International Monetary Fund

IMF Approves New Rules and Regulations for Investment Account

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The Executive Board of the International Monetary Fund (IMF) adopted on January 23, 2013 a new set of rules and regulations for the IMF's Investment Account. The rules replace those approved by the Board in 2006, and provide the legal framework for the implementation of the expanded investment authority that is authorized under the Fifth Amendment to the Articles of Agreement, which became effective in February 2011 and is a key element of the Fund's income model. The income model aims to diversify the Fund's sources of income and to put the Fund's finances on a sound long-term footing.

The new rules and regulations establish three sub-accounts within the Investment Account—the Fixed-Income, the Endowment, and the Temporary Windfall Profits Subaccounts:

- The investment objective of the **Fixed-Income Subaccount**, totaling about SDR 8.4 billion at end-2012 (about US$ 13 billion), is to produce returns in excess of the 3-month SDR interest rate over time, while minimizing the frequency and extent of negative returns and underperformance. Its assets are invested in marketable obligations of IMF members and international financial institutions that are denominated either in SDR or in currencies included in the SDR basket, and managed against a 1−3 year government bond benchmark, which is weighted to reflect the currency composition of the SDR basket.
- The **Endowment Subaccount** will be funded with assets attributed to profits from the strictly limited sale of holdings of the IMF's post-Second Amendment gold during 2009 and 2010 equivalent to an average price of US$850 per fine ounce (SDR 4.4 billion, or about US$ 7 billion). Its investment objective is to achieve a real return of 3 percent over the long term, which is consistent with the Investment Account objective of generating investment returns to contribute to the Fund's income, while preserving the long-term value of these resources. The endowment assets will be invested in a conservative, globally diversified portfolio consisting of fixed income assets and a limited portion of equities (including real estate investment trusts) in accordance

with a strategic asset allocation benchmark. The bulk of the assets will be passively managed by external managers, following widely used and available benchmark indices maintained by recognized providers. An initial allocation of 5 percent of the assets at the time of the effectiveness of the proposed rules will be managed actively by external managers, with a 65 percent share of fixed income instruments and 35 percent share for equities (the same as for the passively managed portion). The actively managed share will not exceed 10 percent of the total endowment assets.

- The **Temporary Windfall Profits Subaccount** is funded with SDR 1.75 billion (about US$ 2.7 billion) of windfall profits from gold sales. The investment objective of this subaccount is nominal capital preservation while generating income, pending transfer of the assets to members as part of a strategy to make the Poverty Reduction and Growth Trust (PRGT), which finances the IMF's concessional lending to low-income countries, self sustainable over the longer term.[1]

The new Rules and Regulations provide strong protection against actual or perceived conflicts of interest, including a clear separation of responsibilities between the Executive Board, management, and external managers, as well as the exclusion of certain investment activities that by their nature could be more susceptible to the perception of conflicts of interest.

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[1] See Public Information Notice (PIN) No. 12/118 http://www.imf.org/external/np/sec/pn/2012/pn12118.htm.

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