



IMF POLICY PAPER

THE EXTENDED RIGHTS TO PURCHASE POLICY— REDUCTION OF BLACKOUT PERIODS IN GRA ARRANGEMENTS—OPERATIONAL GUIDANCE NOTE

May 20, 2013

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THE EXTENDED RIGHTS TO PURCHASE (ERP) POLICY— REDUCTION OF BLACKOUT PERIODS IN GRA ARRANGEMENTS—OPERATIONAL GUIDANCE NOTE

EXECUTIVE SUMMARY

This note provides guidance on the operation of the IMF's Extended Rights to Purchase policy for General Resources Account (GRA) arrangements. Provided certain safeguards are met, this policy extends the period (up to some limits) in which a member may access accumulated but undrawn balances under a GRA arrangement once a new test date is reached but for which the test data are not yet available. In so doing it addresses some access "blackouts" which can affect all GRA arrangements with the Fund, but especially precautionary ones. To assist in program design, other possible access blackouts, not addressed by this policy, are also described in this note.

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INTRODUCTION

- 1. The Extended Rights to Purchase (ERP) policy was established in October 2009 to address issues associated with the “blackout periods”**—temporary interruptions of drawing rights to previously accumulated, but undrawn, balances during periods in which data on relevant periodic performance criteria (PCs) are not yet available—under Stand-By arrangements (SBAs) and arrangements under the Extended Fund Facility (EFF).¹ The policy has sought to balance the enhanced continuity of purchase rights with adequate safeguards for the Fund’s resources.
- 2. A review of the ERP policy in January 2013 found that the policy has achieved its main objectives, but there is a need to improve the understanding of the operational aspects of the policy.**² **It has enhanced the continuity of purchase rights while maintaining appropriate safeguards in a number of Fund-supported programs.** As a consequence of the review, the Executive Board approved the amendment of the ERP policy decision to extend its application to all arrangements in the GRA that have periodic PCs, including arrangements under the Precautionary and Liquidity Line (PLL) of more than six months in duration. This guidance note provides operational guidance to staff and further background information on the ERP policy. In doing so, it builds on the Staff [Implementation Memorandum: Extended Rights to Purchase—Reduction of Blackout Periods in GRA Arrangements](#), which will be superseded and effectively replaced by this guidance note. SPR (the Emerging Markets Division) and LEG stand ready to clarify any further questions that departments may have on the policy.
- 3. As mentioned, the policy now applies to all GRA arrangements with periodic PCs, whether it is being treated as precautionary or not.** While it is most relevant for precautionary arrangements, where purchase rights to previously accumulated, but undrawn, amounts accumulate systematically, the ERP policy can also play an important role in drawing arrangements where blackout periods may arise, provided the conditions under the policy are met so as to allow the extension of the purchase rights period.

¹ [Reduction of Blackout Periods in GRA Arrangements](#) .

² [Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review](#) , January 23, 2013.

WHAT ARE THE BLACKOUT PERIODS ADDRESSED BY THE ERP POLICY?

4. **The blackout periods that the ERP policy aims to address refer to the periodic blocking of access to accumulated but undrawn purchase rights under GRA arrangements, which can occur when a new test date is reached.** The term “accumulated but undrawn purchase rights” refers to resources that the member was entitled to purchase until access to those resources became subject to the observance of conditions (including periodic PCs, and completion of reviews) associated with a new test date.³ Prior to the introduction of the ERP policy, accumulated purchase rights were interrupted once a new test date was reached and were reinstated only when: (a) all data on performance criteria (PCs) for that test date were available showing the PCs were met; or (b) waivers of applicability were granted by the Board for data not yet reported. The policy which resulted in blackout periods once a new test date was reached was there to safeguard Fund resources by interrupting purchase rights when data on PCs became stale, thus reducing the risk that a member might draw on Fund resources when the member's Fund-supported program was off-track.

5. **This type of blackout period only arises in GRA arrangements using the Fund's general resources, and not in arrangements under the Poverty Reduction and Growth Trust (PRGT).** This is because the right to draw under PRGT arrangements is linked to a specific review and specific PCs. Consequently, the blackout period resulting from reaching a new PC test date and the data not being available cannot occur in PRGT arrangements. However, in a blend of Standby Credit Facility (SCF) and SBA (or a blend involving the Extended Fund Facility and the Extended Credit Facility), there is the potential for the accumulated resources under SBA to be blocked by a blackout period resulting from PC data being unavailable, but for resources under the SCF arrangement to remain available.

6. **There are other forms of temporary interruptions to a member's purchase rights that do not constitute a blackout period addressed by the ERP policy.**⁴ However, such other forms of interruption of access to undrawn balances can be addressed through the careful design of any GRA arrangement. For instance, access to accumulated but undrawn purchases can be interrupted because the deadline for a new review date has been reached and there is a delay in completing the

³ While the Decision establishing the ERP policy (Decision No. 14407-(09/105), as amended) refers to “any amount available under the phasing provisions of an arrangement”, this was intended to capture the concept of “accumulated but unpurchased resources”. For example, assume that as of January 1, 2013, the member had previously met all the conditions associated with earlier purchase(s) amounting to SDR 100 million, but had not requested the purchase(s) (for example, because it was treating the arrangement as precautionary), and its arrangement prescribes a December 31, 2012 test date for a number of periodic quantitative PCs which, if met, would permit the purchase of an additional SDR 20 million (phased to become available in mid-February). In this case, the accumulated, but undrawn purchase rights as of January 1, 2013, amount to SDR 100 million.

⁴ As envisaged in the review paper, a template to help country teams check their scheduled review dates will be placed on the internal SPR web page.

review. The delay in completing a review beyond its scheduled date blocks access to both the accumulated purchases rights and the incremental amount of access associated with the latest test date. In this scenario, purchase rights (to both amounts) can be restored only when the required review is completed. Interruptions in purchase rights due to delayed reviews can arise in both GRA and PRGT arrangements and they remain an appropriate safeguard to Fund resources. To avoid such interruptions, staff would need to carefully choose the review dates when designing the program, and the member should make its best efforts to meet all relevant conditions and complete the review by the scheduled date.

WHAT IS THE ERP POLICY?

7. **The ERP policy provides a member with continued access to accumulated but unpurchased amounts under a GRA arrangement with periodic PCs for a period of up to 45 days (the “extension period”)** after a new test date for periodic PCs is reached without necessarily having to demonstrate observance of such PCs.⁵ For safeguards purposes, there are six conditions, listed below, which must be met in order to make a purchase under the ERP policy. Box 1 provides stylized examples to further clarify the application of the policy, with Scenario 1 in Box 1 illustrating how purchase rights can remain continuous throughout a precautionary arrangement when all the conditions are met:

- i. ***The member requests the purchase within the extension period.*** Accordingly, once the 45 day extension period has passed, a member would no longer be able to avail itself of the ERP framework and would have to fall back on existing policies (e.g., requesting waivers of applicability where data was not available on one or more PCs). Scenario 2 in Box 1 illustrates how a blackout period arises when the data are reported under a longer-than-45 days reporting deadline in the TMU.
- ii. ***The member has met all data reporting deadlines applicable to each periodic PC for the most recent relevant test date set forth in the TMU.*** If any PC-related data reporting is delayed past the date specified in the TMU, the member cannot make a purchase *under the ERP policy* until the data is reported.⁶ The requirement to meet the reporting deadlines specified in the TMU means that in many cases the member will have less than the full 45-day extension period to make the purchase. This safeguard helps ensure timely data reporting and minimize the risk of a purchase when a program is off-track. However, even beyond the reporting deadline the member can still request a waiver of applicability if the requisite conditions to be granted such a waiver are met. Scenario 3 in Box 1 provides an example where a purchase under the ERP policy can be interrupted due to excessive reporting delays.

⁵ See [Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review](#), January 23, 2013.

⁶ The 45-day period runs on a continuous basis irrespective of interruptions.

- iii. **Where data is available for any periodic PC for the most recent relevant test date, the member has either met or been granted a waiver for nonobservance of that PC.**⁷ This prevents the member from making a purchase in cases where the member has not met the periodic PC for the relevant test date (Scenario 4 in Box 1). Note that where the member has enough relevant test data in advance of reporting deadlines to demonstrate definitively that the member did not meet the relevant PC, the member would be ineligible to make a purchase under the ERP policy; this issue may be particularly relevant to PCs with adjustors for which reporting deadlines differ from that of the underlying PC.
- iv. **In cases where the data for a particular PC is unavailable and the data reporting deadline set forth in the TMU has not passed, the member must represent to the Fund that any unreported periodic PC-related data for the most recent relevant test date is, in fact, unavailable.** To the extent a member represented that the relevant test data were not available and this representation was later found to be incorrect, the purchase would be subject to the Fund’s misreporting framework. This creates a disincentive for the member making a purchase where the data reporting deadline set forth in the TMU had not yet passed, but the member already had the test data showing the PC had been missed.
- v. **The member has either met, or been granted a waiver of nonobservance, for each periodic PC for the relevant test date immediately preceding the most recent test date.** There are two important operational aspects of this condition:
 - a. In the vast majority of cases, this condition prevents a member from making a purchase during the extension period if the program was already off-track before the most recent relevant test date.⁸ Scenario 5 in Box 1 shows how purchase rights are interrupted when a review is delayed. This condition maintains the Executive Board’s oversight in instances where the program conditions have not been met.

⁷ This condition (paragraph 2(v) of the Decision) has been streamlined in the 2013 review to eliminate potential confusion. The original paragraph 2(v) reads: “with respect to any periodic performance criterion for the most recent relevant test date for which data are available or for which the reporting deadline set out in the TMU has passed, the member has either met or been granted a waiver for nonobservance of that performance criteria”. Following the 2013 review, the part “or for which the reporting deadline set out in the TMU has passed” has been deleted. Since paragraph 2(v) envisages situations where the PC data are available, the reference to the reporting deadline in the TMU is not necessary. The requirement concerning data reporting is addressed in paragraph 2(iv), which notes that “the member has met all data reporting deadlines applicable to each periodic performance criterion for the most recent relevant test date set forth in the Technical Memorandum of Understanding (“TMU”).”

⁸ For the purpose of this condition, “off-track” refers to situations where the member had not met, or had not been granted a waiver of the PCs for the test date immediately preceding the relevant test date. For example, in an SBA with a quarterly purchase schedule and accumulated undrawn balances, if a member has met all the conditions under the program following the end-June test date, but missed a PC following the end-September test date and was not granted a waiver of nonobservance, then in the extension period following the end-December test date, the member would be unable to make a purchase of these previously accumulated undrawn balances.

- b. In very rare cases, a Fund GRA arrangement could provide that a particular purchase would be subject to periodic PCs specified for more than one test date (i.e., staggered test dates). In these cases, i.e., where there are two test dates applying to different PCs controlling for the same purchase, i.e., the purchase that a member seeks to make under the ERP framework, the ERP framework will apply to each of the relevant test dates. This means that there could be two different 45-day “windows” applicable to different PCs in operation at the same time.⁹
- vi. ***The member is meeting all other conditions applicable under the program.*** This means that the member is meeting any continuous PCs, and that the Board has concluded the previous scheduled program reviews and (where relevant) financing assurances reviews.¹⁰

⁹ See [Turkey](#) (02/136) for an example of staggered test dates.

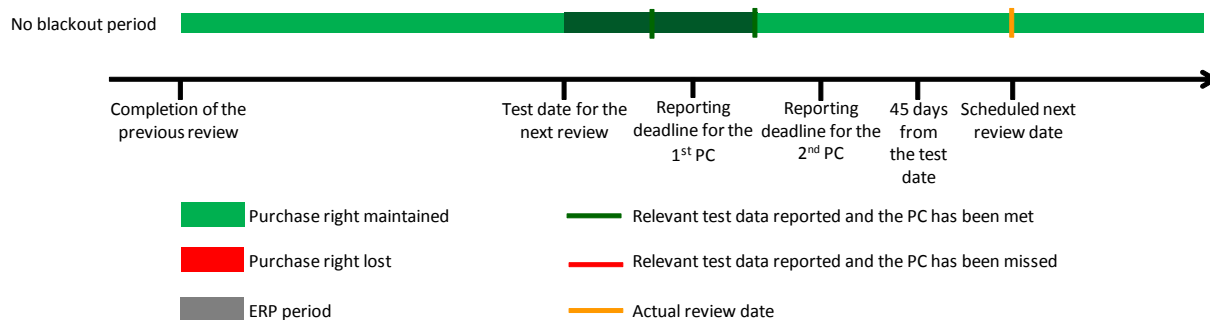
¹⁰ There may be other related conditions. For example, if all periodic and continuous PCs are met but a consultation clause is triggered, then the member loses its purchase right until the conditions in the consultation clause are met. Meeting the conditions other than periodic PCs is particularly important in cases with quarterly PCs but semi-annual reviews.

Box 1. Stylized Applications of the Extended Rights to Purchase Mechanism

This Box illustrates how the ERP policy works. Five key dates underpin the ERP policy and access to accumulated but undrawn resources: (i) the test date; (ii) the data reporting deadlines (which typically vary by PC); (iii) the actual reporting dates; (iv) the scheduled review date; and (v) the actual review date. The examples describe how purchase rights change under the ERP mechanism depending on whether the test data are reported on time; whether the PCs are met; and whether the review is completed on schedule. The examples consider a precautionary arrangement with two PCs and quarterly reviews; a TMU which specifies a maximum reporting lag of four weeks for the first PC, and of six weeks for the second; and the member has just completed a review in mid-March and has accumulated SDR 100 million of undrawn Fund resources under the arrangement. The next test date is end-March and the next review date is scheduled for June 15, with an additional SDR 25 million available upon completion of the review.

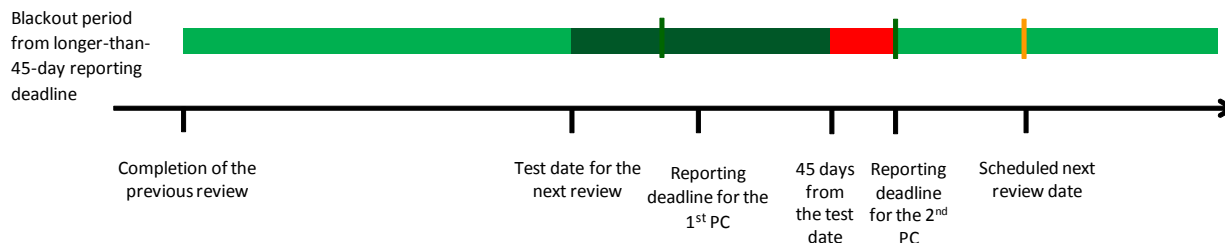
1. A Baseline scenario with no black-out period

The member has access to SDR 100 million until the next test date, end-March. Starting from April 1, the ERP mechanism becomes operative ensuring that the member maintains the right to purchase the SDR 100 million up to the date when the test data for the first PC are reported before or by end-April, the reporting deadline for the first PC. The member shall report data when it becomes available even if the reporting deadline specified in the TMU has not reached. If, before the reporting deadline, the member already knows that the PC is missed but still purchases under the ERP policy, it is subject to misreporting. If the data for the first PC is reported on time and the PC is met, then the member keeps the purchase right until the test data for the second PC is reported before or by mid-May, the reporting deadline for the second PC. If the data are again reported on time and the PC is met, then the member continues to keep its purchase right until the scheduled review date, mid-June. If the review is completed by the scheduled date, then the member has the right to purchase not only the SDR 100 million, but also the additional SDR 25 million made available by completing the June review.



2. Black-out period arising from a longer-than-45 days reporting period

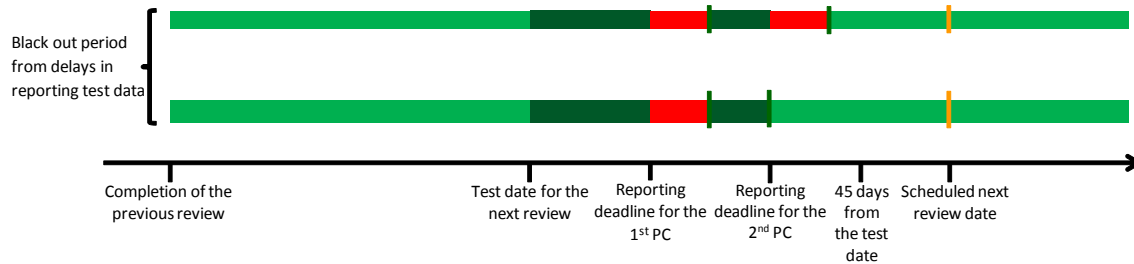
Suppose, instead, the second PC allows a reporting lag of eight weeks. The member would maintain its purchase right of the SDR 100 million up to 45 days after the test date under the ERP policy, provided that the test data for the first PC is reported by the deadline and the PC is met. It then loses its purchase right until the data for the second PC is reported showing that the PC is met. The member's purchase right is then restored until the scheduled review date. Purchase during the resulting blackout period would require a waiver of applicability.



Box 1. Stylized Applications of the Extended Rights to Purchase Mechanism (Concl.)

3. Black-out period from excessive reporting delays

Suppose the data for the first PC reported are delayed beyond the four-week deadline. In this case the member loses the purchase right of the SDR 100 million by end-April reporting deadline. The resulting black-out period provides safeguards to Fund resources when there is uncertainty as to whether the program is on track. Purchase right is restored when the data for the first PC are reported and the first PC is met. The purchase right can again be interrupted if the data for the second PC are not reported on time. Assuming the second PC is reported on time and met, and the review is held on time, there would be no other interruption of purchase rights.

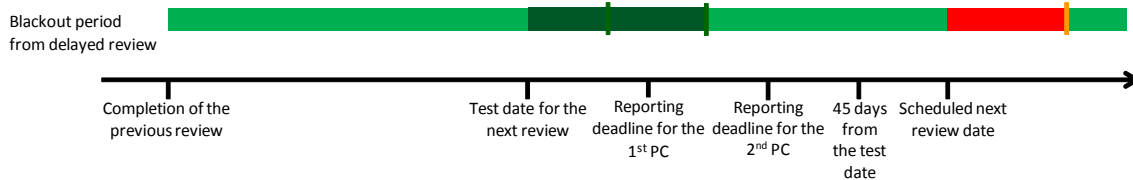


4. Black-out period from one or more missed PCs

If either PC is missed, purchase rights are lost once data are reported which shows it is missed. Purchase rights can only be restored by the Board granting a waiver of nonobservance.

5. Interrupted access from a delayed review

Suppose the test data for both PCs are reported on time and both PCs are met, but the June review is delayed, for example, to September and is combined with the September review (e.g., due to political uncertainties in June). The member does not have the purchase right of that SDR 100 million until the September review is completed, and hence a black-out period of over three months would arise. This would also happen if reviews are combined. The resulting blackout period acts as a safeguard against the risk that the program may go off-track.



KEY OPERATIONAL CONSIDERATIONS

8. **The ERP should be incorporated, by reference, into every GRA arrangement with periodic PCs, as established in the revised Decision following the 2013 review.** This would include SBAs, extended arrangements under the EFF, one-to-two year PLL arrangements with periodic PCs,¹¹ and any new GRA arrangements with periodic PCs that may be established in the future, unless explicitly excluded from the application of the ERP policy at the time of their establishment. As discussed above, the ERP policy is most relevant for precautionary arrangements where purchase rights to previously accumulated but undrawn amount are accumulated systemically, but it has operational implications for other GRA arrangements.
9. **The member's TMU should ensure timely, yet realistic, delivery of PC-related data reporting through well specified and realistic frequencies and lags.**¹² Timely data reporting is important for program monitoring purposes as well as for application of the ERP framework. There are trade-offs between comprehensiveness and specificity, and between accuracy and timeliness of the data needed for program monitoring. Country teams and review departments should ensure that particular attention is paid to any significant risks to effective program monitoring resulting from adequacy of data. In the meantime, reporting deadlines should be set realistically—the 2013 review of the ERP policy found a few cases where the actual test data were reported after the agreed time limits, despite the members' best efforts, suggesting the possibility that some reporting lags set forth in TMUs were initially set unrealistically.
10. **Country teams should carefully consider the appropriate date for establishing the program review dates.** As noted in ¶6, apart from blackout periods in GRA arrangements, other forms of interruptions to purchase rights could also occur, for instance when a scheduled review date passes without completion of that review. The purchase availability date should be set no earlier than the date on which all information relevant to assess the performance criteria is expected to be available.¹³ To assist country teams in appropriately setting the reporting deadlines in the TMU and the expected review dates to maximize the continuity of purchase rights, a web-based calculator is developed and posted on the Fund's intranet.
11. **Communication with the member, the Executive Board, and the public should be managed carefully:**

¹¹ Neither of the expired or existing PLL arrangements (FYR Macedonia or Morocco) have had ex post conditionality involving periodic PCs, and hence the ERP policy is irrelevant for them.

¹² For guidance, see memo from P. Heller dated November 22, 2000 entitled The Quality of Fiscal Data and Designing Fiscal Performance Criteria in Fund-Supported Programs; Memo dated September 21, 2000 from the Managing Director to Heads of Area Departments entitled Strengthening the Treatment of Data Issues.

¹³ Decision No. 14281-(09/29), adopted March 2009, as amended, paragraph 5: "[l]ags 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."

- i. **Members:** Country teams should promptly inform members if purchases are no longer possible during the extension period due to a missed PC.
 - ii. **The Board:** If a purchase is made during the extension period where test data on the observance of a PC is unavailable at the time of purchase, but subsequent data show a periodic PC was missed, staff must notify the Board promptly, at least on an informal basis (e.g., at an informal country matters session).
 - iii. **The Public:** There are no changes in current policies regarding communication with the public.
12. **The Fund's existing policies on misreporting and noncomplying purchases in the GRA would apply to a purchase during the extension period.** Such policies would apply if a member makes a purchase based on test data that later turn out to be incorrect. However, in the event that a member makes a purchase under the ERP policy during the extension period without knowing the most recent test data, and it later turns out that at least one PC was not met, the misreporting policy would not apply. In this instance, the Board would be promptly informed at least on an informal basis (see paragraph 11. b above).
13. **The conditions applicable to a purchase under the ERP will be assessed by staff as of the date the member makes the purchase request.** The Area Department is responsible for confirming that the requirements of the ERP have been met (on the basis of supporting documentation as needed) and should certify this to FIN prior to the purchase, using a template to be provided by FIN. In accordance with existing procedures (and just like any other purchase request), FIN must receive a valid purchase request from the member's fiscal agent. SPR and LEG are available to provide the Area Department with additional guidance as needed.
14. **The ERP framework recognizes the need to maintain strong safeguards for the use of GRA resources.** As was the case with the previous policy, there may be limited circumstances where the member maintains a legal right to purchase even where broader developments may raise questions regarding whether the program will be assessed as being on track at the next review; e.g., when there has been a major policy shift that would negatively affect the forward-looking assessment of the program. A judgment will be needed by the member as to how a drawing in such circumstances may affect the ongoing program relationship.