](#), and [Conditionality in Fund-Supported Programs—Purposes, Modalities, and Options for Reform](#).

on special facilities that address special BOP problems. In this context, Directors supported establishing a new FCL as a window in the credit tranches, and clarifying and increasing flexibility in the use of precautionary Stand-By Arrangements, which together would ensure comprehensive and robust crisis prevention and resolution coverage within the credit tranches for all members. In streamlining special facilities, Directors asked that the EFF be preserved given its particular usefulness as a bridge for Low-Income Country (LIC) members graduating from PRGF support.

- ***Conditionality reforms.*** Directors supported the use of ex ante conditionality for the proposed FCL, while stressing the importance of a rigorous and specific qualification framework and its evenhanded application. Directors had mixed views on the proposal for the use of review-based conditionality (eliminating all types of PCs) to monitor all Fund-supported programs. However, there was broad support to further streamline and tailor conditionality, inter alia, in line with previous Independent Evaluation Office (IEO) recommendations and the recently revised staff guidance note, as well as some support to eliminate the use of structural PCs in all Fund arrangements.<sup>3</sup>

3. This paper puts forward and discusses a set of the *Proposed Decisions* required to advance the key objectives of the reform efforts, while also ensuring broad consensus among the membership.\* In particular, this paper discusses the *Proposed Decisions* on streamlining and tailoring conditionality to members' varying characteristics (Section II); reforming the GRA lending toolkit by eliminating certain existing special facilities, establishing the FCL, and improving the design and availability of both high-access precautionary SBAs and other SBAs (Section III); increasing GRA access limits and making targeted changes to the exceptional access policy (Section IV); and reforming the structure of surcharges and commitment fees and eliminating the TBRE policy (Section V). The *Proposed Decisions* are included in this paper.

## II. MODERNIZING CONDITIONALITY

4. *Proposed Decision I* is intended to enhance the flexibility of the current conditionality framework and reduce the stigma associated with Fund lending, while preserving adequate safeguards for use of the Fund's resources. It provides that, upon the effectiveness of the decision, the Fund would no longer establish structural PCs under any Fund arrangements, including those under facilities designed for LICs. Underpinning the proposal is that many

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<sup>3</sup> See [IEO Evaluation of Structural Conditionality in IMF-Supported Programs](#) (IEO PR/08/01, 1/3/08); and [Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines](#) (7/10/08).

\* As highlighted in the footnote in the introduction the proposed Decisions in this paper were revised and adopted by the Executive Board. The revised Decisions are shown in [Supplement 1](#).

members consider structural PCs, in particular, to be detracting from national ownership of Fund-supported programs. In addition, the requirement that structural PCs be objectively monitorable is often hard to achieve without reducing significantly the substance of these measures,<sup>4</sup> while the use of a rigid test date implies a level of artificial precision for the implementation of structural reforms. In eliminating structural PCs, the Fund would thus place greater reliance on a reviews-based approach to monitor structural reforms in Fund-supported programs, and conditionality attached to such reforms would take only the form of benchmarks (whose assessment is embedded in reviews), or prior actions. Given the absence of a broad consensus for eliminating quantitative PCs, they would be retained as a program monitoring tool.

5. Notwithstanding the above and as a transitional measure, structural PCs that have already been approved by the Board under existing Fund arrangements with test dates after the effectiveness of the relevant decision would not be automatically abolished, but would remain in force until their test dates. However, depending on the circumstances of the member, staff could propose to the Board to eliminate these PCs or convert them into structural benchmarks in the context of subsequent reviews of the relevant programs. This approach is intended to avoid unintended consequences on already negotiated program assumptions, including phasing, under existing Fund arrangements.

### **III. INCREASING EFFECTIVENESS AND SIMPLICITY OF THE GRA LENDING TOOLKIT**

6. The reforms to the GRA lending toolkit aim to take account of the growing complexity and unpredictable nature and duration of economic crises. They respond to the need for flexibility in the Fund's lending instruments, especially with regard to access levels, phasing and repayment terms, as well as the need for effective contingent financing instruments for crisis prevention that would benefit the entire membership. Any successful reform would also need to alleviate the stigma associated with Fund lending, which may stand in the way of a member approaching the Fund *before* the onset of a crisis.

#### **A. Eliminating Special Facilities**

7. *Proposed Decision III* would eliminate the SRF and the CFF for the reasons noted in *Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options*, the review paper, including the rigidity and artificial distinction of the BOP needs addressed by these special facilities which, as experience demonstrates, do not correspond to the nature of recent crises. It would also eliminate the SLF since, as discussed in the review paper, there are certain design issues—including the SLF's very short repayment period—that may deter members from requesting financing under this facility, particularly given the severity of the

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<sup>4</sup> Under the Fund's Guidelines on Conditionality ([Decision No. 12864-\(02/102\)](#)), adopted September 25, 2002, as amended, PCs will apply to clearly specified measures that can be objectively monitored by the staff.

current crisis. The SLF would be replaced by the FCL (discussed below) which includes virtually all the key features of the SLF, but has the added advantages of longer repayment terms, scope for precautionary use, and flexibility as to the nature of the BOP problem faced by the member.

8. The EFF will be retained primarily in view of its potential usefulness for LIC members. It is not intended, however, that the EFF would be used as a vehicle to deliver high-access financing to members, as the SBA is the better instrument for such purposes. Accordingly, the time-based surcharges for the EFF are proposed to be aligned with those proposed for SBAs (Section V below). The EFF will be kept under review and, if warranted, can be eliminated by the Executive Board at any time by a majority of the votes cast.

## **B. Enhancing Crisis Prevention and Resolution in the Credit Tranches**

### **Flexible Credit Line**

9. *Proposed Decision IV* would establish the FCL as a flexible instrument in the credit tranches to address all types of BOP needs and to be used for either contingent or actual financing. Key design features of the FCL were discussed in the *review* paper and are elaborated further below.

10. **Length.** Members could choose—at the time of requesting an arrangement—between a six-month arrangement, or a one-year arrangement with a mid-term review, both of which could be renewed by the Executive Board at the request of the member, provided the member continues to meet the qualification criteria for approval of an FCL arrangement (*Proposed Decision IV, Paragraph 5(a)*).

11. **Conditionality.** The FCL is intended to embody the application of ex ante conditionality. Thus, access to the FCL would depend on an evaluation by the Fund that the member’s macroeconomic fundamentals, economic policy framework, policies, and policy track record were all very strong, as discussed below (*Proposed Decision IV, Paragraph 2*). If a member chooses a one-year arrangement, then completion of a mid-term review to confirm continued qualification by the Executive Board would be required to preserve the member’s right to make purchases under the arrangement (*Proposed Decision IV, Paragraph 5(a)*).

12. **Qualification.** The FCL would be restricted to members with very strong fundamentals, economic policy frameworks, and policies, as well as a sustained track record of very strong policy implementation, all of which would give confidence that the member would take appropriate corrective policy measures when faced with shocks (*Proposed Decision IV, Paragraph 2*). The qualification criteria are designed to enable a member in most cases to “self-select”—i.e., determine with a high degree of confidence whether it



would qualify for an FCL arrangement before requesting one—although any assessment would inevitably involve some judgment (Annex I).

13. **Access.** To retain flexibility in dealing with most shocks, access under the FCL would not be capped or subject to the general access limits, although staff expects that cumulative access under the FCL would not normally exceed 1000 percent of quota. Like the SLF, the FCL would not be subject to the exceptional access framework, given the FCL's rigorous qualification requirements, and its procedures that would be substantively similar to those under the exceptional access framework, particularly as regards the Board's early involvement (*Proposed Decision IV, Paragraph 6(a)*). Such procedures would apply to all FCL arrangements, irrespective of access levels. Reflecting the approach under current Fund policies, the calculation of the level of access under any individual FCL arrangement will be based on an evaluation of country-specific actual or potential financing needs and capacity to repay (Annex II).

14. **Phasing.** The entire amount of approved access would be made available upfront and remain available throughout the arrangement period (*Proposed Decision IV, Paragraph 4*), subject to completion of the mid-term review for one-year arrangements (*Proposed Decision IV, Paragraph 5(a)*). The member would have the option to draw this amount in one purchase or to make multiple purchases (up to the approved access) during the arrangement period (*Proposed Decision IV, Paragraph 4*). The drawing(s) would be automatic—i.e., once the arrangement is approved, no activation review would be required for the member to draw resources when needed. As is standard under Fund facilities, while the Fund would not challenge a presentation of need by a member for a purchase requested under an FCL arrangement (*Proposed Decision IV, Paragraph 4*), the member's drawings would have to be commensurate with its actual BOP need at the time of the purchase, notwithstanding the available amount of approved access. The FCL arrangement would expire upon drawing of the full amount of approved access (*Proposed Decision IV, Paragraph 5(b)*).

15. **Process and Procedures.** The following process and procedures are proposed for the FCL (*Proposed Decision IV, Paragraph 6(a)*):

- i. Like the SLF, staff would make a confidential preliminary assessment of qualification following a member's expression of interest in an FCL arrangement. If management decides that access to Fund resources under the FCL may be appropriate, it would promptly consult the Board in an informal meeting with a concise staff note setting out the basis for which approval could be recommended, including a preliminary assessment of qualification and access levels.
- ii. Board consideration of the member's request would take place thereafter, with normal document circulation periods, except that consideration could be

expedited under special circumstances such as an urgent actual BOP need. Board discussion would be based on (i) a written request from the member for an FCL arrangement outlining its policy goals and strategies for at least the duration of the arrangement, as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that have arisen or may arise; and (ii) a staff report assessing the member's qualification and justification of access level, together with an analysis of the impact of the proposal on the Fund's finances and liquidity position when warranted by the level of access.

- iii.* A mission will not normally be necessary to conduct a mid-term review, although the assessment of a member's continued qualification will benefit from the findings of recent routine staff visits or Article IV consultation missions. To preserve the member's continued right to make purchases, a request for completing the review under the FCL would normally be considered by the Executive Board immediately before six months have elapsed from the date of approval of the FCL arrangement. Board approval based on a concise staff report could be on a lapse of time basis.

16. ***FCL terms.*** As a window in the credit tranches, the FCL arrangement would be subject to the same charges, surcharges, and repurchase periods as all other lending in the credit tranches.<sup>5</sup> While credit tranche terms allow repurchase periods of 3¼ to 5 years, under Article V, Section 7(b) of the Articles of Agreement, the expectation is that members will repay the Fund as soon as their BOP and reserve positions enable such repurchases.

17. ***Fund safeguards.*** Safeguards include rigorous qualification criteria, shorter duration (compared to most SBAs, for example), stringent procedural requirement involving high scrutiny and early Board consultation irrespective of access levels, and high transparency standards similar to those required under the exceptional access framework. In addition, the Fund's PPM policy would apply. Consistent with the proposal to double access limits (Section IV), it is proposed that the threshold for activating PPM with respect to all use of Fund resources (including lending to LIC members) be doubled to 200 percent of quota (*Proposed Decision V, Paragraph 3*).<sup>6</sup> Finally, while FCL arrangements would not be subject to the existing policy on safeguards assessments for Fund arrangements, a modified safeguards assessment would apply. In their written requests for an FCL arrangement, members would authorize access to their central bank's most recent external audit and a

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<sup>5</sup> As a consequential change, *Proposed Decision IV, Paragraph 10* would delete the provision of decision on SBAs specifying that resources in the credit tranches will "normally" be provided through a SBA.

<sup>6</sup> FCL arrangements will also include a standard clause, similar to that in SBAs, for consultations between the member and the Fund on the member's policies after the period of the FCL arrangement and for so long as the member has outstanding purchases in the upper credit tranches.

dialogue with Fund staff and the external auditor, as needed (*Proposed Decision IV, Paragraph 6(b)*). In the event of any significant safeguards issues, these would be considered at the time of the mid-term review or subsequent renewal. In addition, the standard requirements on access to central bank audited financial statements and related audit reports for as long as Fund credit is outstanding would apply.

18. **Transparency Policy.** Similar to the existing requirements under the exceptional access framework, the Managing Director will generally not recommend that the Executive Board approve a request to use Fund resources under the FCL unless the member consents to the publication of the associated staff report.<sup>7</sup>

### Enhancing SBAs

19. A key objective of the reform is to provide flexibility in GRA lending to emerging market members who may not qualify for an FCL arrangement. For these members, it is proposed that the use of high access precautionary SBAs (HAPAs) in all BOP situations, be made available as a regular instrument. A number of changes related to modalities of SBAs are also proposed to make SBAs more flexible for both crisis prevention and resolution, including for cases where access is within the normal limits.

20. **Access.** Like the FCL, access levels under a precautionary SBA will be determined on the basis of members' potential needs, taking into account country-specific circumstances. Access levels would continue to be subject to the Fund's policies on access limits, including exceptional access. As discussed below, a key proposal is to remove existing limitations on precautionary lending in capital account cases under the exceptional access policy, thereby allowing approval of HAPAs in situations of actual or potential BOP pressures in either the capital or current account.

21. **Phasing.** Under the current decision on phasing, there is a presumption of quarterly phasing and corresponding PCs for SBAs.<sup>8</sup> Also, in phasing access, it has generally been the Fund's practice to establish more or less uniform amounts for each phased tranche. To provide greater flexibility in the use of SBAs, it is proposed to eliminate the presumption of quarterly phasing and PCs (*Proposed Decision II, Paragraph 1*). The number of purchases and corresponding PCs in Fund GRA arrangements will depend on the circumstances of the member, provided however, there would be a minimum of two purchases (in addition to the initial purchase) and two sets of corresponding PCs during each 12-month period of an arrangement. In considering a member's circumstances, the member's policies, the external economic environment, and the likely timing of the member's BOP needs will be taken into

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<sup>7</sup> [Decision No. 13564](#)-(05/85), adopted October 5, 2005, as amended.

<sup>8</sup> [Decision No. 7925](#)-(85/38), adopted March 8, 1985, as amended.

account. The minimum two purchases (in addition to the initial purchase) and PCs during each 12-month period would be most appropriate for members facing a less uncertain external economic environment or requesting precautionary arrangements. For members facing an actual BOP crisis that may involve a more fast-moving or uncertain external economic environment, or where policy implementation risks are greater, more frequent monitoring on a quarterly basis could be expected. Fund GRA arrangements may also be frontloaded as appropriate, taking into account a member's actual or potential need for Fund resources, its policies and the likely timing of its balance of payments need, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining a reasonable level of reserves (*Proposed Decision II, Paragraph 3*).<sup>9</sup>

22. ***Conditionality and blackout periods.*** Retaining quantitative PCs means that precautionary SBAs will be affected by the “blackout” period, where the right to purchases (absent a waiver of applicability) is suspended between the test date for PCs and the date at which data for those PCs become available. The blackout period reduces the certainty of a member's access to Fund resources even when a program is on track. Staff will develop various options to mitigate or reduce the blackout period, and will return to the Board with a proposed approach to address this issue as soon as possible.<sup>10</sup>

### **C. Containing Risks to Fund Liquidity**

23. Given the importance of ensuring that the Fund has sufficient resources for crisis lending, *Proposed Decision IV, Paragraph 10* proposes that a review of the design of the FCL (including the absence of hard caps on access) be conducted two years after its creation or earlier if FCL commitments reach a certain level. In this context, the Executive Board would also have an opportunity to discuss whether the FCL has met the purpose for which it was designed and whether it should be retained as an instrument in the Fund's lending toolkit. This review will take into account, inter alia, experience with FCL arrangements and developments in the external environment.

24. When the SLF was approved, it was agreed that the facility would be reviewed if outstanding purchases under the SLF reached about SDR 60 billion. While the Fund has subsequently made lending commitments of about SDR 32 billion, a higher trigger could be considered for the FCL given the recent agreed borrowing agreement with Japan and in light of the ongoing efforts to further augment Fund resources through additional borrowing

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<sup>9</sup> In addition to the amendments described in the text, the existing decision on performance criteria and phasing of purchases under Fund GRA arrangements is being modified in order to delete obsolete sections.

<sup>10</sup> The blackout period was discussed in “[Adapting Precautionary Arrangements to Crisis Prevention](#)” (06/11/03). This included a discussion of extending drawing rights until data become available. One issue would be how long to extend the drawing rights, taking into account the different availability dates for different performance criteria.

agreements. It is therefore proposed that FCL commitments of SDR 100 billion be used as an initial trigger for a review of the FCL, which amounts to half of current usable resources.<sup>11</sup> This higher trigger takes into account an expectation that additional resources will be forthcoming shortly that would allow a higher level of FCL commitments without putting the Fund's capacity for crisis lending at risk. Separately—and as an additional measure to contain potential liquidity risks—the commitment fee structure for all GRA arrangements is proposed to be revised to discourage unnecessarily large precautionary access (Section V below).

#### IV. ACCESS POLICIES

25. **Access Limits.** The amount of Fund resources available to members is integral to GRA lending reforms. The access paper proposed increasing the normal access limits from 100 to 200 percent of quota annually, and from 300 to 500 percent cumulatively, net of scheduled repurchases. However, *Proposed Decision V, Paragraph 1* proposes a doubling of cumulative limits, to 600 percent of quota, because it would more fully restore limits to 1998 levels in relation to global trade and capital flows, while more than compensating for global GDP growth. This holds based on WEO projections from both April 2008 (used for the September 2008 Board paper on access limits) and October 2008, although the April figures could have justified an even larger increase to keep pace with capital flows (Text Table). The proposed increase in access limits is particularly important in light of the protracted deleveraging process now underway. It is also proposed that the separate access limits applicable in the credit tranches and under the EFF (which are the same as the global limits) be integrated into the global GRA limits.

		Access limits (pct quota) needed to restore values to 1998 levels (in relation to global GDP, trade, and capital flows)		
		GDP	Trade	Capital flows
<i>Apr 08 WEO</i>	Annual	158	221	292
	Cumulative	473	663	877
<i>Oct 08 WEO</i>	Annual	155	221	215
	Cumulative	464	663	645

Source: Finance Department, IMF.

26. **Exceptional Access Policy.** The existing exceptional access policy needs to be revised to accommodate the use of HAPAs as a regular modality in the Fund's toolkit, to provide for exceptional access for actual or potential BOP needs stemming from both capital account and current account pressures, and to address rigidities that have become apparent in the recent application of this policy. Meeting the revised substantive criteria for exceptional access would be necessary when approving any requests involving GRA access beyond the normal limits (except access under the FCL, which is subject to its own substantively similar regime,

<sup>11</sup> The sum of the Fund's one-year forward commitment capacity as of March 5, 2009 (SDR 95.7 billion), the amount committed under the borrowing agreement with Japan (\$100 billion, equivalent to SDR 68 billion) and the maximum amount that can be activated under NAB/GAB (SDR 34 billion) is SDR 197.7 billion.

as discussed earlier). In particular, it is proposed to modify the four substantive exceptional access criteria as follows (*Proposed Decision V, Paragraph 1*):

- The first exceptional access criterion (*member experiencing BOP pressure on the capital account resulting in a need for Fund financing that cannot be met within the normal limits*) would be modified to include members that are not currently experiencing such capital account pressures. This would provide for exceptional access for potential and actual BOP needs stemming from capital or current account pressures.
- The second criterion (*there is a high probability that debt will remain sustainable*) is proposed to be modified in two ways. First, to remove confusion about public and external debt, it should state clearly that this criterion applies to public (domestic and external) debt. Any potential contingent liabilities of the government, including those potentially arising from very high private external indebtedness (as could be the case when the authorities assume liabilities of failed private banks that enjoyed significant foreign financing) should be incorporated into the analysis of public debt sustainability. The reason for this change is that private debt may be resolved on a case-by-case basis without affecting the solvency of the authorities or the country as a whole, or a country may have a high level of external assets that offset its liabilities. Second, the criterion would be revised so that debt sustainability is evaluated on a forward-looking basis taking into account programmed fiscal policy adjustments and any explicit policy commitment by the member to achieve sustainability by restructuring public liabilities (lending in the presence of sovereign debt arrears will continue to be guided by the Fund’s policy on lending into arrears).
- The third criterion (*prospects of regaining access to capital markets within timeframe when Fund resources are outstanding*) currently focuses on members that have had access to capital markets but have lost such access. It is proposed that this criterion be revised to also capture members that have not had access to capital markets. Thus, the revised criterion will assess members’ prospects of gaining for the first time, or regaining, access to private capital markets during the period when Fund resources are outstanding. This will allow increased flexibility when circumstances warrant the approval of exceptional access to members with limited or no access to capital markets, while still taking into account the core issue of capacity to repay the Fund.
- The fourth criterion (*the policy program and capacity to deliver the programmed adjustment provide a reasonably strong prospect of success*) will remain unchanged.

27. The procedural aspects of the exceptional access policy will be retained to ensure prompt and close scrutiny by the Board. Moreover, in the interest of further streamlining, staff proposes that the separate short written report describing a member’s “current economic

situation” required to be circulated to the Board as soon as feasible after the Emergency Financing Mechanism (EFM) is invoked, should (in exceptional access cases) be integrated with the concise note required under the exceptional access policy.<sup>12</sup>

## V. CHARGES AND MATURITIES

28. The proposed *charges and maturities* reform aims at simplifying the cost structure of high-access Fund lending and aligning it across facilities. The proposed reforms take into account Directors’ views at the December 2008 Board seminar and subsequent Board discussion in January 2009. In particular, the proposal adjusts specific instruments within the Fund’s charges and maturities policies in a targeted manner:

- *Mitigating credit risk and ensuring the Fund’s capacity to accumulate adequate precautionary balances:* the current surcharge schedule, with a two-tier level-based structure, is proposed to be replaced by a schedule with a single level-based surcharge and a single time-based surcharge, which is expected to generate a similar build up of reserves at access levels experienced recently, and faster reserve accumulation in case of higher access and correspondingly greater credit risk.
- *Encouraging timely repayment if Fund resources are drawn:* a time-based surcharge is proposed to replace the TBRE in order to promote early repayment in a simpler manner, avoiding the confusion associated with two different repurchase schedules.
- *Containing risks to Fund liquidity:* an increase in commitment fees is proposed at high access levels to cover the costs of setting aside resources for a period of time. By discouraging unduly large precautionary access, a higher commitment fee will reinforce the role of the review of the FCL once commitments reach SDR 100 billion.

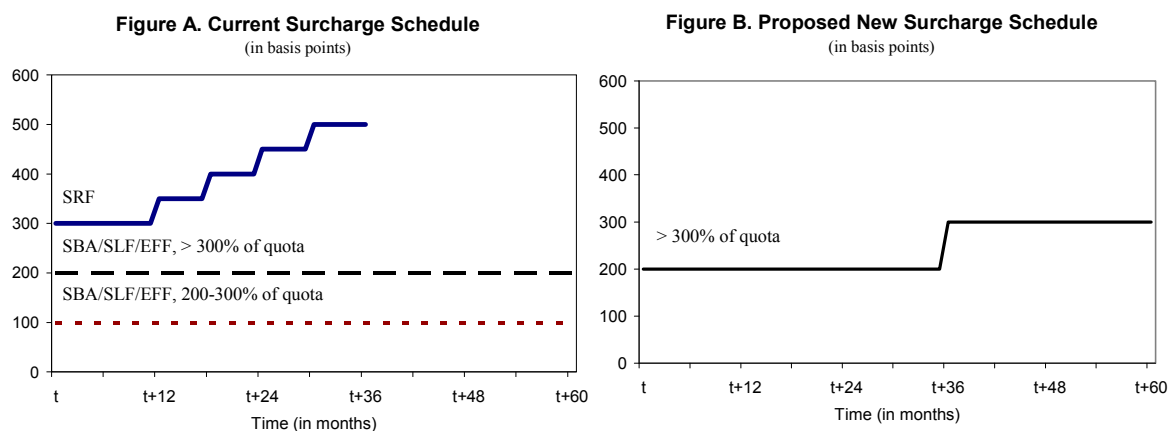
### A. Proposed New System of Surcharges

29. *Proposed Decision VI, Paragraph 1* sets out a new, simple surcharge system that has one level-based surcharge and a single time-based surcharge (Figure 1, Table 1). This system seeks to reduce complexity and provide stronger incentives for early repurchases (see discussion of TBRE below), while preserving the Fund’s capacity to generate precautionary balances to mitigate credit risk. Most of the alternative systems considered in the *charges and maturities* papers are either equally or more complex than the proposed model, through

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<sup>12</sup> Staff undertake to come back to the Executive Board at a later date with a paper reviewing the EFM in order to reduce overlaps with the procedural aspects of the exceptional access framework and clarify its use beyond GRA lending.

### Figure 1. Surcharge Schedule



**Table 1. Adjusted Rate of Charge including Surcharges, as of March 9–13, 2009 1/**  
(In percent, unless otherwise noted)

Credit Outstanding (Percent of quota)	Current Surcharge Schedule		Proposed Surcharge Schedule			
	Marginal Rate 2/	Effective Rate 3/	Without Time-Based 4/		With Time-Based 5/	
			Marginal	Effective	Marginal	Effective
0	1.48	1.48	1.48	1.48	...	...
100	1.48	1.48	1.48	1.48	...	...
200	2.48	1.48	1.48	1.48	...	...
300	3.48	1.81	3.48	1.48	4.48	1.48
400	3.48	2.23	3.48	1.98	4.48	2.23
500	3.48	2.48	3.48	2.28	4.48	2.68
600	3.48	2.65	3.48	2.48	4.48	2.98
700	3.48	2.77	3.48	2.62	4.48	3.19
800	3.48	2.86	3.48	2.73	4.48	3.36
900	3.48	2.92	3.48	2.81	4.48	3.48
1000	3.48	2.98	3.48	2.88	4.48	3.58
1100	3.48	3.03	3.48	2.93	4.48	3.66
1200	3.48	3.06	3.48	2.98	4.48	3.73
<i>Memorandum items</i>						
SDR interest rate		0.46				
Basic rate of charge		1.46				
Adjusted rate of charge 6/		1.48				

Source: Finance Department, IMF.

1/ Total charges applying to credit outstanding at a point in time. Excludes service charges and commitment fees.

2/ The marginal interest rate on Fund credit equals the adjusted rate of charge plus any applicable surcharge.

3/ The effective interest rate is the average rate payable inclusive of surcharge payments.

4/ Applicable when Fund credit outstanding is not subject to a time-based surcharge.

5/ Applicable when Fund credit exceeds 300 percent of quota continuously for 36 months or more.

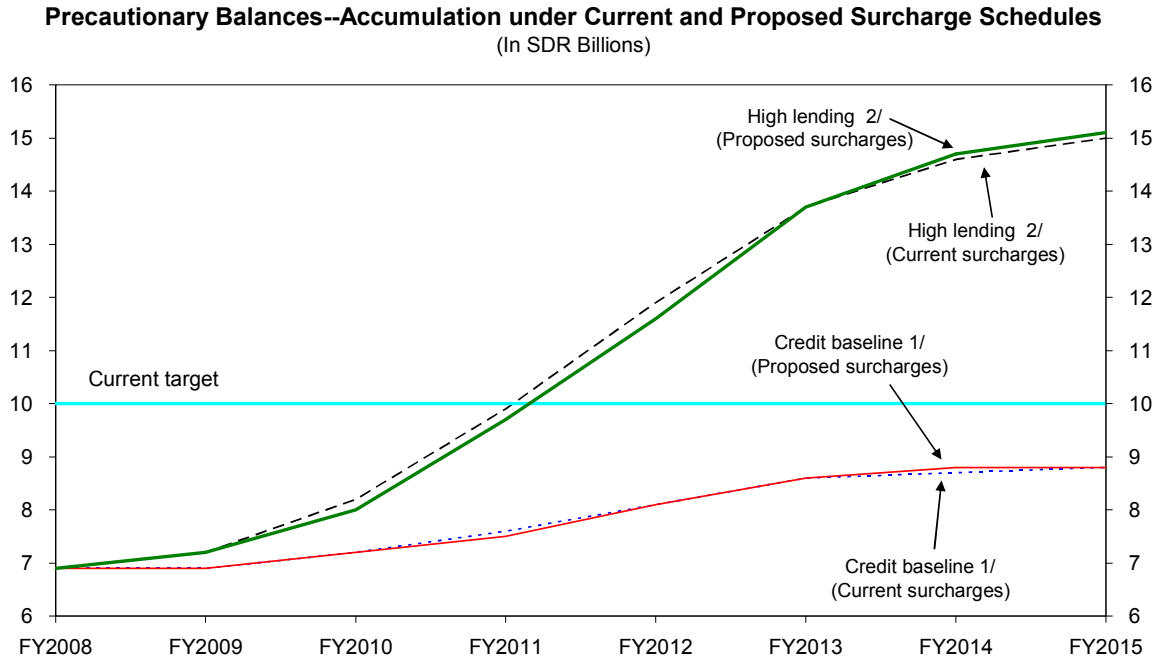
6/ Includes burden-sharing adjustment for the financial consequences of arrears.



multiple tiers of level- or time-based surcharges, and in some cases would significantly reduce the Fund's capacity to accumulate precautionary balances.<sup>13</sup>

30. The proposed surcharge system generates similar income to the current system for arrangements with access levels around 800 percent of quota—just below the average access level for nonprecautionary arrangements in the current crisis.<sup>14</sup> Under scenarios with a similar distribution of access levels to those recently experienced, the new system of surcharges is expected to generate a near identical increase in precautionary balances to the current system (Figure 2). At higher levels of access, the new system generates additional surcharge income. Hence, if average access, and the corresponding credit risks were higher, the new system would have greater potential to accumulate precautionary balances.

**Figure 2. Scenarios for the Accumulation of Precautionary Balances**  
(In SDR billions)



1/ Credit baseline peaks at SDR 32 billion in FY2011-12. In the baseline lending scenario repurchases are made on an obligations basis rather than on an expectations basis.

2/ High lending scenario peaks at SDR 91 billion in FY2012. In the high lending scenario repurchases are made on an obligations basis rather than on an expectations basis.

<sup>13</sup> See also [Charges and Maturities—Proposals for Reform, Supplement 1](#) and [Charges and Maturities—Proposals for Reform, Supplement 2](#).

<sup>14</sup> The average access level for the eight nonprecautionary arrangements approved since October 2008, weighted by access in SDR terms, has been 835 percent of quota.

31. The high lending scenario in Figure 2, which “factors up” the Fund’s recent lending experience to take account of possible new lending, brings credit outstanding to a peak of just over SDR 90 billion, which is associated with precautionary balances almost reaching the current target of SDR 10 billion by the end of FY11, and going on to reach SDR 15 billion by FY15. Staff’s current assessment of arrangements in the pipeline, based on discussions with members, would imply a peak level of Fund credit somewhat below this level (about SDR 70 billion). In such a scenario, precautionary balances would reach the current target about a year later, and the overall increase would be somewhat smaller than in the high lending case, although this scenario makes no allowance for additional members seeking Fund support, and there is also the possibility that not all arrangements in the pipeline will be put in place.

### **Transitional Arrangements**

32. As the new surcharge system will affect members differently, transitional arrangements are proposed to accomplish the policy objective of minimizing the scope for disparate or unintended effects on members. Staff considered following the approach used in 2000 when the current system of surcharges was introduced, when only purchases made after the adoption of surcharges were included in calculating the surcharge.<sup>15</sup> During this previous transition, the Fund, in effect, maintained records on two separate stocks of outstanding purchases: those made prior to the effective date of introduction of surcharges and those made thereafter. However, rather than ensuring that members currently subject to surcharges would be no worse off, using such an approach when moving from an existing system of surcharges to another would provide a substantial windfall to members currently subject to surcharges by substantially reducing surcharge payments relative to leaving the current system in place.<sup>16</sup> Moreover, by creating two (smaller) stocks of outstanding credit on which to calculate surcharges, this alternative would be inconsistent with the rationale for levying surcharges, that is to mitigate the Fund’s credit risk (each of the two stocks would have its own threshold, underestimating the full Fund exposure to credit risk from the relevant member).

33. In light of the above considerations, *Proposed Decision VI, Paragraph 2* proposes that members with arrangements in place, or with credit outstanding, at the time of the new surcharge system be given the option to choose either the existing system of surcharges or the new system for both credit already outstanding and for future purchases under existing arrangements. However, even if the existing surcharge system is chosen, the new system would begin to apply for all outstanding purchases once a successor arrangement is approved for a member after the new surcharge system enters into effect (*Proposed Decision VI,*

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<sup>15</sup> See [Review of Fund Facilities—Proposed Decisions and Implementation Guidelines](#) (11/2/00, and PIN/00/101, 11/30/00).

<sup>16</sup> This result occurs because surcharges would only be payable under the new system once new purchases exceed the 300 percent of quota threshold, regardless of credit already outstanding.

*Paragraph 3*). Moving all credit to the new system would ensure that the Fund's entire credit exposure to the member is subject to a single system of surcharges to mitigate this credit risk, thereby avoiding the difficulties noted earlier that arise from having two separate and smaller stocks on which to calculate surcharges. The proposal is further described in Annex III, which also provides estimates of the impact on likely affected members.

### **B. Time-Based Repurchase Expectations**

34. *Proposed Decision VIII* would abolish the TBRE policy, especially in light of the introduction of a new time-based surcharge and the already built-in incentives to signal policy strength through early repayment. Indeed, staff analysis indicates that in past high access arrangements repurchases have occurred on average about 11 months before the effective due date, despite the higher cost of accessing the market. For those members with outstanding credit, the expectations schedule would no longer apply on May 1, 2009 when the abolishing of the TBRE would become effective, allowing repurchases to be made on an obligations basis without Board approval of an extension.

### **C. Commitment Fees**

35. Commitment fees are payable annually on resources available under all Fund arrangements in the GRA, but are refundable to the extent that drawings are made (Box 1). As an additional measure to contain risks to the Fund's liquidity associated with the introduction of FCLs and the expected greater use of HAPAs, the current commitment fee structure should be revised. In particular, the current two-tier commitment fee structure, which declines to 10 basis points on amounts available for purchase above 100 percent of quota, provides members with little disincentive to request larger commitments. However, such commitments have costs owing to the finite availability of Fund resources, and such costs are likely to increase at the margin as resources remaining for other lending decline. Moreover, there are costs to ensuring that these resources are sufficiently liquid to meet potentially large purchases under precautionary arrangements, including where such purchases could occur under a number of arrangements within a short time period.

36. In order to reflect these costs, and to strengthen incentives against unnecessarily high precautionary access, *Proposed Decision VII* sets out a new commitment fee structure: a fee of 15 basis points would apply for annual amounts available for purchase access of up to 200 percent of quota; thereafter the commitment fee would increase to 30 basis points for access up to 1000 percent of quota, beyond which it would further increase to 60 basis points (Figure 3, Table 2) (*Proposed Decision VII, Paragraph (a)*).<sup>17</sup> Such a schedule would substantially increase incentives against unnecessarily high precautionary access, with a

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<sup>17</sup> The first step in the proposed schedule is aligned with the proposed annual access limit because the commitment fee applies to amounts available to be purchased over a 12-month period.

three-fold increase in marginal fees for annual amounts available between 200 and 1000 percent of quota, and a six-fold increase above 1000 percent of quota. It would also provide income to the Fund to help offset the costs of setting aside possibly substantial financial resources for a period of time. However, the fee structure would not be set so high as to discourage members from seeking precautionary arrangements, given the important role such arrangements can play in helping prevent crises.

**Table 2. Commitment Fees under Alternative Schedules 1/**  
(in basis points, annual basis)

Access level	Fee schedule	200 percent of quota		400 percent of quota		800 percent of quota		1200 percent of quota	
		Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Weighted average fee on SBAs	2/	20	15	15	20	13	25	12	28
Weighted average fee on FCLs	3/	18	15	14	23	12	26	11	33

Source: Finance Department.

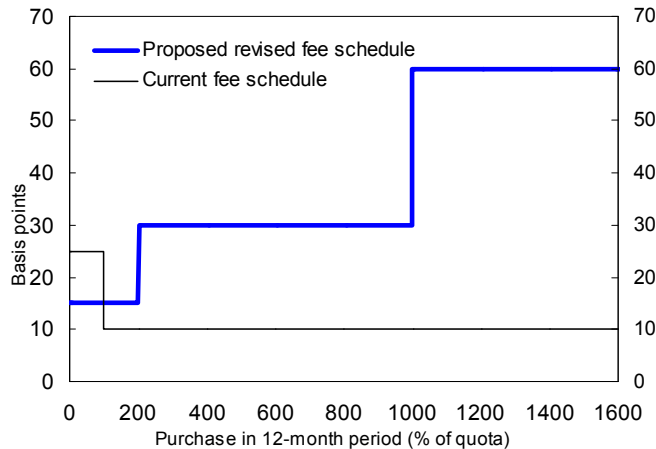
1/ All calculations assume that no purchases are made under either the SBA or FCL, i.e., they remain precautionary until expiry.

The commitment fee is calculated on an annual basis and applies to amounts available under an arrangement during the year.

2/ For SBAs, one-third of the arrangement is available immediately, with the remaining two-thirds made available equally in the following eight quarters. The program ends in the first quarter of the third year.

3/ The FCL commits the full amount available immediately.

**Figure 3. Commitment Fee Schedules**



## Box 1. Commitment Fees on Arrangements

### Applicability and modalities

An annual commitment fee is currently levied under stand-by and extended arrangements at the beginning of each 12-month period according to the amount available for purchase.<sup>1</sup> This amount includes previously scheduled purchases that have not been drawn:

- **Current level.** 25 basis points per annum on amounts up to 100 percent of the member's quota, and 10 basis points per annum for amounts over 100 percent of quota.<sup>2</sup>
- **Pro rata basis.** For example, the commitment fee for a 6-month commitment would be half that for a 12-month commitment of the same amount.
- **Refundability.** A key feature of the commitment fee is that it is refunded to the extent that purchases are made under an arrangement.<sup>3</sup>

### Purposes

The refundability of the commitment fee recognizes that the Fund would receive income from service charges (50 basis points on each purchase) and the margin on the basic rate of charge to cover its costs, such that the commitment fee principally serves to cover the cost of arrangements in case purchases are not made. These costs have two main elements:

- (i) **Establishing and monitoring arrangements.** This includes the cost of negotiating and reviewing arrangements, including Executive Board discussions and staff missions.
- (ii) **Setting aside financial resources for a period of time.** Given that the Fund's financial resources are finite, it faces an opportunity cost from committing part of its liquidity, and the commitment fee helps to ensure that resources are not tied up unnecessarily (and also reflects the benefit to the member from access to Fund resources). There are also significant operational costs to the Fund in maintaining additional liquidity against the possibility of large purchases under precautionary arrangements such as FCL arrangements and HAPAs.

It should be noted that the commitment fee was not conceived to cover the credit risks associated with precautionary arrangements. Rather, the Fund receives income from surcharges together with the margin on the basic rate of charge to mitigate its credit risks after a member draws under an arrangement. This practice is broadly similar to commercial practice for credit lines; while commitment fees under such bank lines appear to vary widely both in level and structure, they in general amount to only a fraction of the ultimate loan spread under the credit line.<sup>4</sup> Also, the Fund has a broad range of policies, in addition to its charging structure, that are designed to mitigate credit risks.

<sup>1</sup> See Rule I-8 of the Fund's Rules and Regulations. The current coverage of extended and stand-by arrangements would be modified to cover all GRA arrangements, thereby bringing in FCL arrangements (see *Proposed Decision VII, Paragraph (a)*).

<sup>2</sup> This fee structure was adopted in 2000 in the context of introducing the Contingent Credit Line (CCL). Formerly, the fee was a uniform 25 basis points.

<sup>3</sup> If there is a residual commitment fee outstanding after any previous refunds, it is not refunded if an arrangement expires and is not fully drawn. Partial refunds are made on a pro rata basis when arrangements are cancelled without being drawn in full.

<sup>4</sup> See, for example, O. Emre Ergungor, "Theories of Bank Loan Commitments," *Economic Review* (Federal Reserve Bank of Cleveland), Vol. 37, No. 3, pp. 2–19.

### **Proposed Decisions\***

\* Subsequent to the issuance of this paper, the proposed Decisions were revised. [The Decisions adopted by the Executive Board on 3/24/09 are shown in Supplement 1.](#) Where Decisions have been revised, this is highlighted in the text.

Accordingly, the following decisions are proposed for adoption by the Executive Board.

Decisions I, II, III, IV, V, and VIII may be adopted by a majority of the votes cast;

Decisions VI and VII may be adopted by a 70 percent majority of the total voting power.

#### **I. CONDITIONALITY GOVERNING THE USE OF FUND RESOURCES**

\* The date this Decision becomes effective was revised to May 1 2009 to allow for transition.

The Fund decides that, as of the date of this decision, it shall no longer establish structural performance criteria as a modality for monitoring performance under any type of Fund arrangement.

#### **II. RELATIONSHIP BETWEEN PERFORMANCE CRITERIA AND PHASING OF PURCHASES**

##### **UNDER FUND GRA ARRANGEMENTS—OPERATIONAL GUIDELINES**

Decision No. 7925-(85/38), adopted March 8, 1985, as amended, shall be amended to read as follows:

1. The number of purchases and corresponding performance criteria in Fund GRA arrangements will depend on the circumstances of the member, provided however that there would be a minimum of two purchases (in addition to the initial purchase) and two sets of

corresponding performance criteria during each 12-month period of an arrangement. In considering a member's circumstances, the member's policies, and the likely timing of its balance of payments needs, and the external economic environment will be taken into account. For members facing an actual balance of payments crisis that may involve fast-moving developments or an uncertain external economic environment, more frequent monitoring on a quarterly basis could be expected. In all cases, the purchase dates and the test dates for performance criteria would be expected to be distributed as evenly as possible throughout the period of the arrangement. In the case of performance criteria, the date of the first performance test would not normally be earlier than the date on which the arrangement becomes effective, and the date of the last performance test would not be earlier than three months from the end of the arrangement in cases where purchases are phased quarterly.

2. Every effort should be made to include performance criteria initially for as much of each 12-month period of a Fund GRA arrangement as possible. However, it may not always be possible to establish in advance one or more performance criteria for each 12-month period of the arrangement because of substantial uncertainties about major economic trends and normal time lags between the completion of program discussions and Executive Board discussion. Performance criteria should normally be included initially which would govern purchases over a period of at least six months of an arrangement. Indicative targets would normally be included at the outset for that part of each 12-month period of an arrangement for which performance criteria are yet to be established.

3. Access under a Fund GRA arrangement may be frontloaded as appropriate, taking into account a member's actual or potential need for resources from the Fund, the likely timing of the member's balance of payments need, the member's policies, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining a reasonable level of reserves.
  
4. Every effort should be made to: (i) limit to a minimum the lag between the beginning of a member's program and the date of discussion by the Executive Board of the member's request for a Fund arrangement; and (ii) limit the period between the approval by Fund management of the member's request and the Executive Board discussions of the request to no more than three months. Should the period in (ii) above be exceeded, the staff would confirm that the program as originally proposed remains generally appropriate. In cases where a delay indicates a significant slippage in the implementation of the agreed program, the program would be renegotiated, including the performance criteria and phasing of purchases.
  
5. Lags between the reporting of data relating to performance criteria should be minimized in order to preserve the reliability of data. All members are expected to limit such reporting lags to two months. Where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them.



### III. ELIMINATION OF CERTAIN SPECIAL FACILITIES

1. The following decisions are hereby repealed:
  - (a) Decision No. 14184-(08/93), adopted 10/29/08, establishing the Short-Term Liquidity Facility;
  - (b) Decision No. 11627-(97/123), adopted 12/17/97, as amended, establishing the Supplemental Reserve Facility; and
  - (c) Decision No. 8955-(88/126), adopted 8/23/88, as amended, establishing the Compensatory Financing Facility.
2. References in other Fund decisions to the Short-Term Liquidity Facility, the Supplemental Reserve Facility, and the Compensatory Financing Facility are hereby deleted.

### IV. FLEXIBLE CREDIT LINE (FCL) ARRANGEMENTS

\* This proposed Decision was revised subsequently as follows. Paragraphs 2 and 6(a) (i) were amended to remove ambiguities from the Decision (see Supplement 1). A further editorial change was made to paragraphs 6a (i and ii). The revised Decision which was adopted by the Executive Board is shown in Supplement 1.

1. The Fund decides that resources in the credit tranches may be made available under a Flexible Credit Line (FCL) arrangement, in accordance with the terms and conditions specified in this Decision.
2. An FCL arrangement shall be approved upon request in cases where the Fund assesses that the member (a) has very strong economic fundamentals and institutional policy frameworks, (b) is implementing—and has a sustained track record of implementing—very

strong policies, and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter. In addition to a very positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations, the relevant criteria for the purposes of assessing qualification for an FCL arrangement shall include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis; (viii) effective financial sector supervision; and (ix) data transparency and integrity.

3. In light of the qualification criteria set out in paragraph 2 of this Decision, and except for the review requirement specified in paragraph 5 of this Decision, FCL arrangements shall not be subject to performance criteria or other forms of ex-post program monitoring.

4. There shall be no phasing under FCL arrangements and, accordingly, the entire amount of approved access will be available to the member upon approval of an FCL arrangement. A member may make one or more purchases up to the amount of approved access at any time during the period of the FCL arrangement, subject to the provisions of this Decision. The Fund shall not challenge a representation of need by a member for a purchase requested under an FCL arrangement.

5. (a) The Fund may approve a member's request for an FCL arrangement of either six months or twelve months duration. For FCL arrangements with a twelve-month duration, no purchase shall be made after six months have elapsed from the date of approval of the FCL arrangement until an Executive Board review of the member's policies has been completed. Such a review will assess the member's continued adherence to the qualification criteria specified in paragraph 2 of this Decision, and would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the six-month period referred to above.

(b) An FCL arrangement will expire upon the earlier of: (i) the expiration of the approved term of the arrangement; (ii) the purchase by a member of the entire amount of approved access under the FCL arrangement; or (iii) the cancellation of the FCL arrangement by the member. Upon expiration of an FCL arrangement, the Fund may approve additional FCL arrangements for the member in accordance with the terms of this Decision.

6. (a) The following procedures and arrangements for consultations with the Executive Board will apply following a member's expression of interest in an FCL arrangement:

(i) Staff will conduct a confidential preliminary assessment of the member's economic position, policies and track record of policy implementation. Where support from other creditors is likely to be important in helping a member address its balance of payments difficulties, staff will consult with key creditors as appropriate.

(ii) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting. For this purpose, Executive Directors will be provided with a concise staff note setting out the basis on which approval could be recommended under this Decision.

(iii) When the Managing Director is prepared to recommend approval of an FCL arrangement, the relevant documents, including (I) a written communication from the member requesting an FCL arrangement and outlining its policy goals and strategies for at least the duration of the arrangement as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that have arisen or that may arise, and (II) a staff report that assesses the member's qualification for financial assistance under the terms of this Decision, will be circulated to the Board. An assessment of the impact of the proposed FCL arrangement on the Fund's finances and liquidity position will be included in the staff report.

(iv) The minimum periods applicable to the circulation of staff reports to the Executive Board shall apply to requests under this Decision, provided that the Executive Board will generally be prepared to consider a request within 48 to 72 hours after the circulation of the documentation in exceptional circumstances, such as an urgent actual balance of payments need.

(b) A member requesting an FCL arrangement would not be subject to the Fund's policy on safeguards assessments for Fund arrangements. However, at the time of making a formal written request for an FCL arrangement, such a member requesting an FCL

arrangement will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. The member will be expected to act in a cooperative manner during such discussions with the staff. For as long as Fund credit is outstanding under this Decision, the member will also provide staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor.

7. The Emergency Financing Mechanism (EFM) procedures set forth in *Summing Up by the Chairman—Emergency Financing Mechanism Executive Board Meeting 95/98, 9/12/95*, shall not apply to requests for FCL arrangements.

8. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

9. Paragraph 1 of Decision No. 12865-(02/102), adopted September 25, 2002, shall be deleted, and Paragraph 2, 3 and 4 of the Decision shall be renumbered as Paragraph 1, 2 and 3, respectively.

10. This Decision shall be reviewed no later than two years after the date of its adoption, or whenever the total amount committed under this Decision reaches SDR 100 billion, whichever is earlier.

**V. ACCESS POLICY AND LIMITS IN THE CREDIT TRANCHES AND UNDER THE EXTENDED  
FUND FACILITY AND ON OVERALL ACCESS TO THE FUND'S GENERAL RESOURCES, AND  
EXCEPTIONAL ACCESS POLICY – REVIEW AND MODIFICATION**

1. Decision No. 14064-(08/18), adopted February 22, 2008, shall be amended to read as follows:

“1. The Fund has reviewed the guidelines and the limits for access by members to the Fund's general resources set forth in Decision No. 14064-(08/18), adopted February 22, 2008, as amended, and decides as follows.

2. The overall access by members to the Fund's general resources shall be subject to (i) an annual limit of 200 percent of quota; and (ii) a cumulative limit of 600 percent of quota, net of scheduled repurchases; provided that these limits will not apply in cases where a member requests a Flexible Credit Line arrangement in the credit tranches, although outstanding holdings of a member's currency arising under such arrangements will be taken into account when applying these limits in cases involving requests for access under other Fund facilities.

3. The Fund may approve access in excess of the limits set forth in this Decision in exceptional circumstances, provided the following four substantive criteria are met:

(a) The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.

(b) A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Debt sustainability for these purposes will be evaluated on a forward-looking basis and may take into account, inter alia, the intended restructuring of debt to restore sustainability. This criterion applies only to public (domestic and external ) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.

(c) The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.

(d) The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

4. Unless otherwise specified in a general decision of the Executive Board, the procedures set forth in PIN/03/37 (3/21/03) and PIN/05/58 (5/4/05) shall apply to all cases involving access in excess of the limits set forth in this Decision.

5. The guidelines for access, the access limits set forth in this Decision, and the experience with access in amounts exceeding these limits shall be reviewed no later than March 29, 2014, on the basis of all relevant factors, including the magnitude of members' balance of payments problems and developments in the Fund's liquidity."

2. In the decision on transparency and publication policies, Decision No. 13564-(05/85), adopted October 5, 2005, as amended, the references to "100" and "300" in paragraph 4(b) shall be replaced with "200" and "600", respectively.

3. In the decision on Post-Program Monitoring, Decision No. 13454-(05/26), adopted March 14, 2005, as amended, references to "100 percent" in paragraph 1 shall be replaced with "200 percent."



**VI. SURCHARGES ON PURCHASES IN THE CREDIT TRANCHES AND UNDER THE  
EXTENDED FUND FACILITY**

\*A number of revisions were made to proposed Decision VI which are set out in Supplement 1. These included that the new system of surcharges would come into effect on August 1, 2009 (the start of the next quarterly interest billing cycle) rather than May 1. This allows time for members to consider grandfathering arrangements. The deadline for grandfathering was moved to July 29, 2009 from April 30, 2009. The application of the time-based surcharge was also clarified.

Decision No. 12346-(00/117), adopted November 28, 2000 shall be amended to read as follows:

“1. Effective May 1, 2009, the rate of charge under Article V, Section 8(b) on the Fund’s combined holdings of a member’s currency in excess of 300 percent of the member’s quota in the Fund resulting from purchases in the credit tranches and under the Extended Fund Facility shall be 200 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing; provided that the rate of charge in any case where such holdings in excess of 300 percent of quota are outstanding for more than three years after May 1, 2009 shall include an additional 100 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing.

2. (a) Notwithstanding paragraph 1 of this Decision, and except as otherwise specified in paragraph 3 of this Decision, a member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, May 1, 2009 shall have the option to elect whether the rate of charge on such existing holdings of the member’s currency, and on holdings of the member’s currency arising from future purchases under such an existing arrangement, shall be computed:

(i) pursuant to paragraph 1 of this Decision or;

(ii) pursuant to the framework for surcharges on purchases in the credit tranches and under the Extended Fund Facility that was in effect from November 28, 2000 until the date of this Decision (as set out in the Annex to this Decision).

(b) A member with an election option under paragraph 2(a) of this Decision shall notify the Fund by April 30, 2009 whether it elects to have the rate of charge computed pursuant to paragraph 2(a)(i) or paragraph 2(a)(ii) of this Decision. A member failing to provide such notification by April 30, 2009 shall have the rate of charge computed pursuant to paragraph 2(a)(i) of this Decision.

3. When the Fund approves a new arrangement on or after May 1, 2009 for a member that has elected to have the rate of charge computed pursuant to paragraph 2(a)(ii) of this Decision, such election shall cease to apply and the rate of charge under this Decision on all holdings of the member's currency in the credit tranches or under the Extended Fund Facility shall be computed pursuant to paragraph 1 of this Decision.

4. This Decision shall be reviewed in accordance with Decision No. 13814-(06/98), adopted November 15, 2006 on implementing streamlining of policy reviews.

**VII. COMMITMENT FEE**

Rule I-8(a) and I-8(b) of the Fund's Rules and Regulations shall be revised to read as follows:

“(a) A charge shall be payable at the beginning of each twelve-month period (the “relevant period”) of an arrangement as follows:

(i)  $15/100$  of 1 percent per annum on amounts of up to 200 percent of the member's quota that could be purchased during the relevant period;

(ii)  $3/10$  of 1 percent per annum on amounts in excess of 200 percent and up to 1000 percent of the member's quota that could be purchased during the relevant period; and

(iii)  $3/5$  of 1 percent per annum on amounts in excess of 1000 percent of the member's quota that could be purchased during the relevant period.

(b) When a purchase is made under an arrangement, the amount of the charge paid shall be reduced, and a refund equal to the reduction shall be made, as follows:

(i) to the extent that purchases during the relevant period do not exceed 200 percent of the member's quota, the portion of the charge calculated in accordance with subparagraph (a)(i) above shall be reduced by the proportion that the amount of the purchase

bears to the amount of the arrangement not exceeding 200 percent of the member's quota that could be purchased during the relevant period;

(ii) to the extent that purchases during the relevant period exceed 200 percent but do not exceed 1000 percent of the member's quota, the portion of the charge calculated in accordance with subparagraph (a)(ii) above shall be reduced by the proportion that the amount of the purchase bears to the amount of the arrangement exceeding 200 percent but not exceeding 1000 percent of the member's quota that could be purchased during the relevant period; and

(iii) to the extent that purchases during the relevant period exceeds 1000 percent of the member's quota, the portion of the charge calculated in accordance with subparagraph (a)(iii) above shall be reduced by the proportion that the amount of the purchase bears to the amount of the arrangement exceeding 1000 percent of the member's quota that could be purchased during the relevant period.”

### **VIII. REPEAL OF TIME-BASED REPURCHASE EXPECTATIONS**

\* The proposed Decision was revised to be effective April 1, 2009 rather than May 1, 2009 (see Supplement 1).

1. The decision on repurchases, Decision No. 5703-(78/39), adopted March 22, 1978, as amended, shall be amended as follows:

- (a) Paragraphs 1(b), 1(c), and 8 on time-based repurchase expectations shall be deleted; and
- (b) The numbering “(a)” in paragraph 1 shall be deleted.
2. In the decision on the Extended Fund Facility, Decision No. 4377-(74/114), adopted September 13, 1974, as amended, Paragraphs 10(a), 10(b), and 11 on repurchase expectations shall be deleted.
3. The decision on the publication of information on missed repurchase obligations, Decision No. 12547-(01/84) SRF/CCL, adopted August 22, 2001, shall be repealed.
4. In the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust Instrument annexed to Decision No. 8759-(87/176) ESAF, as amended, the reference to “, or is failing to meet a repurchase expectation pursuant to paragraph 1(b) of Decision No 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114)” in Section II, paragraph 1(d)(3) shall be deleted.
5. In Attachments A (Form of Stand-By Arrangement) and B (Form of Extended Arrangement) of Decision No. 10464-(93/130), adopted September 13, 1993, as amended, the reference to “, or (e) pursuant to paragraph 1(b) of Decision No. 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114)” shall be deleted.

6. The decision on attributions of reductions in Fund's holdings of currencies, Decision No. 6831-(81/65), adopted April 22, 1981 and effective May 1, 1981, as amended, shall be amended as follows:

- (a) Paragraphs 1(c) and 1(d) on repurchase expectations shall be deleted; and
  - (b) The references to "(c)" and "(d)" in paragraph 1(a) shall be deleted.
7. This Decision shall become effective on May 1, 2009.

## Annex to Decision VI

For purposes of paragraph 2(a)(ii) of Decision No.VI, the framework for surcharges on purchases in the credit tranches and under the Extended Fund Facility that was in effect from November 28, 2000 until the date of Decision No.VI is as follows: “The rate of charge under Article V, Section 8(b) on the Fund’s combined holdings of a member’s currency in excess of 200 percent of the member’s quota in the Fund resulting from purchases in the credit tranches and under the Extended Fund Facility made after November 28, 2000 shall be 100 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing, provided that the rate on such holdings in excess of 300 percent of the member’s quota shall be 200 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing.”

## ANNEX I. FCL QUALIFICATION CRITERIA

1. This annex provides the key considerations for establishing the qualification framework to access financing under the FCL, with a view to promoting a predictable and evenhanded qualification process. The qualification criteria for the FCL draw from those already established by the Executive Board for the SLF, as well as on the qualification criteria discussed by the Board in the context of the Reserve Augmentation Line (RAL).<sup>1</sup>
2. The core of the qualification framework for the FCL is an assessment that the members' economic fundamentals, institutional policy framework, and policies are very strong. These, together with a sustained track record of very strong policy implementation, would give markets and the Fund confidence that the member would take appropriate corrective policy measures when facing an adverse shock, consistent with addressing the BOP problems it may be facing and with repaying the Fund. As the FCL can be used for any BOP problem and in the face of an actual or potential financing need, qualification for the FCL would not preclude circumstances where the member would need or plan to undertake policy adjustments.
3. Any assessment of qualification involves a degree of judgment. The assessment of the qualification criteria, noted below, will need to take into account the great variety of the member's circumstances and the uncertainties that attend economic projections. Strong performance against all relevant criteria noted below would not be necessary to secure qualification under the FCL. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—could generally signal that the member is not among the strong performers for whom the FCL is intended.

### **Qualification Criteria**

4. Qualification to the FCL requires that the member has very strong economic fundamentals, institutional policy frameworks and policies, and has a sustained track record of implementing very strong policies and of adjusting to shocks, and remains committed to implementing very strong policies in the future. Member's policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultations. Staff would rely primarily on the following criteria and set of relevant indicators that seek to establish the strength of the member's underlying fundamentals and economic policies:

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<sup>1</sup> See [PIN/06/104](#), 9/13/06 and [PIN/07/40](#), 3/23/07.



- *A sustainable external position.* Relevant indicators would be: the debt-stabilizing noninterest current account balance; the level and composition of external debt; the level of net international reserves and the level and composition of private sector external assets; and assessments of exchange rate misalignment.
- *A capital account position dominated by private flows.* Relevant indicators would be an assessment of the International Investment Position and the composition of recent capital flows.
- *A track record of steady sovereign access to capital markets at favorable terms.* Relevant indicators would be a comparison of spreads with comparator countries and relative performance of spreads during periods of global shocks.
- *When the arrangement is requested on a precautionary basis, a reserve position which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.* Assessment of reserve levels would take into account a number of metrics (imports, short-term debt, monetary base) as relevant given the member's exchange rate regime.
- *Sound public finances, including a sustainable public debt position* determined by a rigorous and systematic debt sustainability analysis. The analysis would cover the evolution of debt, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests. Relevant indicators may include the recent evolution of fiscal balances in relation to the economy's cyclical position; the quality of any adjustment measures being considered; an assessment of medium-term plans anchoring fiscal policy outcomes; and an overall sound institutional budgetary framework as informed by recent fiscal ROSCs, where available.
- *Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.* Relevant indicators would include the recent evolution of core and headline inflation and inflation expectations; past and announced policy responses to inflationary shocks; the adequacy of monetary policy instruments to conduct monetary policy; accountability, transparency, and communication regarding policy objectives and policy responses.
- *Absence of bank solvency problems that pose an imminent threat of a systemic banking crisis.* A range of indicators and available information may be combined to assess this criterion, such as the evolution of deposits, measures of profitability, asset quality, and capital adequacy; and, where available, analyses of market, credit, and liquidity risks facing banks based on recent FSAPs or other sources.

- *Effective financial sector supervision.* Relevant modalities to establish observance with this criterion would be provided by an assessment of the supervisory framework and of the legal and institutional framework, as well as the operational capacity, to respond promptly if bank interventions and resolution is warranted and if emergency liquidity assistance is needed.
- *Data transparency and integrity.* Subscription to the Special Data Dissemination Standard or a judgment that satisfactory progress is being made toward meeting its requirements will also be a relevant qualification criterion.

## ANNEX II: DETERMINING ACCESS IN FUND-SUPPORTED PROGRAMS

1. The key criteria that govern access decisions in individual country cases are: (i) the member's actual or potential need for Fund resources taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves (Fund policy establishes that in no circumstances can access be greater than this need); (ii) the member's capacity to repay the Fund, which takes into account the strength of its adjustment program including the extent to which it will lead to a strengthening of the member's BOP by the time that repurchases begin to fall due; and (iii) the amount of the member's outstanding Fund credit and its record in using Fund resources in the past. These criteria are broad and making them operational involves substantial judgment, even more so when access is requested on a precautionary basis, in which case the starting point is the *risk* of a plausible adverse scenario that takes into consideration the above factors (Box II.1). Access decisions also affect the availability of Fund resources, which motivate the existence of normal access limits and special procedures for higher access.

2. The starting point for deriving estimates of actual and potential BOP need, is the projection of a country's gross borrowing requirements taking into account expected financing flows. To this end, the following considerations and indicators are normally used by Fund staff: (i) the degree and drivers of required current account adjustment, in view of the need to address underlying imbalances without, however, creating disorderly conditions; (ii) public and private debt rollover prospects using historical benchmarks of rollover rates in crisis and near-crisis situations, as well as current market expectations; (iii) prospects for FDI flows; (iv) recent trends and outlook in portfolio flows in relation to the stock of nonresident portfolio holdings; (v) current and expected deposit outflow pressures and the degree of liability dollarization in the economy; (vi) other sources of financing, including from private and other multilateral sources; and (vii) the adequacy of and desirability of maintaining a reasonable level of reserves in relation to imports, short-term debt and, for pegged exchange rate regimes, the monetary base and bank deposit.

3. Any estimate of BOP need would also be informed by assumptions on global growth and financing conditions (from the WEO and GFSR); comparisons with previous and contemporaneous crises; assumptions for peer countries and global consistency requirements; and contagion risks. In capital account crisis, access decisions are also informed by the need to bolster investor confidence—track record shows that Fund financing has tended to be too small in relation to ex post current account adjustment and short-term external debt, with programs sometimes failing to provide the hoped for catalytic role. Finally, the strength of members' policies is critical for prospects of program success and Fund risks.

### Box II.1. Access Decisions in HAPAs: 2000–09

The starting point for deciding access levels in precautionary arrangements has been an assessment of financing needs in a plausible adverse scenario, taking into account the factors above.<sup>1</sup>

- A recent example is the 2009 precautionary SBA for El Salvador (300 percent of quota), where access was determined based on three metrics for international reserves, covering (i) a 5 percent deposit withdrawal combined with a 50 percent rollover of short-term external credit; (ii) 10 percent of bank deposits; and (iii) total bank capital (together with an approved IADB credit line).
- An earlier example is Brazil, for which access under the 2003 augmentation and extension of the SBA was treated as precautionary (making 355 percent of quota available) and set at a level where reserves could withstand a shock of a three-month decline in rollover rates on external debt to 25 percent.
- Under Brazil's SBA in 2001, the access of 400 percent of quota was designed to increase reserves to a level that, along with additional fiscal and monetary policy measures under the program, would help generate market confidence in the event of a further deterioration in the international environment.
- For Argentina (2000), the access level of 255 percent of quota created a buffer to cover parts of the external borrowing need of the government in case of an interruption in market access in response to volatile market conditions.

In all cases, the availability of substantial financial support from the Fund, as well as the strong policy commitments signaled by it, were meant to enhance creditor confidence, making it less likely that the arrangement would be drawn up on.

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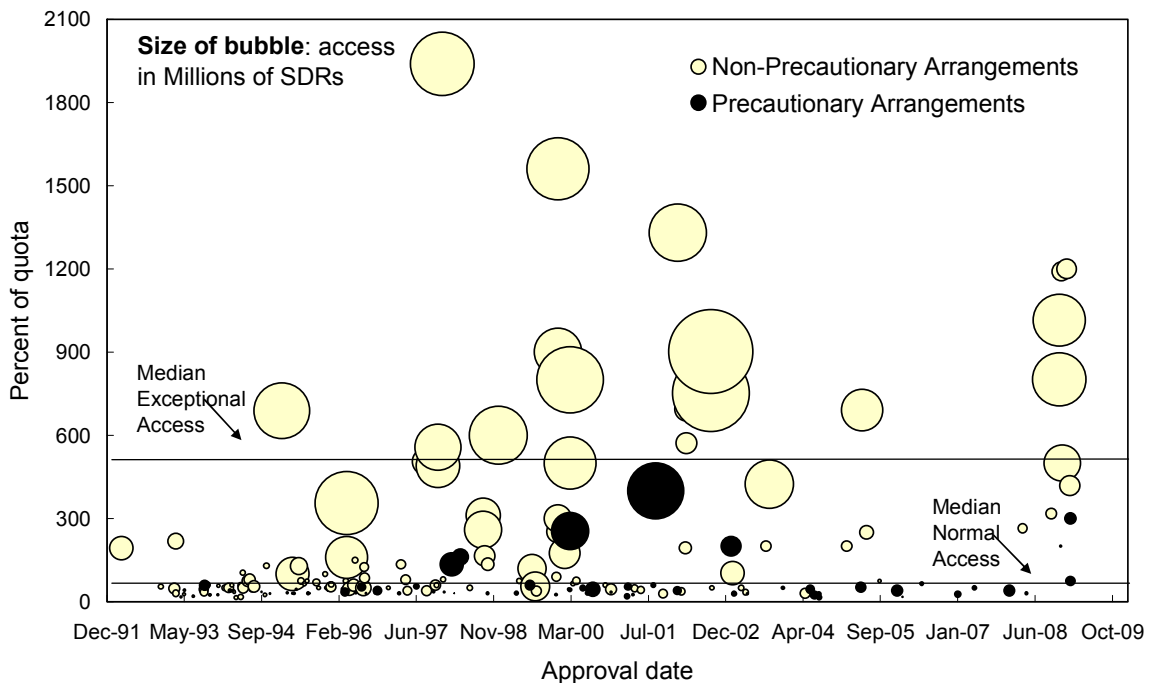
<sup>1</sup> For both Brazil (2001) and Argentina (2000), the arrangements were treated as precautionary at approval, but were later drawn upon.

4. These considerations show that there are important economic concept-based metrics that must be brought to bear rigorously in access decisions, but that judgment and flexibility are also needed in all cases, regardless of whether the need for Fund resources is actual or potential. The need for flexibility when dealing with private sector flows has been acknowledged in the past by the Executive Board, which has noted that there is a high level of uncertainty associated with the projection of private capital flows and the difficulty this poses for program design, and that making well-informed assessments on access when

debt-restructuring is needed is a highly complicated task.<sup>2</sup> Moreover, global growth and trade flow assumptions are fluid, especially in an uncertain global environment. Thus, flexibility is particularly necessary when determining the financing need and the appropriate balance between adjustment and financing in actual crisis situations, where economic variables evolve rapidly and information gaps may be substantial.

5. Based on the flexibility in the access decision framework, it is not surprising that the scale of access in relation to quota has varied considerably in past GRA arrangements—for actual or precautionary BOP need—with the median quota-based access changing from less than 50 percent for normal access cases to more than 500 percent for exceptional access (Figure 1). Likewise, in all the recent high access cases, access decisions have been based on a variety of assumptions consistent with the vastly different country-specific circumstances. While such variability may be justified (as well as the fact that quotas do not change often), it also begs the question of whether access decisions could be more tightly justified based on a range of economic metrics and

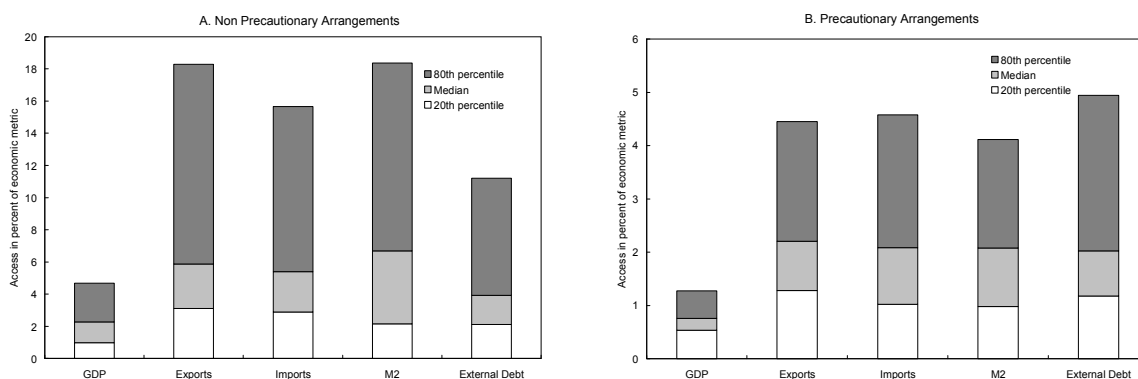
Figure 1. Access under GRA Arrangements, 1992-2009



<sup>2</sup> See [Review of Access Policy Under the Credit Tranches and the Extended Fund Facility](#) (PIN/08/30, 3/7/08), and [Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy](#) (PIN/03/37, 3/21/03).

policy assessments, including because this could provide greater access predictability to members. For example, alternative metrics could be considered for capacity to repay (exports and GDP) and potential need (external debt and monetary base). However, even against these more dynamic metrics, past access has varied considerably (Figure 2).

**Figure 2. Alternative Access Metrics for GRA Arrangements, 1992–2009**



6. Thus, while an economic concept-based metric may reflect the changing economic conditions and may be more predictable in terms of signaling access to Fund resources, a rigid adoption of economic metric ceilings may not be desirable given that there are often likely to be cases where the country-specific circumstances warrant a breach of that ceiling. Thus, there may not be a one-size-fits-all metric or formula that can be used to determine the appropriate access level for all members. A more promising and pragmatic approach may be to continue to justify proposed access levels in individual cases on the standard criteria of need and ability to repay; and also to evaluate the proposed access levels compared to previous Fund arrangements based on a range of metrics, with a rigorous justification needed for proposed access levels that are out of line with previous arrangements.

### ANNEX III. TRANSITIONAL ARRANGEMENTS FOR SURCHARGES\*

\* The date of introducing the new surcharge system was subsequently revised from May 1, 2009 to August 1, 2009 and the deadline for grandfathering was delayed from April 30, 2009 to July 29, 2009. See Supplement 1 for the Decisions adopted by the Executive Board.

1. This annex describes the transitional arrangements proposed for the adoption of the new system of surcharges. It also reports illustrative calculations of the impact of alternative transitional arrangements on surcharge payments for each of the countries that would be immediately affected by the introduction of the new system of surcharges.

#### **New surcharge system**

2. The new system of surcharges would become effective on May 1, 2009, about a month after the scheduled date for the adoption of the relevant Board decision to give members time to elect grandfathering options as discussed below. Any arrangement approved after May 1, 2009 would be subject to the new system of surcharges, with a level-based surcharge of 200 basis points on credit outstanding exceeding 300 percent of quota. The clock for the time-based element of the new system would start on the date (after May 1, 2009) that a member with such an arrangement had credit outstanding above 300 percent of quota, and if credit remained above 300 percent of quota, an increase in the surcharge from 200 basis points to 300 basis points would come into effect three years after that date.

#### **Proposed choice in grandfathering**

3. Some members already have credit outstanding or existing arrangements under which they can make purchases. Embodying a policy choice that these members should not be made any worse off by the change in the surcharge structure, it is proposed that they be given a choice between the following two options:

- **Full grandfathering.** Members would elect to keep existing credit outstanding and new purchases under existing arrangements under the current system of surcharges. The current surcharge schedule would remain in effect while the member had credit outstanding.
- **No grandfathering.** Members would elect to subject existing credit outstanding and new purchases under existing arrangements to the new system of surcharges. Upon the effective date of the new system, the clock for the time-based element of the new surcharge system would start when credit outstanding exceeds 300 percent of quota. Hence, the increase in the surcharge from 200 to 300 basis points would be three years from the effective date of the new surcharge system at the earliest.

4. Members would need to make this election by April 30, 2009, and they would receive appropriate information from Fund staff to enable them to make an informed choice in this regard. If a member fails to notify staff of its election within the specified period, the new system would automatically apply (no grandfathering option).

5. Notwithstanding the above, if any new arrangement is approved for a member after the new system of surcharges enters into effect, then all outstanding credit and future purchases of the member (including those in respect of which it may have previously chosen the current system) would become subject to the new system of surcharges. This approach would ensure that the Fund's entire credit outstanding to a member would be subject to one system of surcharges to mitigate the associated credit risk. Given the higher threshold for surcharges under the new system, the initial effect would be to reduce surcharges. With the switch to the new system of surcharges, whenever credit outstanding subsequently exceeds 300 percent of quota, the clock would start for the time element of the new surcharge system, so the increase in the surcharge from 200 to 300 basis points could be three years from the date of the approval of the new arrangement at the earliest.

#### **Illustration of grandfathering in country cases**

6. Currently, the countries potentially affected by the adoption of the new system of surcharges include those that have requested exceptional access to Fund resources since September 2008 (Georgia, Ukraine, Hungary, Iceland, Pakistan, Latvia, Belarus, and Armenia) and those that are currently paying surcharges on their outstanding credit (Turkey and Liberia).<sup>3</sup> Table I.1 presents projections of cumulative surcharge payments for these countries over the full period for which credit could remain outstanding.<sup>4</sup> It shows that:

- Total surcharge income would be similar whether members choose to stay with the current system (full grandfathering) or choose to switch immediately to the new system (no grandfathering).
- Full grandfathering would benefit members with the highest access (Hungary, Iceland, and Latvia). No grandfathering would result in lower surcharges for members with lower access, reflecting the higher access threshold under the new system, and the fact that, in these cases, time-based surcharge payments would be less significant.

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<sup>3</sup> El Salvador is not included as the authorities have indicated that they intend to treat the arrangement as precautionary.

<sup>4</sup> The cumulative surcharges presented in Table I.1 assume the new system of surcharges is effective as of May 1, 2009 for those cases where members elect the new system. It is also assumed that purchases under existing arrangements are made as scheduled, and all repurchases are assumed to be made on the obligations schedule.



- Relative to applying either full grandfathering (total surcharges of SDR 1564 million) or no grandfathering (total surcharges of SDR 1482 million), allowing members to choose between the two options would only modestly reduce total surcharge income; assuming members choose the system with the estimated least cost under these calculations, total surcharge income would be SDR 1468 million.

**Table I.1 Projected Surcharges under Alternative Transitional Arrangements**  
(In SDR millions, unless otherwise stated)

Country	Date of Approval	Quota	Total Access		Projected Cumulative Surcharges 1/ Grandfathering Options	
			(In SDR millions)	(In percent of quota)	Full grandfathering	No grandfathering
<b>A. Members with arrangements approved since September 2008 2/</b>						
Georgia 3/	15-Sep-2008	150.3	477.1	317.4	5.5	1.0
Ukraine	05-Nov-2008	1,372.0	11,000.0	801.7	523.9	514.0
Hungary	06-Nov-2008	1,038.4	10,537.5	1,014.8	582.2	587.1
Iceland	19-Nov-2008	117.6	1,400.0	1,190.5	78.7	82.7
Pakistan	24-Nov-2008	1,033.7	5,168.5	500.0	154.6	119.0
Latvia	23-Dec-2008	126.8	1,521.6	1,200.0	86.5	91.4
Belarus	12-Jan-2009	386.4	1,618.1	418.8	40.0	25.7
Armenia	06-Mar-2009	92.0	368.0	400.0	6.9	3.5
<b>B. Members with credit outstanding</b>						
Liberia 4/		129.2	342.8	265.3	3.5	0.2
Turkey 4/		1,191.3	5,378.2	451.5	82.6	57.4
<b>Total</b>			<b>37,811.8</b>		<b>1,564.3</b>	<b>1,482.0</b>

Source: Finance Department

1/ Key parameters of the proposed surcharge schedule. The new system of surcharges is assumed to be effective as of May 1, 2009. Cumulative surcharges are calculated as of January 31, 2009. Repurchases under obligation basis.

2/ El Salvador is not included as the authorities have indicated that they intend to consider the arrangement as precautionary.

3/ Georgia did not make a second purchase as scheduled upon the completion of the first review. Second and third purchases are combined.

4/ Credit outstanding as of January 31, 2009. Liberia's access would remain under the threshold if the new system of surcharges were chosen.