



**Executive Board Minutes 21/41-2**

April 27, 2021–3:35 p.m.

**Review of the Fund's Income Position for FY 2021 and FY 2022**

Documents: EBS/21/35

Staff: Bradbury, Zoli, Nana and Lauwers, FIN

Length: 1 hour, 14 minutes

ISSUED: September 21, 2022  
APPROVAL: September 28, 2022

CEDA OGADA  
Secretary

## TABLE OF CONTENTS<sup>1</sup>

<b>The Acting Chair’s Summing Up</b> .....	3
<b>Executive Board Decisions</b> .....	5
<b>Executive Board Attendance</b> .....	7
<b>Discussion Record</b> .....	9
<b>Annex</b> .....	28
○ Gray Statements	
○ Staff Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

---

<sup>1</sup> Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

## THE ACTING CHAIR'S SUMMING UP

Executive Directors welcomed the review of the Fund's income position and broadly supported all the proposed decisions. They noted that the net income for FY 2021 is projected to be higher than both the interim and April 2020 projections, and recognized that the projections of the Fund's income are subject to ongoing uncertainties on key assumptions related to the impact of the COVID-19 pandemic and the prospects for recovery. They called for regular updates to the Board.

Directors noted that the FY 2021 income from the Fund's lending operations in the General Resources Account (GRA) is strongly positive and broadly in line with the initial projections, and that overall the net income is higher than projected mainly as a result of the pension-related remeasurement gain under the IAS 19 accounting standard and strong investment performance.

Directors noted the ongoing income volatility caused by the pension-related adjustments under IAS 19, as gains projected for the year will reverse most of the losses experienced last year, and that the resulting gains and losses are difficult to forecast. Directors welcomed the steps taken by staff to further analyze options to isolate the effect of IAS 19 remeasurement gains and losses and supported presentational changes in the financial statements and income paper to focus the review on core Fund activities. They encouraged continued work in this area.

Directors supported the proposed income disposition decisions—first, the transfer of income from the Fixed-Income Subaccount of the Investment Account to the GRA for use in meeting FY 2021 administrative expenses, and the retention of the income of the Endowment Subaccount for one more year in FY 2021 to allow the payout decision to be informed by the outcome of the IA review in FY 2022; and second, the transfer of currencies from the GRA to the Investment Account equivalent to the increase of the special and the general reserves, following the placement of the FY 2021 net income.

Directors also broadly supported the placement of the FY 2021 net income of the GRA to the Fund's special reserve to replenish losses charged to it in FY2020, and placing any excess income to the Fund's special and the general reserves in equal parts. Directors looked forward to staff's review of the allocation framework in the next financial year.

Directors broadly supported maintaining the margin for the rate of charge at 100 basis points over the SDR interest rate for FY 2022 under the exceptional circumstances clause. They generally concurred that there has been no fundamental change in the factors relevant for setting the margin since its last review in April 2020. A few Directors, however, saw scope to temporarily reduce the margin to help borrowing members deal with the impact of the pandemic. In the same vein, a few other Directors suggested temporarily or permanently suspending or reducing surcharges.

Directors agreed to reimburse the GRA for the cost of conducting the business of the SDR department. They also broadly agreed to suspend reimbursement of the GRA for the

costs of administering the PRGT in FY 2021 as part of the efforts to boost the resources available to the PRGT. Many Directors looked forward to further discussing multi-year waivers to support PRGT lending capacity in the context of the concessional financing review.

Directors endorsed the approach for addressing potential cases of impairment, including the use of provisioning, formalizing the approach presented in the paper on Provisioning for Impairment Losses in the Context of the Fund and discussed by Executive Directors in October 2020. Directors generally noted that the cases requiring provisioning are expected to remain rare due to the unique nature of the Fund's lending and its multilayered framework for managing credit risks, as well as its preferred creditor status. Staff would also be expected to consult with the Board on the results of the impairment analysis under IFRS 9.

## **EXECUTIVE BOARD DECISIONS**

The Executive Board took the following decisions:

### **Review of the Fund's Income Position for FY 2021 and FY 2022 - Assessment Under Article XX, Section 4 for FY 2021**

Pursuant to Article XVI, Section 2 and Article XX, Section 4 of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

- (i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2020 through April 30, 2021; and
- (ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2021 with an amount equal to 0.00167905 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department. (EBS/21/35, 04/12/21)

Decision No. 17030-(21/41), adopted  
April 27, 2021

### **Review of the Fund's Income Position for FY 2021 and FY 2022 - Poverty Reduction and Growth Trust Reimbursement for FY 2021**

Notwithstanding paragraph 3 of Decision No. 8760-(87/176), adopted on December 18, 1987, for the 2021 financial year, no reimbursement shall be made to the General Resources Account from the Reserve Account of the Poverty Reduction and Growth Trust ("PRGT") for the cost of administering the PRGT. (EBS/21/35, 04/12/21)

Decision No. 17031-(21/41), adopted  
April 27, 2021

### **Review of the Fund's Income Position for FY 2021 and FY 2022 - Transfer of Investment Income for FY 2021 to General Resources Account**

The income of the Fixed-Income Subaccount of the Investment Account for FY 2021 shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2021. The income of the Endowment Subaccount for FY 2021 shall be retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account. (EBS/21/35, 04/12/21)

Decision No. 17032-(21/41), adopted  
April 27, 2021

**Review of the Fund's Income Position for FY 2021 and FY 2022 - Placement of FY 2021 Net Income of the General Resources Account to the Special Reserve and General Reserve**

The net income of the General Resources Account for FY 2021 shall be placed to the Fund's Special Reserve, provided that if net income in FY 2021 exceeds the amount of the net loss in FY 2020, an amount equivalent to this excess shall be placed in equal parts to the Fund's Special Reserve and General Reserve. (EBS/21/35, 04/12/21)

Decision No. 17033-(21/41), adopted  
April 27, 2021

**Review of the Fund's Income Position for FY 2021 and FY 2022 - Transfer of Currencies to the Investment Account for FY 2021**

Pursuant to Article XII, Section 6(f)(ii) of the Articles of Agreement, the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the difference between the Fund's general and special reserves as of April 30, 2021 and the cumulative amount of previous transfers of currencies from the General Resources Account to the Investment Account. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan covering the period May-October 2021. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in the Fixed-Income Subaccount in accordance with the Rules and Regulations for the Investment Account. (EBS/21/35, 04/12/21)

Decision No. 17034-(21/41), adopted  
April 27, 2021

**Review of the Fund's Income Position for FY 2021 and FY 2022 - The Rate of Charge on the Use of Fund Resources for FY 2022**

Pursuant to Rule I-6(4)(a), the Fund has completed the review of the Fund's income position and concluded that for FY 2022 there are no fundamental changes to warrant any adjustment to the margin for the basic the rate of charge as determined by Decision No. 16774-(20/51), adopted April 27, 2020. (EBS/21/35, 04/12/21)

Decision No. 07035-(21/41), adopted  
April 27, 2021

**EXECUTIVE BOARD ATTENDANCE<sup>2</sup>**

M. Furusawa, Acting Chair

**Executive Directors**

S. Chodos (AG)

C. Huh (AP)

Z. Jin (CC)

L. Levonian (CO)

D. Palotai (EC)

A. Buisse (FF)

S. Bhalla (IN)

D. Fanizza (IT)

T. Tanaka (JA)

M. Poso (NO)

A. Mahasandana (ST)

S. Riach (UK)

**Alternate Executive Directors**

W. Nakunyada (AE)

F. Sylla (AF)

B. Saraiva (BR)

J. Romero (CE)

K. Merk (GR)

M. El Qorchi (MD)

A. Alhosani (MI)

D. Cools (NE), Temporary

A. Tolstikov (RU), Temporary

B. Alhomaly (SA)

R. Gindrat (SZ), Temporary

S. Senich (US), Temporary

G. Bauche, Acting Secretary

J. Morco, Summing Up Officer

D. Al-Jarbou, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

**Also Present**

African Department: E. Gemayel. Asia and Pacific Department: R. Anand. Communications Department: J. Lundgren. European Department: P. Dohlman. Fiscal Affairs Department: J. Toro Rivera. Finance Department: S. Bradbury, F. Delaney, E. Fleming, T. Krueger,

---

<sup>2</sup> For countries in each constituency, please see the Constituency Codes in the annex.

B. Lauwers, M. Manno, C. Mumssen, Z. Murgasova, D. Nana, A. Ndiaye, E. Okosodo Odibo, B. Oliveira, A. Tweedie, O. Unterberdoerster, J. Yang, Y. Yang, E. Zoli.

Independent Evaluation Office: L. Stedman. Information Technology Department: T. Rolim. Legal Department: H. Pham, B. Steinki. Middle East and Central Asia Department: A. Arvanitis, C. Baker, R. Mariduena, E. Mottu, M. Vera Martin. Office of Budget and Planning: M. Albino Orjuela, A. Balakrishnan, M. Shannon. Office of Internal Audit and Inspection: P. Murugan. Office of Risk Management: V. Bakhtina, B. Boulwood, Q. Chen, T. Chen, M. De La Cruz Gomez, I. Ivaschenko. Statistics Department: R. Koehler. Executive Directors: A. Andrianarivelo (AF), I. Mannathoko (AE), M. Mahmoud (MI), P. Moreno (CE), M. Mouminah (SA), A. Mozhin (RU), E. Shortino (US), P. Trabinski (SZ), R. von Kleist (GR). Alternate Executive Directors: H. Azal (EC), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), L. Herrera (AG), Y. Indraratna (IN), C. Just (EC), F. Mochtar (ST), R. N'Sonde (AF), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), P. Rozan (FF), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), H. Andrianometiana (AF), M. Choueiri (MI), J. Garang (AE), M. Gilliot (FF), O. Hendrick (AG), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), Z. Mahyuddin (ST), L. Marek (EC), S. Naka (JA), C. Quagliarini (IT), A. Sattler (GR), M. Scholer (NE), M. Sidi Bouna (AF), L. Smith (CO), N. Thiruvankadam (IN), R. Velloso (BR), J. Weil (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: A. Abdullahi (AE), F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Gonaya Basutli (AE), Dennis Bautista (ST), Campbell (UK), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), R. Lopes Varela (AF), M. Merhi (MI), R. Moral Betere (CE), T. Persico (IT), B. Piasecki (SZ), M. Shimada (JA), B. Singh (IN), I. Skrivere (NO), C. Westphal (US), Y. Zhao (CC), J. Barroso (BR), F. Lopez (CE).

**DISCUSSION RECORD<sup>3</sup>**

*The Acting Chair (Mr. Furusawa):*

As we consider the Fund's income position today, we continue to face areas of uncertainty. The Fund's income in FY2021 was boosted by emergency lending and projections under the desk survey scenario show a rise in Fund lending in the coming years as part of the Fund's response to the COVID-19 crisis, but there remains uncertainty over the future path of lending income.

Many Directors have commented on this aspect in the gray statements and have asked for more frequent updates to the Board on changes in the income outlook.

Another area of ongoing uncertainty relates to the size of the annual pension gain, which is expected to be substantial in FY2021, reversing most of the losses experienced last year.

The volatility in this item can distort the presentation of the Fund's financial results. In this context, Directors acknowledge the presentational changes in the financial statements and income paper to focus the review on core Fund activities and welcomed staff's proposal for further work on this issue.

Further to agreeing to the proposal to suspend reimbursement of the Poverty Reduction and Growth Trust (PRGT) costs in FY2021, a number of Directors look forward to discussing multiyear waivers to support PRGT lending capacity in the context of the concessional financing review.

*The Director of the Finance Department (Mr. Lauwers):*

I would just like to take the opportunity to introduce myself as this is my first Executive Board meeting. I started in the role of Director of the Finance Department (FIN) a couple of weeks ago and since then have been getting up to speed on the various workstreams that FIN either leads or is involved in as well as getting to know the team within FIN and with colleagues around the Fund.

---

<sup>3</sup> Edited for clarity.

In the coming weeks, I plan to meet individually with each of the Directors' offices so we can get to know each other a little better and I can hear their issues and concerns directly so that we can plan to address them accordingly.

In the meantime, the income team briefed me on the issues for today and the decisions that are on the table. A few of these raise important policy questions, obviously, which we will be working on in the coming months, not least in connection with the treatment of the IAS 19 gains and losses and the impact on the level of precautionary balances and the future of the SCA-1.

Rather than getting into these questions myself at this point, I will hand it over to staff.

*The Deputy Director of the Finance Department (Mr. Bradbury):*

Let me start by thanking Directors for the very helpful bilateral discussions that we had last week, the gray statements in advance of this meeting, and their support for the decisions, which is really important to enable us to close the books at the end of the financial year on Friday.

I hope that our written responses address the bulk of Directors' technical questions, but I would like to make a few broader observations and address a particular matter we did not cover in the written responses.

Firstly, on IAS 19, the income position, as Executive Managing Director noted, in the current fiscal year is dominated once again by the impact of pension-related gains and losses under IAS 19 compared with FY2020 when this item resulted in a substantial overall loss. In FY2021, the position is largely reversed, and the General Resource Account's (GRA) income has been significantly boosted by a projected Special Drawing Right (SDR) 2.5 billion in remeasurement gains mainly on the plan asset side.

Gains and losses of this magnitude can send conflicting signals about the underlying strength of the Fund's income, and for that reason we will be coming back to the Board later this year to follow up on the informal discussions we had last month around possible steps to isolate the impact of these gains and losses within reserves. In that context, we will also be exploring options to limit the volatility that this item introduces into the path of accumulation of precautionary balances.

We have also taken note of the point that several Directors have raised in the gray statements regarding the importance of framing the external communication of the income position to avoid giving undue emphasis to the impact of IAS 19 gains and losses, and so similar to last year, the focus in our public communications will be on the strength of the Fund's operational income while framing the IAS 19 remeasurement piece as an adjustment that is driven by accounting standards.

Secondly, the topic of surcharges, which was raised in two gray statements. Surcharges are an important element of the Fund's risk management framework, and their primary purpose is to build precautionary balances and safeguard the revolving nature of Fund resources. A strong balance sheet is critical for the Fund's role as a crisis lender of last resort, something we have seen on full display during the COVID-19 pandemic.

Surcharges policy reviews, like several other policy reviews, are no longer conducted on a five-yearly cycle. They are conducted on an as-needed basis consistent with ongoing streamlining efforts at the Fund. With that in mind, staff will reach out to Executive Directors to determine whether there is strong broad-based interest in a review of surcharges at this time, recognizing that precautionary balances remain well below their medium-term target level set by the Board in October 2020.

I should also note the precautionary balances projection in this paper does not yet include the likely SCA-1 depletion that will follow the clearance of Sudan's arrears, which will further reduce precautionary balances below the projection set out in this paper.

Any changes to the Fund's surcharges policy will require a broad consensus among the membership and specifically a 70 percent majority of votes cast, but if there appears to be sufficient interest, staff will explore possibly combining such a review with a review of other related policies, such as the upcoming review of precautionary balances.

Just to touch on provisioning for impairment, which is a topic that we discussed at the Board, or at least we had an informal session by Executive Directors in October 2020, the consensus of that discussion was to allow the Fund to adopt impairment provisioning as an accounting practice in accordance with the requirements of IFRS-9, subject to appropriate Board consultation should the need arise. It was also recognized that cases where provisioning may need to be considered by the Fund continue to be expected to remain very rare.

Since that was an informal discussion, we are proposing to give the effect to the consensus view in the Summing Up for this meeting, and Directors will have the opportunity to review the wording in the Summing Up in the usual way.

Several gray statements raised the issue of the SDR allocation and requested staff to estimate the potential impact of the expected general allocation and recycling of existing SDRs on the demand for Fund credit and operational income. Staff's view is it is a little bit premature to be trying to estimate these effects. Any forecasts we might make would be a little more than conjecture at this stage. We do not expect the SDR allocation to be a substitute for Fund programs. Staff did not observe any significant use of SDRs in early repurchases or repayments of Fund credit following the last general allocation in 2009, but beyond those observations, we have little concrete information upon which to base meaningful estimates.

*Ms. Levonian:*

We issued a joint statement in which we support all of the proposed decisions and highlighted net income volatility caused by pension re-measurements. I only want to underscore two points. First, like Mr. Tanaka in his gray statement, we stress the importance of continuing to take great care in communicating the Fund's results and, in particular, trends and profitability. At a glance at the change in the Fund's bottom line from fiscal year 2020 to fiscal year 2021, one might observe or have the impression of a dramatic swing in profitability, but as we know, pension-driven volatility is obscuring the real underlying trends, which are fairly stable, and we welcome comments from Mr. Bradbury, in this respect very much.

Second, we continue to support the Fund's adoption of IFRS-9, as Chair too commented, and thus endorse the use of provisioning if and when required, recognizing that such cases, as Chair said, are expected to be rare given the Fund's multilayered framework for managing credit risk, and we look forward to hearing what the Summing Up will say in that respect.

*Mr. Buisse:*

We thank staff for this interesting paper and the opening presentation. We already shared our thoughts during our last meeting on the interim update in March. As we issued a gray statement supporting all of the proposed decisions, I can be very brief.

We agree with staff's income outlook for FY2021 and FY2022. Overall, the outlook for the income looks quite positive, and we are happy to see the outlook for precautionary balance accumulation was improving and we could reach our target ahead of what was planned earlier this year.

Second, we underscore that indeed the inherent volatility of the income statement is mainly linked to the implementation of IAS 19 and can probably be reduced. Although the paper remains silent on the pension cost projection, could staff provide some indication for projected pension re-measurements for next year?

Finally, also related to the treatment of IAS 19 remeasurement gains and losses and the idea of isolating the volatility, we associate more for the postponement of the review of the allocation framework for another year to provide our authorities with more time to better identify the pros and cons of the proposed option.

*Mr. Sylla:*

We have issued a gray statement in which we have expressed support for the proposed decisions, I can therefore be very brief.

We take positive note of the Fund's projected strong income position for this fiscal year and the next year following several net losses. However, uncertainty remains elevated, as Chair rightly mentioned in the opening remarks, and is likely to affect net income in FY2022.

Moreover, the required adjustment in pension-related gains and losses continue to weigh heavily on the Fund's income position despite the presentational change to financial statements that have been recently introduced to isolate pension volatility. We, therefore, reiterate our call for continued careful communication of the Fund's income position to the public, and we are happy that Mr. Bradbury stressed on that point.

*Mr. Palotai:*

We support the proposed decisions. We positively note that the Fund's overall net income for FY2021 is projected to exceed early estimates, in particular, compared to those of April last year at the onset of the pandemic.

The Fund's income projections are however subject to large uncertainty owing to the pension-related volatility and the scale of the Fund's lending operations.

Relatively optimistic results should also be carefully weighed against the Fund's increasing credit risk. Like Mr. Buisse, Mr. Pösö, and other Directors, we emphasize that the sensitivity analysis is indicating the impact of Sudan's potential arrears clearance and the buildup of precautionary balances should have been included in the report. As originally envisaged, we encourage staff to continue engagement with the Board on the potential SCA-1 successor as a follow up to the dedicated staff paper of March this year.

We expect staff's views on how to ensure that the Fund's financial risk management framework is sufficiently robust and fit for purpose to serve the unique nature of the Fund's lending operations.

Like other Directors, we note that staff is currently conducting IFRS-9-related impairment assessments for FY2021 to consider that any impairment provision should be recognized for the Fund's credit exposures to member countries.

We look forward to a complete assessment to be provided to the Board in June prior to the approval of the annual financial statements.

*Mr. Tanaka:*

As we issued a gray statement and support all the proposed decisions, we will focus on one issue: communication. First of all, we commend staff for successful external communication on the previous years' income loss as shown by the fact of no major negative repercussions, as Mr. Bradbury explained. This year, the income position is estimated to return to the profit. While that is welcoming, as many others also pointed out, we take note with caution that this change would come from the remeasurement of IAS 19. Given its high volatility and the fact that it tends to be offset over time, it is important for the Fund to continue their efforts for careful external communication, especially we need to avoid a public member country's misunderstanding that the Fund unfairly earns too much profit from the current COVID-19 crisis.

In this regard, we welcome the new reporting format to distinguish the net periodic pension cost and remeasurement of IAS 19 and look forward to

further discussion on how to record the remeasurement of IAS 19 in the Fund's reserves.

In reaction to that, careful communication should be warranted with regard to the provisioning as well. While we support the proposal to officially endorse the Fund's stance for the provisioning in the Summing Up of this Board meeting, we should avoid miscommunication that the Fund is about to record the provisioning due to the current crisis.

Therefore, it is important to include the view that necessity for the provisioning continues to be very limited thanks to the Fund's uniqueness as well as its multilayered framework against credit risk.

*Mr. Nakunyada:*

We welcome the improved income position in support of the proposed decisions, including on the disposition of income for FY2021 and FY2022. We, however, would like to provide a few remarks just for emphasis.

First, as outlined in the statements by Mr. Andrianarivelo and Mr. Tanaka, we concur that a careful external communication regarding the Fund's income position remains key to separate the underlying trends and the impact of volatile pension-related gains and losses. We also underline the criticality of the new reporting format to distinguish the net periodic pension cost and the remeasurement of IAS 19, which would help to ensure a clearer communication.

Second, like other Directors, including Mr. Bhalla and Mr. Bevilaqua, we note huge uncertainties on the path to recovery with potential risks on investment and lending income, including a timely analysis of the impact of the proposed new allocation of SDRs. On this point, we note staff's clarity that at the moment it is still premature.

Against the background of these uncertainties, we stress the need for close monitoring of risks to the Fund's income going forward. Finally, we look forward to more concrete proposals on how to limit the volatility of pension-related gains and losses on income and reserves.

*Mr. El Qorchi:*

We welcome the updates on the Fund's income position for fiscal year 2021 and fiscal year 2022. We have issued a gray statement broadly supporting the proposed decisions, so I will be brief.

We note that the Fund's projected overall net income for fiscal year 2021 is substantially higher than both the interim estimates and the April 2020 projections, mainly reflecting an increase in estimated pension-related measurements gains under IAS 19 and the strong performance of the Endowment Subaccount portfolio during the year.

We note that the pension-related adjustment under the IAS 19 continues to lead to considerable income volatility, thus lowering the picture of the Fund's income position. In this context, and as discussed at the March Board meeting, we welcome enhanced reporting transparency through the presentational changes in the income statement to separate the performance of core GRA operations and the IAS 19 re-measurements.

We also support exploring options to minimize or eliminate the impact of measurement gains and losses on precautionary balances. We reiterate our support to the proposal to delay the payout for the Endowment Subaccount by one year to be informed by the forthcoming review of the investment account.

In the context of recent Board engagement on the review of concessional financing, we endorse a temporary one-year suspension of reimbursement to the GRA for PRGT administrative expenses. We look forward to the discussion on the issue of possible multiyear waivers of reimbursement to support PRGT lending capacity as part of the concessional financial review.

Finally, we support serious consideration to be given to suspending or reducing surcharges during the pandemic and recovery.

*Mr. Saraiva:*

The interim report we did last month was highly instrumental, effectively allowing the Board to monitor volatile income items and build consensus on relevant matters in preparation for this formal meeting. This consensus includes the delay of the payout of the endowment account and the approach for addressing permanent losses. The continued uncertainty regarding discount factors and lending operations still warrants frequent

updates going forward, especially as we understand that we have to address the review of IMF lending margin and surcharges, taking into account both precautionary needs but also the needs of member countries that are forced to resort to IMF assistance under highly strained conditions.

We issued a joint gray statement with Mr. Moreno supporting all of the proposed decisions, but let me emphasize a couple of points mentioned in the gray statement and here in this meeting. First, as this is one of the points that Mr. Bradbury touched upon this afternoon, in the case of unrealized gains and losses from pension liabilities, we should probably have a dedicated reserve account or subaccount. We welcome the presentational changes that have been introduced, but I think this is a matter that will require attention, and we are looking forward to this further attention of the Board on this issue. At the very least, while we are figuring out the conclusive solution, we should keep track of the cumulative charges to the special reserve account.

Net income from other lines could then be allocated equally to the general and special reserve accounts, and this is kind of a compromise between the views that favor either of the form of reserve.

My second point is on the margin of the rate of charge. Of course, we take note that the stated metrics highlighted by staff do not suggest any pressing needs to change the margin. It is also beyond doubt that the world economy faced an unprecedented shock with persistent effects on output and public finances across the membership. So, in this context, keeping the margin at the current level can be seen as a cautious decision, but it would be interesting to consider alternative scenarios for the rate of charge and their implications and risks, including scenarios with more forceful support to the membership during such difficult times.

Finally, let me say that, of course, we are highly supportive of the suspension of the reimbursement for PRGT administrative expenses for this fiscal year as an immediate step. We have been arguing for such a measure for a while, including last year when it was quite clear that the PRGT subsidy and reserve resources would be put under severe strain. Subsidy and reserves are precious, hard to replenish resources, and I believe we missed valuable opportunities in the past to save them for the purpose of enhancing PRGT lending capacity. Now, we look forward to considering a more lengthy suspension of such reimbursement in the context of the review of IMF concessional lending.

*Ms. Riach:*

We signed a joint gray statement in which we made clear our support for the proposed decisions, so I will limit my comments to responding to a few of the suggestions in Directors' gray statements and a few of the comments I have heard this afternoon.

We thought that Mr. Bhalla and Mr. Nakunyada's questions around the impact of the new SDR allocation on demand for lending were interesting, and so we welcome Mr. Bradbury's comments this afternoon and the response from staff in the answers to questions, setting out that while there could be some impact on demand for Fund resources in the near term, they do not expect this to result in a substantial change to lending income in the coming year in the medium-term.

But this does reinforce the uncertainty around the demand for lending over the coming years, so we would welcome regular updates from staff on their projections for lending, and in particular we would appreciate an update ahead of discussions of any proposed structural augmentation to the budget.

As we said in our gray statement, we fully support temporary suspension of the PRGT administrative cost reimbursements to the GRA. We agree with Mr. Poso that this alone is not sufficient to provide a much-needed strong and sustainable PRGT framework.

Nevertheless, we note in staff's responses that even a multiyear waiver on PRGT reimbursement would be unlikely to have a material impact on GRA net operational income. We therefore support the proposal in Mr. Bevilaqua and Mr. Moreno's gray statement and as commented on by Mr. Saraiva just now for multiyear waivers of reimbursements. We look forward to discussing this as part of the concessional financing review.

We note that the higher estimates for net income for financial year 2021 is mainly as a result of large pension-related reimbursement gains projected for FY2021. This again underscores the challenge presented by the volatility in measurement of this item. I very much agree with Mr. Bradbury's comments this afternoon, about the concerns of this volatility.

As we said in our gray statement, we support further work by staff on this. Our primary concern is the impact of pension-related expenses on precautionary balances accumulated over the medium term.

Having said that, we do believe that further changes are only worth pursuing if they help to minimize the impact of remeasurement gains and losses on precautionary balances given that there is no option that removes the income volatility entirely. We therefore support option 2 in the paper, but we do not rule out that no change may be the best option.

On provisioning, like Mr. von Kleist, we are skeptical about closing the discussion and decision-making on such a central topic for the Fund at this stage without further information and updates on potentially increasing risks, particularly in light of yesterday's discussion on the full disbursement of the SCA-1 for Sudan's arrears clearance.

However, we do support the broad approach that was laid out in the paper at the October meeting, and we are happy for that to be reflected in today's Summing Up.

*Ms. Mahasandana:*

We issued a gray statement supporting all the proposed decisions and would like to offer a few points for emphasis. Considering the suspension of the reimbursement to the GRA for PRGT administrative expense is only temporary, we reiterate our strong support and stress for the need to come up with a more durable and comprehensive and longer-term solution to ensure a sustainable PRGT framework.

On decision 4, we underscore that the new table of income and expenditure to better reflect the remeasurement scale and loss of pension account will help enhance the transparency and reporting Fund income positions. However, we also emphasize the importance of the further analysis and recommendation that would address the remeasurement volatilities to paths of accumulation of precautionary balance, as highlighted by many other Directors too. We are also looking forward to staff's further engagement with the Board on this issue.

We support the Fund's stance for the provisioning in the Summing Up and would like to echo Mr. Tanaka that, at the same time, we must emphasize the necessity for the provisioning to be limited given the Fund's uniqueness and its multilayered frameworks against the credit risk.

In relation to this, we agree with Mr. von Kleist that the SCA-1 is also essential to continue to not require provisioning where possible. As the discussions on the SCA-1 was put on hold, we look forward to further analysis

and discussions on the need of a SCA-1 successor to the Fund risk management and balance sheet in a separate meeting.

*Mr. Alhomaly:*

We cosigned a detailed gray statement with Mr. Mohieldin in which we supported the proposed decision. Therefore, I can be brief today and will limit my remarks to two issues at this stage.

First, on the Endowment Subaccount, we support the proposal to delay the payout by one year to enable the payout decision to be informed by the outcome of the forthcoming investment account review. In addition, as noted by Mr. Fanizza and four other Directors in their joint gray statement, we see merit in exploring a countercyclical role to the payout.

The second point I would like to make is that we agree with the proposal to suspend reimbursement to the GRA for PRGT administrative expenses for the year 2021. I very much look forward to the discussion on the issue of multiyear waivers in the context of a concessional financing review. I believe a number of Directors have also highlighted this issue to date.

*Mr. Chodos:*

We issued a gray statement, but we wanted to put a couple of points in emphasis. Also, I wanted to support the assessment by Mr. El Qorchi and Mr. Saraiva regarding the surcharges and the basic rate concerns. We think that it is good that we have that discussion.

We would like to emphasize that middle-income countries are currently the main contributors to the Fund lending income. The lending operational income represents the bulk of the Fund revenues, and it is almost three times the economic area (EA) budget of the Fund for the next years that is contributed by middle-income countries that have to bear this extra cost of the combination of rates and surcharges.

But then this goes back to, maybe echoing Ms. Mahasandana, what could be considered an excess in the provisioning of the positions. And then from the other perspective, we have the fiscal year 2022 with forecasted lending income increase of 36.2 percent, whereas the administrative expenses would be only 5.5 percent. So even from the perspective of the income position towards these policies, it looks like there is room for managing a maneuver at this stage.

We think that it should be accounted for the fact that middle-income countries are overly contributing to positions that eventually are too much on the precautionary side.

*Mr. Fanizza:*

We have issued a gray statement with a few other Directors, so I will try to be brief. Let me start with the suspension of the investment to the GRA for the PRGT administrative expenses. We support it, but we expect a discussion of how to suspend it for a longer period in the context of the upcoming concessional financing review. I think this work would be important. I am not going to repeat the argument for that.

On the pension adjustment, let me say that we think we should present the adjustment in a second year to the plan to isolate it from the rest of the reserves, and so we should move in that direction. It is quite important because, I think it is a figment of imagination. It has nothing to do with reality.

Let me make a point also on the level of reserves. My understanding is that we are doing much better than we expected even a few months ago in terms of accumulation of reserves. It would be interesting to understand the impact of the dismissal of the SCA-1 account as a result of Sudan's debt relief. We see what it impacts and then we can take a decision, but my impression is that, under current trends, we are well ahead of our part in order to get to the objective. Yes, it is true that we are not yet at the medium-term objective, but the medium-term objective may not be achieved immediately, so on that, I think that is what is important.

Finally, on this issue of provisioning of impairment losses, I am all for transparency and calling it what it is. I do not understand why we should fake it and build some other way to hide possible impairment losses. Impairment losses are rare, but they have been in the Fund history. There have been countries that have not paid loans for over 30 years. Only now we have a result. We have a situation that we should have done something with the accounts before apart from establishing the SCA-1 account, because this was useful, but frankly it was not transparent. So, we need to adhere more to accounting standards.

*Mr. Poso:*

We have issued a gray statement in which we support the proposed decisions. I was not planning to intervene in this meeting; however, I wanted to take the floor just to congratulate Mr. Lauwers for his appointment and welcome him to the Fund. As Mr. Lauwers knows well, he has an important and high-quality department to lead, and we in the Nordic-Baltic constituency are looking forward to working with him.

*Mr. Romero:*

As we issued a comprehensive joint gray statement with Mr. Bevilaqua in which we broadly agree with staff's assessment, we support the proposed decisions 1 to 6. However, I would like to make two specific comments for emphasis.

First, we agree with staff that key assumptions on the Fund's income projections are subject to larger than normal uncertainty arising from the pandemic.

As in the previous Board meeting, we continue to support the EA payout if delayed by one year under the proposed approach for addressing potential cases of impairment, including provisioning.

On the specific considerations, we believe that decision number 4, to allocate year-end net income to the reserve account first to the special reserve account as per the decision in 1957, absorbed by all the 2020 losses from pension accounts and then distributed 50/50 between special and general reserve, we support that decision, but we suggest the administration ideally considers a reference to the source of the recent income fluctuations and related charges to reserves accounts rather than the historical present. For example, as presented by Mr. Saraiva, it may be good that staff analyzes the possibility of creating a special reserve account that covers the adaptations of the pension account.

On decision number 6, we take note of staff's rationale regarding their assessment that there are enough changes to warrant any adjustment to the margin for the rate of charge. However, as stated in our gray statement, we believe it would have been beneficial to have a broader analysis of alternative scenarios and its trade-off given the impact of the pandemic and how this will charge the prospects of lending activity of the Fund in the coming years, even if this is subject to a lot of uncertainty.

The current context could present an opportunity to revisit the margin for the rate of charge while simultaneously maintaining adequate resources to cover the operational cost and continue to build the Fund's reserve at a reasonable rate. We believe that this charge would be very welcome--or this reduction in the charge would be very welcome and beneficial for vulnerable economies that have needed or will need Fund support both to mitigate the effects of the pandemic and support the recovery going forward.

*Mr. Merk:*

We have issued a comprehensive gray statement; I can be very brief.

Let me first start by confirming that we support or at least go along with all of the proposed decisions. And on decision 2, just one remark. We would like to point out that the suspension of GRA's reimbursement of PRGT administrative expenses directly slows the buildup of precautionary balances. In the future, when potential further waivers of GRA reimbursement may be considered, we should take into account the effect on the path of the buildup of precautionary balances and the prevailing risk to the Fund.

A second point I would like to raise on provisioning, we can go along with the proposal to endorse the Fund's provisioning approach in the Summing Up. However, as elaborated in our gray statement, we are skeptical about already closing the discussion on such an essential topic without further information on risk that could eventually give rise to a need for provisioning as well as pending decisions on a possible follow up to the SCA-1 bond account. In that context, we call for further efforts to avoid provisioning, not least by strengthening the Fund's financial risk management capacity.

*The Director of the Finance Department (Mr. Lauwers):*

At the core, what we do is financial risk, and a strong financial risk framework and credit risk is at the core of what we do as well. And reserving is extremely important, so all the points that Directors are making in the gray statements are well taken. Financial stability is key to what we do and long-term precautionary balances to offset the credit risk that is building in our portfolio is extremely core to the Work Program.

I want to touch quickly on the volatility of income that I have discovered. Bear in mind this is day 12 for me at the Fund and I am discovering the idiosyncrasies of the Fund, but for once the IMF is not

isolated. A lot of organizations, whether in the private sector or international financial institutions, are subjected to the same level of volatility of their income. It is driven by fair value. It is driven by the pensions, and there are many ways one can look at this. I think what the team has proposed for this year's adjustment to isolate the volatile elements under the operational income is the right way to go and also focus the communication, as pointed out by many Directors, on the operational income rather than the net income. The net income is really an accounting concept, allowing readers to compare across institutions, but operational income is really what drives our long-term precautionary balances buildup.

When one looks at the precautionary balances, one looks at the economic capital in other institutions. Precautionary balances really should be measured on an economic basis. IAS 19 is not based on economics. It is based on a discount rate that is driven by the level of the AA corporate bond rates. It fluctuates according to volatility in the markets. This is not the way the Pension Fund is organized to manage the pensions. So, we see in other institutions a way to measure the precautionary balances based on an economic basis of the pension rather than an accounting basis, and we see different views.

A few institutions decide to go with the accounting basis to explain the volatility. A few others have decided to move into the direction of economics and not have to explain but really neutralize the accounting impact on the volatility and focus on what it is: do we manage long-term on an ongoing basis or use IAS 19, which is really based on a liquidation basis. So, this is really two different ways of assessing the level of impact of pensions on your precautionary balances or level of reserves that one holds for the institution.

When I listen to this debate and the Sudan discussion yesterday, there are many drivers of precautionary balances that we are looking at. They go in different directions. On the one hand, we have heard today the discussion about the surcharges, which would lower the level of the precautionary balances. The Sudan discussion yesterday pretty much assures that we are going to lower the level of precautionary balances by up to SDR 1.1 billion, and that would happen later in the summer.

We hear from today's discussion, there are discussions beyond the PRGT suspension for one year of the reimbursement to the GRA and to consider potentially the concessional finance strategy for the next five years. That would lower the level of precautionary balances.

Then one has to consider the impact of the SCA-1 successor on the SCA-1 depletion, which would require discussion around IFRS-9, which one has also identified today, not to mention the endowment payout, which would reinforce the precautionary balances.

I think rather than looking at the SCA-1 successor in isolation or looking at a discussion of the PRGT suspension in isolation, I would advise to lump those discussions and have a discussion of all those drivers at the same time and what impact they have on the trajectory of our precautionary balances.

All other things being equal, if we were to adjust the projections in the income paper for the SCA-1 depletion, we would be at SDR 25 billion one year later, in FY25 rather than FY24. Now, we are putting on the table additional drivers to discuss. I would suggest to lump that in a holistic discussion rather than going piecemeal.

*The Deputy Director of the Finance Department (Mr. Bradbury):*

Let me try to pick up on the other questions that came up in the discussion. There was a question about why it is we are silent in FY2022 in terms of the IAS 19 adjustment. We deliberately do not forecast discount rates given the high degree of uncertainty 12 months out. We feel it would just be more straightforward to explain something relative to a zero starting point than trying to explain something relative to a forecast that one had put together 15 months previously. That has been our practice.

On the question of not reflecting in the precautionary balances chart the impact of the reduction in the SCA-1 as a result of Sudan's arrears clearance: we didn't do that because we did not know the amount. We did not want to be in a position, which we would have ended up being in, of having prepared the paper on one set of assumptions and being in a situation at the time of the discussion where things had moved on and we are looking at a different figure. But as it has been laid out, the impact is quite clear. It would reduce pension benefits (PBs) by SDR 1.1 billion.

Just a minor point, as we are thinking about when we come back later in the year on the options around the possible ring fencing of IAS 19 gains and losses within reserves, it was mentioned of looking at ways to reduce the impact on income. There is no possibility of doing that. The accounting standard is quite clear. One has to account in full for the remeasurement gains

and losses, which is different from the previous standard where one had a smoothing mechanism, but that has been very deliberately removed.

The question on allocation of operational income between reserves, we will come back on that in 12 months' time. It is a subject that has been of considerable interest to the Board over the years. The notion of splitting up line items and allocating those to general or special reserve, I think we had that in place maybe six, seven, or eight years ago, before we moved to 50/50 split, but we will lay out various different options for the Board to consider when we do come back on that.

There was a suggestion about maybe having considered some alternative scenarios for the margin, a little bit difficult in the sense that the rule under which this review is conducted constrains the review to looking at three areas in particular, intermediation costs, reserve accumulation, and alignment with market conditions, which is what we have found. That is something that we were very mindful of the risks around the path of accumulation of precautionary balances and what might reduce that path going forward, including the impact of SCA-1.

On impairment provisioning, I welcome the thought from the Directors of having this in the Summing Up, but let me speak to this point about closing off the conversation, which is very much not what we are trying to do. The discussion in October 2020 was really around revisiting what the Board in 1987 had said, which was that provisioning is not an appropriate accounting practice for the Fund. And we were keen to propose that that be reversed because it was creating some awkwardness in terms of the preparation of the financial statements and the audit where we have this prior Summing Up of the Board. We had the authority of a decision, which said: thou shall not provision. So, we asked the auditors to take a look at that. It was pointed as potentially being interpreted as noncompliance with IFRS-9 if it came to it. That was the main objective of that discussion, but I do not see us closing off the discussion on this. Every time we do a review of the adequacy of precautionary balances, we look in great detail credit risk and what measures are in place to manage credit risk, which goes to one of the suggestions that was made. And then similarly each year we would return to the Board, as part of the presentation on the financial statements after year-end. Our practice has been to get into considerable detail on credit risk, and IFRS-9-related issues is part of that discussion. I very much see that conversation as being an ongoing one rather than trying to close it off at this point.

On surcharges, as I mentioned, we will reach out to Directors and gauge the level of support that there might be for a review. Finally, on the endowment and whether having a countercyclical payout would be worth examining it is not something that we looked at in any detail, but it is an interesting idea. We will take it away and think about that before we come back next year with what may be the first payout.

*The Acting Chair (Mr. Furusawa) adjourned the discussion.*

## ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

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?*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1051

April 22, 2021

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

We thank staff for the informative paper on the Review of the Fund's Income Position for FY 2021 and FY 2022. **We support the proposed decisions** and would like to provide the following comments for emphasis.

**We note that the Fund's overall net income for FY 2021 is projected at SDR 4.1 billion.** However, this higher estimate, when compared with the initial projections in April 2020 and the interim update in February 2021, largely stems from the sizeable pension-related remeasurement gains projected for FY 2021. We welcome the new presentational changes in the Fund's financial statement and the income tables in this report, which allow a more transparent separation between the performance of core GRA operations and the IAS 19 induced remeasurement gains and losses.

On Decision 2, **we can support a temporary suspension of the PRGT administrative cost reimbursements to the GRA.** We emphasize that reforms to the Fund's concessional lending must go hand-in-hand with ensuring a strong and sustainable PRGT framework and without overly relying on temporary fixes.

On Decision 3, **we see merit in delaying the Endowment Account (EA) payout by an additional year,** in particular as it would reduce the risk of a start-stop decision. We look forward to the Investment Account review in FY 2022, which will help inform the next EA payout decision.

On Decision 4, **we support the proposed income allocation decision**, specifically to first allocate to the special reserve the net income equivalent to the FY 2020 loss, and then place the remaining balance equally between the special and general reserves. We note that in accordance with the decision taken by the Board to review the allocation framework on a two-year cycle, a review should have taken place in FY 2020. We understand that the net loss last year led to the postponement of the review by a year, and we support staff's proposal to postpone the review of the allocation framework by another year in light of the ongoing discussions on the treatment of IAS 19 gains and losses. We continue to support the principles that have guided the framework for income allocation to the special and general reserves. We look forward to further discussions on these issues, including with the External Audit Committee.

On Decision 6, **we agree that there are no fundamental changes that would warrant any adjustment to the current rate of charge** at 100 basis points over the SDR interest rate for FY 2022. We positively note the updated projections of the pace of reserve accumulation, which show that the indicative medium-term target of SDR 25 billion could be reached by FY 2024. At the same time, however, we note that these projections do not reflect the potentially significant negative impact on precautionary balances of an SCA-1 distribution in the context of Sudan's debt relief.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1057

April 22, 2021

**Statement by Mr. von Kleist and Mr. Sattler on Review of the Fund's Income Position for  
FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the good and detailed report, and we appreciate that feedback from Directors with respect to recent income-related papers was incorporated.

On the proposed decisions:

**We support the proposed decisions 1 and 3-6. We can go along with proposed decision 2.**

**On Decision 1: We agree with the proposed assessment on expenses for conducting the business of the SDR Department in FY 2021 and the respective reimbursement to the GRA.**

**On Decision 2: We go along with the proposal to suspend the reimbursement of PRGT administrative expenses to the GRA for one year.** We would like to stress that not only is the GRA income reduced by the suspended amount of reimbursement (this year: ~87 million SDR), but that the speed of the built-up of the precautionary balances is also directly reduced. **Accordingly, when considering potential future waivers of GRA reimbursement, an assessment of the effects on the path of the built-up of precautionary balances and the then prevailing risks to the Fund must be taken into account.** If potential future waivers will be discussed as part of the concessional financing review, this also has to be considered.

**On Decision 3: We agree with the proposal to transfer the income generated by the Fixed-Income Subaccount to the GRA. We also agree to postpone the decision on the first payout from the Endowment Subaccount for one year,** as the effect on income in the current fiscal year is moderate (~60 million SDR) and the benefit of constant and predictable future payouts prevails.

**On Decision 4: We support the proposal to transfer an amount equivalent to the net income loss incurred in FY 2021 (1.5 billion SDR) to the Special Reserve to compensate for its reduction in the previous fiscal year. We also agree to allocate the remaining net income (2 billion SDR) equally to the Special and the General Reserve.**

On Decision 5: **We support the transferal of the increase in reserves in currencies to the Fixed-Income Subaccount to generate investment returns.** *Could staff please elaborate on the slight quantitative divergence between the increase in reserves (2 billion SDR, see Decision 4, para. 16) and the transfer to the FI Subaccount (1.9 billion SDR, fn. 32), as it is described that “the full amount of the increase in reserves” should be transferred?*

On Decision 6: **We agree with the completion of the review of the Fund’s income position, and with maintaining the margin for the basic rate of charge.**

Further remarks on the Fund’s income position:

**We take note of the possible effect on FY 2022 lending income stemming from early repurchases in response to the possible SDR allocation.** This possible effect of a (still potential) SDR allocation could well be included in the estimate, at least for “informational purposes”. Given the envisaged significant size of the potential SDR allocation, we acknowledge a possibly significant positive effect on the revolving character of Fund resources due to early repurchases. However, it would be unfortunate if members would postpone necessary adjustment efforts, supported by catalytic Fund lending if appropriate, due to the significant size of the potential SDR allocation. *We would be interested in how staff assesses (also quantitatively) these two effects and how they might influence expected lending income.*

**We agree with staff’s assessment on the unchanged relevant conditions for setting the margin of the rate of charge.** Taking into account market conditions and the level of precautionary balances (exceeding the minimum level), **we support the proposal to keep the margin unchanged at 100 basis points.** However, also in this regard, **we caution against over-estimating the increase in Fund lending and the respective lending income,** as the reserve accumulation pace is highly sensitive on the assumptions on Fund lending income.

On IAS-19 remeasurement gains/losses:

**We appreciate the new structure of the income and expenditure table, as the pension-related IAS-19 adjustments can be grasped more intuitively.** We are looking forward to the announced further analysis of the options on how to deal with the IAS-19 remeasurement gains/losses. **We would like to reiterate our position that it is essential to increase transparency on the level of precautionary balances without volatile distortions due to actuarial assumptions.** Currently, the pension-related gains and losses are included in assessing whether the agreed targets on the level of precautionary balances are achieved. Due to the volatility of the IAS-19-related remeasurement gains/losses, this might be misleading. For example, when excluding pension-related gains and losses in FY 21, the precautionary balances would increase only by about 1 billion SDR (net operational income), instead of by 3.5 billion SDR (net operational income after IAS 19 adjustment). Nevertheless, **the envisaged future solution should allow to fall back on IAS-19 remeasurement gains as a second level of support for precautionary balances in a worst-case scenario.**

On provisioning:

**We can go along with the proposal to endorse formally the Fund’s approach to provisioning in the Summing Up of the Board discussion of this paper.** However, we are sceptical towards

**already closing the discussion and decision-making on such a central topic for the Fund at this stage without further information and updates on potentially increasing risks that could eventually give rise to a need for provisioning, and pending decisions on a possible follow-up to the SCA-1 account.** *In this context, could staff please clarify what is meant by “conducting IFRS-9 related impairment assessments for FY 2021” for credit risk (para. 21)? We would appreciate more information on this analysis.*

Generally, we understand that the Fund’s risk management framework and the Fund’s unique lending framework is currently seen as sufficient to avoid cases of provisioning. As discussed in the Board meeting in October 2020 as well during the Board discussion on the role of the SCA-1, **it is essential for the Fund to continue to safely not require provisions at all** for several reasons, e.g. reputational risks to the Fund, and detrimental signalling effects of provisions for a member state in a balance of payments crisis. Therefore, **we call for further efforts to avoid provisioning by strengthening the Fund’s financial risk management capacity to deal with credit risks. We underscore the prominent and central role of appropriately catalytic lending envelopes, commensurate conditionality (i.e. adequate safeguards for the temporary use of Fund resources) and, last but not least, sufficient precautionary balances in this regard. We are open to explore options to ensure a timely attainment of the targeted level of precautionary balances,** which seems to be endangered in staff’s baseline.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1059

April 22, 2021

**Statement by Mr. Chodos, Mr. Hendrick, and Mr. Lischinsky on Review of the Fund's  
Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for a well-written report and for the helpful outreach to our office.

**We support all the proposed decisions.** These reflect the views expressed by Directors during our informal session to engage last March 8, including the timing of initiating the payout from the Endowment Subaccount (EA), the presentation of pension-related gains and losses, and more recently on April 1, the suspension of the reimbursement of PRGT administrative expenses for one year. We broadly agree with the assessment of the Fund's income position and we have a few comments and questions for further elaboration from staff.

**The updated information reveals that the overall projected net income for FY 2021 is higher than both the interim estimate and the April 2000 estimate.** Despite the uncertainty related to the assumptions, at this point in time, given the number of Fund programs in place, and expected market conditions affecting the full year asset returns on the retirement plan and the EA, as well as the discount rate to be used to measure the Fund's retirement plan obligation, it is reasonable to expect that the final outcome will be close to the estimated SDR 4.1 billion.

**In this context, we would like to highlight that Middle-Income Countries (MICs) are the main contributors to the Fund's lending income.** Lending operational income represents the bulk of Fund revenues, as shown in Table 1, and it is almost four times the yearly budget of the Fund. MICs with programs pay lending income, i.e., the margin for the rate of charge, service charge, commitment fees, and surcharges. These payments exceed the current budget fourfold. We believe that serious consideration should be given to suspend or reduce surcharges during the pandemic and the recovery, while discussing their permanent reduction or elimination. *We would appreciate staff's views on the viability to reduce at least on a temporary basis the rate of surcharges, given the expected strong growth on precautionary balances in the medium-term projections.*

**The strategic income position should be reviewed.** Thus, we ask to include in the agenda for this semester a Board Meeting to review Access Limits and Surcharges Policies. The last review was in

2016 and these reviews should take place every five years. *Could staff indicate what the expected tentative date for this review is?*

**We take positive note that the income outlook for FY 2022, excluding the impact of the pension-related gain or loss, is expected to be strong.** This outcome is explained, as shown in Table 3, for a substantial 36.2 percent increase in lending income, particularly those coming from surcharges and commitment fees, again mostly from MICs, including those with precautionary arrangements. At the same time, net administrative expenditure and capital budget items increase only by 5.5 percent. This suggests, other things equal, that there is some reasonable room for reduction or temporary elimination of the rate of surcharges.

Finally, as discussed in the interim update, we would like to underscore that the indicative medium-term target, which was raised from SDR 20 billion to SDR 25 billion during the review of the adequacy of precautionary balances in October, is expected to be reached in FY 2024, one year earlier than projected in the interim paper. Figure 3 is very illustrative to understand the different scenarios.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1072

April 22, 2021

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

We thank staff for the informative report and helpful bilateral outreach.

Overall, the Fund's short-term financial prospects remain solid and broadly in line with the April 2020 projections. *Operational income* is considerably higher than expenses, reflecting a significant demand for Fund resources, which allows rapid accumulation of precautionary reserves. At the same time, projections of the Fund's *net income position* remain highly uncertain. This uncertainty results mostly from the volatility of the IAS-19 adjustments of the Fund's *retirement plan obligations*. As discussed during the previous Board meetings, to ensure appropriate communication of the Fund's operational soundness, the presentation of the Fund's income position should be adjusted to mitigate potential aberrations created by this volatility.

In this regard, we welcome the steps in improving the Fund's reporting of its income position. From FY 2021 the Fund's financial statements will include two separate statements: (i) a Statement of Income and (ii) a Statement of Comprehensive Income (where the IAS-19 adjustments will be localized). However, this reform will remain incomplete until we make a decision on the presentation of the IAS-19 remeasurement gains/losses in the Fund's reports of *general and special reserves*. We look forward to staff proposals on the options discussed during the recent informal meeting. We also believe that comments and analysis of the changes in the Fund's income position should focus primarily on *net operational income*, while movements of *net income position* should be regarded as supplementary information.

We take note of the changes in the reporting format that increased *expenses* by the amount of *net periodic pension cost after funding*. Without this change the end-year outcomes for the *operational income*, *expenses* and *net operational income* would be quite close to initial projections.

We agree with the proposed decisions related to *disposition of income in FY 2021* (Decisions 3,4 and 5).

We agree that the factors relevant for the establishment of the *margin for the rate of charge* remain basically the same as a year ago, when this rate was set for FY 2021-2022 at 100 basis points. Therefore, we concur with staff recommendation to leave the rate unchanged (Decision 6).

We can support staff's proposal to delay the initiation of Endowment Account payouts by one year (Decision 3). This would allow us to make the payout decision based on the outcome of the Investment Account review in 2022. This delay will not have a meaningful impact on the Fund's net operational income and precautionary balances in FY 2021.

Finally, we support the proposal for a one-year suspension of the reimbursement of PRGT administrative expenses (Decision 2) for FY 2021.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1082

April 22, 2021

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

1. We thank the staff for the detailed paper on the income position and projections for FY 21 and FY 22. A financially strong IMF is critical for providing sound and resilient support to the membership. In the context of rapid changes in the Fund's lending activities and the performance of the financial markets, the higher income projections need to be treated with great caution and the gains need to be used to enhance Fund's resilience by strengthening the reserves. While broadly agreeing with the proposals, we emphasize deeper analysis and stronger cushioning for the downside risks of income from lending and investment activities.
2. The persistent uncertainties due to the pandemic has substantial impact on the income from lending operations as well as investments. The proposed allocation of new SDRs and mechanism to enhance voluntary use of existing SDRs could cause lowering of Fund's income and reserve accumulation. However, the staff paper observes that there was no significant use of SDRs in early repurchase or repayment of Fund credit following the last general reallocation in 2009. *Could the staff provide an estimate of impact on the lending operations and income due to the proposed new allocation of SDRs as well as voluntary recycling of existing SDRs?*
3. It is encouraging to note the strong investment income in FY21 from both fixed-income and endowment subaccounts (EA). Agreeing with the postponing of the commencement of EA payout by an additional year, we expect an early completion of the investment account review in FY 22. We agree that the one-year suspension of reimbursement of administrative expenses for FY 21 can boost PRGT reserve coverage. However, a multi-year waiver of such reimbursements requires more detailed analysis of projected lending portfolio in terms of quantum and share of lending from GRA and PRGT accounts and the cost of operations of the Fund. We welcome a detailed staff review on the topic. *Staff may comment.*

4. We agree with the proposal to first allocate net income to the special reserve equivalent to the FY 2020 loss, and then distribute the balance equally between general and special reserves. The wide variation in remeasurement gains or losses results in huge pension-related adjustments arise due to changes in actuarial estimates and fair value of assets. We recognize these extreme uncertainties arising due to unpredictable market movements affecting discount rates and look forward to mechanisms to enhance the robustness of the framework.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1085

April 23, 2021

**Joint Statement by Mr. Bevilaqua, Mr. Moreno, Ms. Arevalo Arroyo, and Mr. Barroso  
on Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the review of the Fund's income position for FY 2021 and FY2022, and the outreach to our offices. We broadly agree with the income assessment taking note of the larger than normal uncertainties related to the pandemic. Following our positions and comprehensive arguments in previous Board meetings to discuss the issue, we support delaying the start of the EA payout and the proposed approach for addressing potential cases of impairment, including provisioning. Moreover, we are ready to support the proposed Decisions 1 to 6, although with some considerations regarding Decision 4 (placement of net income to reserve accounts) and Decision 6 (margin for the rate of charge).

**We broadly agree with the outlook and key risks for the income position, with high uncertainty still warranting close monitoring by the Board.** Market volatility associated with the pandemic tends to increase the short-term volatility of pension liabilities and the medium-term tail risks that drive Fund lending activity. Both sources of risks are well represented in the report. We take positive note of the separation of operational and comprehensive income, which facilitates a more transparent disclosure of the impact of the IAS 19 on income statements and enhance communication with stakeholders.

**We welcome the suspension of the reimbursement to the GRA for PRGT administrative expenses for FY2021 (Decision 2) and look forward to more consistent decisions in the same direction.** We have maintained on several occasions that financial assistance for low-income countries is a core Fund activity and reimbursing the GRA should not overburden the PRGT. More generally, we tend to favor the introduction of more systematic limits to those reimbursement costs, possibly with multi-year waivers of reimbursements. We look forward to further discussing this matter in the context of the concessional financing review.

**The decision to allocate GRA net income to reserve accounts (Decision 4) should ideally consider the source of recent income fluctuation and related charges to reserve accounts.** Staff mentions a Board decision from 1957 to charge income losses to the Fund's Special Reserve and the recent practice of replenishing the Special Reserve after a positive

net income result, both of which would constitute grounds for Decision 4. Since there is nothing that binds the Board to the 1957 decision, we would prefer an argument more closely linked to the fluctuation in pension liabilities and the lack of a dedicated reserve account to accommodate such fluctuation. While we could support Decision 4 for this fiscal year, we urge staff to brief the Board on more systematic and time-consistent rules going forward that more precisely isolate the source of the income fluctuation as grounds for charging reserve accounts.

**We take note of Staff's arguments that there is no fundamental change warranting an adjustment to the current margin for the rate of charge (Decision 6).** That said, we wonder whether a more thorough consideration of alternative scenarios would be warranted. Indeed, as recognized by staff in the same paper, the pandemic tends to significantly change the prospects for Fund lending activity going forward, with significant impact on income projections, albeit with significant uncertainty. In this context, there might be some space to reduce the margin for the rate of charge and, at the same time, maintain adequate resources to cover operational costs and contribute to build Fund's reserves at a reasonable rate. This shift would have meaningful positive consequences for vulnerable economies that have relied or will rely on Fund resources to cope with the pandemic and its economic fallout. *We therefore ask staff to comment on such alternative scenarios and explore the tradeoffs for the membership.*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1087

April 23, 2021

**Joint Statement by Mr. Fanizza, Mr. Huh, Ms. Levonian, Ms. Riach, and Ms. Shortino  
on Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

**We thank staff for an insightful paper and congratulate staff for the progress achieved towards a more integrated approach to budget and income issues.** We note the higher projected operational income over the medium-term based on expectations about lending and the resulting, more robust, pace of accumulation of precautionary balances.

**We support all of the proposed decisions, and in particular:**

- We strongly support the suspension of reimbursement to the GRA for PRGT administrative expenses for FY 2021 to boost PRGT reserve coverage, generate additional subsidy resources, and ultimately support a self-sustained PRGT. We would have been in favor of a longer suspension of the PRGT reimbursement to the GRA, given the large financing needs of low-income countries and the beneficial effects of the suspension on the PRGT subsidy account at a challenging time for donors, too. We look forward to the formal discussion of the review of concessional facilities to move to implementation.
- We support the delay of EA payouts by one year to inform payout decisions by the outcome of FY 2022 review of the investment account. We support staff's initial considerations around an updated payout framework, including the need to reassess the adequacy of the cushion, review the return outlook, and set rules for payout amounts and suspensions. However, we stress the importance of avoiding an over-engineered framework that could prove difficult to implement in practice. We also see merit in exploring whether the framework could be designed such that payouts serve a more counter-cyclical role in years when lending income falls.
- We support the waterfall approach to allocating net income to the reserves to compensate for the large loss in FY 2020 which was charged to the special reserve. Regarding the 50/50 split in the allocation of income between the special and general reserves, we see this approach as driven by convenience rather than grounded in prudential analysis. We therefore look forward to the upcoming review on this matter.

- We agree that there are no fundamental changes that warrant an adjustment to the current rate of charge of 100 bps. In particular, while the COVID-19 crisis has caused significant volatility in EMBI spreads, the five-year rolling average has been largely stable such that there is no misalignment between the margin and long-term credit market conditions.

**The Fund's financial results, and in particular the change from FY 2020 to FY 2021, will need to be communicated with care given ongoing pension-driven volatility.** While we welcome the return to profitability in FY 2021, the SDR 5.5 billion year-over-year increase in net income from FY 2020 is totally disconnected from core operations. Unavoidable and largely unpredictable pension-related remeasurements continue to inject extreme volatility in the Fund's financial results. The resulting large and artificial swings in net income also have a substantial impact on the pace of accumulation of precautionary balances. Therefore, we welcome the planned presentational enhancements to isolate pension related volatility, including the use of a statement of comprehensive income in the Fund's financial statements in FY 2021. We also support staff exploring options to minimize or remove the impact of remeasurement gains and losses on precautionary balances and look forward to future board discussions on this issue.

**The income outlook is strong but subject to a fair degree of uncertainty.** While we welcome the positive income projections, we encourage staff to balance prudence with realism with the forecasts on income as both over and underestimation of revenues have drawbacks. In light of management's intention to present a case for a structural budget increase in the Fall, rising administrative expenses could be an important downside risk to net income. Regular updates on the pipeline of new Fund operations and their impact on the income outlook will be important as the Board considers the case for a structural budget increase.

**We support the formal endorsement of the use of provisioning for impairment losses as part of the Summing Up of the Board discussion of the present review.**

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1088

April 23, 2021

**Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, and Mr. Shimada on Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the informative paper on the review of the Fund's Income Position for FY 2021 and FY 2022, as well as for the very useful outreach. As we broadly agree with the staff's analyses, **we support all the proposals**, and limits our comments to the following points.

**Careful external communication regarding the income position continues to be warranted.** While the estimated profits in FY2021, which would strengthen the Fund's balance sheet, is welcoming, we note with caution that most of the difference from FY2020 would come from the remeasurement of IAS19, which probably will be offset in the long term. It would be also important to avoid the public misunderstanding that the Fund unfairly earns too much profits from the current COVID-19 crisis. We commend that the Fund external communication has been successful, as shown that no major repercussion has been stemming from the previous year's income losses, and encourage staff to continue the effective communication. In this regard, we welcome the new reporting format to distinguish the net periodic pension cost and the remeasurement of IAS19, which would help clearer communication.

In relation to the communication, **we are also looking forward to the further discussion on how to record the the remeasurement of IAS19 in the Fund's reserves.** We agree with staff that such discussion would materially affect the way to distribute the profits(losses) to each reserve, hence we support the staff proposal to postpone the review of the allocation framework by another year. In FY2021, we support the staff proposal to first allocate to the special reserve net income equivalent to the FY 2020 loss, and then place the remaining

balance equally between the special and general reserves, given such allocation would be consistent with the Fund's recent practice.

**We support one-year suspension of the reimbursement of PRGT**, given that such suspension would have marginal impact on GRA income positions while would help the PRGT self-sustainability. We are looking forward to the further discussion on the LIC facilities review going forward.

**We agree with the staff proposal to maintain lending margin as 100 bps**, considering that there are no fundamental changes in the underlying factors relevant for the establishment of the margin last year. We note that investment income under the current market condition can remain insufficient to cover the Fund's non-lending activities. While the coverage ratio of investment income against non-lending expenses is expected to improve significantly as shown in figure 5, we note with caution that these numbers are calculated under the current investment strategy. Given the (possible) structural changes in global financial markets due to the lower for longer as well as the COVID-19 crisis, we are looking forward to the review of investment strategy next year.

**Finally, we support the proposal to officially endorse the Fund's stance for the provisioning in the summing up of this board meeting.** As we mentioned in the previous board meeting on provisioning, it is important to ensure the Fund's compliance with IFRS 9. At the same time, we emphasize that the necessity for the provisioning continues to be very limited thanks to the Fund uniqueness as well as its multilayer framework against credit risk. This point of view should also be included in the summing up in order to avoid the miscommunication that the Fund is about to record the provisioning due to the current crisis.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1089

April 23, 2021

**Statement by Mr. Hilbers, Mr. Scholer, and Mr. Cools on Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the review of the Fund's income position, which continues to be marked by exceptionally high uncertainty. In that light, we very much value regular updates to the Board for as long as the situation remains fluid. **We broadly support all the proposed decisions** and offer the following remarks for emphasis.

We welcome that, according to projections, **an increasing share of non-lending expenses will be covered by non-lending income**. We can accept staff's proposal to leave the margin for the rate of charge at 100 basis points. While we are mindful of the continued low interest environment, we do note that the 'exceptional circumstances clause' will have been active for a decade, thus becoming the rule rather than the exception.

**We can equally agree with the proposed placement of reserves in the special and general reserves according to a 50/50 split**. Nevertheless, we continue to believe that a review of reserve placement would be helpful to determine whether this is the best option. In our view, a lower allocation to the special reserve could be warranted and be more aligned with the New Income Model. We look forward to further Board engagement on this.

**Furthermore, we welcome presentational changes to better isolate pension-related volatility in the Fund's financial statements**, which will permit a clearer distinction between the profit and loss account and the other comprehensive income accounts. Despite these changes, we remain somewhat concerned about the volatility of pension-related adjustments, as they risk having an outsized impact on the Fund's financial statements. We thus encourage staff to continue to follow this issue closely and work on mitigating the impact of such adjustments on the Fund's income position and reserves.

**Moreover, we endorse the approach for addressing potential cases of impairment losses under IFRS 9**. We note that provisioning should remain exceptional in view of the unique nature of Fund lending. In this context, we welcome the faster-than-expected build-up of precautionary

balances to the new medium-target level of SDR 25bn. We do caution however that the much-needed arrears clearance for Sudan will impact the expected build-up of the precautionary balances.

**Finally, we support the temporary suspension of PRGT administrative cost reimbursement to the GRA, as this will generate PRGT subsidy resources and boost reserve coverage.** This will contribute to strengthening the self-sustainability of the PRGT. We look forward to discussing the merits of multi-year suspensions in the context of the Review of Concessional Financing.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1090

April 23, 2021

**Statement by Ms. Mahasandana, Mr. Mochtar, Mr. Mahyuddin, and Mr. Bautista on  
Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the well-written report and their insightful engagement with us. We take note on the updated projected net income for FY2021 and FY2022. We broadly agree with the staff analysis and note that the projections of the Fund's income are subject to larger than normal uncertainties in relation to the assumptions on the impact of the COVID-10 pandemic as well as the scale of the new lending associated to the economic fallout moving forward. **We support all proposed decisions and we would like to offer the following comments.**

On Decision 2, the suspension of reimbursement to the GRA for PRGT administrative expenses for FY 2021 is appropriate given the unprecedented level of PRGT lending since the COVID-19 crisis. This suspension would provide addition support to the PRGT reserve for the self-sustained PRGT as discussed during the Review of Concessional Financing and Policies. As the reimbursement is only temporary, we strongly support and reiterate the urgency to come up with a more durable, comprehensive, and longer-term solution to ensure a sustainable PRGT framework

Consistent with past practice, we support the proposed Decision 3 on the Transfer of Investment Income. The income transfer from the IA subaccounts to GRA will contribute to the GRA net income, which will also help build the Fund's reserves and increase the Fund's precautionary balance. We also agree for the postponement of the EA payout as previously discussed, and for the net investment income earned in the EA to be fully retained in the endowment. We note that this will only have a modest impact to Fund's net income and precautionary balance for FY2021.

With positive net income projected for FY2021, the Fund could replenish losses incurred in FY2020 that was affected by the treatment of IAS losses. We therefore agree with Decision 4 on the placement of FY 2021 GRA net income to the Fund's Special Reserve and the General Reserve. Specifically, the net income amount of

the GRA up to the amount of the GRA's net loss in FY 2020 that will be placed in the Fund's Special Reserve, would recover the reduction in the special reserve in FY 2020, that was mainly due to the treatment of IAS-19 losses. In this regard, we recognize and support the proposal on new table of income and expenditure to better reflect the remeasurement gains and losses of pension account. We take note on the variety of views expressed by the Board on options to better isolate the volatility from the treatment of IAS gains and losses, and agree with staff proposal to postpone the allocation framework by another year to further review the options. We underscore the importance of further analysis and recommendation that could address the volatility to the precautionary balance.

Accordingly, we support Decision 5 which transfers currencies from the GRA to the IA, equivalent to the increase of the special and general reserves following the placement of FY 2021 net income, enabling IA to have a higher return than the SDR rate overtime. *Relatedly, can staff comment on the general direction for the review of the IA with a view to separate realized and unrealized gains and losses on investments and include medium-term strategy?*

On Decision 6, we agree to maintain the basic rate of charge at 100 basis points for the period FY 2021–2022, given fundamentally unchanged factors and for greater stability and predictability of the Fund's income position. *Staff may however, explain the historical development of Fund's borrowing cost and how judgment and mechanistic methods are applied overtime against the seemed pegged margin at 100 bps?*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1092

April 23, 2021

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

We support the proposed decisions and would like to make the following points on the income position in general and the proposed decisions:

**We note that the near-term income outlook is subject to high uncertainty related to the future demand for Fund resources and market fluctuations.** While net operational income for FY 2021 is considerably higher than expected, this is mainly due to the IAS 19 pension-related adjustments, which are very sensitive in particular to the discount rate used to measure the Fund's retirement plan obligations. Also, the amount of additional lending triggered by the pandemic is still surrounded by heightened uncertainty. Staff projects a higher lending income reflecting the potential new demand for Fund lending under the desk survey projections. At the same time, the GRA near-term outlook in March 2021 shows that demand for Fund resources has tapered off since last October. *Could staff elaborate on these desk survey projections and provide figures for the expected increase in demand for Fund resources in particular?*

**We agree with the temporary one-year suspension of reimbursement to the GRA for PRGT administrative expenses for FY 2021.** We would like to stress that this one-year suspension should not prejudice any future decision on the reimbursement to the GRA. More generally, any potential measures going beyond this one-year suspension should be discussed together with the concessional financing review and should take due consideration of their potential impact on the accumulation of precautionary balances.

**We also agree with the proposed use of investment income earned in FY 2021.** We support transferring the income earned in the Fixed-Income Subaccount to the GRA, as well as retaining any net investment income earned in the Endowment Subaccount (EA), in line with past practice and the pay-out policy framework adopted in 2018. We support the

proposal to delay the EA pay-out by another year, also to allow for the pay-out decision to be informed by the outcome of the Investment Account review in FY 2022.

**The placement of the FY 2021 net income to the special reserve and general reserve will help to further increase the Fund's precautionary balances and will bring them closer to the medium-term target.** Continuously strengthening precautionary balances remains essential, also against the background of the ongoing discussions on Sudan's debt relief. Given the exceptionally high credit risks faced by the Fund, an increase of the minimum floor for precautionary balances should be considered.

**We support keeping the rate of charge at 100 bps over the SDR rate in FY 2022, consistent with the exceptional circumstances clause.** With the proposed margin, the costs of Fund credit appear to be broadly in line with long-term credit market conditions. In light of the present uncertainty, in particular on the further build-up of precautionary balances, it will be important to review the margin before the end of FY 2023.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1093

April 23, 2021

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

*We thank staff for this informative paper reviewing the Fund's income position for FY2021 and FY2022. We share the main analysis of this paper and wish to offer the following comments.*

- **On the precautionary balances** : we acknowledge that income from the margin, surcharges and service charges, and the estimated pension-related gain for FY2021 are expected to increase the Fund's precautionary balances significantly – SDR 19.5 bn and SDR 21.5 bn respectively by end-FY2021 and end-FY2022 – compared to last March 2021 interim update or the recent April 2021 desk survey scenario, with precautionary balances reaching the SDR 25 billion indicative medium-term target in FY2024, one year earlier than projected in the interim paper. We would have however expected staff to include the impact on precautionary balances of full or partial distribution of the SCA-1 in the context of the discussions on Sudan's debt relief.

- **We also concur with staff's FY2022 income outlook** underpinned by the outcomes of the desk survey scenario, the coverage of key risks to the projections, and a strong uncertainty surrounding not only the projected EA returns as reflected in the sensitivity analysis, but also expenditures. Indeed, the paper does not present periodic pension costs projections beyond FY2021 nor does it include forward-looking projections for pension remeasurement (IAS 19) for FY2022, which albeit highly volatile, could give a hint of the orientation of the projected net income.

- **On the proposed decisions**

- **We agree with the assessment of the SDR Department expenses for conducting its business in FY 2021** and with the reimbursement of the General Department of such expenses (**Decision 1**);
- We are pleased to see that, consistent with the last interim update of the income position and the review of concessional financing, **a temporary one-year suspension**

- of reimbursement to the GRA for PRGT administrative expenses is being proposed for FY2021. We support this suspension (Decision 2).** Moreover, we believe that while a temporary suspension of reimbursement is permissible under the Fund's new income model adopted in 2008, a multi-year waiver of reimbursements should be contemplated until the lending capacity, reserve coverage and sufficient subsidy resources of the PRGT are ensured on a sustainable basis ;
- We see no substantial reason to break with the past practice of transferring the Fixed-Income Subaccount's net income to the GRA, which will contribute to the GRA net income to meet administrative expenses for FY2021. In line with the informal discussion in March 2021 on the interim update, **we support delaying the commencement of the EA payout by an additional year to FY2022** in order to allow more time to build an adequate income cushion in the EA as well as a thorough revision of the IA's strategy including a possible change in the EA's long-term real rate of return **(Decision 3)** ;
  - To compensate for the loss allocation in FY2020 and replenish the special reserve, in accordance with past practice, **we agree that the FY2021 net income amount be placed in the Fund's Special Reserve up to the exact amount equivalent to the FY2020 GRA's net loss (Decision 4), the remaining amount being equally reallocated between the Fund's Special Reserve and General reserve in equivalent proportions (Decision 4);** Related to the treatment of IAS 19 remeasurement gains and losses and the purpose of isolating their volatility, we also support the postponement of the review of the allocation framework for another year to provide our authorities with more time to better identify the pros and cons of the proposed options. The inherent volatility of the income statement is mainly linked to the implementation of IAS 19 and can hardly be reduced. We thus continue to think that maintaining the status quo should be considered;
  - Given the levels of both the combined balance in reserves and of the net cumulative amount of previous transfers of currencies, **we agree with the transfer of the full amount of the increase in both reserves to the IA for investment purposes in the Fixed-Income Subaccount (Decision 5).** Given the substantial amount in question – SDR 1.9 billion for FY2021 – *we would be interested in more details regarding the investment of this income within the Fixed-Income Subaccount portfolio;*
  - Lastly, we understand from staff's analysis that there are no fundamental changes requiring a mid-term revision of the level of the margin for FY2022. **Overall, we agree with maintaining the level of the margin in FY2022 is warranted (Decision 6).**

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1094

April 23, 2021

**Statement by Mr. El Qorchi and Mr. Ahmed 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 a comprehensive report and welcome the updates on the Fund's income position for FY2021 and FY2022. At the outset, we broadly concur with the proposed decisions.
  
2. **We note that the Fund's projected overall net income for FY2021 is substantially higher than both the interim estimates and the April 2020 projections**, mainly reflecting an increase in estimated pension-related remeasurement gains under IAS19 and the strong performance of the Endowment Subaccount (EA) portfolio during the year, pushing the overall projected net income for FY2021 to SDR 4.1 billion. By comparison, in FY2020 there was a pension-related remeasurement loss of SDR 2.880 billion resulting in an overall net loss of SDR1.5 billion although income from the Fund's lending and investment operations in the General Resources Account (GRA) was strongly positive. In this context and as discussed in the March Board meeting, we welcome the presentational changes to the Fund's financial statements and income paper to isolate pension-related income volatility by presenting two separate statements (a Statement of Income, and a Statement of Comprehensive Income) effective from FY2021. This will enhance disclosure and reflect the impact of IAS 19 remeasurement gains/losses separately from the financial performance of the core GRA operations. In this regard, we support exploring options to minimize or eliminate the impact of remeasurement gains and losses on precautionary balances. We also stress the importance of communicating these developments clearly to the public.
  
3. **We recognize that the near-term outlook is subject to higher-than-normal uncertainty**, including from the scale of new lending associated with the economic fallout from the COVID-19 pandemic, the discount rate used to measure the Fund's retirement plan obligations, and the full-year asset returns on the retirement plan and the Endowment Subaccount. We also agree with the outlook and key risks for the income position. As

described in the report, market volatility tends to increase the short-term volatility of pension liabilities and the medium-term tail risks that drive Fund lending activity.

4. **We reiterate our support for the staff proposal to delay the EA payout by another year for the payout decision to be informed by the outcome of the FY2022 IA review**, including possible revisions to the investment strategy and the long-term return target. We concur that this deferral would have only a modest impact on the Fund's net operational income and precautionary balances in FY2021. Nonetheless, we would have favored a longer suspension of the PRGT reimbursement to the GRA.

5. We agree that, consistent with the Fund's recent practice, a portion of General Resources Account (GRA) net income for FY2021 equivalent to the net loss incurred in FY2020 be placed to the special reserve to allow for complete recovery of the erosion of the special reserve, and the remainder to be placed equally to the special and general reserves to allow for the buildup of the reserves.

6. **In the context of recent Board engagement on *Review of Concessional Financing* we endorse a temporary, one-year suspension of reimbursement to the GRA for PRGT administrative expenses.** This is also consistent with the three-pillar framework for the self-sustained PRGT to help restore its lending capacity. We look forward to the discussion on the issue of possible multi-year waivers of reimbursements to support PRGT lending capacity as part of the concessional financing review.

7. **We are of the view that serious consideration should be given to suspending or reducing surcharges during the pandemic and recovery**, while discussing a permanent reduction. *We would welcome staff views on the potential impact of reducing the rate of surcharge on the Fund's income position.*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1095

April 23, 2021

**Joint Statement by Mr. Mohieldin, Mr. Mouminah, Mr. Keshava, and Ms. Merhi on  
Review of the Fund's Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the well-focused paper on the Review of the Fund's Income Position for FY 2021 and FY 2022, and for their outreach to our offices. We support the proposed decisions and would like to highlight the following:

- We take positive note that the income outlook for FY2021 is expected to remain strong while performance for FY 2022 remains subject to elevated risks. The Fund's overall net income for FY 2021 is projected to be higher than both the interim estimate and the April 2020 estimate. However, this higher estimate largely reflects the pension-related remeasurement gains. We welcome the presentational changes to the Fund's financial statements and the income paper, which allow a more transparent recording of pension-related volatility. We support further work on determining the appropriate treatment of IAS 19 gains or losses. We look forward to further engaging with the External Audit Committee on this issue. For FY 2022, we take note that a key uncertainty is the scale of new lending associated with the economic fallout from the COVID-19 pandemic. *Can staff comment on the potential impact of the expected general SDR allocations on the demand for Fund credit and operational income?*
- We continue to support the principles that have guided the framework for income allocation to the special and general reserves. We therefore support the proposed income allocation decision, specifically to first allocate to the special reserve net income equivalent to the FY 2020 loss, and then place the remaining balance equally between the special and general reserves. We look forward to further discussions on income allocation-related issues, including with the External Audit Committee.

- We support the staff proposal to defer EA payout by one more year, given the prevailing uncertainty in financial markets with high volatility and with low interest rates, including to enable the payout decision to be informed by the outcome of the forthcoming IA review. We agree that this deferral would have only a modest impact on the Fund's net operational income and precautionary balances in FY 2021.
- We agree with the proposal to suspend reimbursement to the GRA for PRGT administrative expenses for FY 2021 and look forward to the discussion on the issue of possible multi-year waivers as part of the concessional financing review.
- We concur 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 FY2022.
- We broadly endorsed the framework for conducting impairment assessments in the October 2020 meeting, which is in line with the IFRS requirements. Considering the uncertainty surrounding the establishment of a 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. In this context, we agree that, considering the nature of the Fund's lending and its multilayered framework for managing credit risks, cases where the recording of a material provisions for an impairment loss that may need to be considered are expected to remain rare.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1096

April 23, 2021

**Statement by Mr. Andrianarivelo and Mr. Sidi Bouna on Review of the Fund's Income  
Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

**We welcome the Fund's projected strong income position in FY2021 and FY2022.** While certain factors could still impact net income at the end of FY2021, including the level of the discount rate on April 30<sup>th</sup> used to calculate the obligations under the retirement plan, as well as the return on the plan's assets, the Fund's net income for the current fiscal year is expected to be sizeable, at SDR 4.1 billion. We note that the important remeasurement gain related to pension has contributed significantly to this outcome. In FY2022, the Fund's net income is also forecast to be elevated at SDR 2.2 billion, although this estimate is subject to significant uncertainty. In addition, the potential gain or loss related to pension is excluded from this projection.

**We agree to delay the Endowment Subaccount (EA) payout and endorse the proposed approach to address impairment losses.** As we indicated during the informal meeting on the interim update of the Fund's FY2021 income position held last month, delaying the initiation of EA payouts by one additional year is sensible in that the decision to initiate payouts or not should follow the review of the Investment Account (IA) which is scheduled in 2022. On the issue of provisioning for impairment losses, while we fully support the approach discussed in October 2020, *we wonder whether the adoption of this new proposed approach would not have warranted a separate formal Board meeting. In particular, the staff report discussed during the informal session of the Board held in October 2020 was preliminary and not intended to be published. In our view, the background analysis in the report that led to the change in the Fund's approach to provisioning should be made available to the public. Staff comments are welcome.*

**We support the proposed decisions.** We approve **decision 1** pertaining to the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY2021, as well as the suspension by one year of the reimbursement of PRGT administrative expenses (**decision 2**) in response to Executive Directors' call during the recent review of concessional financing and policies held on April 1<sup>st</sup>. We also support transferring the income of the Fixed-Income Subaccount to the GRA for use for the

administrative expenses of the Fund in FY2021 (**decision 3**), as well as placing in the special reserve the share of FY2021 net income required to fully cover last year's income loss, which was charged to the special reserve. In line with recent practices, we concur with placing the remaining amount of net income in equal parts in the special reserve and the general reserve (**decision 4**). We welcome the increase in precautionary balances following these placements and the projected accelerated pace of accumulating these balances over the medium-term. We support the transfer of currencies from the GRA to the IA, as proposed under **decision 5**, and agree that the rate of charge does not warrant an adjustment for the time being (**decision 6**).

Finally, carefully communicating the Fund's income position to the public is warranted, given the impact of the excessive volatility of the pension-related gains and losses.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1097

April 23, 2021

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Marek on Review of the Fund's  
Income Position for FY 2021 and FY 2022  
(Preliminary)  
Executive Board Meeting  
April 27, 2021**

We thank staff for the detailed report. **We support the proposed decisions pertaining both to FY 2021 and FY 2022.** The projections of the Fund's income are subject to large uncertainties, concerning, in particular, the pension-related IAS-19 remeasurement and the scale of the Fund's lending in the context of the COVID-19 pandemic. Against this backdrop, we note positively that the updated projections of the pace of reserve accumulation are higher than those anticipated in April, and that the new medium-term target for precautionary balances of SDR 25 billion could already be achieved in FY 2024; about one year earlier than previously projected. On the six individual proposed decisions, we note the following comments.

**We agree with the proposed Decision 1** to reimburse the General Department for the expenses of conducting the business of the SDR Department in FY 2021.

The Poverty Reduction and Growth Trust's (PRGT) lending activity has substantially increased in response to the demand for concessional financing, owing to the economic fallout from the pandemic. We note that the increase in the PRGT administrative expenses is about SDR 20 million higher compared to earlier estimates. **We can therefore support the proposed Decision 2** to temporarily suspend the reimbursement of the PRGT administrative expenses for FY 2021 in the amount of SDR 86.65 million. While we note that this amount will be retained in the PRGT reserve account and generate additional PRGT subsidy resources, the General Resource Account (GRA) income will be reduced respectively, which will have implications for the build-up of precautionary balances.

**We support the proposed Decision 3** to transfer the income of the investment account's (IA) fixed-income subaccount (FA) to the GRA to meet the Fund's expenses. We also support the delay of the payout from the endowment subaccount (EA) and retain it in the EA to further accumulate the income cushion. This will also allow the Executive Board to make an informed decision on the adequate size of the EA and respective payouts going forward, based on the upcoming IA review.

We **agree with the proposed Decision 4** to first allocate GRA net income in the amount of SDR 1.5 billion to the special reserve equivalent to the FY 2020 loss and, in the next step, allocate the remaining balance of SDR 2 billion in two equal sums to the special and general reserves. The substantial volatility in the pension-related income volatility requires a continuous careful communication of the Fund's income position. We also expect staff to conduct additional analyses on the financial and legal implications related to ring-fencing the impact of pension-related gains or losses remeasurement, and look forward to further Board discussions on this issue.

In order to potentially achieve higher returns than the SDR rate in the GRA, we **support the proposed Decision 5** to transfer currencies equivalent to the full amount of the increase in reserves from the GRA to the IA for investment in the FA.

Finally, we agree that there has been no fundamental change in the underlying factors relevant for setting the margin for the basic rate of charge since the last Review. Therefore, we **support the proposed Decision 6** to maintain the margin at 100 basis points over the SDR rate for FY 2022 and complete the review of the Fund's income position.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

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

GRAY/21/1098

April 23, 2021

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

We thank staff for their well-written report. We take positive note that the Fund's projected net income for FY2021 at about SDR 4.1 billion is higher than the interim estimate and last year's estimate. We broadly support staff's proposal and would like to limit ourselves to the following points.

We can go along with a one-year delay in initiating EA payouts, given that this delay would have only a modest impact on the Fund's net operational income and precautionary balances in FY2021. This would also allow the payout decision to be better informed by the outcome of the IA review in FY 2022. We also support a one-year suspension of the reimbursement of PRGT administrative expenses to help restore the lending capacity of the PRGT.

On provisioning for impairment losses, we welcome the Fund's approach of provisioning for impairment losses in line with IFRS 9. Meanwhile, it is not prudent to presume that cases where provisioning may need to be considered remain rare, especially given that credit risk has increased significantly with the outbreak of the pandemic. Recent experience in clearing some member country's arrears has already demonstrated that the existing money in SCA-1 is not enough to cover credit risk. We encourage the Fund to take a more prudent approach for its own credit risk management when it requires its member countries to do so.

Given the large volatility associated with IAS 19 adjustment, the treatment of IAS 19 gains and losses deserves careful consideration. We see merit in postponing the review of the allocation framework by another year to allow further analysis on this issue.

We take positive note that expected precautionary balances are significantly higher than originally projected. The faster accumulation of precautionary balance is also consistent with proposed budget augmentation, including internalization of CD financing for coming years.

## **Staff's Responses to Executive Directors' Technical Questions**

### **Review of the Fund's Income Position for FY 2021 and FY 2022**

Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/21/41—04/27, 2021

*Staff's responses to technical questions are below. Broader policy questions in the area of the surcharges review will be addressed in staff's intervention at the Board meeting.*

#### **SDR Allocation**

1. **Given the envisaged significant size of the potential SDR allocation, we acknowledge a possibly significant positive effect on the revolving character of Fund resources due to early repurchases. However, it would be unfortunate if members would postpone necessary adjustment efforts, supported by catalytic Fund lending if appropriate, due to the significant size of the potential SDR allocation. We would be interested in how staff assesses (also quantitatively) these two effects and how they might influence expected lending income.**
2. **Could the staff provide an estimate of impact on the lending operations and income due to the proposed new allocation of SDRs as well as voluntary recycling of existing SDRs?**
3. **Can staff comment on the potential impact of the expected general SDR allocations on the demand for Fund credit and operational income?**
  - An SDR allocation helps meet a long-term need to supplement reserve assets. From this perspective, it could help bolster global financial resilience and help countries smooth needed adjustment and avoid distortionary policies. As mentioned in staff's technical answers during the Informal Board Briefing on SDR allocation, higher reserve positions for some vulnerable countries could translate into a lower demand for Fund resources in the near term. Staff does not expect the amount to substantially change our lending income over the medium term. Staff's forthcoming Guidance Note on the Use and Treatment on SDRs will emphasize that the SDR allocation should not delay needed adjustment and reforms.
  - While recognizing that it is not possible to predict with precision what members would do with additional reserves received in an SDR allocation, the experience with the 2009 allocation suggests that the main use of SDRs is in supplementing existing reserves, which is fulfilled by holding onto the allocation. Given that countries in 2009 were in a similar situation in terms of liquidity constraints and vulnerabilities, the 2009 experience may be a good predictor to thinking about this crisis.

#### **PRGT Reimbursement**

4. **A multi-year waiver of reimbursements requires more detailed analysis of projected lending portfolio in terms of quantum and share of lending from GRA and PRGT accounts and the cost of operations of the Fund. We welcome a detailed staff review on the topic. Staff may comment.**

5. **When considering potential future waivers of GRA reimbursement, an assessment of the effects on the path of the built-up of precautionary balances and the then prevailing risks to the Fund must be taken into account. If potential future waivers will be discussed as part of the concessional financing review, this also has to be considered.**
- The current projections assume a one-year waiver of the PRGT reimbursement. A multi-year waiver may be discussed in the context of the upcoming concessional financing review and would need to consider the impact on Fund income and precautionary balances.
  - A multi-year waiver of the PRGT reimbursement would mean a reduction in GRA net income, and based on current projections would amount to a reduction in the range of about SDR 100-115 million per annum. However, the high lending income projections mean that the reimbursement amount is not expected to constitute a material proportion of GRA net operational income over these years.

#### **Investment Income and Transfer of Currencies**

- **Could staff please elaborate on the slight quantitative divergence between the increase in reserves (2 billion SDR, see Decision 4, para. 16) and the transfer to the FI Subaccount (1.9 billion SDR, fn. 32), as it is described that “the full amount of the increase in reserves” should be transferred?** The difference is due to rounding. The amount of SDR 1,923 million was rounded up to SDR 2.0 billion for paragraph 16 and rounded down to SDR 1.9 billion in footnote 32.
6. **Can staff comment on the general direction for the review of the IA with a view to separate realized and unrealized gains and losses on investments and include medium-term strategy?**
- The accounting standards do not require a distinction between the classification of realized and unrealized investment-related gains and losses. The investment return objectives and performance of the IA is also based on total returns. More specifically, when the income of the FI is transferred to the GRA after year-end the subsequent transfer of currencies is carefully planned to ensure effective management of the portfolio’s cash (or liquid) resources. Likewise, when the EA commences payouts to the GRA any transfer of currencies would be similarly managed.
  - The forthcoming review of the IA (and TA) will discuss the medium and long-term return outlook for the IA—the initial discussion is scheduled for mid-June, the review should conclude in 2022.
7. **We would be interested in more details regarding the investment of the income transferred from the GRA within the Fixed-Income Subaccount portfolio.**
- Assets in the FI are invested with the objective of generating returns in excess of the three-month SDR interest rate (SDRi), while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years. The strategy aims at generating income while protecting the Fund’s balance sheet. It benefits

from a broad universe of eligible high-quality fixed-income instruments. The FI comprises two tranches: Tranche 1 is an actively managed short-duration diversified fixed-income portfolio and Tranche 2 is a longer duration portfolio managed to a buy and hold investment strategy. Further details on the FI investments and performance is available in the Annual Report of the Investment Account and Trust Accounts for FY2020 (EBS/20/134, 07/27/20), and will be updated in the forthcoming FY 2021 annual report.

### **Margin for the Rate of Charge**

- 8. Staff may however, explain the historical development of Fund's borrowing cost and how judgment and mechanistic methods are applied overtime against the seemed pegged margin at 100 bps?**
- 9. We ask staff to comment on alternative scenarios for the margin on the rate of charge and explore the tradeoffs for the membership.**
  - The current rule for setting the margin was approved in 2011 and the exceptional circumstances clause was invoked in setting the rule since FY 2012. Notwithstanding continued application of the exceptional circumstances clause, the decision on the level of the margin under the Rule I-6(4) should consider its coverage of the Fund's intermediation costs, contribution to reserve accumulation and alignment with long-term credit market conditions. The rule is not to be applied mechanistically, and each review of the margin should assess all the underlying factors in combination based on conditions prevailing at the time.
  - While it is true that revenues from the margin over the basic rate of charge are projected to increase in FY 2022 compared to FY 2021, staff does not see scope to reduce the margin at this juncture. Margin income projections reflect assumptions about future demand for Fund resources and are uncertain. Moreover, as per Rule I-6(4), margin income also helps build up the Fund's precautionary balances, which currently remain well below the indicative medium-term target.
  - Also, according to rule I-6(4) the cost of borrowing from the Fund should not be too high or low relative to the cost of long-term market funding. Long-term market conditions—as measured by the 5-year rolling average of the EMBI spreads—remain broadly unchanged since the last review in 2020. The 100 basis point margin is currently 47 basis points below the median EMBI spread charged to the least risky borrowers. Reducing the margin further could misalign Fund's borrowing costs with long-term credit market conditions.

### **Income Projections**

- 10. Could staff elaborate on these desk survey projections and provide figures for the expected increase in demand for Fund resources in particular?**
  - The desk survey of potential demand for Fund lending reflects desk assessments of the likelihood of a program request based on knowledge of member countries' economic outlook, financing needs, and the political landscape. The current desk survey projections in the paper were based on end-February 2021 data and included current approved arrangements/RFIs and potential new GRA programs. Compared with the projections in the PB paper and Interim Update, some new programs expected in late FY 2021 have been

deferred to FY 2022, lowering lending income projections for FY 2021. As illustrated in Annex VI of the paper, average credit outstanding is expected to grow and peak at about SDR 106 billion in FY 2023 based on the current demand projections.

## Provisioning

### **11. Could staff please clarify what is meant by “conducting IFRS 9 related impairment assessments for FY 2021” for credit risk (para. 21)? We would appreciate more information on this analysis.**

- The IFRS 9 impairment assessment is discussed in detail in the Board paper Provisioning for Impairment Losses in the Context of the Fund (FO/DIS/20/37, 3/3/2020). It is performed annually and considers whether an impairment provision should be recognized for any of the Fund’s credit exposures to member countries. The assessment is not yet complete for FY 2021; the Board will be updated on the IFRS 9 assessment in June as part of the engagement related to the approval of the annual financial statements.
- The framework for this impairment assessment has been endorsed by the Fund’s external auditors and the External Audit Committee and was broadly supported by Directors during the informal meeting on October 30, 2020 and is designed to recognize the unique nature of the Fund’s lending.

### **12. We wonder whether the adoption of this new proposed approach would not have warranted a separate formal Board meeting. In particular, the staff report discussed during the informal session of the Board held in October 2020 was preliminary and not intended to be published. In our view, the background analysis in the report that led to the change in the Fund’s approach to provisioning should be made available to the public. Staff comments are welcome.**

- During the informal discussion in October, there was a clear consensus that Directors broadly supported the approach laid out in the paper for addressing cases of impairment including the use of provisioning and consultation with the Board. At the October meeting it was indicated that staff would find a suitable forum to formalize what had been informally endorsed by the Board. Since a separate formal Board meeting would essentially repeat the previous informal discussion it was decided that the FY 2021 discussion of the Review of the Fund’s Income Position would serve to formally endorse the Board’s support, especially given its strong association with financial reporting. With regard to publishing the paper, we would caution against this proposal, given the potential risk of unintended signaling effects, as the public might interpret Board consideration of impairment in the midst of the COVID-19 crisis as an indication that an impairment is likely.

## IAS 19

### **13. 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?**

- In order to isolate the volatility of the remeasurement gains and losses from the Fund's Statement of Comprehensive Income will be presented in this year's financial statements as two separate statements, (i) a Statement of Income and (ii) a Statement of Comprehensive Income. The income paper presentation is also aligned more closely with the financial statements.
- IFRS does not permit provisioning for possible future IAS 19 remeasurement losses. IAS 37 is the accounting standard which deals with the recognition of provisions. However, the standard does not permit provisions for possible future costs of providing post-employment benefits in addition to the amount recognized under IAS 19; any such amounts are specifically excluded from the scope of IAS 37. The remeasurement gains or losses are unrealized and while they can be substantial on an annual basis, historically they tend to offset over time.

## CONSTITUENCY CODES

### OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

### OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

### OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

### OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

### OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

### OEDCC

China

### OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

### OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

### OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

### OEDFF

France

### OEDGR

Germany

### OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

### OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

### OEDJA

Japan

### OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

### OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

### OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

### OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

### OEDRU

Russian Federation and Syrian Arab Republic

### OEDSA

Saudi Arabia

### OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

### OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

### OEDUK

United Kingdom

### OEDUS

United States