

The contents of this document are preliminary and subject to change.

GRAY/21/1038

April 22, 2021

**Statement by Mr. Nakunyada, Mr. Abdullahi, Ms. Basutli, and Mr. Garang on Review of
the Fund's Income Position for FY 2021 and FY 2022
(Preliminary)
Executive Board Meeting
April 27, 2021**

1. We thank staff for the informative report and welcome the review of the Fund's income position for FY 2021 and FY 2022 that comes against the backdrop of the COVID-19 pandemic shock and its implications on Fund finances. We also appreciate the staff's efforts to integrate the Directors' feedback provided during the March 8, 2021 informal discussion on *the Fund's Income Position for FY 2021—Interim Update*. **We share the staff's assessment and broadly support the proposed decisions.**
2. **We are encouraged by the strong income position estimated for FY 2021, but note that for FY 2022, performance remains subject to elevated risks.** We note that the FY 2021 income position would be closely linked to the discount rate to be applied in measurement of the Fund's retirement plan obligations, as well as asset returns on the retirement plan and Endowment Subaccount (EA). Looking ahead, we note that uncertainties from pandemic-related lending for FY 2022 would impact the income position, including the rephasing of drawings under existing arrangements, advance repurchases, and expiration of arrangements with undrawn balances. At the same time, we would appreciate future updates on the potential impact of the impending general SDR allocations on the demand for Fund credit, lending income, and the general income position. That said, we positively note the rapid pace of reserve accumulation and prospects of attaining the target for precautionary balances earlier than initially anticipated.
3. **We support the proposal to delay the commencement of payouts from the EA by one year to align the payoffs with the forthcoming review of the Investment Account.** We note that volatile financial market conditions in 2020 reversed initial gains made to build a cushion in the Endowment Sub-account. Although EA's recent performance improved, we stress the need to ensure that payoff decisions remain guided by the intended objective to generate a meaningful return. Such a delay allows more time to build an

additional EA cushion that would better shield the portfolio against volatile market conditions. Moreover, the delayed payoffs are expected to modestly impact the Fund's net operational income and reserves in FY 2021.

4. **We view the proposed presentational modifications to the income statements as important to separate the actual re-measurement gains/losses from the annual pension expense.** These changes enhance transparency in financial reporting and remain aligned with the requirements of the IAS 19. That said, we look forward to further work to explore ways to smooth the impact of unpredictable pension-related gains/losses on the income and reserve positions.
5. **We consider the adoption of provisioning for impairments as important to comply with the IFRS 9 requirements.** Considering the uncertainty surrounding the establishment of the successor to the SCA-1 once Sudan 's arrears have been cleared, we stress the need to embrace best practice in provisioning for loan impairments which has been widely adopted by other international organizations. In this connection, we are reassured by the historical trends which show that such provisioning is typically rare, and that the Fund's multi-layered risk management framework should continue to play a critical cushioning role.
6. **We support the proposed decisions on the disposition of income for FY 2021 and FY 2022, consistent with Article XII, section 6 (f), (iv).** Specifically, in line with past practice, we support the use of investment income earned in FY 2021 from the Fixed-Income Subaccount; the placement of net income to reserves and the allocation between the special and general reserve; and the transfer of currencies from the GRA to the IA. To allow for further work, we support the staff proposal to postpone the review of the framework for the treatment of IAS 19 gains and losses by another year. Furthermore, we agree with the proposal to suspend reimbursement to the GRA for PRGT administrative expenses for FY 2021 considering the exceptional circumstances created by the COVID-19 crisis and the associated demand for PRGT resources. We also agree that there are no fundamental changes that warrant adjustment to the current rate of charge at 100 basis points over the SDR interest rate for FY 2022.
7. Finally, while we support the need for further work on determining the appropriate treatment of IAS gains and losses, we are concerned about potential surprises by the time the final decision is made. *Could staff explore the possibility of making a provision for possible losses, against the high remeasurement gains reflected in the projected income and expenditures statement for FY 2021?*