BUFF/97/123

December 17, 1997

Statement by the Staff Representative on the Supplemental Reserve Facility
Executive Board Meeting 97/123
December 17, 1997

At a Board meeting on December 15, 1997, most Directors favored the establishment of a Supplemental Reserve Facility broadly along the lines proposed by the staff.[1] The attached, revised draft decision incorporates the views of Directors on various aspects of the facility, including its aims and objectives. The revised draft decision also incorporates new proposals on the issues of maturity and charges, which the staff, having considered the views expressed by Directors, believes may command broad support in the Board. The following paragraphs provide additional explanation of the new proposals in these two areas.

1. **Maturity**

As with other Fund resources, repurchases would fall due after a specific period following *each purchase*. The staff paper had proposed that repurchase expectations would arise in four equal quarterly instalments 2 ¼ years, 2 ½ years, 2 ¾ years, and 3 years, respectively, after each purchase. Each of these repurchase expectations could, at the request of the member and with the approval of the Board, be established as a repurchase obligation for up to one year later than the original date of the expectation. In other words, should a member find itself unable to meet a repurchase expectation, it would make representations to the Board to that effect (including a description of actions it was taking to strengthen its balance of payments), and the Board would determine whether it wished to retain or extend the repurchase expectation or (if it is not met) convert it into an obligation. Thus, repurchase obligations would arise, at the latest, in four equal quarterly instalments 3 ¼ years, 3 ½ years, 3 ¾ years, and 4 years, respectively, after each purchase

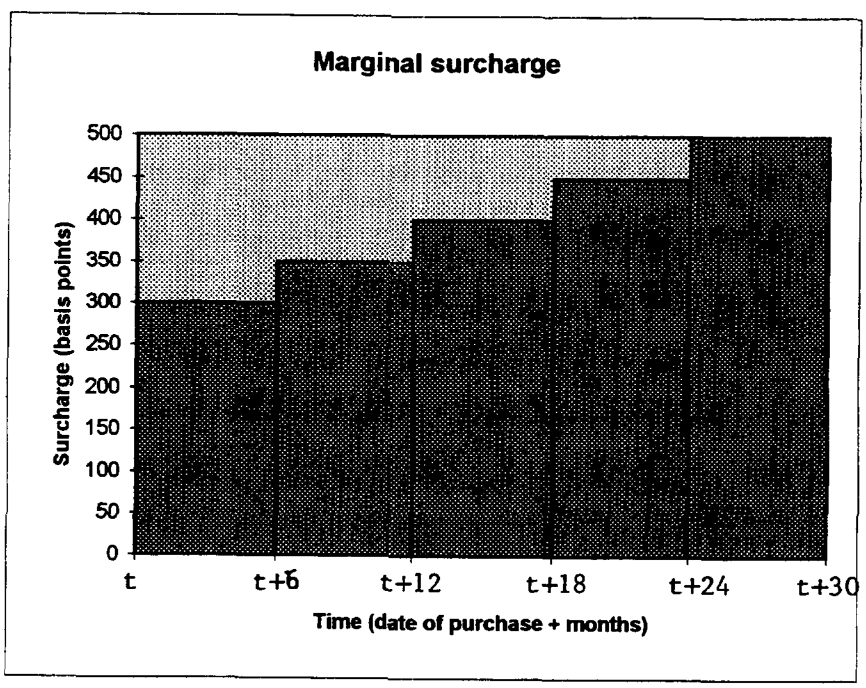
The new proposal would shorten this repurchase schedule significantly, while retaining the flexibility inherent in the combination of expectations and obligations. Repurchase expectations would arise in two equal semiannual instalments 1 year and 1 ½ years, respectively, after each purchase, and repurchase obligations would arise, at the latest, in two equal semiannual instalments 2 years and 2 ½ years, respectively, after each purchase. As in the original proposal, a member finding itself unable to meet a repurchase expectation would make representations to the Board to that effect, and the Board would determine whether it wished to retain or extend the repurchase expectation taking into account the actions being taken by the member to strengthen its balance of payments and an assessment by staff of the

[1] "Supplemental Reserve Facility", EBS/97/225, December 5, 1997.

2. Charges

The staff paper had proposed that purchases under the facility be subject to a surcharge (uniform for all members) above the adjusted basic rate of charge, at a level within the range of 200-400 basis points. The majority of Directors preferred the upper end of this range, although at least six argued for a surcharge at the lower end. Many Directors also expressed interest in a surcharge that progresses, rising either according to amount purchased or according to the time resources have been outstanding, or both.

While progression according to the amount outstanding would be possible, as long as it was based on amounts in percent of a member's quota (and not in absolute terms), the staff believes that much of what the Board wishes to achieve can be accomplished by progression according to time outstanding. Limiting the progression of charges to this schema would have the advantage of clarity and simplicity. The new proposal would set the initial surcharge at 300 basis points, and would have the surcharge rising by 50 basis points every six months as long as any resources under a given purchase remain outstanding.



3. In sum

The new proposal is summarized in the figure below, which sets out the surcharges and repurchases associated with a particular purchase of SDR 1 billion made at time t (dates are indicated in months, and the surcharge in basis points):

Date	t	t+6	t+12	t+18	t+24	t+30
Surcharge	300	350	400	450	500	
Repurchase expectations			0.5	0.5		
Repurchase obligations			←0.5→	←0.5→		

Thus the surcharge would reach 400 basis points at the time the first repurchase expectation arose, and would go as high as 500 basis points in the final six months if the Board decided to extend the period of repurchase up to the maximum permitted under the facility. If a member made all purchases according to the original expectations the average maturity would be 1¼ years and the average rate of surcharge would be 340 basis points; if expectations were converted to obligations to be met six months (one year) after the original date of expectations, the average maturity would be 1¾ (2¼) years and the average rate of surcharge would be 364 (389) basis points.

Purchase	1 billion		Weighted average surcharge on total purchases (basis points)	Average actual maturity (years)
Portions	0.5 billion	0.5 billion		
Initial maturity	1 year	1.5 years		
Effective average rate of surcharge: (basis points)				
(1) If initial expectation met:	325	350	340	1.25
(2) If initial expectation not met and expectation/ obligation set six months later:	350	375	364	1.75
(3) If initial expectation not met and expectation/ obligation set 1 year later:	375	400	389	2.25