FOR AGENDA

SM/10/162
Supplement 3

August 27, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **The Fund's Mandate—The Future Financing Role—Reform Proposals—Draft Public Information Notice**

Attached for consideration by the Executive Directors is the background section of the draft Public Information Notice relating to the paper on the Fund's mandate—the future financing role: reform proposals (SM/10/162, 6/29/10), which is now tentatively scheduled for discussion on **Monday, August 30, 2010**.

It is intended that the paper, together with the PIN summarizing the discussion, will be published on the Fund's external website.

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

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No.1 0/xx
FOR IMMEDIATE RELEASE
[August 30, 2010]

International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431 USA

The Fund's Mandate—Future Financing Role

On August 30, 2010, the Executive Board of the International Monetary Fund (IMF) approved a set of reforms to further strengthen its capacity to assist member countries in preventing crises: (i) the Flexible Credit Line (FCL) has been refined with a view to increasing its effectiveness and predictability; and (ii) a new Precautionary Credit Line (PCL) has been established to broaden the availability of crisis prevention instruments to countries that have sound fundamentals and policies but do not yet meet the qualification standard of the FCL. Directors also had an initial discussion on how to enhance the Fund's capacity to deal with contagion in systemic crises.

Background

Recent developments in the global economy highlight the need to strengthen further global financial safety nets. Last October, the International Monetary and Financial Committee asked the IMF to consider options for enhancing financing instruments to improve the global financial safety net based on sound incentives, while preserving adequate safeguards of IMF resources. More recently the G20, under the Presidency of the Republic of Korea, stressed the importance of a more stable and resilient international monetary system, calling on the IMF to make rapid progress in reviewing its lending instruments.

In response, further reforms have been approved, which build on last year's successful major overhaul of the IMF's lending instruments (PIN 09/40) and enhance further the IMF's effectiveness in fulfilling its mandate to secure global stability. The key reforms approved by the Executive Board are:

- **Enhancements to the Flexible Credit Line**. The FCL, which is a crisis prevention and resolution instrument dedicated to countries with very strong fundamentals and policies, was refined by: (i) increasing the duration of the credit line (FCL arrangements can now be approved for either one year, or two years with an interim review after one year); (ii) removing the implicit cap on access of 1000 percent of quota (access decisions will be based on individual country financing needs); and (iii) strengthening procedures by requiring early Executive Board involvement in assessing the contemplated level of access and the impact of such access on the IMF's liquidity position.

- **Establishment of the Precautionary Credit Line**. This new crisis prevention instrument is designed for countries with sound fundamentals and policies, but moderate vulnerabilities. Like with the FCL, approval of PCL arrangements is based on qualification. The PCL features streamlined ex post conditionality (at a minimum monitored through semiannual program reviews) focused on reducing any remaining vulnerabilities identified in the qualification assessment. Access under the PCL arrangements is frontloaded with up to 500 percent of quota made available on approval of the arrangement and up to a total of 1000 percent of quota after twelve months.

The IMF also is considering ways to enhance its ability to respond rapidly and effectively to systemic shocks, which have the potential to trigger adverse chain reactions across asset markets and countries. A menu of options was discussed under the Global Stabilization Mechanism (GSM), which is a framework to enable the IMF to proactively channel liquidity to members hit by contagion in a systemic event, complementing other bilateral and regional liquidity support arrangements.

Executive Board Assessment

< >

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.