

**INFORMAL  
SESSION TO  
ENGAGE**

FO/DIS/20/37  
Supplement 1

**CONFIDENTIAL**

October 7, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Provisioning for Impairment Losses in the Context of the Fund—  
Supplementary Information**

Board Action: **Informal session to engage** Executive Directors

Tentative Board Date: **Friday, October 30, 2020**

Publication: Not intended, as this is for a preliminary report

Questions: Mr. Bradbury, FIN (ext. 39034)  
Ms. Manno, FIN (ext. 38175)  
Mr. Ndiaye, FIN (ext. 36342)  
Ms. Zolotarskaya, FIN (ext. 37081)





## **PROVISIONING FOR IMPAIRMENT LOSSES IN THE CONTEXT OF THE FUND—SUPPLEMENTARY INFORMATION**

### **EXECUTIVE SUMMARY**

This supplement provides factual updates on developments relevant for the discussion of the Fund's approach to provisioning in the context of its annual financial statements, described in the *Provisioning for Impairment Losses in the Context of the Fund* Board paper (FO/DIS/20/37, 3/3/2020). The updates include the settlement by Somalia of its protracted arrears to the Fund in March 2020 and the completion by staff of the impairment analysis of the Fund's credit portfolio for the FY2020 financial statements. The updates do not alter the main conclusions of the paper.

October 7, 2020

## INTRODUCTION

**1. The supplement provides factual updates on developments relevant for the discussion of the Fund’s approach to provisioning for impairment losses in the context of its annual financial statements, described in the staff paper circulated to the Executive Board on March 3, 2020.**<sup>1</sup> The first section describes the effect of the settlement by Somalia of its protracted arrears to the Fund in March 2020. The second section provides an update on the impairment assessment of the Fund’s credit portfolio performed in the context of the preparation of the Fund’s FY2020 financial statements.

## SOMALIA’S ARREARS CLEARANCE

**2. Following Somalia’s clearing its arrears in March 2020, only one member remains in protracted arrears to the Fund.** In March 2020, Somalia successfully cleared its arrears to the Fund and reached the Decision Point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative.<sup>2</sup> This further illustrates the effectiveness of the Fund’s cooperative arrears strategy and the cooperative nature of the Fund, which serve as important pillars of the Fund’s IFRS 9 framework. Sudan remains the only member with protracted arrears to the Fund. Box 1 updates Box A3.1 in FO/DIS/20/37 to demonstrate the changes in the Fund’s net exposure related to protracted arrears as a result of the Somalia’s arrears clearance, and its comparison to the Fund’s financial safeguards, i.e., the burden sharing mechanism and the First Special Contingent Account (SCA-1).

## IMPAIRMENT ASSESSMENT FOR FY2020

**3. No impairment was recognized in the Fund’s FY2020 financial statements.** Following the circulation of FO/DIS/20/37, staff has conducted the impairment analysis under the IFRS 9 framework described in that paper and concluded that no impairment was needed for the Fund’s FY2020 financial statements. Staff briefed the Board in June 2020 on the results of the IFRS 9 assessment for FY 2020, including how the ongoing COVID-19 pandemic was taken into account. All debtor members were classified into Stage 1, except Sudan which was classified into Stage 3. The related disclosures in the FY2020 financial statements were largely the same as in the prior year. The external auditors have concurred with this assessment and signed an unmodified audit opinion on June 26.

<sup>1</sup> *Provisioning for Impairment Losses in the Context of the Fund* (FO/DIS/20/37, 3/3/2020).

<sup>2</sup> See *Somalia—Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document* (EBS/20/20, 3/12/2020).

**Box 1. Impairment Considerations for Current Arrears Cases**

	<b>Net exposure at April 30, 2019</b> <i>(SDR billion)</i>	<b>Net exposure at April 30, 2020</b> <i>(SDR billion)</i>
Outstanding overdue GRA obligations	1.1	0.9
Less: Cumulatively recovered from burden sharing	(0.7)	(0.6)
Net exposure	0.4 <sup>1/</sup>	0.3 <sup>1/</sup>
Balance in SCA-1	1.2	1.1

  

	<b>Income effect for Somalia and Sudan FY2019</b> <i>(SDR million)</i>	<b>Income effect for Sudan FY2020</b> <i>(SDR million)</i>
Annual charges	4	2
Less: Recovered from burden sharing	(4)	(2)
Net exposure	—	—
Annual burden sharing capacity at year-end	232	12

<sup>1</sup> This includes overdue repurchases and charges that were not burden shared (i.e., special charges, which are not subject to burden sharing, and basic charges accrued before the burden sharing was introduced), which comprised SDR 0.3 billion and SDR 0.1 billion at April 30, 2019 and SDR 0.2 billion and SDR 0.1 billion at April 30, 2020.