

October 27, 2009  
Approval: 11/3/09

INTERNATIONAL MONETARY FUND  
Minutes of Executive Board Meeting 09/29-1  
9:30 a.m., March 24, 2009

**1. GRA Lending Toolkit and Conditionality—Reform Proposals**

Documents: SM/09/69 and Correction 1, and Supplement 1, and Supplement 2

Staff: Tweedie, FIN; Hagan, LEG, Moghadam, SPR

Length: 2 Hours, 47 minutes

## Executive Board Attendance

J. Lipsky, Acting Chair

Executive Directors	Alternate Executive Directors
S. Itam (AE)	
L. Rutayisire (AF)	K. Assimaidou (AF)
P. Pereira (AG)	D. Vogel (AG)
H-S. Lee (AU)	
	O. Demirkol (BE), Temporary
P. Nogueira Batista, Jr. (BR)	M. Agudelo (BR)
	J. He (CC)
	A. Guerra (CE)
M. Horgan (CO)	
A. Fayolle (FF)	B. Claveranne (FF)
	S. von Stenglin (GR)
	P. Ray (IN), Temporary
A. Sadun (IT)	
D. Kotegawa (JA)	
	M. Daïri (MD)
A. S. Shaalan (MI)	S. El-Khoury (MI)
	Y. Yakusha (NE)
J. Henriksson (NO)	
A. Mozhin (RU)	
A. Alazzaz (SA)	A. Al Nassar (SA)
P. Warjiyo (ST)	
T. Moser (SZ)	
M. Lundsager (UA)	D. Heath (UA)
	J. Talbot (UK)

G. R. Kincaid, Acting Secretary  
J. Morco/S. Zucchini, Assistants

### Also Present

IBRD: J. Chelsky. African Department: C. Daseking, P. Drummond, P. Imam, R. Koehler, T. Krueger, A. Sayeh. Asia and Pacific Department: T. Rumbaugh, A. Singh. European Department: A. Chopra, A. Hoffmaister, C. Pazarbasioglu. External Relations Department: C. Lotze, G. Rice. Finance Department: D. Andrews, S. Bassett, C. Beaumont, M. Fisher, M. Gororo, C. Hatch, J. Lin, M. Mburu, M. Rossi, A. Tweedie, S. Williams, B. Yuen. Institute: L. Lipschitz. Legal Department: W. Bergthaler, D. Eastman, S. Hagan, K. Kwak, T. Laryea, R. Leckow, C. Ogada, R. Weeks-Brown. Middle East and Central Asian Department: A. Tahari. Monetary and Capital Markets: J. Roaf. Office of the Managing Director: D. Citrin, C. McDonald. Research Department: M. Chamon, R. Ranciere, L. Ricci. Secretary's Department: P. Ramlogan, P. Martin. Strategy, Policy, and Review Department:

G. Adler, R. Baqir, B. Barkbu, R. Blavy, J. Boughton, J-F. Dauphin, L. Giorgianni, M. Goretti, R. Goyal, I. Halikias, P. Khandelwal, I. Mateos y Lago, R. Moghadam, M. Shannon, A. Stuart, R. Teja, M. Vera Martin. Western Hemisphere Department: V. Haksar, D. Robinson, G. Terrier. Senior Advisors to Executive Directors: W. Abdelati (MI), S. Duggan (AU), N. Giammarioli (IT), A. Joseph (BR), M. Kaplan (UA), B. Lischinsky (AG), L. Palei (RU), S. Rouai (MD), P. St-Amant (CO), G. Ukpong (AE), R. Weber (SZ). Advisors to Executive Directors: I. Ábel (BE), J. Cardoso (IT), V. De la Barra (AG), O. Hendrick (AG), J. Hukka (NO), L. Hull (UA), L. Jimenez (CE), E. Lambregts (NE), R. Lin (CC), C. Mira (CE), A. Rieck (GR), N. Thapa (ST).

## 1. **GRA LENDING TOOLKIT AND CONDITIONALITY—REFORM PROPOSALS**

Mr. Bakker and Mr. Lambregts submitted the following statement:

We welcome staff proposals to make the Fund's lending framework more flexible and streamlined. The proposed overall package is an appropriate compromise between debtor and creditor countries, and helps the Fund to play a more effective role in combating the current crisis and preventing and resolving future crises.

We underscore the proposals to further streamline, focus and tailor conditionality. In reforming conditionality, we attach importance to keeping quantitative PCs. These act as a lever for the authorities in making unpleasant but often necessary adjustments. While some structural adjustments are critical for achieving the objectives of the program, we can live with embedding structural PCs in a review-based framework for the reasons given by staff. Semi-annual reviews could be explored for countries with strong policies. We are looking forward to staff's proposal for avoiding blackout periods.

In making the lending framework more simplified, we subscribe to the elimination of most special facilities. There is a lack of interest in these instruments, whereas both the type and duration of the BOP need is often hard to assess ex ante. We support retaining the EFF, as this instrument may be of interest for countries graduating from the PRGF.

We support the creation of a FCL for strong members and the formalization of high access precautionary SBAs for others. On the FCL, we favor a six-month duration, but agree to allowing members to also opt for twelve months with a mid-term review. Although we would have preferred access caps, we can agree with the consensus to leave them out given the assurances offered by staff. We note access is (i) expected normally not to exceed 1000 percent of quota, and (ii) based on rigorous qualification criteria. Given the uncertainty concerning the demand for the FCL and the implications for the Fund, we welcome a review of the instrument after two years, or earlier if FCL commitments have reached SDR 100 bln. Potentially large FCL commitments also emphasize the need to reflect upon the Fund's FTP.

We stress the importance of clarifying the eligibility criteria for the FCL. For example, to assess whether financial sector supervision is effective, members need to have had a recent FSAP, or if this is not the case, commit to

an update. With regard to transparency and integrity, members should have a good track record on their Article IV consultations and the publication of IMF reports. To qualify for the FCL, in our view, a member should have held the most recent Article IV consultations in accordance with the standard cycle for such consultations.

To strengthen price incentives against unnecessarily high precautionary arrangements, we welcome the upward slope in commitment fees in relation to access. Countries that opt for Fund insurance need to pay an adequate price. While we would have preferred a somewhat higher commitment fee in absence of hard caps on precautionary arrangements, we can agree with staff's proposed commitment fee structure for the sake of compromise.

We support the increase in normal access limits from 100 to 200 percent quota annually and from 300 to 600 percent quota cumulatively. These higher access limits reflect economic reality, where the Fund has to provide more financial support to be able to help countries facing BOP needs in a world of greater trade and capital flows.

To allow for the use of high access precautionary SBAs, we underscore the need to make some changes to the exceptional access policy. Unfortunately, some changes to the criteria appear to weaken this policy, given the greater emphasis put on prospects, which are uncertain, instead of track record. That said, more than the criteria themselves, we value the procedural aspects of this policy, as they trigger a timely scrutiny by the Board.

We agree to replace the current surcharge structure and time-based repurchase expectations policy by one level-based and time-based surcharge. Having considered different options and positions, we can go along with the staff proposal to apply a 200 bps surcharge above 300 percent quota and a 100 bps surcharge after 36 months. Important to us is that the new surcharge structure permits an equally rapid buildup in precautionary balances as the current structure. In view of the further rise in Fund lending, staff scenarios show that the current precautionary target can be reached by FY 2011.

Mr. Itam submitted the following statement:

We thank staff for their paper on the need to simplify the GRA lending toolkit, modernize conditionality, and revisit concerns about access, charges and maturities to make the Fund combat better current and future crisis.

## Modernizing Conditionality

### Elimination of Structural PCs

We support the elimination of structural PCs in all Fund arrangements, including facilities for low-income countries. The structural PCs tend to detract from national ownership of the program, cover areas already addressed by other institutions, fall outside the Fund's core areas of expertise, and use subjective judgments to determine their fulfillment. Therefore, we support the decision to rely more on review-based conditionality in Fund facilities.

Consistent with the above, we do not support the staff proposal to retain structural conditionality in the form of benchmarks and prior actions in any Fund arrangement. Structural conditionality should be limited to end-program targets or goals and be included in the progress and performance reviews. The staff's proposal to retain interim conditions would defeat the purpose of simplification and fail to address various concerns attached to IMF structural conditionality. The performance review would provide adequate feedback to Directors on the progress being made on structural reform.

### Treatment of Existing Structural PCs

We are prepared to go along with the staff proposal that 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, contrary to the staff suggestion that further Board approval be sought to eliminate these PCs, we expect them to be dropped from subsequent reviews after the test date following the decision. Where staff believes this would compromise the program, they should provide strong justification to re-instate the PCs for consideration by the Board.

### FCL Conditionality

We agree to the use of ex-ante conditionality for the FCL, where 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. In this decision, we propose that the sustainability of the external account, debt, etc be defined up front on the basis of existing Fund frameworks such as the DSA, etc.

## Conditionality and Blackout Periods

It is of concern to us that the right to purchases is suspended during what is referred to as ‘the blackout period.’ We look forward to the discussion of various options to mitigate or reduce the blackout period, between the test date for PCs and the date at which data for those PCs become available.

## Charges and Maturities

### Alignment of Charges Across Facilities

While we have no objection to proposals to align charges and surcharges—we reiterate that the proposal under consideration has consistently referred to alignment across GRA facilities. This principle has been raised solely in the context of borrowing by relatively developed members from GRA resources. LICs need recourse to affordable financing. It would therefore be counterproductive, compromise concessionality and affordability, and impose an undue burden on LICs if they were required to pay these charges. Since more LICs are graduating from PRGF or require blended arrangements with EFF, it is important to note that affordability remains a concern and we would not support the adoption of time-based surcharges for the EFF that are more onerous than current arrangements. Since the EFF is to be retained primarily for its potential usefulness for LIC members, who typically have to deal with relatively larger shocks or adjustment needs (given their small size), it has to be kept useful, accessible and affordable.

## Surcharges

We support replacement of the time-based repurchase expectations, TBRE policy with a time-based surcharge to provide a price incentive for early repayment and to support the revolving character of Fund resources. We also support simplification of the surcharge schedule in the credit tranches, but add the caveat above, with respect to the EFF.

## Transitional Arrangements

In order to avoid windfall gains to some members, we would support the staff proposal 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.

We consider the commitment fees being proposed as rather onerous. If they are to be adopted, they should be more modest than the levels proposed, especially given the introduction of a time-based surcharge.

#### Elimination of Some Facilities

In order to increase the effectiveness and simplicity of the GRA lending toolkit, we support the decision to eliminate the Supplemental Reserve Facility (SRF) and the Compensatory Financing Facility (CFF), since the process of introducing new more flexible facilities that would meet special needs of emerging market and LIC countries is ongoing.

#### Flexible Credit Line (FCL) Arrangements

To enhance crisis prevention and resolution, we support the decision establishing the FCL. However, we have reservations about the characterization, “very strong” economic fundamentals and “very strong” policies in Decision IV, paragraphs 2a and 2b and in ANNEX I, paragraph 4. It is likely to create room for “very serious” subjective conclusions by different evaluators of fundamentals and policies of different countries. Could a distinction be made a priori?

#### Access

We can support access to the FCL not being capped (with cumulative access not higher than 1000 percent of quota) to retain flexibility for dealing with most shocks, and with country-specific circumstances taken into account. We expect similar flexibility to be shown with respect to LICs’ facilities under consideration.

Mr. Warjiyo, Mr. Raman and Ms. Tok submitted the following statement:

We thank Management and staff for putting forward a compromise proposal that we believe will bring consensus on reforming the Fund’s lending instruments under the GRA. The proposed decisions go a long way in meeting the principles we articulated in the joint statement at the last meeting. We support the proposed decisions as a package.

## Reform of Lending Instruments: The FCL, HAPA and Streamlining Fund Facilities

We welcome the establishment of the FCL as an important step in ensuring the Fund remains relevant to its membership during this Crisis and beyond. In particular, we support its innovative design features: use of ex-ante conditionality, large upfront access commensurate with members' needs, and its potential use as a precautionary arrangement. We consider the FCL, with its emphasis on the strength of the requesting member's policies, could help diminish some of the stigma attached to Fund programs. Similarly, we see formally accepting large HAPA as an integral part of the Fund's toolkit. We can go along with the proposal to look again at the FCL if and when usable Fund resources fall to half of total current usable resources, but otherwise the review should only be done after three years.

We agree that as the FCL replicates the features of the SLF, the latter can be eliminated. Similarly, we believe the SBA is sufficiently well-designed to cover lending that was previously made under other instruments such as the SRF and the CFF. We were among the chairs who saw merit in the EFF and are pleased that it will remain in the Fund's toolkit.

### Access and Access Limits

We welcome the steps taken to make the level of access more relevant to members' needs. It is important to note that the Fund has resorted to large levels of access simply as quotas have not kept up with global growth, trade and financial flows. We believe the new limits—200 percent of quota annually and 600 percent cumulatively—are not perfect but help address members' needs. We think the staff's proposals would have been better if the imposition of level-based surcharges had been aligned to these new levels.

### Charges and Maturities

We can go along with the proposal to simplify the charge structure on Fund instruments. We, however, have reservations that the levels based surcharge will be introduced at what will still be normal access levels. Rightly, requests for exceptional access attracts greater scrutiny due to credit risks to the Fund. Therefore, it seems inconsistent that borrowers who do not ask for recourse to higher access will face greater costs even when the Board has not deemed their level of access especially risky. On the time based surcharge, we can go along with the proposals to eliminate the TBRE and replace it with a much simpler obligation schedule.

We agree that the exceptional access criteria be amended as proposed. In our view, the artificial distinction between current and capital account cases was not tenable, given that they are mirror images of one another. We believe that the simplification proposed in no way lessens the rigour with which the Board will consider each case.

We have deep reservations on the change in the commitment fee schedule, especially at high access levels. As we have noted earlier, we are in this quandary of having to consider high access arrangements as a norm simply because quotas have not kept pace with global developments. Even in the case of precautionary arrangements, the assurance of a large financing component is necessary to foster discipline. Therefore, programs with exceptional access are likely to remain with us for some time. Further, the proposed charge of 60 basis points for requests in access in excess of 1,000 percent of quota exceeds the current SDR interest rate. It seems illogical to us that the Fund will earn more from not lending funds that it will have to make in payments for having the funds ready in case of need. What would the impact be of setting the commitment fee at the SDR rate or 60 basis points, whichever is lower?

We note that given the projected level of credit and the charge structure proposed, the Fund will hit its target precautionary balance level of SDR10 billion by FY 2012 and will continue to increase thereafter. It would have been useful to have seen that projection included in Figure 2. What would the precautionary balance level be by FY 2015 under the assumption of peak credit of SDR70 billion?

### Conditionality

We welcome the proposal to increase the use of ex-ante conditionality, where appropriate, particularly for the FCL. We consider this to be an important step in the ongoing reform of the Fund's conditionality framework. Of course, full reliance on ex-ante conditionality is not appropriate in all cases under the SBA, and we can support a judicious blend of both ex-ante and ex-post conditions for use in program monitoring. What is clear, however, is that further progress needs to be made on ensuring the macro-criticality ex-post conditions. As the IEO has noted, the average number of performance criteria has not fallen in recent years, which still suggests some way to go in this process.

We agree to the conversion of structural performance criteria to structural benchmarks. For the record, we would have supported the full elimination of performance criteria for review-based program review, which we think would have merely formalized current practice. We note that as a transitional arrangement, staff retain the flexibility to convert structural performance criteria in existing programs from future report dates to benchmarks. Does the staff have guidelines in place governing this change? How would country authorities' requests for such a change be managed?

Finally, we have come a long way to reach decision point today. This crisis has given momentum to the reform of instruments and conditionality with a view to better equipping the Fund to combat this and future crises. No package of reforms is perfect. Just as we have provided for more flexibility in the instruments, Directors should also exercise similar flexibility when they consider this landmark package of reforms.

Mr. Sadun and Mr. Giammarioli submitted the following statement:

In several discussions at the Board, we have welcomed a number of proposals to reform the Fund's GRA lending framework aimed at modernizing the Fund's lending facilities and enhancing its ability to assist members in tackling the current crisis as well as any potential contingency in the future. At the same time, we have repeatedly underscored the need to provide adequate safeguards for the use of the Fund's resources and to ensure that any new facility such as the FCL be designed accordingly.

In view of that, along with other chairs, we have asked staff for a number of clarifications and offered some suggestions. We are pleased to note that most of our earlier reservations have been dispelled and that we are now able to broadly support the proposals under consideration.

Since our positions on the specific issues have been extensively described in our previous Grays and interventions at the Board, we will limit our comments to a few aspects of the proposals.

#### Conditionality

Conditionality should remain at the center of the IMF's lending framework. However, we share the objective of Proposed Decision I, namely to streamline conditionality and apply conditions that are directly relevant and essential for achieving the intended results. The elimination of the structural performance criteria should not undermine the need for structural adjustments

when required and the proposed benchmark should clearly represent a strict guidance for reviews.

### Flexible Credit Line

As already stated, we had some initial reservations about the need to introduce a brand new instrument such as the FCL, considering the substantial reputational risk related to the potential failure of another facility. In our opinion, the same results could have been achieved by applying greater flexibility to the existing toolkit. However, we do recognize the benefit of reducing the stigma attached to any borrowing from the Fund, a feature that might not be possible to eliminate altogether. Accordingly, we are prepared to accept the introduction of the FCL, provided that the proposed procedures are strictly implemented and with the understanding that the application of ex-ante conditionality should not be extended further. Moreover the eligibility criteria, which are spelled out in Annex I, should be applied rigorously. In particular we expect that a member that qualifies for the FCL has held the most recent Article IV consultation in accordance with the standard cycle for such consultations.

### Access Policies

On the access limits, several arguments could be found to justify different proposals. The Managing Director's shortcut of doubling the existing limits seems to be a reasonable compromise and has the merit of being simple and easy to communicate. We also support the other aspects of Proposed Decision V.

### Charges and Maturities

We are in favor of Proposed Decisions VI and VIII. As for the commitment fees, in order to strengthen incentives against unnecessarily high precautionary access, we would have preferred higher fees especially for very high amounts. Indeed, we expect that the cumulative access would not exceed 1000 percent of quota. In the spirit of compromise, however, we can support Proposed Decision VII.

### Other Decisions

We support Proposed Decisions II and III.

Mr. Lee and Mr. Duggan submitted the following statement:

We thank staff for their excellent work on reforming GRA facilities and conditionality and the Managing Director for his leadership in bringing the membership together on a robust package of reforms.

We strongly support the proposed decisions and look forward to an early announcement of the key features. Approval of this package will represent tangible evidence of the Board's capacity to make compromises in the interests of the broader membership.

It is important that the same sense of urgency is assigned to accelerating reform of low-income country facilities to equip the Fund with the suite of instruments necessary to support the whole membership during the current crisis and beyond.

Mr. Henriksson and Mr. Hukka submitted the following statement:

We thank staff and management for the clarifications on outstanding issues and the latest set of papers. We can support the reform proposals put forward in the staff paper.

We can go along with the majority in supporting establishing the FCL. Some of our concerns expressed at the previous Board meeting in early March still stand (GRAY/09/851), but we consider the latest proposal to strike a compromise that we can accept. That access under the FCL was left uncapped underscores that the assessment of each potential user's eligibility should indeed be rigorous and sufficiently forward looking to effectively safeguard Fund resources. We expect that the staff report associated with a member's request is thorough to allow the Board to arrive to a well founded decision. We regard it as important that the decision includes both time and resource based review clauses.

Financing under the FCL should be a transparent process and we are pleased to note that the Managing Director would generally not recommend approval of a request unless the associated staff report is to be made public.

We support formalizing the use of high-access precautionary SBAs as proposed. We can also support doubling both the annual and cumulative access limits as well as the threshold level triggering a PPM. The decision of granting access with semiannual reviews should be taken with the appropriate caution and quarterly monitoring should be expected in cases where a member

faces an actual crisis. In this context, staff should also pay attention to continue ensuring evenhanded treatment of members.

We can accept the staff's proposal for a new surcharge structure as part of the overall reform and welcome the upward sloping commitment fee schedule.

We support the proposed reform of conditionality. While we have stressed the importance of maintaining quantitative Performance Criteria in Fund programs, we are ready to discontinue the structural PCs. We are pleased that the proposed change applies to all Fund arrangements, reiterating our position that there should be no special conditionality framework for LICs.

Mr. Moser and Mr. Weber submitted the following statement:

The Board is about to conclude this comprehensive package of reforms regarding the GRA lending framework at a more ambitious pace than initially envisaged. Several of its elements were rightly due for review, streamlining, and modernization. Since we have commented extensively on the various components of the reform package, our remarks are brief. We refer to our previous written statements for the arguments that we have advanced in support of the positions taken in this reform process.

We would want to emphasize the following three concerns that the reform raises or, in our view, does not fully account for.

First, we remain highly skeptical that ex-ante conditionality is a sensible and workable concept for the Fund. Reliance on, and making use of the flexibility of, the well-known SBA would avoid problematic divisions among the membership and related signaling issues. The Fund under the new FCL will need to discriminate between good and bad performers. This assessment must be based on well-defined, transparent, and rigorously applied qualification criteria and assurances that the member is meeting all its surveillance obligations. Holding Article IV consultations on the standard cycle should thus be a requirement.

Second, we would have preferred more prudence in securing the necessary financial safeguards for the Fund. Given the prospect of more flexible new lending (also on a precautionary basis), large-scale external borrowing, and higher normal access limits, adequate safeguards are needed to mitigate risks to the Fund's revolving resource base, i.e., members' own

foreign exchange reserves placed in the Fund. We are not confident that the right balance between meeting members' needs and safeguarding the Fund's resources has been struck. These doubts are particularly pronounced with regard to the risks involved in potentially extensive precautionary lending. A cap on members' access to the FCL and somewhat more ambitious schedules for surcharges and commitments fees would have better taken account of the experimental aspect of these reforms.

Third, we consider enhanced program scrutiny beyond normal access limits as an essential part of Fund risk management. The exceptional access framework is a key instrument for the Board to discharge its fiduciary duties and should not be weakened, in particular with regard to ensuring debt sustainability. Subsuming this framework under the qualification process for the FCL potentially dilutes a substantive assessment that is warranted specifically for high access.

We recognize that the set of proposed decisions before us reflect a carefully crafted compromise that balances the diverse interests of the membership. In this spirit, and despite our concerns spelled out above, we go along with the proposed package of reforms. We look forward to carefully probing the application of the new framework. In particular, like Messrs. Sadun and Giammarioli, we expect that the application of ex-ante conditionality with the new FCL will remain confined to the best performing members.

Mr. Horgan and Mr. St-Amant submitted the following statement:

We thank the staff for developing a coherent and well-motivated set of reform proposals.

We support the proposed decisions, as we are confident that they will leave the Fund with an improved set of lending tools that should prove useful in combating the current and future crises. We are also confident that the staff's proposals provide adequate safeguards for the use of Fund resources. We thank the staff for listening to our concerns, and those of other constituencies, on various topics such as commitment fees and for having made changes that make it easier for us to support the proposals.

In this preliminary statement we emphasize some points and note aspects of the Fund lending tools and conditionality that we think may need to be re-assessed and improved in the future.

## Lending Tools

We welcome the increased flexibility that the staff's proposal will bring to the IMF's set of lending tools. The Flexible Credit Line (FCL), in particular, should be useful in meeting the needs of members having solid policies and fundamentals but interested in accessing Fund resources to address, or to protect against, negative shocks.

We note that the FCL is a major innovation and that there is substantial uncertainty surrounding its design. Consequently, we agree with the staff that it will be appropriate to review this facility two years after its creation. We also agree with the staff that, to mitigate liquidity risks, such review should be activated earlier if FCL commitments were to reach SDR 100 billion.

We also welcome the proposed increased flexibility in Stand-By Arrangements (SBAs) and note that members will benefit from possible greater frontload access and from being able to choose longer periods for purchases and for assessing performance criteria.

## Conditionality

We see advantages and disadvantages in the proposed changes to conditionality policy. We agree with the use of ex ante conditionality where appropriate, but continue to assume that this should not be interpreted to mean that there is no policy conditionality. We also note that the qualification criteria will need to be implemented rigorously. Such rigor will be necessary to protect Fund resources against credit risk. We also agree that conditionality should focus on variables that are essential to the success of a program, i.e. that it should not try to address all sorts of longer-run issues.

However, we are less convinced about the appropriateness of other proposed reforms. The staff's preferred distinction appears to be between structural and quantitative conditionality and it is proposed that structural performance criteria be abolished. A more useful distinction, in our view, is between variables that are under the authorities control and others that are not. If making certain structural changes is essential to the success of a program (for instance, implementing some essential financial sector reform in the context of a financial crisis) we believe that this should be a performance criteria. If a member fails to make the required change it should be required to ask for a waiver and this should be made public. However, variables that the authorities don't really control, be they structural or quantitative, should not be

performance criteria, even though they can be part of the discussion in a program review.

We look forward to the staff's proposals to mitigate or eliminate the blackout period problem.

#### FCL Qualification Criteria

The list of qualification criteria seems to include most factors that are important in determining the solidity of a member's policies and fundamentals. However, the criteria are still very general. For instance, what does it mean to have low and stable inflation? We would have preferred to see more details about these criteria. Their present vagueness will be a source of uncertainty for potential participants.

We would also have liked that the qualification criteria clearly indicate that a candidate's macroeconomic policies need to be consistent. For instance, a country having both an inflation target and a fixed exchange rate should, in general, not qualify, as these objectives are generally not compatible.

One of the criteria is that the country must have a "capital account position dominated by private flows." We are not sure that this is needed. We should perhaps not be too worried if a country has a large share of its capital flows reflecting public sector actions. We would welcome the staff's comments on this, in particular indications about how it intends to interpret "dominated by private flows."

We expect that a member qualifying for the FCL would normally have held the most recent Article IV consultations in accordance with the standard cycle for such consultations. We also expect that the member will have had a FSAP. These surveillance tools are a source of essential information for a rigorous assessment of the member's policies and fundamentals against the qualification criteria. If there is a belief that the FSAP itself needs to be modified, then we think changes should be proposed and introduced expeditiously.

#### Streamlining of Facilities

We welcome the elimination of the SRF, the CFF, and the SLF. These facilities have not been used; their elimination will simplify the set of lending tools.

We support the application to the EFF of the time-based surcharge that is proposed for other facilities. This will keep the set of lending tools simpler and will help prevent unhelpful arbitrage between facilities.

#### Transparency

Paragraph 18 of the staff's proposal says that 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." We would prefer that the word "generally" be struck. We believe that it is essential for transparency that such information be made public.

Will members' drawings under the FCL be made public? We believe that they should.

#### Exceptional Access Policy

We support the proposed changes to the Fund's exceptional access policy. In particular, we see that it is sensible, from a crisis prevention point of view, to allow exceptional access for both potential and actual balance of payment needs.

However, it is proposed to revise the criteria to capture members that have not had access to capital markets—that is, EA can be granted if the country is likely to gain access for the first time. It is not clear to us how this would work in practice. Could the staff please provide information?

#### Access Limits

We support the proposed increase in normal access limits from 100 to 200 percent of quota annually and from 300 to 600 percent of quota cumulatively. However, we note that this will need to be revisited when quotas are revised. A doubling of access limits for much larger quotas could have major impacts on Fund finances. In general, a major quota increase would imply a need to review many of the parameters involved in Fund lending policy.

#### Surcharges and Commitment Fees

We welcome the proposed simplified approach to surcharges. This approach should provide appropriate incentives for early repayment and

should be consistent with an appropriate rate of accumulation of precautionary balances.

Unfortunately, at a low level of access, the proposed commitment fees are lower than under the present system. However, this is more than compensated, in our view, by the fact that the new schedule is upward sloping and includes much higher fees for very high access. Although we would have preferred a somewhat higher schedule at all access levels, we can support the proposed schedule.

For both surcharges and commitment fees it will be essential that the new system be closely monitored to ensure that it performs as expected and that its parameters remain appropriate when circumstances change; for instance when quotas are changed.

Mr. Pereira submitted the following statement:

The Fund's GRA lending toolkit reform will only be successful if it largely alleviates the stigma problem associated with Fund lending. Key to this goal will be not only today's approval of a comprehensive package of reforms aimed at meeting all of the country members' needs but also its flexible put into practice going forward considering the systemic nature of this crisis. Indeed, taking into account its growing complexity and unpredictable duration, it is imperative that the Fund responds effectively providing high and frontloaded financial assistance with limited conditionality. As we stated before, this is the right time to go back to the cooperative nature of this Institution, unique safeguard of Fund's resources.

Management puts forward a compromise package that tries to gather the highest consensus possible among the membership. On the one hand, there is strong need for revamping the Fund's lending function, trusting more broadly in the members' own policy responses. Key to this view is the fact that the crisis is not the result of developing countries' domestic policy slippages, a huge departure from past experiences. In a nutshell, the policy tutelage traditionally associated with a Fund program is no longer necessary. Neither is one-size-fits-all model through tight conditionality that is not focused on macro-critical measures. On the other hand, members express concerns about ensuring adequate safeguards for the use of Fund's resources. Striking the right balance among these divergent views is the key challenge, knowing that our response today to this crisis will most likely define the future of this Institution.

In this regard, we envisage today's proposals as a first step in the right direction. There is strong support for a more flexible credit tranche framework, including a contingent financing instrument for crisis prevention available to address all balance of payment problems, which would benefit the entire membership. There is also broad recognition that access levels, phasing, and repayment terms need to be revisited at the light of the breadth of this crisis. Actions towards filling the gaps in the facility architecture, increasing access limits, streamlining conditionality, and ensuring sensible borrowing costs are indeed welcome.

Admittedly, we were expecting more ambitious and determined reforms. We restate the concerns expressed in previous discussions<sup>1</sup> in terms of the design of new instruments, conditionality, access and financial costs. Developing countries are already paying a very high price for a crisis not of their making and the Fund must stand ready to support them in a comprehensive manner within its own mandate. We believe that, at this juncture, a broad use of ex ante conditionality must be ensured to the vast majority of the membership, given the short-term nature of the Flexible Credit Line (FCL). A reliable collective insurance mechanism is needed. Likewise, greater flexibility is essential in the Stand-By Arrangements, with frontloaded-high access and low conditionality. In our view, it was misguided and unwarranted to assert that high access precautionary arrangements—revised SBAs— were available only for countries considered not eligible for the FCL. This may de facto increase the stigma problems already linked to the Fund's lending, hindering the possibility of an early approach to the Fund before the onset of the crisis in order to avoid a further run on the country. Similarly, keeping lower financing costs, avoiding any punitive charges or fees, is of the essence to dodge an unfair burden sharing and uneven socialization of the cost of the crisis. Lastly, doubling normal access limits will not be suffice, given that capital account instability calls for at least tripling current levels in order to avoid exceptional access policy.

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<sup>1</sup> IMF—GRAY/09/780—Statement by Mr. Pereira and Mr. Rojas on Conditionality in Fund-Supported Programs—Purposes, Modalities, and Options for Reform; Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options. March 5, 2009.

IMF—GRAY/09/431—Statement by Mr. Pereira on Review of the Adequacy of and Options for Supplementing Fund Resources (Preliminary)—Executive Board Meeting—February 3, 2009

IMF—GRAY/09/306—Statement by Mr. Pereira on Review of Access to Financing in the Credit Tranches and Under the Extended Fund Facility, and Overall Access Limits Under the General Resources Account; Charges and Maturities—Proposals for Reform (Preliminary). January 23, 2009.

Despite these reservations, we are confident that the new lending framework will strengthen the Fund's capacity to respond to the members' needs and contain regional spill-over effects. If properly applied, this will be a welcomed first step toward the Fund's early years, where outright purchases—that relay on ex-ante conditionality—were the primary modality through which members borrowed from this Institution. We call on the Managing Director to adopt all possible actions to ensure this primary goal, promoting appropriate dialogue and mutual understanding of potential borrowers' specific circumstances and political–social needs.

With these remarks, this Chair stands ready to support the Proposed Decisions set for in SM/09/69, Supplement 1. We also request Management to ensure appropriate public communication of the main elements of the package, avoiding an artificial differentiation among the membership. The single most fundamental message must be the broad support to be provided by the Fund to all members in Balance of Payments (BoP) needs at this critical juncture, as a key element to averting a synchronized and protracted global recession. This Executive Board already approved a substantial increase in Fund's resources. Now is the time to show that the Fund will do things differently, avoiding a conservative and fragmentary response.

Mr. He and Ms. Lin submitted the following statement:

With the changes in the global economic and financial situation, particularly the evolution of financial crisis and economic recession, the way the Fund responds to these developments needs to be modernized accordingly. Against this background, we welcome the proposed package of reform on GRA lending facilities, which would help enhance the flexibility of the overall lending framework, better meet the demands from its membership, and therefore effectively fulfill the Fund's mandate of crisis prevention and resolution.

We believe the concrete proposals on increasing the access limit, streamlining surcharge system and raising commitment fee are generally appropriate. The integrated package as a whole strikes a good balance among various objectives, including instilling more flexibility to the lending framework, preventing too much burden on the borrowing members and accelerating the accumulation of precautionary balance, which is critical to safeguard the Fund's resources.

We support streamlining GRA lending facilities and establishing FCL and HAPAs, both of which address the full-range of BOP problems and

incorporate precautionary elements while catering to different groups of member countries. The introduction of ex-ante conditionality in the FCL is a big stride, which directly addresses the stigma concern associated with Fund lending for qualified member countries by recognizing their past policy performance.

However, the increase in the access limit alone cannot adequately address the access issues. As we emphasized on different occasions, a significant increase in the quota resources, combined with an alignment of member countries' quota share remains part of the fundamental solution.

Whether the refined GRA lending framework could achieve the desirable results still needs to stand the test of time. Meanwhile, the demand from member countries may evolve with the development of the external environment. As such, the Fund should refine the framework through regular reviews.

Some important issues closely associated with the lending framework remains to be addressed. For instance, the stock of the Fund's credit is expected to build up along with the reform of GAR facilities and conditionality in the context of the global crisis. Larger exposure is expected to result in greater credit risks. The current burden-sharing mechanism needs to be refined so as to make it more equitable and accountable. We look forward to discussions on this issue.

In addition, the reform on the lending facilities is only one aspect of the reform on the Fund. The Fund should strengthen its capacity to exercise surveillance over its membership and enhance safeguard of its resources.

Mr. Mojarrad and Mr. Rouai submitted the following statement:

We are ready to support the package of reforms to modernize the GRA lending toolkit and conditionality. We hope that the proposed flexibility will help member countries deal with the current crisis and be better equipped to prevent future ones. We also hope that the reform of Fund lending will contribute to promoting a more effective Fund surveillance and to reducing the stigma attached to the Fund, thereby encouraging countries to approach the institution, not only at an early stage of their difficulties, but perhaps on a precautionary basis before their onset.

On conditionality, we support the elimination of structural performance criteria and the reliance on review-based conditionality and hope

that these changes will further promote country ownership. We expect that the retention of quantitative performance criteria will strengthen the predictability and assurances to members about the timely completion of program reviews and the availability of Fund resources. We also hope that monitoring of remaining performance criteria will be flexible. With regard those structural PCs already approved by the Board, like Mr. Itam, we support their automatic elimination at the next program review unless staff present strong arguments for their retention

We support the streamlining of Fund facilities and the elimination of the SRF, CFF and the SLF. We agree on the usefulness of the EFF for some LICs graduating from the PRGF. However, we should avoid making the terms and conditions of the EFF more costly for LICs. In this connection, we reiterate our support to applying the time-based surcharge to the EFF balances exceeding 300 percent of quota after five years instead of the proposed three years.

We support Decision IV establishing the Flexible Credit Line (FCL) and we agree, in particular, that the choice between 6 months or 12 months for the length of the arrangement should be left to the authorities and that access will not be capped. We also support the implementation of ex-ante conditionality under the FCL. We regret, however, that one of the pillars of the new facility, namely the confidential nature of the preliminary assessment of qualification, is being undermined. The pre-announcement of a list of eligible countries (The Wall Street Journal, March 20, 2009) and the immediate reaction by some authorities to signal their lack of interest in the new facility confirm, unfortunately, the still strong stigma of IMF lending that the new facility is supposed to lessen. We reiterate our strong support to leaving the initiative in triggering eligibility assessment to member countries.

We note from the text of the proposed decision that staff propose to consult with other creditors when assessing members' economic position, policies, and track record. We do not see the rationale behind this consultation. Qualification under the FCL does not involve any assessment of BOP actual or potential need or level of access. Discussion with creditors would be useful only once the member country is deemed to be qualified, and after a financing gap has been identified. Furthermore, if the member intends to use the FCL on a precautionary basis, there is no identified financing gap that needs to be filled with contribution from creditors. The proposal would effectively give part of the membership a veto power or at least a heavy weight in reaching the qualification decision and would be contrary to the

universal character of the institution. In addition, creditors would be informed of the country's interest in the FCL before the Board itself.

Section 6 (b) provides for the Fund to have access to the most recent independent audit of the central bank's financial statements. We have no difficulties with this requirement. However, it is not evident that all central banks have an independent external audit framework. Therefore, it would be useful if such requirement is added to Section 2 as part of the qualification criteria so as to enable members to “self-select”.

We support the clarifications and added flexibility to promote the use of SBAs as a crisis prevention instrument and we see merits in allowing high access under precautionary arrangements. We remain concerned, however, that the reliance by some members on the traditional SBAs, including the precautionary ones and within the access limits, could be viewed as a sign of relative weakness as compared to FCL eligible countries. We encourage the Fund, in its communication strategy, to continue to promote the regular SBA as the backbone of Fund financing. We look forward to staff's proposals for addressing issues associated with blackout periods.

We support the doubling of annual and cumulative access to 200 percent of quota and 600 percent of quota, respectively. We also agree that the exceptional access criteria should be modified to allow access for actual and potential BOP needs originating from current account or capital account pressures.

On charges and maturities, we support the simplification of the cost structure of Fund financing and agree with the staff proposal to set the level of surcharge at 200 basis points when credit outstanding is above 300 percent quota with an additional 100 basis points as a time-based surcharge after 36 months, except that for the EFF our preference is that the time-based surcharge starts after five years, consistent with the EFF's longer maturity. We believe that the proposed structure strikes a right balance between the need to provide countries with an added incentive for early repurchases and enhancing the Fund's capacity to build up precautionary balances.

Finally, we support the proposed structure for commitment fees.

Mr. von Stenglin submitted the following statement:

Today the Board is asked to approve a fundamental and strategic shift in its lending framework. We have raised our concerns regarding this shift

numerous times. While we still remain to be convinced that the proposed package will help the Fund to play a more effective role in crisis prevention and resolution in a consistent manner without jeopardizing the safety of its resources, we thank staff for their efforts to present a viable compromise.

We can agree with Decision I (conditionality) and would like to underline that structural benchmarks should represent a strict guidance for reviews.

We agree with the proposed Decision II (relationship between performance criteria and phasing of purchases), but would like to stress that the supervisory role of the Executive Board should not be diminished. We expect quarterly monitoring in cases where a member faces an actual crisis. The inclusion of a review clause to the proposed text should be considered.

We support the adoption of Decisions VI–VIII (surcharges, commitment fees, repeal of time-based repurchase expectations), although we would have preferred higher commitment fees with a steeper upward slope.

We would like to express our concerns and disappointment about Decision IV (FCL).

While the staff stressed the precautionary character of the FCL during the course of the discussion, the proposed FCL decision makes explicitly reference to the FCL as an emergency instrument. Even in this case, it is not considered to use any prior actions.

We remain generally unconvinced about the usefulness and appropriateness of the concept of “ex ante” conditionality as an adequate safeguard for Fund resources. Ex ante conditionality, or no conditionality, is appropriate for outright purchases in the reserve tranches when access is low. The FCL, however, constitutes a potentially very high access outright purchase in the credit tranches with basically no safeguards to Fund resources other than past performance. While we agree that a country’s good track record in policy implementation and economic development should be taken into account, the sole reliance on past performance underestimates the dynamics of a changing environment in times of crisis, both in terms of the external environment and internal policy changes.

The need for a high use of Fund resources is a strong indicator for the need for policy adjustments. While the origins of the current crisis can in many cases be traced back to inadequate economic and financial policy

choices in industrial countries, these policy choices, however, are also an explanation for high investment flows into emerging markets which cannot be explained by fundamentals alone and which were also not countered by adequate policy measures in these target markets. It is very difficult to argue that the current process of deleveraging is solely of a temporary nature and that no policy adjustments are needed. Providing liquidity should not lead to a continued support of structures and growth models that became outdated with the current financial crisis. While we acknowledge that the proposed FCL decision foresees a written statement by the FCL applicant with an outline of policy goals and strategies and a commitment to take adequate corrective measures, this document appears to be morally binding at best and does not entail a common understanding on necessary adjustment measures. Furthermore, this written communication is only “binding” until the end of the arrangement. As the arrangement will expire after a member has purchased the entire amount of the approved access, this written “commitment” may become meaningless very shortly after access to the FCL has been approved.

There is no safeguard that IMF resources are used for an acute balance of payments need nor even against their misuse, e.g. for budget financing and the recapitalization of the banking sector. The draft FCL decision does not explicitly request the existence of an acute balance of payments need at the time of the purchase under the FCL. Instead, “the Fund shall not challenge a representation of need by a member for a purchase requested under an FCL arrangement”. It is neither spelt out whether this is a potential or acute need nor whether this covers a balance of payments need at all. The latter is anyway unduly broadly defined by the staff in staff paper SM/09/30 of 30 January 2009.

The assessment and application of the qualification criteria remain unclear and could turn out to be arbitrary. Furthermore, every qualification criteria can be waived. An even-handed application could therefore be a rather challenging task. Moreover, there is no evaluation of the impact that the classification of the IMF membership into FCL eligible and non-eligible countries might have. Besides, a member that qualifies for the FCL should, in our view, have held the most recent Article IV consultation in accordance with the standard cycle for such consultations. We also expect that the member will have had a recent FSAP.

It is unclear how to prevent a country from using successive FCL arrangements by revising the judgement on “FCL eligibility” without sending negative signals.

We acknowledge the staff's proposal to increase the commitment fee along with an increased use/binding of fund resources. However, the potentially very high access of 1,000 percent of quota—and possibly beyond this soft limit—significantly weakens the efforts to effectively prevent undue recourse to fund resources. Furthermore, the lack of any cumulative hard access limit for the FCL unduly favors the FCL against the SBA and could therefore lead to a binding of resources under the FCL where they should be available for crisis countries requesting an SBA.

The staff's suggestion that higher scrutiny, the shorter duration relative to other arrangements, and the enhanced engagement with the member under post program monitoring (PPM) will serve as adequate safeguards, is also not convincing. We are not sure what "higher scrutiny" exactly entails. Furthermore, the repurchase period is the same as it is for SBAs and therefore significantly higher compared to other instruments with no ex post conditionality. While a PPM might help, we could not find it stipulated in the FCL decision or elsewhere.

The adoption of Decision V (access policy and limits) would fundamentally change the character of the framework for exceptional access to Fund resources. While we are in favor of doubling the normal access limits as suggested by the staff, we are particularly concerned regarding the modification of the first criterion of the Exceptional Access Framework as this risks to eliminate the distinction between 'normal' and 'exceptional' access. Access limits fulfill the double role of safeguards for the Fund as well as predictable and even-handed treatment of members. We are afraid that—especially in connection with precautionary arrangements, where the adequate size of a program (and conditionality) cannot be defined in a meaningful way—Fund support would become arbitrary, be provided on a first-come-first-serve basis, and eventually undermine the oversight and decision-making function of the Board. Besides, we expect members requesting an amount above the cumulative access limit of 600 percent of quota to draw the resources.

Our concerns regarding the adoption of Decision III (elimination of certain special facilities, in particular the SRF) reflect our difficulties with Decisions IV and V.

Mr. Guerra submitted the following statement:

We want to thank staff for a proposal that will improve the IMF toolkit, fill in the gaps and upgrade the Fund's capacity to respond to the

current global crisis and support its crisis prevention and resolution role in the future for all of our membership. In many aspects the proposal goes a long way in dealing with necessary reforms that our members have highlighted in previous discussions by increasing the instruments' flexibility and allowing IMF's assistance to be better tailored to countries' specific circumstances. Therefore, we regard the staff proposal as an adequate compromise solution that will help to reach consensus. As such, we can support the proposed set of decisions as presented by staff.

We believe that the main advantages and disadvantages related to the GRA reform options have already been discussed thoroughly and we are now at the decision stage. Nevertheless, we want to highlight once more that we have a strong preference for the following elements: time-based as well as level-based surcharges that are consistent with our own access policy threshold; a commitment fee that does not increase unduly, in particular when other IFIs are decreasing theirs; and a sufficiently long FCL arrangement which may really help to confront the short-term bias that exists in highly uncertain times.

We hope this package of reforms will send a strong signal that this Institution is taking timely measures to confront the crisis and will help to restore much needed confidence. The proposed framework of precautionary instruments, HAPAs and FCL, will play an important role in the current circumstances. The increased flexibility and streamlined conditionality will considerably reduce the risk of the IMF being seen as unresponsive to the current juncture and to the demands of our membership.

Finally, we expect that we will continue our discussion on the reform of the lending toolkit for LICs soon and have some specific proposals regarding ways to reduce the blackout periods.

Mr. Talbot submitted the following statement:

We thank the staff and Management for their considerable effort in delivering a workable package of reforms to the GRA lending toolkit so quickly. The IMF has a vital role to play in the current crisis and these reforms should strengthen its ability to perform that function. While we can agree with all the Decisions in the staff paper, it is important that we do not 'rest on our laurels'. The staff, Management and the Board should all remain vigilant as to whether this new toolkit is doing its job and we should not be afraid to review and change any of the proposed decisions if they are not working. A lot of our discussions have centered on ensuring that these new facilities are not over-

used, but there is still a risk that the reformed set of instruments will be under-used. In that spirit, the following comments should be borne in mind.

While we would have preferred more far-reaching reforms, the proposal to enhance the flexibility of the current conditionality framework is a major step forward in reducing the stigma attached to borrowing from the Fund. We welcome, in particular, the elimination of structural performance criteria.

We agree with the proposal to eliminate the SRF, CFF and SLF, but support the proposal to retain the EFF. More generally, we agree with the fundamental principle of the review—to move the Fund’s lending framework away from creating specialized facilities to fill niche borrowing requirements and towards a holistic, but streamlined, set of instruments.

We welcome the proposal to establish the FCL, in particular that access is not subject to a firm cap and that the entire amount can be disbursed up front. We would have preferred a longer facility, especially as the SLF has been hampered by its short duration, but we can accept the Managing Director’s proposed compromise which allows members to opt for a six or twelve month arrangement (with a review at the mid point).

We note the agreement to review the FCL after two years, or after SDR 100 billion has been committed, in order to protect against risks to the fund’s liquidity. However, we also need to guard against the risk of insufficient demand. We should stay alert to whether the instrument is actually being used and act quickly to amend it if it is not, just as we did for the SLF. We call on the staff to alert the board quickly if eligible countries are turning down the FCL in favor of other, less suitable instruments or borrowing arrangements. There is likely to be a first-mover problem, just as with other new instruments that the Fund has created for similar purposes in the past. We call on the staff, Management and the Board to do all that they can to disarm any notion on the part of potential participants that there is a stigma attached to using the FCL; quite the opposite—qualification for the FCL is a ringing endorsement of a member’s policy track-record.

We welcome the proposal to re-brand precautionary SBAs as HAPAs. We note, however, that maintenance of quantitative PCs means that HAPAs will be affected by ‘blackout periods’. We call on the staff to investigate options to solve this problem as soon as possible.

We can go along with the proposal to double access limits, although, as we have noted before, most programs will still be classified as ‘exceptional access’. While we understand that it is difficult to come up with a ‘one size fits all’ metric for determining access, we continue to believe that quota is not necessarily the best numeraire. Under these new arrangements, the board will still face the same issue of how to assess access when scrutinizing program modalities. It is therefore vital that the staff provide as much analysis as possible, as early as possible, for all board program discussions.

We broadly agree with the proposals to reform the Exceptional Access Framework. Nevertheless, we had two comments. First, we were not convinced that the revision to the ‘Debt sustainability criteria’ were sensible in the light of recent experience, for two main reasons:

- How will contingent liabilities of the government be assessed? Making this judgment is particularly difficult at the current juncture when some countries have already, or may need to, bring large amounts of private sector liabilities onto their balance sheets. This change will make the staff’s job much harder and will leave the DSA more open to question and interpretation.
- Even though private sector debt can be rescheduled, its presence can be relevant to assessing the solvency of a country in question—for example, in some recent programs, the restructuring of debt for systemically important banks has been a key issue at the heart of whether the banking sector, and therefore the country itself, is solvent or not.

Second, we wondered whether—in the spirit of streamlining—there was not a case for using the same set of criteria for the FCL to determine the merits of exceptional access, with those countries meeting the criteria only after policy adjustment steered towards an SBA (or a HAPA) rather than an FCL. The staff’s comment on both of these issues would be welcome.

We can go along with the proposed new system of surcharges and the associated abolition of the Time-Based Repurchase Expectations policy. The key benefit of the staff proposals is their simplicity. We would have preferred that the new surcharge schedule become operational at a higher level of access, since we continue to believe that precautionary balances will be accumulated faster than envisioned in the staff projections.

We can agree with the proposed upward slope to the commitment fee schedule, although we share Mr. Itam’s concerns that these fees may prove

onerous, so we would not want to see any increase beyond what has already been agreed.

Finally, we call upon staff, management, and our board colleagues to be as expeditious as possible in agreeing a set of reforms to the Low Income Country lending toolkit; including, for example, a doubling of access requirements.

Mr. Shaalan and Mr. El-Khoury submitted the following statement:

We welcome the proposals put forward by the Managing Director regarding reform of the GRA lending toolkit and conditionality. These proposals reflect a balanced compromise among various views expressed by Executive Directors during previous discussions. We can support the proposed Decisions, and would like to emphasize the following points.

#### Qualification Criteria for the Flexible Credit Line (FCL)

We have often emphasized the importance of laying out well-defined rigorous qualification criteria that would provide justification for a request for the FCL. The qualification criteria set out in Annex I of the staff paper, which draw on elements of criteria established by the Board for the SLF and those discussed by the Board in the context of the RAL, serve the intended purpose of providing an appropriate safeguard, and we can support them. We strongly agree with the statement in Annex I that “member’s policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultations.” We therefore attach great importance to maintaining the high quality and appropriate reviews for the bilateral consultation reports, as well as for the continued role of the Board discussion as being the basis for the conclusion of the Article IV consultations.

#### Duration of the FCL

We had previously indicated that our preference was for a one-year duration for the FCL, but that a six-month duration would also be acceptable. We can therefore go along with the compromise proposal of enabling the member country to choose between a six-month arrangement or a one-year arrangement with a mid-year review, both of which could be renewed, provided the member country continues to meet the qualification criteria for approval of an FCL arrangement.

### Access Under the FCL

We note that the current proposal is in line with our initial position that, in order to retain flexibility to deal with shocks, access under the FCL should not be capped or subject to the general access limits. The added statement by staff that they would not normally expect cumulative access under the FCL to exceed 1000 percent of quota is welcome in that it should provide an additional assurance regarding safeguards in the absence of a cap.

### Access Policies, Charges, and Maturities

We agree with the proposal to raise the normal access limits from 100 to 200 percent of quota on annual basis, and from 300 to 600 percent of quota on a cumulative basis, as access limits had declined significantly over time in relation to indicators of GDP, trade, or capital flows. In this connection, we support the proposal to double the threshold for activating Post-Program Monitoring (PPM) to 200 percent of quota. We also agree to the proposal that the current surcharge schedule be replaced with a single level-based surcharge and a single time-based surcharge. We note that the proposed schedule 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.

### Commitment Fee

We had previously argued that there might be a need to adjust the structure of the commitment fee to discourage excessive demand for Fund resources on a precautionary basis, but that this should be done without overburdening members requesting such use. We believe that the proposed structure for the commitment fee reasonably balances the above objectives, and we can support it.

### Conditionality

We would have been able to go along with the original review-based conditionality proposal by staff, in which both quantitative and structural performance criteria (PCs) would be eliminated as a condition for making purchases under Fund arrangements, and replaced by indicators and benchmarks to be monitored under regular program reviews. Nonetheless, we can understand why several Directors have preferred that the quantitative PCs be kept. This, however, means that suspension of purchases under “blackout

periods” would remain an issue, and we look forward to the forthcoming proposals by staff on how to deal with it.

Mr. Kotegawa and Mr. Kihara submitted the following statement:

We thank the staff for consolidating a wide range of issues into a concise paper. As this chair stressed in previous occasions, the Board is expected to act quickly in order to enable the Fund to more effectively react to the current global economic environment. Today, the Board was asked to reach a decision on a variety of important issues within a relatively short period of time. Nonetheless, this chair is ready to contribute to discussions in a constructive manner.

#### Conditionality

We welcome the further streamlining of the Fund’s conditionality. With regard to the quantitative Performance Criteria (PCs), given that many chairs, who represent borrowing member countries, still view them as useful, the proposed approach seems to be reasonable. The subject of structural conditionality has been the object of much controversy for the Fund. While we can accept the elimination of structural PCs, the importance of setting appropriate, focused and macro-critical structural benchmarks does not change with this reform, and the Fund should continue to strive toward making further improvements.

#### Special Facilities

We can support the elimination of the Supplemental Reserve Facility (SRF), and the Compensatory Financing Facility (CFF). As to the Extended Fund Facility (EFF), we are somewhat puzzled by the staff’s explanation, presented in paragraph 8, which states: “it is not intended, however, that the EFF would be used as a vehicle to deliver high-access financing to members.” The clarification of blending arrangements between GRA facilities and low-income countries’ facilities should clarify the role of EFF after the streamlining.

#### Flexible Credit Line

The staff has done a commendable job in making progress on the establishment of a crisis prevention facility. This chair strongly supports the introduction of the new facility, and would like to submit the following three comments.

First, the staff and management should be extremely cautious, in terms of public relations, on the establishment of the Flexible Credit Line (FCL). We have already seen some news articles that list potential users for the FCL, and we believe that these articles are not helpful. When authorities are forced to react to such articles at very early stages of the internal process, they may have no option but to say “we are not interested.” This type of reaction by some countries would create yet another problem—that of being the “first mover,” which occurred when the Short-term Liquidity Facility was established. While we cannot prevent the media from trying to point out specific countries as potential users, both staff and management should refrain from adding an additional source of public information, as this would clearly be against the proposed policy of ensuring a “confidential preliminary assessment of qualification.” If the same kind of misbehavior continues, we may need to bring this issue to the attention of the Fund’s Ethics officer.

Second, we are comfortable with the proposed approach on access. This presents a well-balanced compromise.

Third, we note that a mid-term review could be conducted by a rather streamlined procedure, such as a lapse-of-time basis. But we would stress that the quality, and the threshold of qualification assessments should not be eroded under the mid-term review.

#### Enhancing Stand-By Arrangements

Shifting from the presumption of quarterly phasing and PCs to a more flexible approach is reasonable. Nonetheless, as the staff acknowledges, we would expect that most of the crisis resolution programs that involve quite large access would continue to use quarterly phasing.

#### Access Policies

We support, as suggested in the paper, the increase in the access limits, and the clarification of the exceptional access policy. The access limits are not binding nor a “hard” cap for Fund financing. Rather, they would set the threshold at which additional scrutiny is put in place when the Fund undertakes large and risky programs. The content and degree of such scrutiny would not be expected to change under the proposal.

#### Charges

At the last Board discussion, some chairs offered different proposals on level-based surcharges. Striking a good balance between the need to

increase the Fund's precautionary reserves and determining a reasonable level of financial burden for borrowing countries is a difficult task. In this regard, we note that the proposed reform would decrease the financial burden for programs with less than eight hundred percent of quotas. While we are ready to accept the staff proposal, we are still open to hearing other chairs' opinions. This chair supports the introduction of a time-based surcharge, and the proposed structure of commitment fees.

Mr. Kiekens and Mr. Demirkol submitted the following statement:

We have long argued that the Fund should provide precautionary credit lines for adequate, if needed, high amounts. If a country pursues adequate policies it suffices that the Fund has assurance that such policies will be maintained and adjusted as needed in response to shocks. Providing high access precautionary credit under such conditions is possible under the present rules for Stand-By Arrangements with minimal—if any—amendments to those rules.

The proposed “Flexible Credit Line” pursues goals which we support and which respond to an urgent need for a good number of countries. However, creating a separate lending instrument creates an undesirable segregation between “good” and “less good” performers that will be difficult to manage for the Fund. We would like to stress that the Fund's decisions at both the level of Management and the Board, on granting access to the FCL should be evenhanded. In this respect, a member's compliance with its obligations within the Articles of Agreement, in particular, timely consultations under Article IV, and a good track record of cooperation with the Fund, are part of the qualification criteria.

The name “Flexible Credit Line” is inadequate. The new instrument is everything but flexible as its eligibility criteria and functioning are governed by rigid rules. The word “flexible” seems to suggest that the Fund will be lenient with respect to conditionality. This too would be a wrong message. In terms of required policies, i.e. conditionality, the FCL is the most demanding among the Fund's lending instruments.

Because of the ongoing severe reversal of capital flows to emerging market countries, we expect that there will be good, even strong demand for the new credit line. However, unless the crisis soon reaches a turning point, many countries will need actual rather than precautionary credit. We fear that creating a purely precautionary instrument at this juncture might have more pronounced adverse affects for countries that will need to exit it when drawing

on the Fund, than when drawing under one single truly flexible credit line, accessible to all countries. We insist that the Fund should avoid presenting a Stand-By Arrangement as a less attractive option than the new Flexible Credit Line.

With the adoption of the new Flexible Credit Line, the Fund embarks on an experiment. The ex-ante conditionality is an important change from past practice of the Fund. If successful, the FCL will be presented as proof that the traditional conditionality had a significant impact on the stigma associated with Fund lending. However, because of the present strong deleveraging, this test might be not conclusive.

The proposed review based conditionality would provide more discretion to the Fund and is expected to reduce stigma. Today, we abolish structural performance criteria because of high number of waivers requested and their ineffectiveness. The change aims at increasing national ownership of Fund supported programs. We believe that the ultimate analysis should take into account if the required structural policy change had taken place at a later stage even if a waiver was sought under the specific review. Indeed, we would like to note that the Board always looked at the broader perspective in approving the program reviews and never stuck with sometimes uneven performance in meeting structural and quantitative criteria.

While we would have clearly preferred one single flexible instrument, in light of the widespread support in the Board and the exceptional circumstances in the world economy, we can support the proposed decision on the FCL.

We agree with the elimination of the Supplemental Reserve Facility (SRF), the Compensatory Financing Facility (CFF) and the Short-Term Liquidity Facility (SLF), which remained unutilized by the membership.

Revisions in exceptional access policy help to establish a more robust framework. We welcome this approach. The Board always had a comprehensive approach in interpretation/implementation of the exceptional access policy. It is important that the Board continues to exercise the same degree of judgment under the proposed system. We welcome the clarifications with regard to Stand-By Arrangements and BOP need principle and believe that they will provide more assurances for borrowing members.

The increase in normal access limits is a late acknowledgement of the rapid change in the world economy and the inadequacy of the present metrics

for access. Unless it is matched by a proper alignment of the surcharges, the increase in normal access limits will mainly reduce the involvement of the Board during the negotiation phase of the arrangement.

The threshold for activating Post Program Monitoring could be further increased to 300 percent of quota.

The staff justifies the proposed changes for the charges mainly by the need for the Fund to accumulate precautionary balances to mitigate the credit risk for the Fund. The decision on surcharges has an important and direct bearing on the cost of Fund credit, including potentially on countries with outstanding debt to the Fund. We welcome the proposed provisions with respect to the entry into force of the new rule, and thank Management, staff and Directors for the constructive dialogue in this respect.

The recent increase in the Fund credit and associated rise in projected income, should not delay the pace of the income reform. We should discuss the basic rate of charge for the next fiscal year soon. We would like to stress that the income from charges and surcharges should be used to cover the cost and risks related to the Fund's lending. Other costs of the functioning of the Fund should be covered by adequate other sources of income.

The recent decline in SDR rates presents a good opportunity to stop cross subsidization and start reimbursement of the GRA for the cost of administering the PRGF Trust.

Adjusting the burden sharing for overdue obligations should be addressed on the occasion of the upcoming decisions on the budget for the next fiscal year. We request that it is put on the Board's agenda.

Mr. Nogueira Batista and Mrs. Joseph submitted the following statement:

Management, the staff and the Executive Board must be commended for the progress made in bringing these fundamental reforms to the decision point. We believe that the overall membership will welcome these changes and see in them the Fund's determination to be more relevant and to meet their needs both in the current crisis and beyond.

Taken as a whole, the changes that are being proposed to the Fund's lending instruments and conditionality constitute a major shift, possibly one of the most important reforms in these areas in the history of the institution. Of course, changes that are made on paper have to be subjected to the test of

reality. The goals that we are pursuing with these reforms (modernization, reduction of the stigma associated to Fund lending, improvement in the relations of the institution with its members, and upgrading of its image in the world) will only be successful if we are determined and careful in the implementation of the decisions. A lot will depend on an internal change of culture, on the part of the staff, the Board and Management. Persuasion will have to replace strict imposition of policies; dialogue will have to replace dogmatic prescriptions. Only in this way, will the message be given that there truly is a new IMF in operation.

We must therefore guard against falling back into old practices, disguised by a new envelope. If we are successful, this will gradually dispel widespread suspicions and distrust among a large part of the membership, and will establish the Fund increasingly in the desired role of a trusted advisor, who is capable of listening and learning, as well as transmitting information and policy recommendations. It will also help countries decide to come to the Fund at an early stage of their difficulties.

While we can broadly support the Decisions, we wish to make the following comments and express some concerns:

The proposed Decision IV, which establishes the Flexible Credit Line (FCL), is perhaps the most important of the decisions under consideration. This new facility is a flexible instrument to address all types of balance of payments needs on either a precautionary or an actual basis. We note that staff has heeded our and other Directors' call for the clearest possible specification of eligibility criteria. In addition, we welcome the fact that the criteria are broad-based and do not have quantitative benchmarks by which countries will be rated. This approach is consistent with the one suggested by this chair last year, when we proposed the Rapid Liquidity Line. The Decision also adopts our suggestion of uncapped access. The FCL is a clear improvement over the Short-Term Liquidity Facility (SLF), which the Board approved last October, and was never used because of its shortcomings: short duration of the arrangement, short repayment period, relatively high cost, impossibility of using it on a precautionary basis, and access capped at 500 percent of quota. All these shortcomings have been removed from the FCL.

The FCL, like the SLF, is based on eligibility criteria, a major innovation in Fund policy. In this facility, there will be no Letters of Intent, performance criteria or quarterly reviews. The basis for lending will be a country's track record of sound economic policy and sound economic fundamentals.

We would have preferred to have the FCL as a one-year arrangement. A country that has a very strong track record and fundamentals can be expected to sustain this performance over at least one year. However, we can go along with what is being proposed for the sake of consensus.

Decision V provides for the doubling of normal access limits from 100 percent to 200 percent of quota annually and from 300 percent to 600 percent on a cumulative basis. In addition, the threshold for activating Post-Program Monitoring (PPM) will also be doubled to 200 percent of quota. These new limits are more in line with countries' GDP, trade and capital flows.

Decision V also allows access in exceptional circumstances, in excess of the new limits, provided that the four substantive criteria are met. This would allow members to make use of the FCL and the High Access Precautionary Stand-By (HAPA-SBA), not only for actual but also for potential balance of payments needs stemming from either capital or current account pressures. The fact that the HAPA-SBA is not explicitly outlined in the decisions may hamper the proper dissemination of the new policy. However, this difficulty can be remedied in the communication of the decisions to members and the public.

Decision I refers to the removal of structural performance criteria (PCs) from Fund programs, including those designed for Low-Income Countries (LICs). However, these reforms do not go as far as originally envisaged. The setting of quantitative PCs has been retained in Decision II, diluting the strength of the reform and continuing to allow the occurrence of "blackout" periods, where the right to purchases is suspended between the test date for PCs and the date at which data for those PCs become available. On the other hand, we welcome the tailoring of program design to specific country circumstances, which is established in Decision II. In particular, we see as a positive change the abandonment of the presumption of uniform phasing of disbursements and of quarterly reviews. Depending on the relative strength and needs of members, Stand-Bys will be frontloaded, taking into account a country's actual or potential needs, and reviews will be done on a half-yearly basis.

We can go along with the repeal of the Decisions establishing the Short-Term Liquidity (SLF), the Supplementary Reserve Facility (SRF) and the Compensatory Financing Facility (CFF), although we had stated in our gray of March 5 that we saw a role for a reformed CFF.

We can also support the changes to the system of surcharges, which would encourage early repayment to the Fund by members, while also reducing somewhat the cost of borrowing for all cases in which the use of resources does not exceed 300 percent of quota continuously for 36 months or more. We would have preferred a less onerous fee schedule, but can go along with what is being proposed as a compromise solution.

Mr. Rutayisire submitted the following statement:

We would like to thank management and staff for continued effort to reform the Fund's lending toolkit with a view to improving the institution's effectiveness in both crisis prevention and resolution.

#### Streamlining GRA Facilities

We support elimination of the Supplementary Reserve Fund (SRF), the Compensatory Financing Facility (CFF), and Short-term Liquidity Facility (SLF). The retention of the EFF in light of its usefulness to low income countries responds to our repeated call. The BOP impact of the current crisis on these countries as evidenced in countries already affected require high access and is bound to take longer duration to overcome. We are concerned that the staff paper stipulates that there can be no access beyond a determined level, and the access level is not specified in the staff paper, and that a time based surcharge should be applied without referring to level of access and duration also does not provide clarity. We take good note of the provision for LICs' higher access under SBA. As we have expressed before, and also other chairs supported, the access to SBA should allow for blending with PRGF. The staff paper needed to shed light also on this aspect.

#### Creation of the Flexible Credit Line (FCL)

We support the creation of a FCL to provide strong performing members with a large and upfront disbursement, with flexible repayment terms to deal with all types of BOP problems. We also appreciate this new instrument because it would provide greater flexibility in the use of the General Resources Account to address both situations of crisis prevention (precautionary) and crisis resolution (nonprecautionary). However, it is stipulated in the Articles of Agreement (Article VI) that GRA resources will be used to address BOP problems originating from the current account crisis and not from capital imbalances. As the FCL tends to address all types of BOP problems, there is a need to ensure that we are consistent with the Fund's

Articles of Agreement. We support such a flexibility in the use of GRA resources to deal with the crisis at hand.

We favor a six-month duration with options to allow members to choose a twelve month period with mid-term review. We can go along with a case-by case approach with access not exceeding 1000 percent of quota.

Given uncertainties in the demand and implications for Fund liquidity, we support a review of the instrument after two years or when FCL commitments reach SDR 100 billion. However, the basis for which the staff considers the SDR 100 billion threshold is the liquidity lines pledged by member countries. Nonetheless, financial prudence also requires that any line of credit which has restrictions such as call options, reciprocity clauses etc not to be included in freely available liquid. We wonder if such a target level for reassessment of the adequacy of precautionary balances is not set at too high level.

#### Streamlining Conditionality

It is our strong view that the current conditionality modalities as well as the proposed framework fail to meet the requirement that program policies ought to be designed by the member. We need to depart from a one-size-fits-all model and take into account members' specific circumstances. In this regard, the Fund could borrow from the World Bank the fact that the authorities and staff can agree on a limited set of structural and quantitative conditions going forward (including prior actions, benchmarks, quantitative targets etc.).

We support the proposal to use ex-ante conditionality for the FCL with its feature of providing full access upfront, based on strong fundamentals and policies and established track record of policy implementation. However, related to the difficulty in identifying the threshold for qualification (how much strong should be "strong" fundamentals or track record?), the generalization of an ex ante approach beyond the liquidity instrument may introduce some degree of adverse selection.

We also support the elimination of structural PCs in all Fund arrangements as they tend to distract from ownership and sometimes fall outside the Fund's core area of expertise.

Regarding the proposed review-based conditionality, as the Board will play a more active role in deciding whether reviews are satisfactory, there is a

need to ensure predictability and even-handedness across countries in the assessment of program performance. There is also scope for supplementing this approach with a cap on the number of prior actions that can be set for a program review and additional policy guidance on the design of prior actions.

Surcharges. We support the decision to replace the current surcharge structure and time-based repurchase expectations policy by one level based and time based surcharge.

The Acting Chair (Mr. Lipsky) observed that that day's meeting on the GRA lending toolkit and conditionality reform proposals would be a very interesting and important one. Since the issuance of the staff paper that was under discussion, it had become apparent that it would be useful to allow for a transitional period for the implementation of the decision to eliminate structural performance criteria (PCs). Decision I, of the revised proposed decisions in SM/09/69, Supplement 1 provided that, effective that day, should the decision be adopted by the Board, structural PCs would no longer be established as a modality for monitoring performance under the Fund arrangements. For program cases in which staff and the authorities were still in discussion, mission teams had been alerted that structural measures should not be included as PCs. There were, however, a few program cases for which understandings on structural PCs had already been reached with the authorities. For some of these cases, authorities' documents and the related staff papers had already been submitted to the Board for consideration in the next few days. That included Hungary, which would be discussed at the Board the following day; Cote d'Ivoire, which would be discussed on Friday; and Mongolia, which was scheduled to be discussed on April 1st. However, the Board would not be able to approve any new structural PCs that had been proposed if Decision I was adopted today as it was distributed.

To avoid unintended consequences on already negotiated programs, and to minimize complications for staff and the authorities stemming from the need to hastily revise program documentation, so as to eliminate or convert structural PCs, it was proposed to amend Decision I to make it effective on May 1, 2009 instead of immediately, Mr. Lipsky continued. A revised text would be circulated toward the end of the meeting and it would read, "the Fund decided that effective May 1, 2009, it shall no longer establish structural performance criteria as a modality for monitoring performance under any type of Fund arrangement."

Ms. Lundsager made the following statement:

We have had many meetings, and, like others Directors have expressed in their statements, we join them in welcoming the approach to underpinning high-performing emerging markets, and we support the proposed decisions. The central role of the IMF in the international monetary system is putting the

seal of approval on a country's policies when the IMF commits to lend to that country. Thus, the membership at large would be expecting rigorous application of the FCL qualification criteria. We agree with those, including Messrs. Horgan and Sadun, who note that those qualifying for FCLs would normally have held the most recent Article IV consultation in accordance with the standard cycle.

On access, we consider important to stress, as the staff paper did in paragraph 13, that cumulative access under the FCL would not normally exceed a thousand percent of quota. When a country draws on the FCL, whether the full or partial amount, the Board should be informed—and not just through draws on the financial transactions plan. As Mr. Bakker noted in a previous meeting, the staff should now be in contact with FTP members in advance to ensure they can mobilize the needed resources upon demand. We discussed this last week.

Regarding HAPAs we would not expect to see many, but rather very few requests, for more than the cumulative access limit that we are approving today, and that is high. Countries with immediate financing needs can make a request for exceptional access.

Regarding conditionality, the staff should be prepared to include PCs or prior actions, if it believes doing so is necessary for demonstrating the authorities' commitment and securing good performance under the Fund-supported program. In my view, this is something we have to leave to the judgment of the staff negotiating with the authorities.

Finally, given the current economic situation in many countries, we would expect that most programs in the coming months will be drawn with quarterly phasing, with close monitoring to enable the staff and the authorities to address any emerging difficulties quickly.

Mr. Fayolle made the following statement:

The paper and the decisions we are examining today are truly exceptional. I have had occasions to state my view on the reformed conditionality, and I support this reform in its revised version. Having read colleagues' preliminary statements, I would like to underscore a few points for the FCL.

My authorities have been advocating for a precautionary facility for many years. It has taken a set of crisis as well as the leadership of the

Managing Director and the open mind of shareholders to come to this proposal. The components of this new instrument could have been different, but we have to acknowledge that today's decision is a major achievement.

The IMF is providing its membership with one key tool to help members devise real crisis prevention strategies. As the IMF is to undergo a historic increase of its resources, this is very good news. Things could have been done differently, though. And, among others, let me underscore two. As for the rate of commitment fees, we have already stated our regret that the proposal is not more documented. I have heard carefully colleagues' preliminary statements arguing one way or another, and I draw the conclusion that staff and management's proposal is probably close to the equilibrium between different views. That said, I still believe that the commitment fees schedule would have deserved more elaboration.

With regards to the absence of a formal ceiling, we still think that including a ceiling would have been preferable. The good news in not having a ceiling is that there will be the maximum flexibility to address member needs. However, it will be staff's and management's responsibility, as well as the Board's, to make a fair and final judgment on the eligibility and the appropriate level of access of a given country. This can be considered a positive development vis-à-vis those inside and outside the Fund that question the relevance of the Board. Nonetheless, this will be a challenging task.

I fully share the point made by Mr. Bakker, and just supported by Ms. Lundsager, about the need to keep in close contact with FTP countries. I must fully support the point made by Mr. Horgan in his preliminary statement on transparency. It is a very important point. My starting point would be that for countries that are requesting the FCL, publication of the staff reports should be presumed. If it ends up being a non-transparent process, then I do not understand what we are targeting with this new instrument. So I would like the word "generally" in paragraph 18 of the staff paper to be dropped, as proposed by Mr. Horgan.

Finally, on outreach, if we want the FCL to be successful, we need to market it well. It is up to the membership to see if they will see in this new instrument a useful tool to prevent crisis. We will need to make the case to our authorities and, more importantly, to the outside world about the purpose of this new instrument. In that regard, I call upon the Managing Director and my colleagues to make an exceptional effort of outreach across the membership toward the key stakeholders. They include in particular market participants, notably banks and investors, who need to be convinced that having a program

supported by the IMF does not mean necessarily an economy in trouble, but the contrary if a country is eligible to the FCL.

Mr. Alazzaz thanked management and the staff for their efforts to bring the discussion on reform and conditionality and enhancing the Fund's lending toolkit to a fruitful conclusion. Most aspects of the proposed reforms, which should help the Fund better meeting the financing needs of its membership, could be supported as well as the proposed decisions.

Mr. Mozhin observed that the Board was being presented with proposals that represented a sensible compromise and his chair was therefore prepared to approve the package as it was. In case some of the elements included in the proposals needed to be adjusted or fine-tuned later on, that could always be considered.

Mr. Lee expressed his support for the proposed reform of GRA lending facilities and conditionality, as detailed in the proposed decisions. On communication, it was important, when the introduction of the FCL was announced, that, like Mr. Fayolle had pointed out, a strong outreach effort was put in place to ensure that the potential clients were fully informed of the objectives, qualifying criteria, and financing terms for the new instrument. It was also important to present the introduction of the FCL to the membership as a permanent reform that addressed a gap in the Fund's crisis prevention toolkit. There ought to be no uncertainty in this regard.

The success of the reforms agreed by the Board depended on sound implementation, including the way in which the members' application process was managed, Mr. Lee continued. It was therefore crucial to reiterate the importance of maintaining confidentiality through the FCL-application process, resisting the temptation to name potential candidates which could be counterproductive, and consistent with the Board's view that eligibility should not be determined in the absence of a direct request from the authorities.

Mr. Pereira, echoing Mr. Lee, underscored that it would be important to apply the new lending framework in a flexible manner so as to ensure that the Fund would be able to support all members with ample financing. While the one on the table was a compromise reform package, it needed to be recognized that the current crisis was not the developing countries' own making. Thus, it would be important to apply the FCL and HAPA frameworks in a flexible manner. Flexibility will be crucial to address the problem of the stigma borne by countries accessing Fund financing.

With regard to communication, management was in charge of explaining the changes that had been introduced to the Fund's lending system in plain language, conveying that the Fund will be able to stand ready to support its member countries and to address their needs, Mr. Pereira continued.

Mr. Henriksson confirmed his support for the reform proposal as it was. Regarding PCs, while it would be inappropriate to eliminate them *tout court* discontinuing the use of structural PCs could be acceptable. However, not implementing such a decision until May 1, as it was indicated in the text of the decision, seemed strange. Keeping PCs for those programs that are already in place until the May 1 would imply holding a Board meeting on Hungary before than still using the current PCs. It was a bizarre signal to send. It would indeed feel unfair vis-à-vis Hungary.

Mr. Daïri made the following statement:

On the FCL, I agree that the issue of eligibility should be treated with the highest flexibility. This facility should be targeted to a handful of countries, and if it is, this reform will have failed.

I am puzzled by Decision IV (6).a.1, which states that staff will conduct a confidential preliminary assessment of the qualification criteria for the FCL and, “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.” I am not sure I can see the merit of a consultation with creditors in the process of assessment of the eligibility assessment. It would create two categories of Board members: one who is consulted for qualifications, and another to which we will bring the qualification as *fait accompli*. It would also give these creditors the information about the authorities’ interest in an FCL even before other Board members are informed. Creditors matter when there is a financing gap. Qualification for the FCL has nothing to do with the gap. Access to the FCL, either on a precautionary basis or not, would be covered without the need for any further assistance from creditors. So, I do not understand the rationale for such a consultation.

I also reiterate our support for a three-year review for the FCL, which we supported in the past, because we want it to become a permanent feature of the Fund’s toolkit.

With regard to communication, I am very much troubled by the information leaks that have taken place so far. If staff has started working on eligibility criteria, leaking information in this respect is doing a disservice to the institution and to the members. Members do not want to be assessed in terms of their potential eligibility, until they themselves ask for it. Thus, assessing eligibility even on a provisional basis should be avoided.

On the EFF, we continue to believe that the proposal to apply the time-based surcharge charge after three years in the case of EFF is going to discriminate against low-income countries for which we want to maintain this facility. In fact, the current repurchases obligations for members are currently set between 3¼ and five years for SBAs and between 4½ years and 10 years for EFFs. Why should we apply the time-based surcharge when the first repayment obligation has not even started? I think it would be wrong. The surcharge instead should apply from the first repurchase obligation, which is 3¼ for SBAs and 4½ years for EFFs. It would make more sense and it would be a way of avoiding penalizing EFF users, which will most likely be low-income countries, paying charges not at the concessional rate but at the standard interest rate for GRA resources.

Finally, I support the call by Mr. Itam for extension of elimination of structural PCs to LICs and I see merit in Mr. Henriksson's point that it would seem odd to send this mixed signal of excluding LICs. If we decide today to eliminate structural conditionality, it should be done for all members and right away.

Mr. Talbot made the following statement:

We join other colleagues in thanking management and the staff for their prompt work in establishing these new facilities. I think earlier in the year we had the aim of establishing these facilities by the annual meetings and it is excellent that we have been able to hopefully get this in place before the spring meetings, I think that is really good news.

I will restrict myself to some brief comments in the light of what colleagues have said in their preliminary statements. I note that some colleagues are still worried about the risks to the liquidity of the Fund created by these new instruments. We should look to take a lead from many of our central banks in this time of crisis in taking unconventional measures to put in place what support measures we need to for the rest of the world economy.

As we said in our preliminary statement, the risk is that these facilities will be underused rather than overused. The Board needs to stay alert to this and stand ready to revisit them, as we did for the SLF, should there be evidence that these facilities are not used by member countries.

As a second and related point, I agree with what Mr. Fayolle and other colleagues have said this morning in terms of the public relations element of these new facilities. It is important that we are all as proactive as possible in

marketing these new facilities to our authorities, and—as Mr. Fayolle pointed out—to market participants. Nevertheless, I agree with what Mr. Daïri said, which was also noted by Mr. Kotegawa in his preliminary statement, unhelpful leaks to the press need to be avoided. Everyone needs to refrain from talking in public about lists of countries that may be eligible for the FCL. That is an unhelpful start, and we really need to be careful on this point.

Finally, I just wanted to agree with a point Mr. Horgan made on transparency in his preliminary statement, which Mr. Fayolle mentioned again this morning. It would be helpful to make the amendment Mr. Horgan suggests to Paragraph 18 of the staff's proposal.

Mr. Guerra joined other Directors in thanking staff for the hard work and Board colleagues for their openness and flexibility. The proposals for discussion represented a good compromise and could be supported.

With regard to the communication strategy, as other Directors had mentioned, it was important to convey to the public that the changes underway were comprehensive and aimed to help the membership at a difficult time, Mr. Guerra continued. In addition, it was expected that a successful communication strategy would target different regions, issuing press releases in different languages.

Mr. Demirkol made the following statement:

We join other chairs in noting that the adoption of the proposed package of reforms, especially the establishment of the FCL and the introduction of changes in conditionality, is going to represent a substantial change and is going to represent a structural break with past Fund policies.

We do appreciate the quality of the discussion that has taken place so far and we would like to thank management, staff, and our fellow Directors for contributing to that. We also would like to offer our thanks to staff and management for devising such a difficult package, bringing a broad compromise to the Board.

Having said that, I would like to comment on a few issues. One issue is the Fund's communication policy, as underscored by Mr. Pereira, Mr. Kotegawa, Mr. Mojarrad, and others. We share their concerns on the communication policy. We would like to stress that the Fund should avoid presenting existing SBAs, the workhorse of the Fund, as a less attractive option after the creation of the new facility. The recent articles on preliminary assessment of possible candidates for the new instruments are not really

helpful. We are also not convinced by the argument that the Fund should try to market the FCL. Making a distinction between outreach activities and efforts to market to potential users would be appropriate. We should be really careful about that.

My second point is that the proposed changes to the Fund's policy on maturities and charges relate to the discussion on ensuring the revolving nature of the Fund resources, accumulation of precautionary balances, and also the Fund's income. The management and staff had to strike a fine balance between different demands of the creditor and debtor countries. It was important that the Fund listens to the concerns raised by the membership. In this respect, we would like to commend management and staff for an open and useful dialogue, and the Board colleagues for their support.

On a related point, the Fund's income reform should continue uninterrupted. Indeed, we will look into the basic rate of charge for the next fiscal year very soon. This would also provide a good opportunity to discuss the progress on the income reform side. We would like to stress that any increase in income should not be diverted to support the Fund's activities in other realms, and should be used to strengthen the precautionary reserves. Very complex nature of the Fund finances should not leave the burden of possible new initiatives on the borrowing members. Mr. Kiekens has made our views very clear on this area.

Finally, we would like to see a Board discussion on the burden sharing mechanism very soon.

Mr. Nogueira Batista made the following statement:

As we indicated in our preliminary statement, we are prepared to accept the proposals as they are. They represent a carefully crafted compromise. We, like others, have our misgivings about the decisions, and we also would like to suggest specific changes to the decision. But, we will refrain from that, provided that other chairs also refrain from tinkering at this stage with what I consider to be a very carefully crafted compromise.

At an earlier stage of our discussion, I exhorted the Board to move quickly on this issue by quoting the famous words that Robert Kennedy stated in his speech in South Africa, shortly before being killed "each time a man stands up for an ideal, or acts to improve the lot of others, or strikes out against injustice, he sends forth a tiny ripple of hope and crossing each other

from a million different centers of energy and daring, these ripples build a current that can sweep down the mightiest walls of oppression and resistance.” After a lot of discussion and delay, in the end, we reached a very major decision today.

I am not sufficiently knowledgeable of Fund history to assess whether it is a major decision in this area of Fund lending and conditionality. So, I consulted with the Fund historian about this, Mr. Boughton, and he told me it was certainly a very major shift, possibly one of the largest in terms of lending instruments and conditionality. Speaking to me, he even referred to a change of historic proportions. Looking back at the works of Mr. Boughton himself and of Keynes and others that were present at the creation of this institution, I think, we can say that we are moving toward an approach that was the approach preferred by Keynes, and that was partly defeated by the American resistance during the Bretton Woods negotiations.

Let me just briefly quote to you from a paper by Mr. Boughton on these issues, where he draws attention to the fact that some of the stances taken by Keynes should be looked at briefly to put our decision into historical perspective. Keynes said that “if countries are to be given sufficient confidence, they must be able to rely in all normal circumstances on drawing a substantial part of their quota without policing, or facing unforeseen obstacles.” In another context, he expressed the view that he saw the Fund basically as a lender that would extend credit virtually automatically on demand. A borrowing country, however, in Keynes's view, would be subjected to an increasing interest rate and, eventually, to policy conditionality, if it failed to repay the loan within the specified time limit. Now, you know that this view was not the view taken by the Americans who had a predominant power at that point. But, it is interesting to note that Keynes managed at least to exclude from the Articles of Agreement any reference to conditionality. That is why we can take this decision today without amending the Articles of Agreement. Keynes objected to this idea of having a country subjected to monitoring, and argued in favor of automatic lending—I am reading an excerpt from a paper by Mr. Boughton—“to any country with a balance of payments need subject to ex post conditionality, only if the Board failed to take appropriate measures on its own and was unable to repay the loan on time.” Mr. White eventually agreed to go along with Keynes on this issue. The final Articles of Agreement did not provide explicitly for policy conditions on IMF lending. Only in the 1950s, after Keynes was dead, the Executive Board introduced a conditional lending that gradually became standard practice. It was a very difficult moment in the negotiation to keep the policy conditionality out of the Articles of Agreement.

And at one point, Keynes had to go so far as to say that England would never draw from the Fund on the terms that the Americans were proposing. James Meade, a great admirer of his, also an accomplished British economist, said that Keynes represented a menace to the negotiation—a menace that, however, has produced very substantial positive effects.

While beginning your pardon for the historical digression, I would just like to thank, as Mr. He recalled, the staff for the excellent work they have done in putting these ideas together and for crafting this compromise. They did a very careful, professional, and excellent job. I would also like to thank Mr. Bakker and Mr. Warjiyo who participated very actively in these discussions with concrete proposals. In addition, I would like to thank those chairs that were reluctant to go along with the compromise, but are now willing to accept it, like Ms. Lundsager Mr. Moser, and Mr. von Stenglin.

I would also like to mention the very important contribution to this collective effort that was done by one of our senior advisors, Mr. Mori, the Brazilian senior advisor in our chair, who has been for a month and a half in the hospital, that is why he is absent from these discussions. His contribution was of fundamental importance in putting together the ideas that led to the rapid liquidity line and to reach the point that we have reached today.

Mr. Rutayisire noted that there was overall support for the proposed decisions. However, in line with Mr. Daïri's remarks, concerns had to be expressed on the EFF.

As for the proposal on the commitment fees, which could be supported as indicated in the preliminary statement, more detail on the staff's proposal would be appreciated, Mr. Rutayisire continued.

Mr. Warjiyo made the following statement:

We already stated our full support for the proposed decision. We strongly believe that it is a good compromise, which takes into account Directors' views and comments from previous discussions. We need to move forward at this juncture and, in that respect, I congratulate management and staff for putting together this proposal and for expeditiously working to draft the compromise decision.

We already stated our suggestion, comments, and some of our concerns in our preliminary statement, which I do not need to repeat here. I just wanted to echo two issues that were mentioned previously by my colleagues. First, we need to communicate well to the external public the

detail of this reform,, like Mr. Fayolle, Mr. Lee, Mr. Kotegawa, Mr. Talbot, and other Directors noted. This is a major change in the Fund's lending instruments and conditionality. We are not only talking about the introduction of the new facility, the FCL, but also HAPA the increase the access limits, and the streamlining of conditionality. Those are the good features of this reform, which needs to be communicated clearly to members and the market.

On the FCL, I want to echo my colleagues who underscore the need to stress that the FCL is a crisis prevention instrument. We need to avoid the perception that a country, tapping the FCL, is in a crisis condition.

On conditionality, there is still a negative perception in our membership that Fund-supported programs continued to be characterized by overburdening and strict conditionality like in the past. This perception needs to be changed with this new Fund's approach. In short, we need to formulate a clear communication strategy to sell the many good features of this decision we are about to take today.

Also, on confidentiality, I share the view expressed by Mr. Lee, Mr. Kotegawa, and Mr. Talbot on the need for staff to refrain from referring to a list of member countries that could be eligible for the FCL. We need to approach potentially qualifying members on strictly confidential basis.

Second, on the performance criteria, this chair has been one of the advocates of eliminating the performance criteria and moving to a review-based conditionality. I share the same concerns raised by Mr. Henriksson that, if we are about to make the decision on this issue today, it seems paradoxical that we do not apply it to the Fund-supported programs under discussion tomorrow. Delaying this decision to May 1 will also not solve the problem. We are announcing this decision today and the members also know that there are changes in the structural performance criteria, which will also raise questions from the members as to why they are being treated differently. That needs to be taken into consideration.

Mr. Moser echoed Mr. Horgan and Mr. Fayolle on the transparency policy. That same wording was also included in the exceptional access framework. In this case, however, it was part of the decision. And, the decision on the FCL said explicitly that the exceptional access framework did not apply. Thus, that wording would only be in the staff paper, in the comment on the decisions. The General Counsel could provide clarification on the consequences of that.

As for the transitional measures regarding PCs, it was reasonable to say that programs that had already been negotiated were not going to be re-discussed opened at that stage, Mr. Moser continued. One way option would be for the country in question to decide whether to comply with the negotiated PCs once the reform was passed. However, given the dynamics within the government, it would be difficult for a minister of finance to keep with the PCs on important structural reforms with fiscal implications. The transitional measures as proposed by staff could be supported at that stage.

Mr. Itam confirmed that he supported broadly the proposed decisions. As for the decisions, more specifically, Mr. Daïri's remark about the consultation with creditors could be supported. It could be dangerous for potential members to require a consultation with creditors.

With regard to what Mr. Henriksson mentioned in terms of the effective date of the decision, it was not convincing that the necessary paperwork could not be done in time for it to be effective. The today's decision should come into force right away without being postponed until May 1.

Mr. Sadun made the following statement:

We have stated our position on different occasions, so my intervention will not be long. We said at the beginning of the process that we had a number of reservations on this proposal. However, over the course of the discussion, some initial aspects of the proposal have been successfully clarified. In addition, we also recognize that the final proposal put forward by management represents a carefully balanced proposal. We are prepared to accept it as a compromise.

I want to stress two positive aspects not covered in our previous intervention. The first one is that this exercise confirms the ability of the staff, management, and Board to listen to each other and to find an effective compromise. I am very pleased to see the result of the entire exercise. The second point, which is equally positive, in my perception, is that—contrary to the frequent and sometimes biased critics of the IMF—this experience again demonstrates the ability of the institution quickly, flexibly, and effectively adapt to new circumstances. It is always possible to improve upon the existing institutional arrangements; this is a clear demonstration that there is nothing that prevents this institution from assisting effectively member countries that face difficult circumstances.

Finally, not looking backward but forward, I want to stress that exactly because this proposal represents a very balanced compromise, which meets

the expectations and the request of different parties, it is incumbent upon management and Board to implement the decision in an effective way. It would be a shame if after having done so much to devise the proposal, which has been characterized like a very significant turning point, we would fail in its implementation.

Mr. Kotegawa congratulated management to have reached that stage in the discussion and echoed those Directors who had put emphasis on the issue of communication. Given the latest information leaks, it could not be excluded that the Japanese Governor for the Fund would be asked whether those countries, or even regions, referred to in the article in the Wall Street Journal were eligible under the new facility. That would put the minister in an awkward position in parliament.

It had to be pointed out that if that type of communication had the purpose of improving communication with the external audience, it was of a very naive nature, Mr. Kotegawa continued. Each communication strategy should convey some kind of message to the outside world. If getting rid of the stigma toward this institution was one of the purposes of the reform, developed country economies should be referred to in that article as well, so as to symbolize there was a big reform taking place in that sphere, and that would help remove the stigma regarding this specific facility vis-à-vis potential users.

Mr. Ray supported the proposed decisions, as they represented the outcome of a compromise. However, a higher level of access would have been preferred. As far as surcharges are concerned, an alignment at the level of exceptional access would have also been preferred.

Mr. He commended the staff to have taken very important steps so far. While the proposal was not perfect, it came very close to an optimal solution.

Creative implementation of the new framework was of the utmost importance, including by considering quota increase and realignment that should be part of the solution to the access issue. The burden-sharing mechanism should also be re-discussed soon, Mr. He continued.

Mr. von Stenglin expressed his high skepticism with regard to the strategic shift in the Fund's lending framework, which the Board was deciding upon in the current meeting. The Fund was entering high risk and even dangerous territory by eliminating the de facto access limits, and by granting precautionary exceptional high access to the Fund's resources based on a rather vague concept of potential balance of payments need. During the discussions, a number of colleagues shared his reservations about the proposals, but came to different conclusions. Management and staff had to be thanked for listening to and understanding the deep concerns raised. He had regarded his role in the discussion as a rather "damage

controlling” one. He was not that sure whether he had been successful. Some of his and other chairs’ suggestions had been taken into account. In the spirit of compromise the chair would eventually neither abstain from nor oppose the proposed decision.

Mr. Horgan thanked management and staff for a masterful job in devising the proposal, which could be supported. Nonetheless, like expressed in the preliminary statement, there was some concern about the direction taken with respect to PCs. The distinction between structural and quantitative PCs is not necessarily correct, although it has to be agreed that there are limitation with PCs more generally. In line with Mr. Henriksson’s remark, it had to be wondered why not implementing those changes directly without delaying their coming into effect until May 1.

Mr. Yakusha expressed his satisfaction with the current decisions as specified. With respect to the proposal to modify and to allow for transition period, some explanation from the Legal Department whether how that would work would be appreciated. On the one hand, Mr. Henriksson’s remark that delaying the coming into effect of the decision until May 1 may be unusual is understandable. On the other hand, introducing reforms retroactively into programs that had already been negotiated was also disconcerting. Clarification from the Legal Department about the transition period arrangements would be welcome.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam) made the following statement:

We have come a long way since six months ago when the process was launched. Given the extraordinary degree of consensus and common ground, there are actually very few issues for the staff to address at this point. Let me talk about two or three issues that have arisen during today’s discussion.

First, two aspects related to conditionality. First, on the transitional arrangements, we have been moving faster than originally expected. We did not want to be presumptive about the ultimate Board decision on conditionality. In addition, some aspects of this reform were put on the table in the past few weeks. Therefore, we had not asked the teams that had been negotiating in the fields to move away from structural PCs right away. That is why we have some staff report that have been issued in the meanwhile which include structural PCs and some others are papers in the pipeline with management. So, we thought, we would look at alternatives on how to proceed. Given that some staff reports are issued and the discussions concluded, it was too complex to go back in each case and re-open the discussions. So, in our view, the easiest solution was to give one month’s notice to the staff who are about to conclude discussions and issue staff

reports to try and address this issue. So this is the logic behind the proposal for abolishing the structural PCs to come into effect on May 1.

Second, on the use of structural benchmarks, let me say a couple of words. Structural benchmarks have a role in the absence of structural PCs because, on the one side, they do not have the stigma and difficulties associated with waivers. On the other side, however, they can provide predictability and clarity on what is meant by certain structural actions in the context of reviews. That does not mean all the structural PCs automatically become structural benchmarks. I think we will provide some guidance to the staff. We will have flexibility for the teams. But our view is that structural benchmarks could provide a useful role in terms of predictability and clarity.

Let me talk briefly about transparency policy. First of all, in terms of FCL drawings, there were some questions on that. Our intention is to inform the Board immediately when FCL drawings are made. Our intention is also to follow the current procedures in terms of transparency and publication. Every week the Finance Department publishes drawings that have been made. And, those will be reported in the normal process.

On publication policy, there were some references to the wording that the Managing Director would not generally recommend approval of FCL to the Board. This follows the practice for the exceptional access framework. It is exactly parallel to that policy. We are going to have a transparency review after the spring meetings at the Board. And, I would urge the Board that, if they would like to look at the transparency policy or aspects of it, it may be better to do it in a more comprehensive and fashion at the time of the transparency policy review, which we will have shortly.

On the EFF, let me make a few points. As you recall, to have simplicity and to reflect the fact that EFF has hardly ever been used, originally the staff proposed to eliminate EFF, as we do with CFF and SRF and now the SLF. We heard the views of many Directors. Let me make a few points on why maybe further changes at this stage may not be required.

The EFF is meant for structural reform, to be generally implemented over a long period of time, which is not usually associated with high access to Fund resources. Given the comments a number of Directors have made, we have looked at the costing of EFF. Our analysis shows that, under the new proposed surcharge policies and charging policies, an EFF arrangements would cost less than in the past as long as access does not exceed 600 percent of quota, which seems rather large amount, if consider structural adjustment

needs. Given the kind of demand that we would have for EFF, we can review the experience as it arises and come back to you if we see that problems arise.

Finally, let me thank Directors for the kind remarks that many have made. The staff to my right and behind me deserves all the credit. Let me also thank Directors for their very constructive attitude that they have had during this reform process.

Mr. Henriksson asked the staff further clarifications as to the transitional period for the elimination of the PCs. If the difference between the new proposal and the old practice was avoiding asking for a waiver, why could not the new proposal be implemented immediately?

Mr. Daïri stated that structural conditionality created an incentive to postpone the presentation of papers to the Board. Countries could be tempted not to present the program, and maybe hinder their prospects for adjustment and financing, because they tried to avoid conditionality. Under the current circumstances, what was needed was a fast-track process for discussion and approving arrangements.

Mr. Nogueira Batista asked to clarify whether the proposal being made now was to delay to May 1 only Decision I, while the other decisions would become effective immediately.

The Director of the Strategy, Policy and Review Department (Mr. Moghadam) confirmed that that was the case. The intention was to introduce the flexibility as early as possible. There were two issues in this respect. One was the issue of when the decision on structural PCs would be implemented. The other one related to the logic or the desirability of eliminating structural PCs. The second issue had already been discussed and was embedded in the decision. As for the first issue, the problem was that there were papers with the Board already, some for discussion later that week, which included structural PCs. They had been agreed with the authorities well before the idea of eliminating only the structural PCs was considered by the Board. It was only a matter of employing some flexibility for one month to facilitate the transition. The communication strategy to the outside world would be clear that PCs would be eliminated; they would exist in the programs that have been approved before May 1. But there will not be any new ones after May 1.

Mr. Fayolle appreciated that that the staff and management waited for the decision to be taken before it was implemented. In many cases, letter of intent had been signed by authorities and it would look strange that were not implemented according to what the authorities had committed to. What staff had said on the content of structural conditionality was puzzling, as it such conditionality still remained extremely important for Fund-supported

programs, even if it was going to be looked at in a different way. The reform should not be considered as weakening structural conditionality, but as making it different.

On transparency, the proposal to consider it in the context of a more general discussion was agreeable. Yet, the wording of the Summing Up at the end of that day's meeting had to be drafted carefully. It should mention that, in the case of the FCL, there would be transparency in implementing the decisions that we would be taken.

Mr. Kotegawa supported the first part of Mr. Fayolle's intervention. In that context, he recalled that each program was to be considered on a case-by-case basis as also articulated by Ms. Lundsager in her intervention at the beginning of the discussion.

Mr. Pereira, referring to the need of flexibility, underscored that it would be important to apply the new framework, considering member countries' needs. As for the transitional arrangements on conditionality, it has to be wondered why not applying the new policy to all members. It was a pity that programs were being negotiated while the policy was being reviewed at the same time. The decision should be applied immediately, as originally proposed. But, if that was not feasible, a tacit agreement should be made that, when reviewing a Fund-supported program that fell under the transitional period, there would be enough flexibility to avoid providing waivers for structural PCs.

As regards flexibility, some Directors called for rigorous implementation of Annex 1 to Decision IV on the FCL arrangements. However, flexibility would be very important. It had to be wondered how many advanced countries would pass the checklist of the nine eligibility criteria that had been listed by the staff. Applying the framework flexibly was important, especially to address the stigma problem.

Ms. Lundsager made the following statement:

On the transition period, I can see the difficulties. Eliminating structural PCs right away could pose several challenges for reviews that are coming to the Board. However, I can go along with what you are proposing even though I agree that it seems strange.

On the FCL, this is a dramatic departure from past practice. We are setting up the ability to commit very large amounts of resources, very quickly, for a number of countries. And these are public funds, whether they come from our central banks or finance ministries, so I am convinced by the point Mr. Horgan and others have made, that we should have full transparency. I would not expect that management would send papers to us without the countries having committed to publish. So, I very much would like to drop the word "generally".

Mr. Fayolle suggested including some specific language in the summing up, but it would be better do this today, so we can show that we are committing our public monies, but also committing to full transparency on how we are doing that.

Mr. Henriksson stated that he was essentially in favor of keeping structural performance criteria. The Board had been told that performance criteria were a mere technicality. However, with regard to the program coming to the Board the following day, the Board was being told that the application of the decision had to be postponed so as to avoid the need to renegotiate the program. Hence, the staff was sending two different signals. He felt as though he was being pushed into a decision, which the Board was not comfortable about.

The Acting Chair (Mr. Lipsky) asked whether Mr. Henriksson was suggesting that those countries that were coming to the Board in the following few days be given the choice to proceed or not.

Mr. Henriksson replied that it would be useful to ask the Executive Director representing the country how his authorities wished to proceed.

The Acting Chair (Mr. Lipsky) replied that the staff's proposal did not preclude that possibility: if the authorities wished to postpone the Board discussion and renegotiate the program, staff and management were willing to do so.

Mr. Henriksson said that if the authorities wished to proceed nonetheless, they ought to be given the chance to do so, as it was an emergency situation for Hungary.

The General Counsel (Mr. Hagan) clarified that the staff's and management's intentions with respect to the proposed delay was precisely to accommodate the type of situation envisaged by Mr. Henriksson. If May 1st was the effective date of the decision, that meant that from May 1st onward management and staff would be precluded from proposing performance criteria and the Board, unless it changed its decision, would be precluded from approving such criteria. What that meant, therefore, was that between the current day and May 1st, management and the Board could on a case-by-case basis decide to allow some performance criteria, but decide not to approve other performance criteria. To the extent to which a country decided that, notwithstanding the program negotiations, it did not wish to have performance criteria approved in light of the new policy, that could be done at the Board meeting or in advance.

Mr. Rutayisire wondered whether he had understood correctly that countries that were currently negotiating programs could be subjected to structural performance criteria for the following three years if they were negotiating a new PRGF-supported program.

The General Counsel (Mr. Hagan) replied that he had been referring to those cases that were coming to the Board between the current date and May 1st. In those cases, the decision, as it was being approved before May 1st, would allow the Board to approve performance criteria. The Board, however, could decide not to have performance criteria, especially if the member so requested notwithstanding the program negotiation.

Mr. Rutayisire said that what he was concerned about were the programs that were currently being negotiated. As the decision was being proposed not to take effect until May 1, that would imply that the programs would be negotiated under the previous regime. If the structural performance criteria could not be excluded, they should probably be deemed voluntary, but not required for test purposes.

Mr. Nogueira Batista thanked the staff for its replies, which had been illuminating. He stressed that in his authorities' view, the staff proposal was a carefully crafted compromise in the detail of the wording. It did not seem appropriate at that stage to engage in skirmishes to make minor adjustments to the text. For instance, on the issue of transparency, the explanation that had been given by Mr. Moghadam was reasonable: the current rules on transparency would apply to the FCL and drawings under it. The wording in the staff paper on the publication of the report had essentially been taken, as staff had explained, from the exceptional access procedures. The common sense suggestion that had been made by Mr. Moghadam ought to be accepted by the members of the Board. The Board should look at those issues in a global context, when the Board reviewed the transparency policy after the Spring Meetings. He also had his own misgivings about the drafting of the proposed decision, which he also would like to put on the table and be referred to at least in the summing up, but he would not insist on doing so. However, if there was an insistence on the part of other chairs to tighten the decision in various places, he could also provide his own suggestions. For instance, paragraph 3 of Decision IV could include an explicit reference to the fact that there would be no prior actions in the FCL. The staff could also clarify the sentence that had disturbed other chairs, which said that where support from other creditors was likely to be important in helping a member, staff would consult with key creditors as appropriate. What did that mean exactly? Which creditors did the staff refer to? He did not understand "creditors" to mean specific chairs in the Board. He would also like to mention in paragraph 6 (iii) of the draft decision that the written communication with members would be a short written communication, to distinguish it clearly from an LOI. And along with other chairs, he would like to mention in paragraph 10 of the draft decision a review in three years—no later than three years and not within two years, which might be too short. However, he was refraining from putting those points on the table, providing the other members of the Board adhered to the carefully crafted compromise in the draft decisions.

Mr. Daïri remarked that he had not understood what the General Counsel had said that after May 1st the Board could not impose structural performance criteria. However, between the current date and May 1st, the Board could decide to waive performance criteria for those programs that would come to the Board for approval. In his view, the Board could only do so if the decision itself said so, and the draft decision indicated that the applicability was deferred until May 1st, and between the current date and May 1st, whatever programs came to the Board, the Board could waive the applicability of structural performance criteria in those cases.

Mr. Fayolle stated that he was willing to discuss changes in the wording of the draft decisions. Mr. Nogueira Batista's proposal to essentially delay the discussion on transparency was a point of substance and not a point of wording. He did not understand why Mr. Nogueira Batista was opposed to dropping the word "generally" in the text referred to earlier.

Mr. Demirkol expressed support for the point that had been made by Mr. Henriksson. His chair, which represented Hungary, did not intend to seek a postponement of the upcoming Board discussion on that country, in relation to the issue of structural conditionality.

Mr. Nogueira Batista clarified that he did not seek to delay the Board discussion on transparency. He had merely been referring to the point that Mr. Moghadam had made regarding the plan to discuss the issue after the Spring Meetings. The reason not to drop the word "generally" from the text was the fact that that text had been taken, as explained by the staff, from the wording in the exceptional access framework. There was, therefore, no need to change the wording as it would apply to the FCL.

Mr. Fayolle said that he was sure, therefore, that Mr. Nogueira Batista would have no problem with reflecting in the summing that the Board expected to review the policy on transparency.

The Director of the Finance Department (Mr. Tweedie), in response to comments and questions by Executive Directors, made the following statement:

Let me respond to two specific questions in Mr. Warjiyo's gray. He asked what would be the impact on precautionary balances if the increase in Fund credit outstanding was more in line with what is already agreed and in the pipeline, which was a peak of about SDR 70 billion. In that case precautionary balances would peak in 2015, and reach about SDR 13 billion rather than the SDR 15 billion that we show in Fig. 2 of the paper. The second question he raised was about the commitment fee, which is currently higher

than the SDR rate. He asked whether it could be set at a level that is either the SDR rate or at 60 basis points, whichever is higher. I believe Mr. Warjiyo is referring to the marginal rate of 60 basis points, because that only applies under the proposal to access above one thousand percent of quota; the average rate is significantly lower.

As the Board knows, the 60 basis point commitment fee for one thousand percent of quota was introduced relatively late in the discussions, and this was intended as a disincentive for requests for very high access that would tie up Fund resources. This was in the context of not introducing a hard cap on access at one thousand percent of quota. The 60 basis points was something of a compromise, and I know that a number of chairs would have preferred a larger jump. Technically it would be feasible to introduce something along the lines Mr. Warjiyo proposes. However, it would go in the opposite direction; the jump would be less, so the price disincentive for tying up resources would be less than in the staff proposal.

It could also raise some other issues. If interest rates stay very low or even fall lower, we could at some point get to a situation where the SDR rate is below 30 basis points, which is the second step. Broadly, the main point I would make is that the overall commitment fee is still relatively low, and is significantly lower than the rate that a member pays if it actually draws, when they pay not just the SDR rate, but also the margin on the rate of charge. The margin on the rate of charge is 100 basis points over the SDR rate, and if it is high access, which is the situation Mr. Warjiyo is referring to, the country would also pay at least the level-based surcharge which is 200 basis points. Probably the pertinent comparison is the overall cost of borrowing. In Table 2 in the paper, we show the average and marginal costs for different levels of access, and if we look at a thousand percent of quota, it is, at the current SDR rate, about 2.88 percent, and that compares to the commitment fee of 27 basis points; hence, a significant differential.

The General Counsel (Mr. Hagan), in response to comments and questions by Executive Directors, made the following statement:

Mr. von Stenglin expressed concern regarding the last sentence of paragraph 4 of the draft decision on the FCL, which states that the Fund shall not challenge a representation of need by a member for purchase requested under an FCL arrangement. He highlighted that as an example of the general weakness of safeguards under the FCL. I just wanted to reassure him on a couple of points. First, a balance of payments need is required for the use of all Fund resources, including resources made available under the FCL.

However, when an arrangement is in place, that arrangement provides a member with some assurance, whether it be a stand-by arrangement or an FCL. And the general approach has been that when you have an arrangement in place, there is no ex ante challenge of a representation of balance of payments need, because of that assurance. Rather, after the purchase has been made, to the extent to which the staff and management determine that there was no balance of payments need, the Fund can make a determination, under Article 5, Section V of the Fund's Articles, that the member is using the resources in a manner that is inconsistent with the purposes of the Fund, and the member can be declared ineligible to use Fund resources. For that reason, the same provision that we have in the draft decision is also in the decision on SBAs. It is a general rule, not specific to the FCL.

On the question of consultation with creditors, which has drawn some discussion, first of all, this provision is drawn from the SLF decision. It does not mean that it is correct, and as with the SLF, there is no concept of a program that requires financing as such. The underlying concept was that when the Fund provides financing, under the FCL or any other instrument, it must make a judgment that the member is actually resolving its balance of payments problems in a manner that enables it to repay the Fund. Hence, the provision addresses the possibility, and this would only arise if the FCL was being used in a nonprecautionary context when the FCL was requested and it was clear at the time that the money was actually going to be drawn. The staff and management may conclude that the amount of financing available to the Fund, while perhaps significant, is probably insufficient to address the balance of payments need that the member faces because of the capital account and that, therefore, additional support from creditors may be necessary. That was the underlying intention, and that is essentially also why it was in the SLF decision.

Mr. Daïri considered that the Board had to assess any point in the draft decision on its own merits. It was not an issue of the level of access; it was about eligibility to the FCL. He did not see any need whatsoever to consult with any creditor. Management could consult with any creditor or country. However, to say in the decision that when assessing eligibility to the FCL the staff or management would consult with individual creditors was inappropriate, and he could not support the draft decision as it was.

Mr. Nogueira Batista considered that Mr. Daïri had a valid point. He recalled that the intention was not to consult other creditors on a country's eligibility, as the Fund itself would make that determination. Rather, the consultation referred to was what Mr. Hagan had explained, i.e., whether additional support would be mobilized, given that Fund resources were insufficient. Was his understanding correct?

The General Counsel (Mr. Hagan) replied that, as the draft decision indicated, the staff would conduct a confidential preliminary assessment and, where support from other creditors was likely to be important in helping a member address its balance of payments difficulties, the staff would consult with key creditors as appropriate.

Mr. Rutayisire had expressed some concern about the fact that under the Articles, the Fund could not finance large and sustained capital outflows, the General Counsel continued. That did not mean that the Fund could not finance BOP difficulties arising from the capital account. The Fund was only prohibited from financing large or sustained capital outflows. The question that would arise, when a country had a BOP difficulty that arose from a sudden reversal in capital flows, was how the Fund could provide financing. In that particular case, as was the case in previous Fund facilities, the key objective was to build up reserves. That was the critical difference. That was one of the ways that the Fund had been able to always justify intervention in the context of a capital account problem.

Mr. Rutayisire wondered whether that could also justify creating from the General Resources Account financing to support BOP problems if resources in the PRGF Trust were inadequate.

The General Counsel (Mr. Hagan) replied that that would raise a different set of issues and a different problem, which was that the PRGF was a financial and technical service that the Fund provided under Article 5, Section 2(b), and those services could not be performed by the Fund on account of itself. Except to defray the administrative costs of the PRGF Trust, the Fund might not use its general resources to finance PRGF activities. It could, however—which had been done in the past—use its gold in the Special Disbursement Account, which was a separate account, to provide PRGF assistance through the creation of a reserve account.

Mr. Daïri said that if the staff would insist on retaining the language on consulting creditors, that language should not be placed in the paragraph that talked about criteria for eligibility. It should say “may” and not “will” consult. As currently positioned, the language appeared to grant veto power to some creditors regarding the eligibility of a member to the FCL.

Could the General Counsel comment on whether the Board could decide to waive applicability of structural performance criteria for new programs that would come to the Board before May 1st, Mr. Daïri wondered.

Mr. Nogueira Batista suggested that the summing up could clarify that the assessment of eligibility was the sole responsibility of staff, management, and the Board.

Mr. Sadun considered that Mr. Nogueira Batista's suggestion might make matters worse. There was no question that the only bodies that were entitled to decide on a country's eligibility were the institutional body of the Fund—management and the Board. Even less was there a question that a creditor could have veto power. As he understood it, the consultation with the creditors was part of the consultation with the Executive Board.

Mr. Daïri agreed with Mr. Sadun that the decision had to come to the Board where it belonged. However, the purpose of the section in question was completely different; the reference to the consultation with the Board came later. There was no need to refer to the consultation, and management would be free as usual to consult with any Board member.

Ms. Lundsager remarked that Mr. Daïri might be reading much more into the statement than there was to it. The paragraph was about procedures and arrangements for consultations, and it said that the staff would consult with key creditors as appropriate. She hoped that when the staff came to the Board with a preliminary proposal, it would have consulted with creditors, so that it could explain to the Board what other donors were doing, as the Board often inquired in such cases.

The Director of the Strategy, Policy and Review Department (Mr. Moghadam) explained that the FCL could be used either as a precautionary instrument or as a disbursing instrument. If it was being used as a disbursing instrument, it could not be ruled out that there would be financing from other sources, and the staff needed to discuss with those creditors the financing role they might have. That procedure was no different from current practice. It was not an issue of bringing creditors into the qualification process. The paragraph could be repositioned if desired.

The General Counsel (Mr. Hagan) explained that, as a modification, paragraph (i) on page 9 would essentially have one sentence. The current second sentence would be renumbered (iii), and the rest of the paragraphs would be renumbered.

Mr. von Stenglin wondered whether he had understood correctly that the FCL was meant to be an emergency instrument, which meant that a member could apply for the FCL when a concrete BOP need arose, and not be obliged to go through the normal SBA window.

The Director of the Strategy, Policy and Review Department (Mr. Moghadam) replied that the FCL was both a precautionary and a disbursing instrument for countries that met the qualification criteria.

Mr. Daïri wanted to know, if a member that did not intend to make any decision to request an FCL were to ask for a confidential assessment by the staff, whether the staff would still consult creditors.

The Acting Chair (Mr. Lipsky) replied that the answer was quite clear—“may”—it would depend. The staff normally consulted with creditors on a regular basis in other circumstances.

The General Counsel (Mr. Hagan), in response to further comments and questions by Executive Directors, made the following additional statement:

On Mr. Nogueira Batista’s question, I just need to clarify that the legal basis for conditionality is, in fact, in the existing Articles, which is Article 5, Section III, which provides that the Fund can only provide financing if we make a determination that a member is resolving its balance of payments need and that there are adequate safeguards. We are not giving up on the concept of conditionality; we are essentially changing in a very fundamental way the modality of conditionality, that is, doing it through the qualification criteria under the FCL rather than through ex post monitoring. I would not want to suggest that this institution is abandoning conditionality as a concept, because that would create a legal problem.

Mr. Moser correctly pointed out, and this has attracted some attention, that the use of the word “generally” is indeed drawn from the exceptional access framework. He has also pointed out correctly that as a general matter, the FCL carves out the exceptional access framework, generally. What the staff was intending was to essentially repeat the language in paragraph 18 in the summing up, so that, as Mr. Moghadam said, when we revisit the issue, it should be revisited across the board with respect to both FCL and exceptional access outside the FCL.

Mr. Yakusha asked the question about retroactivity, that is, how it is possible for the Fund to unilaterally change the rate of charge with respect to outstanding holdings. It is an important issue, and it was addressed back in the 1970s at the time of the Second Amendment. It was determined that it would not be retroactive and would not be legally problematic as long as members were put on notice that future changes could be made with respect to outstanding holdings, and that decision was adopted in 1974.

Mr. Moser wondered about the reason for using the word “generally,” given that the word was not used in the context of the PRGF documentation.

The General Counsel (Mr. Hagan) replied that he might need to do some research to determine what the word “generally” had originally meant. However, what the word implied was that it allowed a degree of flexibility, which created the presumption that there was a

possibility, without amending the decision, for exceptions to be made, but which would need to be justified. And if that exception went forward, that would create a precedent.

The Director of the Strategy, Policy and Review Department (Mr. Moghadam) remarked that the intention was clear—to provide for the possibility of exceptions. Nonetheless, to his knowledge, such an exception had never been made thus far.

Mr. Fayolle said that he did not see the point of linking the FCL, which had no access limit, to the rule on exceptional access limits.

The General Counsel (Mr. Hagan) replied that it was a policy question as to whether or not the Board wanted to apply the same approach, or whether or not there was a basis under the FCL for applying a stricter approach with no exceptions. As Mr. Moghadam had indicated, that issue should perhaps be taken up in a more general discussion.

Mr. Nogueira Batista noted that both the SBA and the FCL did not have any hard caps or normal access limits.

Mr. Fayolle said that he saw the SBA as a very different instrument from the FCL. The latter was supposed to signal that countries had very strong policies.

The Acting Chair (Mr. Lipsky) made the following statement:

I think this has been an extraordinary process, and a very interesting one. I agree with Mr. Fayolle that that is a point of substance. And I think it has to be seen today as part of an element of a package that involves broad compromise, and in the spirit of that compromise and maintaining the package, we would suggest moving forward on this basis and returning during our discussion on transparency to what is absolutely an issue of substance. We should return to it in a concerted way to see if there is consensus on our policy on transparency. I would agree with many of you, and Mr. Nogueira Batista emphasized the notion, that this is a package. Everyone probably sees some elements in the package that he or she believes could be improved. But it also seems that we have successfully crafted a package that commands consensus support.

I disagreed just slightly with the interesting historical lessons shared by Mr. Nogueira Batista, in the following way. A cynic might say that the discussion between Harry Dexter White and John Maynard Keynes may have represented potential creditor and potential borrower discussing in a broad sense over terms. But that was a very different world, a world in which international capital markets as we know them today did not exist. And it

seems to me that what we are doing today is responding to a different set of challenges that were not even imagined at the time of Keynes and White. And this is a culmination of a very long period of challenges that began in 1994 and 1995 with what we call the Mexican Peso Crisis or the Tequila Crisis. At the time, I perceived that that was the first crisis of confidence in a world of securitized finance, and it demonstrated clearly that the Fund's traditional tools for crisis prevention and resolution were rendered dysfunctional in a world of securitized finance. It was underscored again in 1997 and 1998, and there was talk of new architecture, but I would maintain that there has been no substantive, adequate response to the challenges of more than a decade ago. I see what we are doing now as taking positive steps to reform our toolkit to conform to the realities that we face today. It is what we need to do to fulfill our traditional and basic mandate, as defined in the Articles, by adapting our toolkit to what is needed. The results may not be perfect. But it seems to me that we began a very important step with the SLF, and now we are broadening our toolkit in a very profound way. No doubt, we will come back to these decisions today, in the light of experience, too see if they have been successful. What we do know is that the previous set of tools and facilities were not adequate to deal with the kind of challenges posed by a world of large-scale securitized, cross-border capital flows.

Let me turn to the issue of communication, which many of you have discussed and which I think is extremely important. I know many of you were concerned about the so-called leaks in the press; many referred to an article that listed some countries. I hope there was internal proof within the article that it could not have come from staff, because it listed as one of the targets a nonmember country. I hope Fund staff members are aware which countries are members and which are not. Whoever concocted the list was not completely familiar with which countries might be eligible.

I think we all understand the importance of maintaining the confidentiality of the process of using the FCL. I think no one more than staff understands the potential sensitivity here. Communication is going to be extremely important in making these innovations effective. I am hopeful, and I know my colleagues are hopeful, that your authorities will be supportive of these changes and will make it clear that we have thought much about the issue of stigma. I mentioned in another context here at the Board that, in my view, stigma is simply another word for reputation. Reputation, in my view, is a lagging indicator. We find that the stigma derives from things that happened a decade ago in many cases. And I wonder why we are still talking about issues of a decade ago. The challenges are different. Now, the Fund is different; we have adapted our toolkit. I hope those authorities that in the past

would have loved to talk about stigma will now talk about the new way forward, the new tools, and the new ability to work effectively in a multilateral way to meet the rather large challenges that face us.

The Acting Chair (Mr. Lipsky) made the following summing up:

The Executive Board has adopted a number of decisions to reform the Fund's GRA lending and conditionality frameworks to ensure that the Fund is well-equipped to fully meet the needs of its membership. While many Directors expressed some reservations on certain elements of these reforms, Directors generally considered the overall package to be a satisfactory compromise that balances the diverse interests of the membership.

#### Modernizing Conditionality

Most Directors noted that structural performance criteria are perceived as reducing national ownership of Fund-supported programs, while being difficult to define objectively. Accordingly, they agreed that structural performance criteria would be replaced under all Fund arrangements, including those under facilities designed for low-income countries, with a review-based approach to monitoring the implementation of structural reforms in Fund-supported programs. A few of these Directors supported replacing structural benchmarks and prior actions, as well. For existing arrangements, a few Directors would have preferred a faster transition to review-based conditionality, by automatically discontinuing all structural performance criteria in upcoming program reviews. Some Directors, however, wanted to retain structural performance criteria for macro-critical measures, while a few Directors would have also supported adoption of a review-based approach for quantitative variables.

#### Flexible Credit Line (FCL)

Directors supported the creation of the FCL to enable very strong-performing members to have high and front-loaded access to Fund resources. The FCL could be used for contingent or actual financing needs stemming from all types of balance of payments problems. Directors broadly agreed with the FCL's key design elements. Directors stressed that the assessment of a member's FCL qualification should be undertaken confidentially and only at the request of the member. In emphasizing the importance of transparency, Directors agreed that the Managing Director should generally not recommend that the Executive Board approve a request to use the FCL unless the member had consented to publication of the associated papers. Some Directors,

however, considered that publication should always take place in FCL cases. It was agreed that the Board will revisit this issue in the context of its review of the Fund's transparency policy later this year.

A number of Directors remained concerned that the FCL could induce large precautionary use of Fund resources, crowding out lending for crisis resolution. Directors agreed that the FCL should be reviewed in two years, or earlier if commitments under the FCL reach SDR 100 billion, while a few Directors preferred reviewing the FCL in three years. Some Directors would have preferred an access limit to help safeguard Fund resources and to ensure even-handedness and predictability of Fund lending, but welcomed staff's expectation that access would not normally exceed 1,000 percent of quota. A few Directors reiterated their concern that ex-ante conditionality might not provide adequate safeguards for the use of Fund resources.

Directors called for rigorous and even-handed application of the FCL's qualification framework, as further elaborated in Annex I of the staff paper, to ensure that only members with very strong macroeconomic fundamentals and policy frameworks, sustained track records of implementing very strong policies, and a commitment to maintaining such policies, would have access to FCL financing. A number of Directors stressed the importance of relying on Executive Board assessments of members' policies in the context of recent Article IV consultations. These Directors expected that a member that qualifies for the FCL would normally have held the most recent Article IV consultation in accordance with the standard cycle for such consultations. A few Directors considered that qualification assessments should also be informed by a recent FSAP or FSAP update.

#### Enhancing Stand-By Arrangements

Directors supported making high-access precautionary SBAs (HAPAs) available on a more regular basis. In addition, all SBAs, including HAPAs, could be designed flexibly—including with respect to phasing and frontloading of access, and frequency of performance criteria test dates and Board reviews—in recognition of members' varying circumstances. At the same time, a few Directors expected that quarterly phasing would continue to be used in cases of large access to Fund resources. Directors looked forward to a future staff paper addressing the "black-out period" problem under SBAs, which currently blocks members from making purchases during certain periods when data for performance criteria assessments are unavailable.

### Access Policies

Directors agreed to double normal GRA access limits to 200 percent of quota annually and 600 percent of quota cumulatively. They also supported the modification of the four substantive exceptional access criteria so as to allow exceptional access for potential and actual BOP needs stemming from both capital and current account crises, and to eliminate rigidities and ambiguities in the criteria. Some Directors felt that aspects of the modifications could weaken this policy, but welcomed the preservation of the procedural aspects of the policy, which they considered to be an essential part of Fund risk management.

### Surcharges and Fees

Directors supported the proposed simplification of the current level-based surcharge structure, the introduction of a new time-based surcharge, and the elimination of the time-based repurchase expectations policy. They considered the proposals to strike a balance between simplifying the cost and repayment structures for Fund lending, and mitigating credit risks and encouraging timely repayment of Fund resources.

In discussing the staff's proposal, a few Directors reiterated their preference to align the threshold for the level-based surcharges with the new normal access limits. A few other Directors expressed concern that the alignment of the Extended Fund Facility (EFF) and SBA time-based surcharges would make high access under the EFF unduly costly for low-income members. It was recognized, however, that high access would not normally be expected under the EFF, as the SBA would be a better instrument for such purpose. A few Directors also requested an early review of the burden-sharing mechanism.

Directors concurred that the new upward-sloping commitment fee structure will discourage unnecessarily high precautionary access, helping to contain risks to the Fund's liquidity. While supporting the decision, some Directors also felt that fees were too high, while some other Directors believed that fees should have been higher.

### Eliminating Special Facilities

Directors agreed to abolish the Compensatory Financing Facility, the Supplemental Reserve Facility, and the Short-Term Liquidity Facility, which

have been seldom or not used. Directors supported retaining the EFF, particularly given its usefulness to low-income countries.

The Acting Chair (Mr. Lipsky) made the following additional statement:

Let me return to the issue of communication. As you know, there has been a great deal of interest, expectation, and widespread awareness of this meeting today. In fact, we talked about some of the articles in the press that have received widespread notice and have created a great expectation among interested parties and in the media about what is happening. Therefore, it is our proposal that we will inform the press immediately following this meeting, and we have prepared a press release, which we would like to distribute. It characterizes the discussion in a way that I believe you would find accurate. In typical fashion, there is a quote from the Managing Director and myself, but the salient point is that it lists the changes. “The Executive Board of the IMF today approved a major overhaul of the IMF’s lending framework including the creation of a new Flexible Credit Line. The changes to the IMF’s lending framework include: (i) modernizing IMF conditionality for all borrowers; (ii) introducing a new Flexible Credit Line; (iii) enhancing the flexibility of the Fund’s traditional stand-by arrangement; (iv) doubling normal access limits for nonconcessional resources; and (v) simplifying costs and maturity structures and eliminating certain seldom used facilities. Reforms to the concessional lending instruments for low-income members are also in train. In addition, the IMF is consulting with members to secure a sharp increase in its lending resources.”

I hope that is a factual and accurate representation of what you have just decided. Again, I assume you will have no objection to us communicating with the press. We intend to hold a meeting with the press later this afternoon to make sure they understand clearly these changes.

Mr. Daïri urged management to provide guidance to the staff on what it should say if any questions were asked about the assessment of eligibility, i.e., to make clear that the assessment of eligibility would be at the request of a member country, and that the decision on eligibility lay with the Executive Board.

The Acting Chair (Mr. Lipsky) agreed that it should be made clear that the decision would have to be made by the Board; that there would be no list of eligible countries; and that decisions would be based on agreement with the member country involved. Management and staff would ensure that the FCL would be portrayed in the positive light that it deserved, that is, that the Fund had created the instrument because it believed that it would be useful,

and that the Fund encouraged all eligible members that might feel that the FCL might be useful for them to make use of it.

Mr. Nogueira Batista stressed that no member should be identified publicly or informally in connection with any preliminary assessments of its potential eligibility for the FCL.

The Acting Chair (Mr. Lipsky) replied that he assumed that everybody would follow that sensible approach. He hoped the members of the Board and their authorities would welcome the reforms and would be supportive and make the appropriate public statements that would help portray the decisions in the correct light. He was extremely hopeful that the Board, management, and staff would look back on those decisions as part of a process that had helped the Fund to respond adequately to the challenges. If the Fund was successful, the issue of stigma would fall behind it.

The Executive Board took the following decisions:

#### **Conditionality Governing the Use of Fund Resources**

The Fund decides that, effective May 1, 2009, it shall no longer establish structural performance criteria as a modality for monitoring performance under any type of Fund arrangement. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14280-(09/29), adopted  
March 24, 2009

#### **Relationship Between Performance Criteria And Phasing Of Purchases Under Fund Gra Arrangements—Operational Guidelines—Amendment**

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. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14281-(09/29), adopted  
March 24, 2009

### **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. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14282-(09/29), adopted  
March 24, 2009

### **Flexible Credit Line (FCL) Arrangements**

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) The staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2.
  - (ii) 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.
  - (iii) 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.

(iv) 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.

(v) 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 BUFF/95/102, 9/21/1995 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. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14283-(09/29), adopted  
March 24, 2009

**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 BUFF/02/159 (9/20/02), BUFF/03/28 (3/5/03), and BUFF/05/68 (4/13/05) 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." (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14284-(09/29), adopted  
March 24, 2009

### **Surcharges On Purchases In The Credit Tranches And Under The Extended Fund Facility—Amendment**

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

“1. Effective August 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 August 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, August 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 July 29, 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 July 29, 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 August 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 as of the date of the approval of such an arrangement 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; provided that the additional 100 basis points charge referred to in the proviso of paragraph 1 shall apply only in cases where the combined holdings of a member’s currency remain in excess of 300 percent of the member’s quota for more than three years after the date of approval of the new arrangement.

4. This Decision shall be reviewed in accordance with Decision No. 13814-(06/98), adopted November 15, 2006 on implementing streamlining of policy reviews. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14285-(09/29), adopted  
March 24, 2009

#### Annex

For purposes of paragraph 2(a)(ii) of Decision No.——, 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.——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.”

The Executive Board took the following decision, with one objection from Mr. Itam (AE):

#### **Commitment Fee—Amendment To Rule I-8(A) And I-8(B)**

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." (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14286-(09/29), adopted  
March 24, 2009

### **Repeal Of Time-Based Repurchase Expectations**

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 April 1, 2009. (SM/09/69, Sup. 2, 3/24/09)

Decision No. 14287-(09/29), adopted  
March 24, 2009

APPROVAL: November 3, 2009

G. RUSSELL KINCAID  
Acting Secretary