

**FOR
INFORMATION**

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From: The Secretary

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September 9, 2020

THE FUND'S INCOME POSITION FOR FY 2020—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports on the Fund's income position for FY 2020 following the closing of the Fund's accounts for the financial year and completion of the external audit. Net operational income was about SDR 1.4 billion, slightly higher than estimated in the April supplement, mainly reflecting higher investment income. However, the unrealized pension-related adjustment in FY 2020, stemming mainly from the actuarial remeasurement of staff retirement plan assets and liabilities, was larger than previously estimated and more than offset the Fund's net operational income, contributing to an overall net loss of about SDR 1.4 billion for the year.

The GRA net loss was charged against the special reserve, after which the Fund's precautionary balances amounted to SDR 16 billion at the end of FY 2020. In accordance with decisions taken in April 2020, a transfer of currencies amounting to SDR 319 million was made during the second quarter of FY 2021 from the Investment Account to the GRA.

Approved By
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REVIEW OF THE INCOME POSITION FOR FY 2020

1. This paper presents the Fund's net income position for FY 2020. The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2020 external audit conducted by PricewaterhouseCoopers, the Fund's external auditor.¹

2. Net operational income of about SDR 1.4 billion, mainly comprising income from lending and investments, remained strong for FY 2020, and was slightly higher than the estimate in the April 2020 Supplement (Line C, Table 1),² due to higher than anticipated investment income.

However, the unrealized pension-related adjustment in FY 2020, stemming mainly from the actuarial remeasurement of staff retirement plan assets and liabilities, was larger than previously estimated and more than offset the Fund's net operational income, resulting in a net loss in the GRA of about SDR 1,549 million, and an overall net loss of SDR 1,447 million for the year (Table 1). The results are highlighted in Figure 1 and discussed below:

- **Lending income.** Lending income amounted to SDR 1,884 million, SDR 5 million below the April Supplement estimate. Robust income from lending reflects the ongoing elevated use of Fund credit due partly to the Fund's support to members to help address the COVID-19 pandemic. Income from the margin, commitment fees, and surcharge income were in line with projections in the Supplement; however, service charges were lower following delays in some projected purchases under the Rapid Financing Instrument.
- **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount amounted to SDR 319 million, higher than the April estimate of SDR 253 million, reflecting the continued decline in bond yields and a sharp recovery in credit spreads in April. The Endowment Subaccount (EA) also reversed earlier projections that had pointed to negative returns due to the significant sell-off in risk assets during the COVID-19 outbreak. These assets recovered strongly in April amid central banks' emergency policy responses while bond yields continued to decline.³ These developments bolstered the EA's performance resulting in a gain of SDR 112 million for the financial year.
- **IAS 19 losses.** The total IAS 19 loss for FY 2020 amounted to SDR 2,971 million, SDR 596 million higher than the SDR 2,375 million estimated in the April Supplement. The total loss comprises the sum of two factors (Table 2):
 - (i) The actuarial (or remeasurement) losses, which increased by SDR 676 million due mainly to the change in the discount rate from the 2.97 percent projected in the April Supplement to the final

¹ See Audited Financial Statements for the Financial Years Ended April 30, 2020, and 2019 (EBAP/20/52, 7/7/2020).

² See Review of the Fund's Income Position for FY 2020 and FY 2021–2022 Supplementary Information (EBS/20/58 Sup. 1, 4/21/2020).

³ The assets of the Endowment Subaccount are invested in a globally diversified portfolio consisting of a 60/40 percent split between global fixed-income and equity instruments.

year-end rate of 2.73 percent, which increased the actuarial losses by SDR 519 million.⁴ Plan asset performance was also weaker than anticipated at the time of the April Supplement, further contributing to the increase in the loss.

(ii) The difference between: (a) the actuarially determined annual IAS 19 expense that measures, on an accrual basis, the increase in obligations under the staff benefit plans stemming from an additional year of staff service; and (b) the funding (cash appropriation) for the year. The net IAS 19 expense for FY 2020 amounted to SDR 91 million compared to the projected expense of SDR 171 million. The difference of SDR 80 million reflects mainly the gain from past service costs related to plan amendments as part of the Comprehensive Compensation and Benefits Review (CCBR) approved by the Executive Board in December 2019.

- **Expenses.** Total expenses of SDR 891 million were SDR 4 million lower than projected in April. Net administrative expenditures ended the year slightly above the earlier estimate, reflecting actual net expenditures being higher by about US\$2 million.⁵ Capital budget items expensed were lower by about SDR 4 million due mainly to the costs related to swing space and operational expenses for the HQ1 renewal being below the earlier estimated budget, and depreciation was broadly in line with earlier projections. Table 3 provides a reconciliation between the net administrative budget outturn and the administrative expenses reported in the FY 2020 audited financial statements.⁶

3. Precautionary balances. Precautionary balances of SDR 16 billion at year end were below the SDR 16.5 billion projected in the April Supplement. As noted above, the unrealized pension-related accounting adjustment in FY 2020 exceeded earlier projections by about SDR 0.5 billion, further offsetting net operational income, which remained broadly in line with earlier estimates.

4. No decisions are required at this time. The Executive Board took all necessary decisions in April 2020 during the review of the Fund's income position for FY 2020 and FY 2021–2022.⁷ Consistent with the relevant Board decision, the GRA net loss for FY 2020 was charged against the special reserve. Income from the Endowment Subaccount of SDR 112 million is retained in the subaccount.⁸ Currencies equivalent to Fixed-Income Subaccount income of SDR 319 million were transferred from the Fixed-Income Subaccount to the GRA during the second quarter of FY 2021. No transfer of currencies is to be made from the GRA to the Fixed-Income Subaccount given the net GRA loss in FY 2020.⁹

⁴ See page 31 of Audited Financial Statements for the Financial Years Ended April 30, 2020, and 2019 (EBAP/20/52, 7/7/2020).

⁵ See FY2020—Output Cost Estimates and Budget Outturn (EBAP/20/58, 7/31/2020).

⁶ The administrative expenses reported in the audited financial statements include non-operational costs, i.e., the pension cost accrual.

⁷ Decisions No. 16771 through No. 16774-(20/51), all adopted on April 27, 2020.

⁸ Decision No. 16773-(20/51), adopted on April 27, 2020, provides for the transfer to the GRA of the income of the Fixed-Income Subaccount for meeting the Fund's FY 2020 administrative expenses. The income of the Endowment Subaccount for FY 20 is retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

⁹ See paragraph 18, Review of the Fund's Income Position for FY 2020 and FY 2021–2022 (EBS/20/58, 4/13/2020).

Table 1. Income and Expenditures for FY 2020
(SDR millions)

	April Supplement Projections ¹	Actual Outcome	Difference
	(a)	(b)	(c=b-a)
A. Operational income	2,251	2,313	62
Lending income	1,889	1,884	-5
Margin for the rate of charge	667	667	0
Service and other charges	97	91	-6
Commitment fees	373	374	1
Surcharges	752	752	0
Investment income	253	319	66
Fixed-Income Subaccount investment income	253	319	66
Endowment subaccount payout	0	0	0
Interest free resources ²	44	45	1
SCA-1 and other	44	45	1
Reimbursements	65	65	0
SDR Department	3	3	0
PRG Trust	62	62	0
B. Expenses ³	895	891	-4
Net administrative expenditures	832	833	1
Capital budget items expensed	18	14	-4
Depreciation	45	44	-1
C. Net operational income (A-B)	1,356	1,422	66
Net pension asset/(liability) (IAS 19) losses ⁴	-2,375	-2,971	-596
D. Net operational income/(loss) after IAS 19 losses	-1,019	-1,549	-530
Endowment Subaccount investment income	-126	112	238
Special Disbursement Account net income/(loss) ⁵	0	-10	-10
Net income/(loss) position ⁶	-1,145	-1,447	-302
<u>Memorandum items:</u>			
Fund credit (average stock, SDR billions)	66.7	66.7	
SDR interest rate (average, in percent)	0.8	0.8	
US\$/SDR exchange rate (average)	1.38	1.38	
Precautionary balances (end of period, SDR billions)	16.5	16.0	

Source: Finance Department and Office of Budget and Planning

¹ See Review of the Fund's Income Position for FY 2020 and FY 2021-2022 Supplementary Information (EBS/20/58 Sup. 1, 4/21/2020).

² Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the Investment Account to earn a higher return, the interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not yet transferred to the Investment Account. These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.

³ See Table 3 for a reconciliation to the administrative expenses reported in the financial statements for FY 2020.

⁴ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses and involves actuarial valuations (see Table 2).

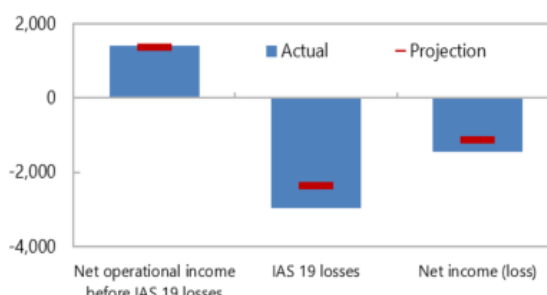
⁵ Reflects income of SDR 9 million recognized in the Special Disbursement Account following Somalia's arrears clearance, less SDR 19 million that was contributed to the PRG Trust in accordance with Decision No. 8760-(87/176) adopted on December 18, 1987 (Decision No. 3).

⁶ See "Total comprehensive income" reported in Audited Financial Statements for the Financial Years Ended April 30, 2020, and 2019 (EBAP/20/52, 7/7/2020).

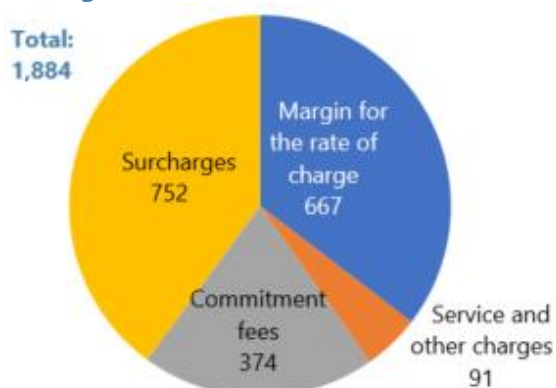
Figure 1. FY 2020 Highlights

Actual vs. April Supplement Projections (SDR millions)

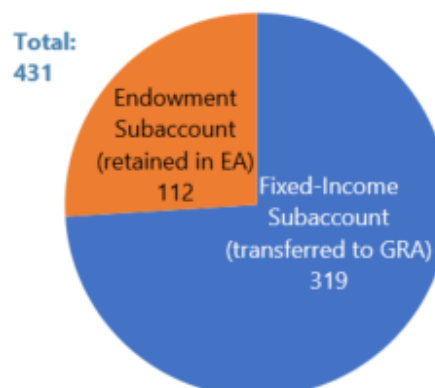
	Actual	Projection	% Change
Lending income	1,884	1,889	0%
Investment income (FI)	319	253	26%
Investment income (EA)	112	(126)	189%
Interest free resources	45	44	2%
Reimbursements	65	65	0%
Expenses	891	895	0%
Net operational income before IAS 19 losses	1,422	1,356	5%
IAS 19 losses	(2,971)	(2,375)	25%
Net income/(loss)	(1,447)	(1,145)	26%



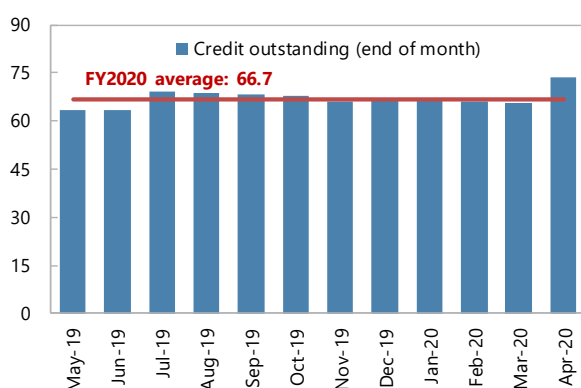
Lending Income (SDR millions)



Investment Income (SDR millions)



Average Credit Outstanding (SDR billions)



SDR Interest Rate and Exchange Rate

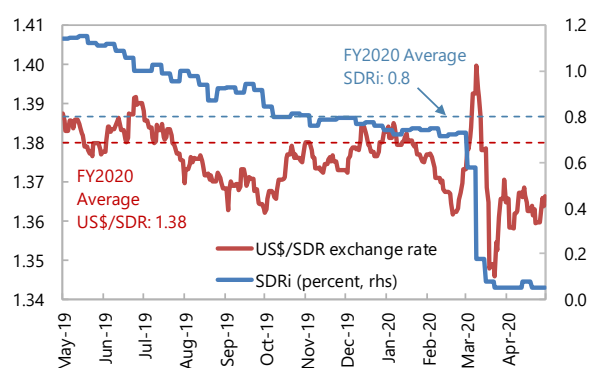


Table 2. Reconciliation of IAS 19 Losses—FY 2020
(SDR millions)

	April Supplement Projections¹	Actual Outcome
Actuarial losses	-2,204	-2,880
Discount rate change	-1,654	-2,173
Excess return on assets	-857	-944
Other	307	237
Accrual vs. Funding	-171	-91
Pension cost accrual	-320	-238
Pension funding	149	147
Total IAS 19 losses	-2,375	-2,971
Discount rate at end of year (in percent)	2.97	2.73

Source: Finance Department

Totals may not add due to rounding differences.

¹ See Review of the Fund's Income Position for FY 2020 and FY 2021-2022 Supplementary Information (EBS/20/58 Sup. 1, 4/21/2020).

Table 3. Reconciliation of Administrative Expenses—FY 2020
(U.S. dollars millions, unless otherwise stated)

Net administrative budget outturn ¹	1,150
Capital budget items expensed	19
Depreciation	61
Total expenses in U.S. dollars millions	1,230
Total expenses in SDR millions (per Table 1) ²	891
IAS 19 (accrual vs. funding) timing difference (SDR millions) ³	91
Reimbursements from PRG Trust and SDR Department (SDR millions)	-65
Total administrative expenses per the audited financial statements (SDR millions)	916

Source: Finance Department and Office of Budget and Planning

Totals may not add due to rounding differences.

¹ See FY2020—Output Cost Estimates and Budget Outturn Paper (EBAP/20/58, 7/31/2020).

² Based on the weighted average FY 2020 U.S. dollar/SDR exchange rate of 1.38 (rounded) for all expenses; the effective average exchange rate for individual expenditure components may differ due to the timing of exchange rate movements during the year.

³ Reflects the difference between the IAS 19 expense and the actual funding in FY 2020 (see Table 2).