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INFORMATION**

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REVIEW OF ACCESS LIMITS AND SURCHARGE POLICIES— REVISIONS TO SURCHARGE CALCULATIONS AND CLARIFICATION OF DECISION ON COMMITMENT FEES

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INTRODUCTION

1. This supplement addresses an error in the calculation of the impact on the Fund's income of extending the time-based surcharge threshold from 36 to 51 months for credit arising from purchases under the Extended Fund Facility (EFF) presented in previous papers for the *Review of Access Limits and Surcharge Policies*.¹ The supplement also clarifies how the amended Rule I-8 on commitment fees has been applied to members whose quota increase under the 14th Review had become effective before the adoption of the new thresholds on February 17, 2016.²

REVISIONS TO SURCHARGE CALCULATIONS

2. After the adoption of the surcharge decision, staff became aware that the impact on the Fund's income position of the extension of the trigger for the time-based surcharge from 36 months to 51 months for purchases under the EFF had been underestimated in Table 1 of Supplement 1 due to an incorrect application of the proposed grandfathering regime. Specifically, the calculations assumed that grandfathering would be applied to ensure that no member would be made worse off relative to existing quotas and thresholds as a result of the combined effect of the policy changes (i.e., the extension of the time-based surcharge trigger for members with EFF arrangements and the new level-based surcharge thresholds and quotas). This followed the more typical approach of grandfathering policy changes, where a member is permitted to choose between having either the old policies applied as a package or being subject to the new policies as a package. However, it did not conform to the actual policy proposal in the staff paper and the decision, which were both clear that the extension of the time-based trigger for EFF purchases would apply to all members and become effective immediately, and that grandfathering would be limited to the change in the level-based surcharge thresholds. As a result, the numbers reported in the paper understate the projected cost to the Fund of the change in policies.

3. The projected cost to the Fund of the Decision to establish the surcharge threshold of 187.5 percent of quota and lengthen the time-based threshold to 51 months for credit arising from extended arrangements is SDR 489 million over FY 2016-FY 2025 (bottom panel of Table).³ The methodology used in previous papers (top panel of Table) would have shown a loss of SDR 410 million over the same period, a difference of about SDR 79 million. This error was discovered before any impact on members' charges and therefore it did not have any operational consequences.

4. The Appendix provides a detailed comparison between the original and corrected calculations. Panel A restates Table 1 from the Supplement, with the addition of columns showing

¹ *Review of Access Limits and Surcharge Policies* (SM/16/10, 1/20/2016) and Supplement 1 (2/15/2016).

² Supplement 3 (2/16/2016).

³ Based on a comparison between projected surcharges under the agreed policy, and surcharges calculated on the basis of a threshold of 150 percent of quotas, which would fully offset the impact of the doubling of aggregate quotas given the previous threshold of 300 percent of quota, and maintaining the 36 month time-based threshold.

the impact of a surcharge threshold of 187.5 percent of quota. Panel B presents a correction of the projections shown in Panel A.

5. The error does not change the staff's assessment that the decision on surcharges adopted on February 17, 2016, remains appropriate. Staff is reviewing its internal work practices to avoid similar mistakes in the future.

APPLICATION OF THE COMMITMENT FEES DECISION

6. As noted in the staff paper, the new commitment fee thresholds under Rule I-8 became effective on a rolling basis from the date of the Board decision (i.e., February 17, 2016) as quota increases under the 14th Review became effective but no later than February 26.⁴ For members whose quota increase had become effective before February 17, the commitment fee would be calculated based on the old thresholds and their new quotas for the interim period from the effectiveness of the quota increase to February 17—the new thresholds would not apply retroactively to such members. Although the non-retroactivity is not explicitly reflected in the amended Rule I-8(e), it is mandated under the Fund's general legal framework, which does not permit retroactive increases of charges outside of a system of pre-determined and objectively defined criteria.⁵ Accordingly, for members whose quota increases became effective before February 17, the new thresholds are being applied only prospectively from the date of the decision.⁶

⁴ SM/16/10, Sup. 1 paragraph 5.

⁵ See *Simplification of the Fund's Charges*, EBS/92/184, 11/20/92.

⁶ For members who paid their quota increases before February 17, refunds of commitment fees were paid on the basis of the old thresholds and new quotas for the interim period, consistent with the staff proposal.

Table. Projected Fund Income from Surcharges under Various Thresholds

(In Millions of SDRs: FY 2016 to FY 2025)

Panel A: Supplement 1 (with addition of 187.5 percent scenario) 1/

	Pre-14th Review quotas		Quota increase February 1, 2016 2/					
	Old Thresholds 3/		Full Off-set		Amount with grandfathering			
			150% of quota		185% of quota		187.5% of quota	
			36m	51m	36m	51m	36m	51m
EU members	2,735		2,679	2,677	2,411	2,408	2,393	2,390
Other members	1,635		1,631	1,623	1,539	1,526	1,533	1,510
Total	4,371		4,309	4,300	3,950	3,934	3,926	3,899

1/ Includes actual surcharge income for the first six months of FY 2016.

2/ Members that are subject to higher surcharges following the quota increases and adjustment of thresholds are assumed to be grandfathered under old quotas and thresholds.

3/ Projections are based on existing active GRA arrangements, pre-14th Review quotas, and old surcharges policy. It is assumed that Portugal makes early repurchases of SDR 1.2 billion in March 2016.

Panel B: Revised Implementation of Grandfathering 1/

	Pre-14th Review quotas		Quota increase February 1, 2016 2/					
	Old Thresholds	EFF time- based moved to 51m 3/	Full Off-set		Amount with grandfathering			
			150% of quota		185% of quota		187.5% of quota	
			36m	51m	36m	51m	36m	51m
EU members	2,735	2,731	2,679	2,674	2,411	2,408	2,393	2,390
Other members	1,635	1,521	1,631	1,516	1,539	1,436	1,533	1,431
Total	4,371	4,252	4,309	4,190	3,950	3,843	3,926	3,820

1/ Includes actual surcharge income for the first six months of FY 2016.

2/ Members that are subject to higher surcharges following the quota increases and adjustment of thresholds are assumed to be grandfathered under old quotas and thresholds. As opposed to Panel A, under the 51 month scenario, the EFF time-based extension is implemented prior to the separate calculation of the impact of the combination of new quotas and the new level-based thresholds.

3/ Projections are based on existing active GRA arrangements, pre-14th Review quotas, old level-based surcharges threshold of 300%, and the new time-based surcharge trigger of 51 months for EFF and 36 months for non-EFF arrangements. It is assumed that Portugal makes early repurchases of SDR 1.2 billion in March 2016.

Appendix Table 1. Projected Change in Fund Income from Surcharges under Various Thresholds

(In millions of SDRs; FY 2016 to FY 2025)

Panel A: Table 4 as in Supplement 1 (with addition of 187.5 percent scenario and costs of time-based surcharge trigger extension) 1/

	Pre-14th Review quotas		Lower income due to EFF time-based extension	Quota increase February 1, 2016 2/								
	Old Thresholds 3/	Full Off-set 150% of quota		Difference in income versus 150% 4/								
		36m		51m	175% of quota		185% of quota		187.5% of quota		200% of quota	
				36m	51m	36m	51m	36m	51m	36m	51m	
EU members	2,735	2,679	2,677	-2	-193	-195	-267	-269	-286	-287	-377	-378
Other members	1,635	1,631	1,623	-7	-66	-66	-92	-97	-97	-114	-121	-193
Total	4,371	4,309	4,300	-9	-259	-260	-359	-366	-383	-401	-497	-571

1/ Includes actual surcharge income for the first six months of FY 2016.

2/ Members that are subject to higher surcharges following the quota increases and adjustment of thresholds are assumed to be grandfathered under old quotas and thresholds.

3/ Projections are based on existing active GRA arrangements, pre-14th Review quotas, and the old surcharges policy. It is assumed that Portugal makes early repurchases of SDR 1.2 billion in March 2016.

4/ Reduction of surcharge income relative to halving the thresholds (150% of quota) as a result of the changes in the thresholds and the time-based trigger for EFF arrangement following the quota increase.

Panel B: Revised Table 1/

	Pre-14th Review quotas		Lower income due to EFF time-based extension	Quota increase February 1, 2016 2/									
	Old Thresholds	EFF time-based moved to 51m 3/		Full Off-set 150% of quota		Difference in income versus 150% 4/							
				36m	51m	175% of quota		185% of quota		187.5% of quota		200% of quota	
				36m	51m	36m	51m	36m	51m	36m	51m	36m	51m
EU members	2,735	2,731	2,679	2,674	-5	-193	-192	-267	-266	-286	-285	-377	-375
Other members	1,635	1,521	1,631	1,516	-114	-66	-59	-92	-81	-97	-85	-121	-107
Total	4,371	4,252	4,309	4,190	-119	-259	-251	-359	-347	-383	-370	-497	-482
Combined impact of level and time-based surcharge policy changes					-259	-361	-359	-457	-383	-480	-497	-592	
Difference versus Panel A					-110	-	-101	-	-90	-	-79	-	-21

1/ Includes actual surcharge income for the first six months of FY 2016.

2/ Members that are subject to higher surcharges following the quota increases and adjustment of thresholds are assumed to be grandfathered under old quotas and thresholds. As opposed to Panel A, under the 51 month scenario, the EFF time-based extension is implemented prior to the separate calculation of the impact of the combination of new quotas and the new level-based thresholds.

3/ Projections are based on existing active GRA arrangements, pre-14th Review quotas, old level-based surcharges threshold of 300%, and the new time-based surcharge trigger of 51 months for EFF and 36 months for non-EFF arrangements. It is assumed that Portugal makes early repurchases of SDR 1.2 billion in March 2016.

4/ Reduction of surcharge income relative to halving the thresholds (150% of quota) as a result of the changes in the thresholds and the time-based trigger for EFF arrangement following the quota increase.