



## IMF Executive Board Modifies Procedures in De Minimis Cases of Misreporting

Public Information Notice (PIN) No. 06/95  
August 10, 2006

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On July 21, 2006, the Executive Board of the International Monetary Fund (IMF) adopted several modifications to existing procedures to make misreporting policies less onerous when the deviation from a performance criterion or other condition is very small.

### Background

Reliable and timely information is essential for all aspects of the Fund's work. Poor data can lead to inaccurate assessments, and inappropriate policy advice and program design. The Fund's "misreporting framework" is comprised of various provisions of its Articles of Agreement and policies. The principal pillars are (i) Article VIII, Section 5, which applies to all members and contains general requirements on the furnishing of information by members to the Fund, and (ii) the "Misreporting Guidelines" which address misreporting in the context of Fund arrangements. Other policies, such as those related to the use of HIPC resources, the Policy Support Instrument, and publication, also contain specific provisions on misreporting.

Over time, the Fund has adopted a firmer stance on misreporting, particularly following several episodes of egregious misreporting in the late 1990s. There was a sharp increase in the number of misreporting cases brought to the Executive Board, from 10 between 1985 to June 2000, to 37 between July 2000 and March 2006.

Several of the misreporting cases in recent years involved very minor deviations from program targets, but the procedural requirements were identical to more serious cases. Against this background, the staff paper proposed several changes to the procedures for misreporting in cases where the Managing Director considers (subject to final determination by the Executive Board) that the deviation is *de minimis*, principally:

- The country would normally be informed of the possible misreporting by the Area Department, rather than the Managing Director.
- The Managing Director's findings and recommendations would, wherever possible, be presented to the Executive Board in other documents (e.g. Article IV or use of Fund resources staff report) and addressed in the context of a Board meeting on that other document, rather than in a separate Board document and meeting.
- Cases of noncomplying purchases and disbursements arising from *de minimis* misreporting would be exempted from the general publication requirement that applies to all findings of misreporting. A low-key factual statement would be made to correct the public record.

### Executive Board Assessment

Directors stressed that reliable and timely information is essential for all aspects of the Fund's work and underscored the importance of the misreporting policy. Noting that the burden of misreporting procedures could be disproportionately heavy for minor deviations, however, they welcomed the staff's proposals to reduce the stigma and burden in such instances. The modifications would contribute to the general objective of streamlining Fund procedures expressed in

the Managing Director's Medium-Term Strategy.

Directors broadly agreed with the proposals set out in paragraph 15 of the staff paper to modify the misreporting guidelines and with the modifications to related Fund policies proposed by staff. They generally considered that the proposed procedures struck an appropriate balance between reducing the burden of misreporting policies in *de minimis* cases while preserving the key tenets of the misreporting framework. They noted that the suggested approach: (i) maintained strong incentives for timely and accurate data reporting, while not compromising the Fund's capacity to deal adequately with more serious cases of misreporting; and (ii) preserved the fundamental nature of Fund arrangements, under which the Fund applies a "bright line" test in determining whether a performance criterion has been observed. Views were divided, however, on whether the procedures should explicitly dispense, as proposed by staff, with an official response from the authorities to the notification of a *de minimis* case. While many Directors shared the staff's position on this issue, there was stronger support to retain the existing policy. These Directors stressed that the Fund would continue to welcome a response by the authorities.

Although a few Directors preferred considering as *de minimis* every misreporting case involving a deviation that meets the criteria for waivers, most Directors supported staff's proposed approach. To be considered *de minimis*, a deviation from a performance criterion or other specified condition (e.g., prior action) would be so small as to be trivial with no impact on the assessment of performance under the member's program, as illustrated by the examples set out in Table 1 of EBS/06/86. Directors recognized that decisions whether a particular case should be considered to be *de minimis* will require judgment—first by management and staff, and ultimately by the Executive Board.

While the current publication policy for GRA and PRGF misreporting cases requires the Fund to "make relevant information public in every case" after the Board makes its determination that misreporting occurred, Directors agreed that the fact of *de minimis* misreporting would not be considered "relevant information" for the purposes of this policy. Most Directors agreed that some limited information would still be necessary to correct the public record, and therefore, the fact of non-observance of the performance condition and the granting of a waiver would be included in a low key fashion in the Chairman's statement, PIN, factual statement, or other press release. Some Directors preferred to see an explicit reference to *de minimis* misreporting to avoid confusion with the general waiver policy, while a few others preferred that no information on the deviation be published. A few Directors suggested that in stand-alone *de minimis* cases a one-step procedure would suffice with the issuance of a report to the Board for lapse-of-time consideration. Directors also emphasized the need to support the member countries' efforts to strengthen their capacity to provide accurate data through technical assistance.

Based on this discussion, staff will prepare draft decisions to amend the GRA and PRGF misreporting guidelines, along with revisions to the decision on Strengthening the Effectiveness of Article VIII, Section 5; the HIPC Trust Instrument; the Policy Support Instrument, and the Fund's Transparency decision. These draft decisions will be circulated for approval on a lapse-of-time basis. The new policy will go into effect once those decisions are approved, and will apply to all cases which come to the attention of staff following this Board meeting.

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