

**IMMEDIATE
ATTENTION**

SM/09/69
Supplement 3

April 8, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **GRA Lending Toolkit and Conditionality—Reform Proposals—
Technical Revision Regarding Commitment Fees**

Attached for consideration by Executive Directors is a paper on Lending Toolkit and Conditionality—Reform Proposals—Technical Revision Regarding Commitment Fees. A proposed decision appears on page 2.

It is not intended that this paper will be published on the Fund's external website.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **the close of business on Friday, April 10, 2009**. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting.

Questions may be referred to Mr. Beaumont, FIN (ext. 37411), Mr. Giorgianni, SPR (ext. 35326), and Mr. Ogada, LEG (ext. 37886).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

**GRA Lending Toolkit and Conditionality—Reform Proposals—Technical Revision
Regarding Commitment Fees**

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

Approved by Reza Moghadam, Andrew Tweedie, and Joan Powers

April 8, 2009

1. On March 24, 2009, the Executive Board approved a set of decisions reforming the General Resources Account (GRA) lending toolkit and conditionality, including Decision VII, which modified the Fund's policy on commitment fees set forth in Rule I-8 of the Fund's Rules and Regulations so as to introduce a new upward-sloping commitment fee schedule. The relevant staff paper (SM/09/69, 3/13/09, paragraph 35) made clear that the dominant rationale for the commitment fee proposal was "to contain risks to the Fund's liquidity associated with the introduction of FCLs and the expected greater use of HAPAs."¹ The intent that the new commitment fees would apply to FCL arrangements was also noted in several other places in the staff paper,² and was acknowledged by Directors in the various discussions on the staff's proposals.

2. Decision VII as adopted by the Executive Board on March 24, 2009 revised subparagraphs (a) and (b) of Rule I-8 so as to implement the new upward-sloping commitment fee schedule proposed by the staff. As contemplated in the staff paper, however, the decision also needed to amend the introductory sentence to Rule I-8 to reflect the applicability of that Rule to the Fund's newly established FCL, but such an amendment to the introductory sentence was omitted from the proposed decision adopted by the Board.³ It is therefore necessary to effect a further technical amendment of Rule I-8 in order to remedy

¹ "FCLs" and "HAPAs" refer, respectively, to Flexible Credit Line arrangements and to high access precautionary arrangements.

² For example, paragraph 24 of the staff paper noted that the commitment fee structure for *all* GRA arrangements was proposed to be revised to contain potential liquidity risks; paragraph 28 observed the role of the commitment fee in discouraging unduly large precautionary access under the FCL; Box 1 (footnote 1) explained that Rule I-8 on commitment fees would be modified to include FCL arrangements; and text Table 2 contained calculations applying the new commitment fee to FCL arrangements.

³ The first sentence of Rule I-8 currently reads: "The following provisions shall apply to stand-by and extended arrangements."

this omission and give effect to a key rationale for the commitment fee reform—that the amended commitment fee schedule would apply to FCL arrangements.

Proposed Decision

Accordingly, the following decision, which may be adopted by a 70 percent majority of the total voting power, is proposed for adoption by the Executive Board.

The Fund decides that the first sentence of Rule I-8 of the Fund’s Rules and Regulations shall be revised to read as follows: “The following provisions shall apply to all GRA arrangements.”