

**FOR
AGENDA**

SM/10/162
Supplement 1

July 2, 2010

To: Members of the Executive Board

From: The Acting Secretary

Subject: **The Fund's Mandate—The Future Financing Role—Reform Proposals—
Proposed Decisions**

Attached for consideration by the Executive Directors are proposed decisions relating to the paper on the Fund's mandate—the future financing role: reform proposals (SM/10/162, 6/29/10), which is tentatively scheduled for discussion on **Friday, July 16, 2010**.

Questions may be referred to Mr. Giorgianni, SPR (ext. 35326), Ms. Weeks-Brown (ext. 36896) and Ms. Christopherson (ext. 35376) in LEG, and Mr. Beaumont, FIN (ext. 37411).

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INTERNATIONAL MONETARY FUND

**The Fund’s Mandate—The Future Financing Role: Reform Proposals—
Proposed Decisions**

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

In consultation with other departments

Approved by Sean Hagan, Reza Moghadam, and Andrew Tweedie

July 2, 2010

1. **This supplement sets forth the proposed decisions that are needed to implement certain of the reform proposals set forth in the main paper, SM/10/162 (6/29/10).** Specifically—and as contemplated in the main paper—proposed decisions are presented with respect to Flexible Credit Line (FCL) arrangements and Precautionary Credit Line (PCL) arrangements, but not with respect to the Global Stabilization Mechanism or any of its elements.

2. **There are four proposed decisions:**

- **Decision I** on the FCL reflects the proposal to double the duration of FCL purchase rights from six to twelve months and to allow FCL arrangements of either one year or two years duration. It also eliminates the current periodic review clause under the FCL (as noted below, Decision IV contains the new joint FCL/PCL review clause proposed in the main paper). The removal of the implicit access cap of 1000 percent of quota (“implicit” in that such a cap is not specifically included in the FCL decision), as well as any clarification of the expected exit strategy for FCL arrangements, would be reflected in the summing up of the Board’s discussion.
- **Decision II** would establish the PCL and set forth a comprehensive range of provisions regarding its operation.¹ The basic *form and scope* of this decision draws heavily on the FCL decision adopted last year, but its *substantive provisions* are unique to the PCL and embed the specific design features proposed in the main paper. Decision II also includes two features that, while not discussed in the main paper, are useful to incorporate into the formal PCL decision: specifically, (i) a requirement that

¹ In addition to the specific provisions in the PCL decision, PCL arrangements would also be subject to general policies applicable to use of the Fund’s resources in the credit tranches, including the substantive and procedural requirements of the exceptional access policy and the expedited approval provisions under the Emergency Financing Mechanism.

there would have been a generally positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations (Decision II, paragraph 2); and (ii) a clarification of the modalities for augmentation under PCL arrangements (Decision II, paragraph 4(b)).²

- **Decision III** would effect a technical amendment to the Fund's general decision on the GRA global access limits in order to reflect the 1000 percent of quota hard cap on cumulative access to resources under PCL arrangements. PCL arrangements are subject to the exceptional access clause of this general decision, but the PCL cap serves as a limitation on the otherwise uncapped ability to obtain access above the normal limits in exceptional circumstances. No changes are proposed to the substantive criteria or procedural requirements governing GRA exceptional access.
- **Decision IV** is a stand-alone review clause calling for a joint review of the FCL and PCL decisions upon the earlier of (i) three years from adoption of the instant reforms, or (ii) whenever aggregate outstanding credit and commitments under these two decisions exceed SDR 100 billion.

3. For the convenience of Directors, Annex I shows in redline the proposed amendments of the FCL decision that would be effected by Decision I, while Annex II shows in redline the proposed amendments of the GRA access limits decision that would be effected by Decision III.

PROPOSED DECISIONS

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

I. FLEXIBLE CREDIT LINE (FCL) ARRANGEMENTS

1. The decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29), adopted March 24, 2009, shall be amended as follows:

² While access under one year arrangements may not exceed 500 percent of quota at the time of approval of such arrangements, the provisions on augmentation would specify that the Fund stands ready to approve access above this amount during the course of the arrangement (i.e., subsequent to approval), subject to the applicable PCL access limits.

(a) Paragraph 5(a) shall be amended to read as follows:

“5. (a) The Fund may approve a member’s request for an FCL arrangement of either one year or two years duration. For FCL arrangements with a two-year duration, no purchase shall be made after one year has elapsed from the date of the 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 one-year period referred to above.”; and

(b) Paragraph 10 shall be deleted.

2. All FCL arrangements with a twelve-month duration that are in effect as of the date of this Decision are amended to eliminate the requirement that the Executive Board conduct a review of the member’s policies six months from the date of approval of these arrangements.

II. PRECAUTIONARY CREDIT LINE (PCL) ARRANGEMENTS

1. The Fund decides that resources in the credit tranches may be made available under a Precautionary Credit Line (PCL) arrangement, in accordance with the terms and conditions specified in this Decision.

2. A PCL arrangement shall be approved upon request in cases where the member does not have an actual balance of payments need at the time of approval of the arrangement and the Fund assesses that the member (a) has sound economic fundamentals and institutional policy frameworks, (b) is implementing—and has a track record of implementing—sound

policies, and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the balance of payments difficulties that it might encounter. In addition to requiring a generally positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations, a member's qualification for a PCL arrangement shall be assessed in light of the following criteria, with the member being expected to satisfy most of them: (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 PCL arrangement is requested; (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. (a) The Fund may approve a member's request for a PCL arrangement with a duration of between one year and two years. PCL arrangements may be subject to prior actions but, in light of the qualification criteria set out in paragraph 2 of this Decision, they shall not be subject to performance criteria except for the standard performance criteria related to (i) trade and exchange restrictions, discriminatory currency arrangements and multiple currency practices specified in paragraph 3(d) of Attachment A of Decision No. 10464-(93/130), adopted September 13, 1993 as amended, and (ii) non-accumulation of external debt payments arrears. PCL arrangements shall provide for six-monthly reviews by the Executive Board to assess the member's continued adherence to the qualification criteria

specified in paragraph 2 of this Decision, and the member's achievement of the policy objectives supported by the PCL arrangement and appropriate policy adjustments in response to economic developments. Such reviews would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of each six-month period referred to above.

(b) A PCL 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 PCL arrangement, or (iii) the cancellation of the PCL arrangement by the member. Upon the expiration of a PCL arrangement, the Fund may approve additional PCL arrangements for the member in accordance with the terms of this Decision, subject to the cumulative limit on PCL arrangements set forth in Decision No. 14064-(08/18), adopted February 22, 2008, as amended by Decision No. [-----].

4. (a) Access under PCL arrangements with a one-year duration shall not exceed 500 percent of quota at the time of approval of such arrangements, with the entire amount of access being available to the member upon approval of such a PCL arrangement and remaining available throughout the arrangement period subject to completion of the six-monthly review specified in paragraph 3(a) of this Decision. Access under PCL arrangements with a duration of more than one year shall not exceed 1000 percent of quota and shall be phased, with an initial amount not in excess of 500 percent of quota being made available upon approval of the arrangement and the remaining amount being made available at the beginning of the second year of arrangement subject to completion of the relevant six-monthly review specified in paragraph 3(a) of this Decision.

(b) Subject to the limits specified in paragraph 4(a) above and in Decision No. 14064-(08/18), adopted February 22, 2008, as amended by Decision No. [-----], the Fund will stand ready to consider a member's request to rephase access under PCL arrangements with a duration of more than one year, or to make additional amounts available under any PCL arrangement, in cases in which (i) the member has purchased the entire amount available under the arrangement, and (ii) the Fund completes a review in which it assesses the member's continued adherence to the qualification criteria specified in paragraph 2 of this Decision, and the member's achievement of the policy objectives supported by the PCL arrangement and appropriate policy adjustments in response to economic developments.

(c) A member may make one or more purchases up to the amount available under a PCL arrangement at any time during the period of the 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 a PCL arrangement.

5. In requesting a PCL arrangement, the member shall submit a concise written communication outlining its policy goals and strategies for at least the duration of the arrangement as well as measures aimed at addressing its remaining vulnerabilities, together with a quantified macroeconomic framework underpinned by a streamlined set of quantitative targets.

6. 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.

**III. ACCESS POLICY AND LIMITS ON OVERALL ACCESS TO THE FUND'S GENERAL
RESOURCES, AND EXCEPTIONAL ACCESS POLICY**

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

1. The introductory sentence in paragraph 3 shall be amended to read as follows:

“3. Subject to paragraph 4 below, 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.”;

2. Paragraphs 4 and 5 shall be renumbered as Paragraphs 5 and 6, respectively; and

3. A new paragraph 4 shall be added to read as follows:

“4. When exceptional access is approved under a PCL arrangement pursuant to paragraph 3, such access, combined with the member's access to the Fund's resources under other PCL arrangements, shall in no event exceed a cumulative limit of 1000 percent of quota, net of scheduled repurchases.”

IV. REVIEW OF DECISIONS ON FCL ARRANGEMENTS AND PCL ARRANGEMENTS

The decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29), adopted March 24, 2009, as amended, and the decision on Precautionary Credit Line Arrangements, Decision No. [-----], adopted July [16], 2010, shall be reviewed jointly by the Fund by July [16], 2013 or whenever aggregate outstanding credit and commitments under these two decisions reach SDR 100 billion, whichever is earlier.

Annex I. 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 ~~one yearsix months~~ or ~~two years twelve months~~ duration. For FCL arrangements with a ~~twelve monthtwo-year~~ duration, no purchase shall be made after ~~one yearsix months~~ hasve 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 ~~one-yearsix-month~~ period referred to above.

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

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

(i) Staff will conduct a confidential preliminary assessment of the 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, 03/24/09)~~

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

Annex II. ACCESS POLICY AND LIMITS ON OVERALL
ACCESS TO THE FUND'S GENERAL RESOURCES, AND EXCEPTIONAL
ACCESS POLICY-REVIEW AND MODIFICATION

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. Subject to paragraph 4 below, ~~T~~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. When exceptional access is approved under a PCL arrangement pursuant to paragraph 3, such access, combined with the member's access to the Fund's resources under

other PCL arrangements, shall in no event exceed a cumulative limit of 1000 percent of quota, net of scheduled repurchases.

45. 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.

65. 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.

*Decision No. 14064-(08/18),
February 22, 2008,
as amended by Decision No. 14184-(08/93), October 29, 2008, and
Decision No. 14284-(09/29),
March 24, 2009*