**IMMEDIATE ATTENTION**

EBS/09/85

June 10, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Borrowing Agreement with the Government of Canada**

Attached for consideration by the Executive Directors is a paper on a draft borrowing agreement between the Government of Canada and the Fund.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Wednesday, June 17, 2009.** In the absence of such a request, the draft decision that appears on pages 5 and 6 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

It is intended that this paper will be published on the Fund's external website after the borrowing agreement is signed and enters into force.

Questions may be referred to Ms. Bassett, FIN (ext. 34621) and Mr. Steinki, LEG (ext. 38222).

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

# Borrowing Agreement with the Government of Canada

Prepared by the Finance Department and the Legal Department

Approved by Andrew Tweedie and Sean Hagan

June 10, 2009

## I. Introduction

1. This paper presents for the approval of the Executive Board a draft borrowing agreement between the Government of Canada and the Fund. The Government of Canada announced its willingness to lend up to $10 billion to the Fund to support the Fund's ability to provide timely and effective balance of payments assistance to its members in the context of the summit of the Leaders of the Group of Twenty (G-20) in early April. Staff and the Canadian authorities have now reached agreement on a draft borrowing agreement, the text of which is set forth in the Attachment (the "Agreement"). The Agreement would make an important contribution to the multilateral effort to ensure the adequacy of the Fund's financial resources, adding to the resources already available to the Fund from the borrowing agreements with Japan and Norges Bank that were approved by the Board recently.[1] It is also expected that borrowing agreements with other members will be proposed for Board approval soon.

2. The Agreement closely follows the terms of the Japan borrowing agreement; hence Board approval on a lapse of time basis is proposed. A limited number of modifications reflect the preferences of the Canadian authorities and new developments, including the possible enlargement and expansion of the New Arrangements to Borrow (NAB). The main differences between the Agreement and the agreement with Japan, as discussed in more detail in Section II below, are (i) the term of the agreement, (ii) the option for Canada to unilaterally terminate the term of the agreement under certain circumstances once an expanded and enlarged NAB with Canada's participation becomes effective, and (iii) the availability of traditional immediate encashability of all outstanding claims in case of balance of payments need.

[1] *Borrowing Agreement with the Government of Japan* (EBS/09/19, 02/10/2009) and (Decision No. 14264-(09/15), adopted February 12, 2009) and *Borrowing Agreement with Norges Bank* (EBS/09/77, 5/29/09) and (Decision adopted June 5, 2009).

## II. Specific features of the Proposed Agreement

3. This section highlights the key terms and provisions that are unique to the Agreement, compared to the Japan borrowing agreement. The staff report for the Japan borrowing agreement contains a summary of other key terms and conditions that are common to both the Agreement and the Japan agreement.[2]

### *Term of the Agreement*

4. The Agreement provides for a longer initial drawing period than the Japan agreement, but the total maximum term of the agreement is shorter than that of the Japan agreement. Specifically, the Agreement has an initial term of two years, which commences on the date of the first drawing or July 2, 2009, whichever is earlier (Paragraph 2(a)). The initial term can be extended for another two-year period for a total drawing period of up to four years (Paragraph 2(b)), subject to the agreement by Canada. (In contrast, the borrowing agreement with Japan provided for a one-year term extendable for additional one-year periods for up to a total five-year period, subject to consultation with Japan.)

### *Folding the Agreement into an Expanded and More Flexible NAB*

5. In view of the Canadian authorities' intention to follow through on the G-20 leaders' mandate to incorporate immediate financing from members into an expanded and more flexible NAB, the Agreement gives Canada the ability to terminate the term of the Agreement with respect to any undrawn balances upon Canada's participation in an enlarged and more flexible NAB (Paragraph 2(c)). Termination is conditional on Canada having an effective credit arrangement under the new NAB that is at least equal to the remaining undrawn balance under the Agreement at the time of the termination. The terms pursuant to which outstanding ***drawings*** under the Agreement could be folded into the NAB raise issues of permissible uses of NAB resources, and thus will need to be addressed separately as part of the upcoming discussions on the NAB.

### *Limits on Drawings*

6. The Agreement provides for a limit on drawings during any calendar week of SDR 500 million. Unlike the Japan agreement, there is no additional monthly limit on drawings. As in the case of the Japan agreement, drawings in excess of the limit are permitted but require the agreement of Canada (Paragraph 3(b)); the Canadian authorities have indicated that they would be flexible in considering requests for larger drawings where such drawings are warranted by the circumstances.

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[2] See *Borrowing Agreement with the Government of Japan* (EBS/09/19, 2/10/2009).

*Maturity*

7. As in the case of the Japan agreement, each drawing has a maturity of three months, which may be extended by additional periods of three months for up to a total of five years from the date of drawing. To reduce the administrative burden for Canada and the Fund, the agreement provides that the maturity dates of all outstanding drawings are automatically deemed to be extended unless the Fund notifies the Canadian authorities at least five business days before a maturity date that the Fund does not elect to extend that maturity date (Paragraph 5(a)).

*Encashment*

8. Canada expressed the preference to have traditional provisions for immediate encashability of its claims under the Agreement in case of balance of payments need, so as to be in a position to treat its claims on the Fund as reserve assets. As the maximum amount of claims under the Agreement does not pose the same liquidity risks to the Fund as the Japan agreement, the Agreement provides for immediate encashability (Paragraph 9). Specifically, at the request of Canada the Fund will make an immediate early repayment at face value of all or a portion of the drawings outstanding under the Agreement if Canada represents that its balance of payments and reserve position justify such repayment and the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for the early repayment as requested by Canada in light of its balance of payments and reserve position. This full immediate encashment provision is consistent with many of the Fund's previous bilateral borrowing agreements and the NAB.

*Evidence of Indebtedness*

9. The Canadian authorities have indicated their preference to receive an instrument evidencing the Fund's indebtedness after each drawing by the Fund under the Agreement. This is reflected in Paragraph 4(a) of the Agreement and the form of the instrument that would be issued for this purpose is attached to the Agreement (under the Japan agreement instruments of indebtedness may also be issued but only at the request of Japan).

## III. Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions

10. Staff is in the process of finalizing a paper on the operational modalities for the use of borrowed resources, including the implications for the existing borrowing guidelines, which will be brought to the Executive Board for discussion shortly. Pending that discussion, the requirement in paragraph 2 of the existing Guidelines on Borrowing by the Fund regarding

the establishment of an overall limit prior to any new borrowing remains applicable.[3] As in the cases of the approval of the Japan and Norges Bank agreements, staff proposes to further temporarily suspend the application of paragraph 2 of the Guidelines on Borrowing by the Fund in order to enable approval of the Agreement with Canada.[4] Pending the adoption of new borrowing guidelines, drawings under the Agreement would only be made on the basis of a Board decision on the use of borrowed resources, similar to the decision taken by the Executive Board regarding drawings under the borrowing agreement with Japan.[5]

[3]Decision No. 9862-(91/156), adopted November 15, 1991 (*Selected Decisions and Selected Documents of the International Monetary Fund,* Thirty-Third Issue, pp. 489).

[4] *Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions* (EBS/09/20, 2/10/2009).

[5]*Extension of the Financial Transactions Plan, SDR Designation Plan and Use of Borrowed Resources for the Period February–May 2009 to February–June 2009* (EBS/09/75, 5/22/09).

## PROPOSED DECISION

Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Fund temporarily suspends the application of Paragraph 2 of the Guidelines for Borrowing by the Fund, Decision No. 9862-(91/156), adopted November 15, 1991, in order to enable approval of the proposed borrowing agreement with the Government of Canada that is set out in the Attachment to EBS/09/85, 6/10/09 (the "Agreement").

2. The Fund deems it appropriate, in accordance with Article VII, Section 1(i) of the Articles of Agreement, to replenish its holdings of currencies in the General Resources Account by borrowing from Canada on the terms and conditions set forth in the Agreement.

3. The Executive Board approves the Agreement and authorizes the Managing Director to take such actions as are necessary to execute the Agreement on behalf of the Fund.

4. The Managing Director is authorized, following the execution of the Agreement, to make such determinations and take such actions as are necessary to implement the Agreement, including but not limited to the making of drawings, the extension of the term of the Agreement and the maturity of drawings thereunder, and the determination of the media for drawings and payments in light of the Fund's operational needs. Such determinations and actions shall be consistent with the policies and guidelines on borrowing and the use of borrowed resources that are adopted by the Executive Board.

5. The Executive Board shall be informed of developments related to the implementation of the Agreement in reports to be furnished by the Managing Director on a quarterly basis throughout the term of the Agreement, with reports to be furnished more frequently in the event of significant developments related to the Agreement. Such reports shall cover all aspects of the implementation of the Agreement, including, as applicable, drawings made, disposition of amounts borrowed, and repayment of drawings.

## ATTACHMENT. Draft Borrowing Agreement Between the Government of Canada and the International Monetary Fund

This borrowing agreement is entered into as of this __ day of [month] 2009 by and between the Government of Canada and the International Monetary Fund.

1. Purposes and Amounts.

In light of the multilateral effort to ensure the adequacy of the financial resources available to the International Monetary Fund (the "Fund"), and with a view to supporting the Fund's ability to provide timely and effective balance of payments assistance to its members, the Government of Canada ("Canada") agrees to lend to the Fund an SDR-denominated amount up to the equivalent of U.S. $10 billion, on the terms and conditions set out below.

2. Term of the Agreement.

(a) Subject to subparagraph (b), the Fund may make drawings in accordance with the terms of this agreement for a period of two years commencing on the date of the first drawing or July 2, 2009, whichever is earlier. Unless otherwise agreed between Canada and the Fund, the Fund shall give Canada at least five business days' (Ottawa) notice of its intention to draw, and shall provide payment instructions at least two business days (Ottawa) prior to the value date of the transaction by SWIFT.

(b) With the agreement of Canada, the Fund may, if warranted in light of the Fund's overall liquidity situation and actual and prospective borrowing requirements, extend the term of this agreement for another two-year period for a total drawing period of up to four years. The Fund shall give notice of its interest in extending the term of the agreement at least 3 months, but not earlier than 6 months, prior to the expiration of the then current term.

(c) Notwithstanding subparagraphs (a) and (b), Canada may, at its option, terminate the term of this agreement if Canada, its central bank or other official institution (i) is a participant in an enlarged and amended New Arrangements to Borrow ("NAB") that becomes effective after the date of this agreement, and (ii) has an effective credit arrangement under such enlarged and amended NAB that is at least equal to the remaining undrawn balance under this agreement at the time of such termination.

3. Uses, Estimates and Limits on Drawings.

(a) After consultation with Canada, and taking into account both the Fund's liquidity position and the desirability of achieving, over time, broadly balanced drawings under the Fund's bilateral borrowing agreements, the Fund may make drawings under this agreement in connection with (i) any use of Fund resources in the General Resources Account, or (ii) the payment of the Fund's outstanding indebtedness under other official sector borrowing effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement, in circumstances where the terms of such other borrowing permit the Fund to make drawings under such other borrowing in connection with the payment of the Fund's outstanding indebtedness under this agreement.

(b) Unless otherwise agreed between Canada and the Fund, the Fund shall not draw more than the equivalent of SDR 500 million during any calendar week.

(c) The Fund shall not make a drawing under this agreement if such drawing would result in the cumulative amount drawn under this agreement exceeding U.S. $10 billion at the time of such drawing, as calculated pursuant to paragraph 11(b).

(d) Prior to the beginning of each quarter of the Fund's financial year, the Fund shall provide Canada with its best estimates of the amounts that it expects it will draw under this agreement during the forthcoming quarter, and shall provide revised estimates during each quarter where this is warranted.

4. <u>Evidence of Indebtedness</u>.

(a) Following each drawing under this agreement, the Fund shall issue to Canada a non-negotiable instrument evidencing the Fund's indebtedness to Canada arising from the particular drawing. The form of such instruments shall be as set out in the Annex to this agreement.

(b) Upon repayment of the amount of any instrument issued under subparagraph (a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of such an instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as the old instrument.

5. <u>Maturity</u>.

(a) Except as otherwise provided in this paragraph 5 and in paragraph 9 below, each drawing under this agreement shall have a maturity date of three months from the drawing date. The Fund may in its sole discretion elect to extend the maturity date of any drawing or of any portion thereof by additional periods of three months after the initial maturity date, which extension the Fund shall automatically be deemed to have elected with respect to the maturity dates for all drawings then outstanding unless, at least five business days (Ottawa) before a maturity date, the Fund notifies Canada in writing that the Fund does not elect to extend the maturity date of the particular drawing or portion thereof; provided however that, in no event, shall the maturity date of any drawing be extended to a date that is later than the fifth anniversary of the date of such drawing.

(b) The Fund shall repay the principal amount of each drawing or relevant part thereof on the maturity date applicable to that drawing or part thereof pursuant to subparagraph (a).

(c) After consultation with Canada, the Fund may make an early repayment in part or in full of the principal amount of any drawing prior to the maturity date applicable to the drawing pursuant to subparagraph (a).

(d) Repayments of drawings shall not increase the amount that can be drawn under this agreement. Conversely, the extension of the maturity of a drawing or of any part thereof pursuant to subparagraph (a) shall not reduce the amount that can be drawn under this agreement.

(e) If a maturity date for a drawing is not a business day in the place where payment is to be made, the payment date shall be on the next business day in that place.

6. Rate of Interest.

(a) Each drawing shall bear interest at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement; provided however that, if the Fund pays an interest rate higher than the SDR interest rate on outstanding balances from any other borrowing on comparable terms that has been effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement, and for as long as the payment of such higher interest rate remains in effect, the interest rate payable on drawings under this agreement shall be equivalent to the interest rate paid by the Fund on such other comparable borrowing.

(b) The amount of interest payable on each drawing shall be calculated based on the outstanding amount of the drawing. Interest shall accrue daily and shall be paid promptly by the Fund after each July 31, October 31, January 31 and April 30.

7. Denomination, Media and Modalities of Drawings and Payments.

(a) The amount of each drawing and corresponding repayment under this agreement shall be denominated in SDRs.

(b) Unless otherwise agreed between the Fund and Canada, the amount of each drawing shall be paid by Canada, on the value date specified in the Fund's notice under paragraph 2, by transfer of the SDR equivalent amount of Canadian dollars to the account of the Fund at the Bank of Canada, Ottawa.

(c) Canada shall collaborate with the Fund and other members to enable exchanges between Canadian dollars and freely usable currencies in accordance with Article V, Sections 3(e)(i) and 7(j)(i) of the Fund's Articles of Agreement.

(d) Repayments by the Fund of principal under this agreement shall be made in Canadian dollars; provided that the Fund, after consultation with Canada, may make repayments of principal in SDRs or freely usable currencies as determined by the Fund.

(e) Payments by the Fund of interest under this agreement shall normally be made in SDRs; provided that the Fund, by agreement with Canada, may make interest payments in Canadian dollars or any freely usable currency.

(f) All payments made by the Fund in Canadian dollars shall be made by crediting the amount due to the account of the Government of Canada at the Bank of Canada, Ottawa. Payments in SDRs shall be made by crediting Canada's account in the Special Drawing Rights Department. Payments in any other currency shall be made to an account specified by Canada.

8. Termination of Drawings at Request of Canada.

Canada's commitment to meet drawings under this agreement shall be terminated at the request of Canada if (i) Canada represents that its balance of payments and reserve position does not justify further drawings, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing should be made in light of Canada's balance of payments and reserve position.

9. Early Repayment at Request of Canada.

At the request of Canada, Canada shall obtain early repayment at face value of all or a portion of the drawings outstanding under this agreement if (i) Canada represents that its balance of payments and reserve position justifies such repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for early repayment as requested by Canada in light of Canada's balance of payments and reserve position.

10. Transferability.

(a) Except as provided in subparagraphs (b) through (h) below, Canada may not transfer its obligations under this agreement, or any of its claims on the Fund resulting from outstanding drawings under this agreement, except with the prior consent of the Fund and on such terms or conditions as the Fund may approve.

(b) Canada shall have the right to transfer at any time all or part of any claim on the Fund resulting from outstanding drawings under this agreement to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Fund's Articles of Agreement ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(c) The transferee of a claim transferred pursuant to subparagraph (b) shall, as a condition of the transfer, assume the liability of Canada pursuant to paragraph 5(a) regarding the extension of the maturity of drawings related to the transferred claim. More generally, any claim transferred pursuant to subparagraph (b), shall be held by the transferee on the same terms and conditions as the claim was held by Canada, except that (i) the transferee shall acquire the right to request early repayment under paragraph 9 only if it is a member, or the central bank or other fiscal agency of a member, and at the time of transfer the member's balance of payments and reserve position is considered sufficiently strong in the opinion of the Fund that its currency is used in transfers under the Financial Transactions Plan, (ii) if the transferee is a member or the central bank or other fiscal agency of a member, the reference to Canadian dollars in paragraph 7 shall be deemed to refer to the transferee's currency, and in other cases it shall be deemed to refer to a freely usable currency determined by the Fund, (iii) payments related to the transferred claim shall be made to an account specified by the transferee, and (iv) reference to business days (Ottawa) shall be deemed to refer to business days in the place where the transferee is situated.

(d) The price of a claim transferred pursuant to subparagraph (b) shall be as agreed between Canada and the transferee.

(e) Canada shall notify the Fund promptly of the claim that is being transferred pursuant to subparagraph (b), the name of the transferee, the amount of the claim that is being transferred, the agreed price for the transfer of the claim, and the value date of the transfer.

(f) A transfer notified to the Fund under subparagraph (e) shall be reflected in the Fund's records if it is in accordance with the terms and conditions of this paragraph 10. The transfer shall be effective as of the value date agreed between Canada and the transferee.

(g) If all or part of a claim is transferred during a quarterly period as described in paragraph 6(b), the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

(h) If requested, the Fund shall assist in seeking to arrange transfers.

11. Effective Exchange Rate.

(a) Unless otherwise is agreed between Canada and the Fund, all drawings, exchanges, and payments of principal and interest under this agreement shall be made at the exchange rates for the relevant currencies in terms of the SDR established pursuant to Article XIX, Section 7(a) and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment. If this exchange rate determination date is not a business day in Ottawa, such date shall be the last preceding business day of the Fund that is also a business day in Ottawa.

(b) For purposes of applying the limit on drawings specified in paragraphs 1 and 3(c), the U.S. dollar value of each SDR-denominated drawing shall be determined and permanently fixed on the value date of the drawing based on the U.S. dollar/SDR exchange rate established pursuant to Article XIX, Section 7 (a) and the rules and regulation of the Fund thereunder for the second business day of the Fund before the value date of the drawing. If this exchange rate determination date is not a business day in Ottawa, such date shall be the last preceding business day of the Fund that is also a business day in Ottawa.

12. Changes in Method of Valuation of SDR.

If the Fund changes the method of valuing the SDR, all transfers, exchanges and payments of principal and interest made two or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation.

13. Non-Subordination of Claims.

The Fund agrees that it will not take any action that would have the effect of making Canada's claims on the Fund resulting from outstanding drawings under this agreement subordinate in any way to claims on the Fund resulting from any other borrowing effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement.

14. Settlement of Questions.

Any questions arising under this agreement shall be settled by mutual agreement between Canada and the Fund.

This Agreement may be executed in duplicate counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Canada and the Fund have executed this Agreement as of the date first written above.

For Canada:

____________________

[NAME] Date
[TITLE]

For the INTERNATIONAL MONETARY FUND:

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Dominique Strauss-Kahn Date
Managing Director

INTERNATIONAL MONETARY FUND

**Instrument of Indebtedness**

Issued in accordance with paragraph 4(a) of the Borrowing Agreement between the Government of Canada and the International Monetary Fund dated [date of Agreement] (the “Borrowing Agreement”).

The International Monetary Fund (IMF) certifies that it has made on [date] a drawing in an amount equivalent to

SDR ___

under the Borrowing Agreement, for purposes of providing resources to the IMF’s General Resources Account, in accordance with Article VII, Section 1(i) of the IMF’s Articles of Agreement.

The drawing, including interest, is repayable on the terms and conditions set forth in the Borrowing Agreement.

This instrument is non-negotiable.

Washington, D.C. Date:

Director, Finance Department Authorized Signatory