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INFORMAL SESSION TO ENGAGE

FO/DIS/21/27

February 23, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **The Fund's Income Position for FY 2021—Interim Update**

Board Action:	**Informal session to engage** Executive Directors
Tentative Board Date:	**Monday, March 8, 2021**
Issues for Discussion:	Page 18
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Questions:	Mr. Bradbury, FIN (ext. 39034) Ms. Manno, FIN (ext. 38175) Mr. Nana, FIN (ext. 38849)

THE FUND'S INCOME POSITION FOR FY 2021—INTERIM UPDATE

February 23, 2021

EXECUTIVE SUMMARY

This paper presents updated projections of the Fund's income position for FY 2021 based on developments through the first eight months. This responds to a request from Directors at the October 2020 Board discussion on the *Review of the Adequacy of the Fund's Precautionary Balances* for an interim update in light of the heightened uncertainty associated with the COVID-19 pandemic. The paper also presents some preliminary thoughts regarding the timing of initiating payouts from the Endowment Subaccount (EA) and on options for addressing the impact of volatility in pension-related gains and losses on the Fund's reserves and financial reporting. The paper is intended as background for an informal session to engage, tentatively scheduled for March 2021.

The updated FY 2021 projections incorporate actual income for the eight months ended December 2020 and projections for the remainder of the fiscal year. Projections of the Fund's income are subject to larger than normal uncertainties related to the impact of the COVID-19 pandemic on key assumptions. For FY 2021, these uncertainties relate mainly to 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 at April 30, 2021, and the full year asset returns on the retirement plan and the EA.

Staff currently projects net operational income of about SDR 1.4 billion for the GRA for FY 2021, slightly higher than last April's estimate, and broadly the same as actual net operational income for FY 2020. After including an estimate for the pension-related gain as of end-December and income from the EA, the Fund's updated overall net income position increases to about SDR 3.2 billion. In FY 2020 the Fund incurred an overall net loss of about SDR 1.4 billion.

Approved By
Andrew Tweedie

Prepared by the Finance Department in consultation with the Legal Department and the Office of Budget and Planning

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INTRODUCTION[1]

1. This paper presents updated projections of the Fund's income position for FY 2021.[2] It updates the April 2020 projections, responding to a request from Directors at the October 2020 Board discussion on the *Review of the Adequacy of the Fund's Precautionary Balances*.[3] The paper also presents some preliminary thoughts for Directors' consideration on the timing of initiating payouts from the Endowment Subaccount (EA) and on options for addressing the impact on the Fund's reserves and financial reporting resulting from volatility in IAS 19 pension-related gains and losses.

2. The near-term income outlook is subject to larger than normal uncertainty. The updated FY 2021 projections incorporate actual income for the eight months ended December 2020. However, the final income outlook for FY 2021 remains uncertain as the ongoing crisis could potentially trigger new demand for Fund resources beyond that reflected in the updated projections. The outlook for FY 2021 also remains sensitive to interest rate and other market-related fluctuations, in particular the discount rate used to measure the Fund's retirement plan obligations under IAS 19.[4] Assumptions underlying the projections are summarized in Annex II.

3. This paper is structured as follows: The first section updates the FY 2021 income position and discusses the main changes from the previous estimates. The second section presents some preliminary thoughts on the EA payout and the treatment of IAS 19 pension-related gains and losses.

UPDATED FY 2021 INCOME POSITION

A. Interim Update of Initial FY 2021 Income Projection

4. Table 1 and Figure 1 provide updated projections for FY 2021 and the outturn for the first eight months of the year. The updated lending projections are based on a *desk survey* of potential demand for Fund lending, which reflects desk assessments of the likelihood of a program request based on knowledge of member countries' economic outlook, financing needs, and the

[1] Prepared by a team comprising Alexander Attie, Marco Cobanera, Fiona Delaney, Emer Fleming, Martin Gororo, David Moore, Diviesh Nana (lead), Amadou Ndiaye, Victoria Nichipurenko, Joel Chiedu Okwuokei, Vidhya Rustaman, Charles Xie, Jessie Yang, and Edda Zoli, under the guidance of Maria Manno and Simon Bradbury (all FIN), and Hoang The Pham (LEG).

[2] *Review of the Fund's Income Position for FY 2020 and FY 2021–2022* (EBS/20/58, 04/13/20) and *Review of the Fund's Income Position for FY2020 and FY 2021–2022—Supplementary Information* (EBS/20/58, Supplement 1, 04/21/20).

[3] *Review of the Adequacy of the Fund's Precautionary Balances* (SM/20/159, 10/8/20).

[4] Since the adoption of IAS 19 for pension and related benefits accounting, forward-looking projections about the demographic and other assumptions, and returns on the asset portfolio, have not been built into the income scenarios, due to the volatility, and hence unpredictability, of these assumptions.

political landscape.[5] By contrast, the baseline projections in the April paper took account of arrangements approved through end-March 2020 and estimates of potential emergency loan demand (mainly in the form of Rapid Financing Instruments) associated with the COVID-19 pandemic. Repurchases of outstanding Fund credit, and disbursements under arrangements already approved are assumed to take place as scheduled.

5. Net operational income of about SDR 1.4 billion is projected for the GRA for FY 2021, slightly higher than the April estimate (see Table 1, Line C). Key factors behind the updated projections are outlined below (see Annex II for underlying assumptions):

Lending Income: Projected lending income of about SDR 2 billion is broadly in line with the April projections.

- Margin income is lower by SDR 88 million due mainly to the lower than expected annual average credit outstanding—some purchases under the Rapid Financing Instrument took place later than expected or are no longer expected to take place as anticipated in April and purchases scheduled for FY 2021 under a large stand-by arrangement are now lower than anticipated;[6] offset by demand under recently approved arrangements and potential new programs under the desk survey scenario. A rephasing of drawings under existing arrangements, early repurchases, and the expiration of arrangements with undrawn balances also contributed to the lower projected margin income.

- Service charges are higher than the earlier projections mainly reflecting drawings under new arrangements or instruments; and these are projected to more than offset purchases that did not take place as anticipated in April.

- Projected commitment fees are higher by SDR 30 million following the recognition of commitment fee income from Argentina's cancellation of its stand-by arrangement in July 2020.[7]

- Surcharge income is expected to be about SDR 29 million higher than previously projected, due mainly to surcharges expected from new arrangements (about SDR 120 million), partly offset by lower surcharges resulting from delayed purchases and purchases no longer expected to take place as previously anticipated.

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[5] The *desk survey* of potential demand for Fund lending was also the source for the main scenario in the most recent precautionary balances discussion (see *Review of the Adequacy of the Fund's Precautionary Balances* (SM/20/159, 10/8/20)).

[6] In the April projection, purchases were mainly scheduled to take place in the early part of the year, resulting in higher projected average credit outstanding for FY21.

[7] Commitment fee income is only recognized at the expiration or cancellation of an arrangement. The fees for the two-year FCL arrangements are included in income at the end of the two-year period. An earlier cancellation results in a refund to the member and hence a reduction in the commitment fee that would have been recognized as income upon the expiration of the FCL, assuming no drawings.

Table 1. Projected Income Position—FY 2021
(In millions of SDRs)

	FY 2021			
	Actual to 8 months ended December 31, 2020 [1]	Initial Projections - Supplement [2] (EBS/20/58)	Current Projections - Interim Update	Changes - Current and Initial Projections
A. Operational income	**1,477**	**2,220**	**2,273**	53
Lending income	**1,344**	**2,039**	**2,027**	-12
Margin for the rate of charge	565	961	873	-88
Service charges	108	125	142	17
Commitment fees	70	40	70	30
Surcharges	601	913	942	29
Investment income	**82**	**105**	**173**	68
Fixed-Income Subaccount (reserves)	82	51	113	62
Endowment Subaccount payout [3]	0	54	60	6
Interest free resources [4]	**5**	**7**	**7**	0
SCA-1 and other	5	7	7	0
Reimbursements	**46**	**69**	**66**	-3
SDR Department	2	3	3	0
PRG Trust	44	66	63	-3
B. Expenses	**557**	**924**	**893**	-31
Net administrative expenditures [5]	521	866	835	-31
Capital budget items expensed	4	9	9	0
Depreciation	32	49	49	0
C. Net operational income (A-B)	**920**	**1,296**	**1,380**	84
Pension and other benefits related (IAS 19) gains/(losses)	1,336	0	1,336	1,336
D. Net operational income after IAS 19 adjustment	**2,256**	**1,296**	**2,716**	1,420
Endowment subaccount - Retained income [3]	538	116	506	390
Net income position	**2,794**	**1,412**	**3,222**	1,810
Memorandum Items:				
Fund credit (average stock, SDR billions)	84.3	96.1	87.3	
SDR interest rate (average, in percent)	0.1	0.1	0.1	
US$/SDR exchange rate (average)	1.40	1.37	1.42	
Precautionary balances (end of period, SDR billions)	18.3	17.8	18.7	

[1] Based on actual results for the eight months ended December 31, 2020.

[2] See Review of the Fund's Income Position for FY2020 and FY 2021–2022—Supplementary Information (EBS/20/58, Supplement 1, 04/21/20).

[3] The current projections assume a 1 percent payout from the Endowment Subaccount commencing in FY 2021. See Section B for a comprehensive discussion of the FY 2021 EA payout.

[4] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA 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 transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.

[5] Based on flat real budget envelope as approved in the *FY2021-FY20*23 Medium-Term Budget paper (EBAP/20/30, 3/24/20).

Investment Income—Fixed-Income Subaccount (FI): Investment income from the subaccount is currently projected to reach SDR 113 million, SDR 62 million higher than the April estimate. The increase incorporates actual returns of about SDR 82 million (or 0.5 percent unannualized) to end-December and reflects mainly a narrowing of credit spreads since the beginning of the financial year, and the subsequent reversal of mark-to-market losses on short-duration credit assets sustained earlier in March. However, the FY 2021 projections remain highly uncertain given ongoing heightened bond market volatility.

Investment Income—Endowment Subaccount Payout: In the April projections, a payout from the EA is assumed to be initiated in FY 2021. The projected payout, equivalent to SDR 60 million, is slightly higher than was estimated in April and reflects the increase in the value of the portfolio since the start of the year. While a decision on initiating the payout will only need to be taken in April, Section A below presents some preliminary thoughts on the timing of the initial payout for Directors' consideration.

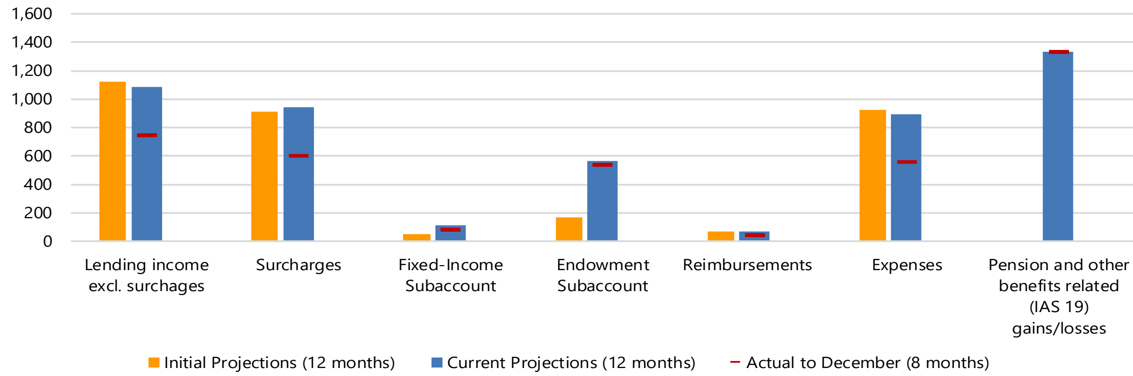
Implicit Returns on Interest-Free Resources: The updated implicit returns on interest-free resources are projected to be SDR 7 million, in line with the prevailing low interest rate environment, and an average SDR interest rate for FY 2021 that is consistent with the earlier projection of 0.1 percent.

Reimbursements: Reimbursements are in line with the April estimates and will be finalized in the FY 2021 April income paper following the conclusion of the annual budgetary review early in the new year. These projections could be revised in light of on-going discussions on the review of concessional financing.

Expenses: Total expenses of the GRA are estimated to be about SDR 31 million lower than previously projected reflecting a weaker annual average U.S. dollar/SDR exchange rate compared with the April projection (Table 1, Line B). FY 2021 net administrative expenditures are unchanged from earlier projections in U.S. dollar terms.[8] However, the weakening of the U.S. dollar against the SDR so far this year has increased the average conversion rate from US$1.37 per SDR assumed in the April projection to US$1.42 per SDR, reducing administrative expenses in SDR terms by about SDR 31 million. Updated projections of capital budget items expensed and the depreciation charge are unchanged in SDR terms as the slight increase in the charges was offset by the weaker U.S. dollar.

[8] Based on flat real budget envelope as approved in the *FY2021-FY20*23 Medium-Term Budget paper (EBAP/20/30, 3/24/20).

Figure 1. Income Position Highlights—FY 2021
(In SDR millions)



6. **The Fund's overall net income for FY 2021 is now projected at SDR 3.2 billion, after including an estimate for the pension-related adjustment and retained investment returns of the EA as of end-December**. Further information on these two elements is provided below:

Pension-Related (IAS 19) Adjustment:

Based on actual developments through December, staff now estimates an IAS 19 gain for FY 2021 as a whole of about SDR 1,336 million. As is customary, this estimate assumes no further gains or losses in the last third of FY 2021 and compares with an IAS 19 loss of about SDR 3 billion in FY 2020, further underscoring the volatility of the pension-related adjustments. The estimated IAS 19 adjustment for FY 2021 comprises two elements: (i) remeasurement gains/(losses); and (ii) the net periodic pension cost, net of funding.

- Remeasurement gains and losses result from changes in the actuarially-assessed

Reconciliation of Pension-Related (IAS 19) Gains/(Losses)
(In millions of SDRs)

	FY 2020		FY 2021
	Per Staff Paper (EBS/20/58) Supplement	Actual Outcome	Est. - 8m ending Dec 31, 2020 [1]
Accrual vs. Funding	**-171**	**-91**	**-225**
Pension cost accrual	-320	-238	-332
Service cost - current	-309	-310	-271
Service cost - prior year (plan amendment)	0	83	0
Interest expense on pension liability	-377	-377	-223
Expected income on pension asset [2]	366	366	162
Pension funding	149	147	107
Remeasurement gains/(losses)	**-2,204**	**-2,880**	**1,561**
Discount rate change	-1,654	-2,173	-645
'Excess return' on assets [2]	-857	-944	2,116
Exchange rate translation	-46	-5	90
Experience adjustment	0	-15	0
Other	353	257	0
Total IAS 19 gains/(losses)	**-2,375**	**-2,971**	**1,336**
Discount rate - at end of period (in percent)	2.97	2.73	2.45

Source: Willis Towers Watson and IMF Finance Department

[1] The asset revaluations for the year are based on actual portfolio performance to November 30, 2020 projected to end December and the discount rate is as of 31 December 2020.

[2] Total income from plan assets comprises two components for financial reporting purposes: i) the expected income on plan assets calculated using the discount rate, and included in the pension cost and ii) a gain or loss included in remeasurement losses that is in 'excess' of this expected income.

estimated future benefit obligation; and changes in the fair value of plan assets. The year-to-date estimates through December point to net actuarial remeasurement gains of SDR 1,561 million that are largely attributable to strong asset performance, offset partly by a reduction in the discount rate (Text Table).

  - Excess asset returns of SDR 2,116 million reflect strong plan asset returns of about 25 percent y-t-d in U.S. dollar terms as financial markets have rebounded sharply since the beginning of the year following large losses in March in the wake of the pandemic.

  - The discount rate has fallen since the start of the year reaching 2.45 percent by end-December, which increased the defined benefit obligation resulting in a remeasurement loss of about SDR 645 million.

  - Exchange rate translation gains added about SDR 90 million to the remeasurement gains.

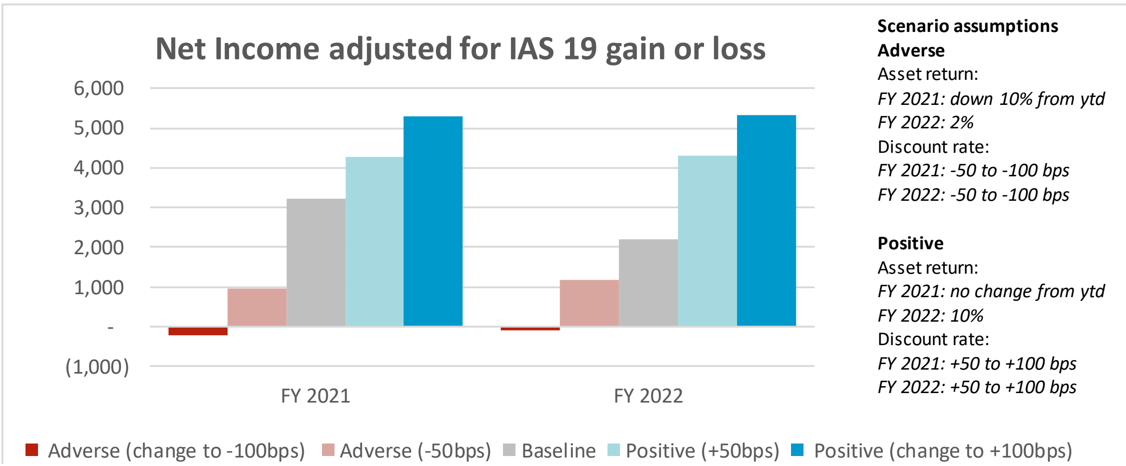
- An additional adjustment of SDR 225 million reflects the difference between (i) the actuarially determined y-t-d IAS 19 expense of SDR 332 million (the increase in obligations under the staff retirement plan stemming mainly from the y-t-d cost of staff service); and (ii) the funding (cash appropriation) for the y-t-d of SDR 107 million.

Notwithstanding the net IAS 19 gain estimated for the first eight months, the outcome for the fiscal year as a whole remains highly uncertain. In light of ongoing financial market volatility, considerable uncertainties remain relating to: (i) the discount rate that will be used to measure the Fund's retirement plan obligations at April 30, 2021; and (ii) the full year asset returns on the retirement plan. Historically the outcome has fluctuated and the ongoing economic uncertainty due to the pandemic means that the variables used for the end-December projections could differ significantly from those used for the actual full year outcome. As an example of recent high volatility, the discount rate declined about 50 basis points in the first quarter leading to remeasurement losses of over SDR 1 billion at end-July, part of which reversed as rates recovered to the end of December.

While it is not practical to project IAS 19 gains (losses) with any accuracy, staff has prepared alternative scenarios that further illustrate the sensitivity of FY 2021 income projections to changes in the two key actuarial assumptions—the discount rate and asset returns (see Text Figure). In a positive scenario with the discount rate rising by 50 basis points by the end of FY 2021, and a further 50 basis points by the end of FY 2022 and no further asset gains in FY 2021 (10 percent annual returns in FY 2022), the pension-related remeasurement gains would increase, raising projected overall net income to SDR 4.3 billion in FY 2021 and FY 2022. By contrast under adverse scenarios with a lower discount rate and weaker asset returns (50 basis point decline in the discount rate by end-FY 2021 and a further 50 basis point decline by the end of FY 2022 and a 10 percent decline in asset returns for the remainder of FY 2021 and 2 percent annual investment returns in FY 2022), the pension-related remeasurement losses would increase, reducing projected net income to SDR 1 billion in FY 2021 and SDR 1.2 billion in FY 2022. The impact of an additional 50 basis points change in the discount rate is also shown.

Sensitivity of Net Income Projections to Changes in the Discount Rate and Asset Returns—Illustrative Scenarios (FY 2021–22)

(In millions of SDR)



Investment Income - Endowment Subaccount (EA):

The EA's total investment income is estimated to reach SDR 566 million in FY 2021. Investment income retained after the projected payout of SDR 60 million (Table 1) is estimated at SDR 506 million, higher than the previous estimate in April; and reflects the strong financial market performance so far this year. The portfolio earned actual returns of 15.6 percent in U.S. dollar terms for the first eight months as equity markets staged a swift turnaround, following sharp declines earlier in March in the wake of the pandemic. Returns were lower in SDR terms reflecting the weakening of the U.S. dollar against the SDR since the beginning of the year. As indicated previously, the income projections for the EA remain subject to considerable uncertainty given the high degree of volatility across the asset classes in which the EA is invested.

B. Summary of Key Risks

7. Key risks to Fund income and finances associated with recent developments include cancellations and changes in the timing of purchases under existing arrangements; fluctuations in the annual pension-related gain or loss as determined under IAS 19; uncertainties around the global interest rate environment and U.S. dollar/SDR exchange rate path; and credit risk that is inherent in the Fund's unique role in the international financial architecture. More specifically:

- Delays, rephasing or cancellation of purchases under existing arrangements or early repurchases could lead to lower Fund income, though this risk could be mitigated by members seeking new Fund arrangements as the crisis unfolds.

- Changes in actuarial assumptions that impact the annual pension-related gain or loss under IAS 19 can be substantial and have a significant impact on overall Fund income and the accumulation of precautionary balances.

- While the broadening of non-lending income sources under the Fund's new income model is helping mitigate income risk, the low return environment and potential for further market volatility could imply downside risks to expected contributions from investment income.

- Regarding credit risks, staff plans to commence the process of IFRS 9-related impairment assessments for FY 2021 early in the new calendar year.

REVIEW OF SPECIFIC INCOME-RELATED ITEMS

A. Timing of Initiation of the EA Payout

8. **The New Income Model (NIM) endorsed by the Executive Board in April 2008 aimed at diversifying the Fund's sources of income and reducing reliance on lending income to finance its diverse activities**.[9] This led to the creation of an endowment subaccount (EA) within the IA that was funded beginning with a portion of gold sales profits amounting to SDR 4.4 billion.[10,11] The initial investment objective of the EA was to generate a long-term real rate of return of 3 percent in U.S. dollar terms, with payouts expected to provide meaningful contribution to Fund income. It was decided to gradually phase in the investments and not to initiate any payouts from the endowment during the phase-in period.[12] Further, it was decided that investment income would be retained in the EA until the establishment of a long-term payout policy by the Executive Board toward the end of the phase-in period.

[9] See *Developing a New Income Model for the Fund—Proposed Decisions* (SM/08/80 Revision 1, 4/2/08 and SM/08/80 Revision 1, Supplement 1; EBAP/08/27 (4/3/08).

[10] In December 2010, the Fund concluded the limited gold sales (403 metric tons) approved by the Board in September 2009. Total profits from the gold sales were SDR 6.85 billion. Also see *Broadening the Fund's Investment Mandate—Proposed Rules and Regulations for the Investment Account* (SM/12/318, 12/28/12).

[11] Pending final investment, funds were placed in highly-rated, developed market bonds or obligations of the BIS.

[12] See paragraphs 12 and 30 of the Rules and Regulations for the Investment Account, set forth in the Annex to SM/12/318, Sup. 1 (1/25/13).

9. The Executive Board discussed the payout rule and agreed on an EA payout policy framework in April 2018 (Figure 2). The EA payout policy framework was established to support the EA's long-term financial objectives and achieve a balance between providing a meaningful contribution to the Fund's income and preserving the real value of the EA over time.[13,14] The agreed framework was expected to result in relatively stable and predictable annual payouts in U.S. dollar terms. It also included several safeguards, including a delay in the initial payout decision for three years until FY 2021 to allow time to build-up a cushion of retained investment income, that the initial value of the payout would be aligned to the prevailing outlook for investment returns, and the setting of a maximum limit of the payout as a percentage of the EA's total net asset value (NAV) that would trigger suspension of future payouts.[15]

Figure 2. EA Payout Policy Framework—Key Features[1]

- Annual payout amounts in US dollars will be determined according to a constant real payout rule.
- Annual payouts will be decided at the time of the Fund's net income disposition decisions. The initial nominal US dollar value of the payout will be aligned with the prevailing return outlook.
- The deflator for annual inflation adjustments will be the Fund's annual GED.
- The payout will be subject to a NAV-based limit which would trigger a suspension of payouts. The initial value of the payout and NAV-based limit will be decided by the Board prior to the first payout.
- Payouts will be delayed for three years (until FY 2021) to build a cushion of retained investment income.
- The retained investment income would be reassessed at the end of the three-year period.

1 See *The Chairman's Summing Up* (SU/18/51, 04/27/18).

10. Considerable progress has been made in building an EA cushion since the 2018 Board discussion. As of end-December 2020, the EA cushion of retained investment income stood at around 18.4 percent of the level required to preserve the EA's value in real terms (EA corpus) (Figure 3). At these levels, the EA's cushion was slightly above the updated target buffer of about 17.4 percent (equivalent to a two standard deviation event).

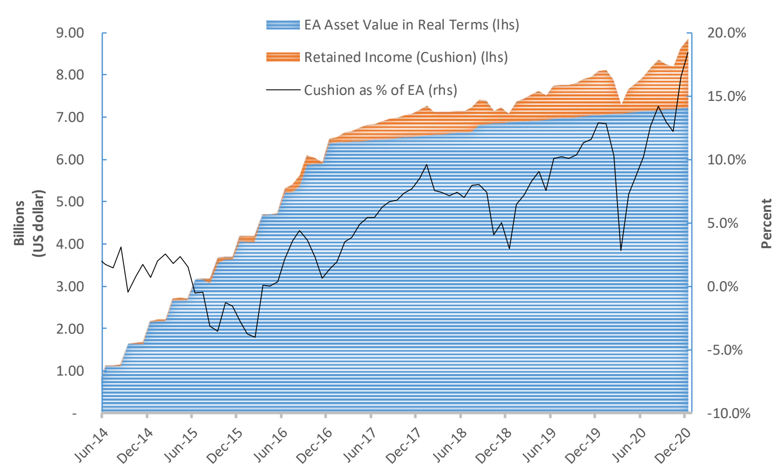
[13] In particular, recognizing the public good aspects of many Fund activities, efforts have been directed towards the development of a framework that relies on broader and more sustainable income sources, rather than continuing to rely primarily on income from the Fund's financial support to members to cover general administrative expenses.

[14] *Review of the Fund's Income Position FY 2018 and FY 2019–2020* (EBS/18/25 04/05/18; and Cor. 1, 04/25/18).

[15] It was further agreed that the size of the cushion would be reassessed at the end of the three-year period. See *Review of the Investment Account* (SM/18/24, 02/02/18) and *The Acting Chair's Summing Up* (SU/18/31, 03/09/18).

11. Nonetheless, recent market developments have also highlighted the potential vulnerability of the cushion to adverse market shocks. The cushion grew steadily up until early 2020, but lost most of those gains during March 2020 at the onset of the pandemic crisis. The EA's performance has since rebounded and more than reversed these losses, but it remains volatile and susceptible to adverse market developments in light of the uncertain economic environment brought about by the pandemic. This could result in a start-stop scenario if the maximum payout limit is triggered (Annex III).[16] At the time of the last review in 2018, it was decided that the retained investment income cushion would be reassessed at the end of the three-year period.

Figure 3. EA Asset Value in Real Terms and Retained Investment Income Cushion



12. Staff has also been revising its estimates of the EA's long-term return outlook as part of the preparations for the upcoming IA Review. Compared to the estimates in 2018, expected market returns are now lower. The EA's expected average real return is now estimated at around 2.3 percent in U.S. dollar terms on average over the long-run, but with a significant (more than 50 percent) probability of under-performance. There is a greater level of confidence that returns will achieve closer to around 1 percent (with around 65 percent level of confidence or 35 percent probability of underperformance) (see Text Figure), especially given that medium term risks remain high. Under the agreed framework, staff estimates that the initial payout would be limited to around 1 percent of NAV or about USD 85 million, unchanged in nominal terms from the USD 85 million estimated at the time

Simulated Average Annual Return and Risk for the EA
(In US dollar terms)

Horizon		Medium-term (5-year)	Long-term (15-year)
Avg. Expected Nominal Return		**3.1%**	**4.1%**
Standard Deviation		8.7%	8.7%
Reward-to-risk Ratio		0.36	0.47
VaR Return (95%)		-10.5%	-9.6%
CVaR Return (95%)		-13.3%	-12.5%
Probability of Underperforming Real Return Target	3% Real	67.0%	68.2%
	2% Real	58.6%	52.6%
	1% Real	49.2%	34.8%
	0% Real	39.8%	20.0%
Memo. Item	US Inflation	1.7%	1.8%

[16] The maximum payout limit would trigger a suspension of payouts if the real value of the EA were to decline by an amount approximately equivalent to the size of the EA cushion.

of the Board discussion in March 2018.[17,18] Once initiated, payout amounts for future years would increase by the GED (Annex III).

13. The forthcoming IA Review, advanced to March 2022, will provide an opportunity to revisit the return outlook and consider possible modifications to the EA investment strategy. The 5-yearly review of the EA and the FI has been brought forward by one year to take into consideration market developments following the COVID-19 crisis, and to align with the *Review of the Trust Assets Investment Strategy*. At the time of the 2018 Review of the IA, it was already recognized that the current investment strategy was unlikely to deliver returns in line with the 3 percent real target. The forthcoming review of the IA in FY 2022 could result in modifications to the EA investment strategy and the long-term return outlook.

14. Against this background, there could be a case to further delay the commencement of the EA payout by an additional year. The payout decision is currently expected at the time of the income discussion in April 2021. A delay in the payout by one more year would allow the payout decision to be informed by the outcome of the IA review, including possible revisions to the investment strategy and the long-term return target. It could also allow more time for the EA to build up the cushion of retained investment income, thereby better insulating the portfolio against large adverse market events and reducing the risk of a stop-start scenario.

15. A one-year delay in initiating EA payouts would have only a modest impact on the Fund's net operational income and precautionary balances in FY 2021. Based on the agreed framework, current estimates suggest that the EA payout in FY 2021 could be equivalent to around SDR 60 million (USD 85 million). This compares with projected net operational income after covering net administrative expenditures of SDR 1.4 billion, and potential accumulation of precautionary balances under current policies of SDR 2.7 billion. Overall net income and the Fund's total reserve position would not be affected in FY 2021 and could be slightly higher in FY 2022 assuming higher returns from funds retained in the EA compared with the FI (Annex VIII).[19]

B. Options for the Treatment of IAS 19 Remeasurement Gains/Losses

16. In recent years, the volatility of the Fund's reported income and the subsequent unpredictability of precautionary balance accumulation has increased. During the last review of the Fund's income position, and more recently during the Executive Board discussion on precautionary balances, Executive Directors asked staff to explore options to minimize the income volatility arising year-on-year from the magnitude and unpredictability of pension-related gains and

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[17] The EA NAV totaled $8.8 billion at December 31, 2020; and despite the large increase in the EA NAV over the last three years, the impact of the higher NAV would be more than offset by the lower annual average return projections.

[18] *Review* of *the Investment Account* (SM/18/24, 02/02/18).

[19] A payout from the EA would add to net operational income potentially available for transfer to the IA and investment in the FI.

losses. In response to this request staff has examined below possible options for the treatment of the pension-related gains or losses.

17. The Fund's financial statements are prepared under International Financial Reporting Standards (IFRS) which prohibits 'smoothing' of unrealized gains and losses in income arising from the actuarial remeasurement of the staff retirement benefits plans. IAS 19 is the accounting standard that deals with accounting for pension and other employee benefits and it requires the full impact of remeasurement gains and losses incurred during the year to be reflected in income in the annual pension-related (IAS 19) adjustment. As such any 'smoothing' of income or change to income recognition is not permissible under IFRS. The remeasurement gains and losses are influenced by financial market fluctuations which results in volatility and changes in tandem with market conditions.[20]

18. While there is no possibility to smooth the income effect, there is an opportunity to change the financial statements presentation to facilitate more transparent disclosure of the IAS 19 impact and staff sees merit in such a change (Annex IV). Although overall net income cannot be changed, under IFRS there is flexibility in how the income statement is presented. An entity may present either a single combined Statement of Comprehensive Income (as the GRA does currently)[21] or two separate statements (i. Statement of Profit or Loss and ii. Statement of Comprehensive Income). Under the latter option, the impact of IAS 19 remeasurement gains/losses would be presented separately from the financial performance of the core GRA operations (Annex IV). To enhance the disclosures, a table could also be added to the notes to the financial statements, specifically in the reserves section, which would show the portion of each reserve attributable to the IAS 19 remeasurement gains or losses and disclose the cumulative effect of these IAS 19 gains and losses.

19. Similarly, staff also proposes that the income paper presentation of the pension-related gains and losses be more closely aligned with the financial statements presentation going forward (Annex V). As in the past, the overall net income in the income paper will align with the financial statements and will not change. As such, any change proposed in the income paper would be presentational and entail the splitting of IAS 19 gains or losses into 2 components: (i) annual pension expense, and (ii) actuarial remeasurement. The pension expense (service and net interest costs) would be included in administrative expenses when calculating net operational income before remeasurement gains and losses. The remeasurement (or unrealized portion) would be shown as a separate line item, below net operational income, consistent with the current presentation of 'other comprehensive income' (OCI) in the financial statements (Annex V shows the current versus proposed income paper presentation). Along with aligning the income paper presentation more closely with the financial statements it would also facilitate a more focused

[20] The remeasurement gains and losses are driven mainly by changes in discount rates and asset returns. For instance, a 50 basis point decrease in bond yields can increase the liability by approximately SDR 1 billion. The volatile nature of the short to medium term effects of the remeasurement gains or losses have tended to offset each other over time and do not necessarily reflect the long-term funding requirements of the staff retirement benefit plans.

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

review of the Fund's core business activities, and its impact on reserves and the key disposition decisions.

20. Beyond the above presentational change, staff has also considered other potential changes to the reserve accounts to further isolate the impact of remeasurement gains or losses. However, there are broader policy implications that may need to be further considered; in particular, the effect on the Fund's precautionary balances framework and the transfers of currencies to the investment account would need further reflection. The two options for further changes are outlined briefly below and the key features under each of the options are summarized in Box 1. [22]

21. The first option would be to separately identify and 'ring-fence' the IAS 19 remeasurement gains or losses in the special reserve (Annex VI – Option 1).[23] This option would record IAS 19 remeasurement gains or losses only within the special reserve, rather than in both the special and general reserves as currently, and thus be more clearly identified, albeit by adding some complexity to the financial statements.[24] The volatility due to remeasurement gains or losses would be reflected entirely within the special reserve, which is non distributable and therefore more suitable for the allocation of unrealized amounts. Under this approach, any such net valuation losses would reduce the amount available for loss absorption while any such net valuation gains would not be available for future distribution to the membership as a dividend. The existing precautionary balances (PBs) framework would not be affected, and IAS 19 remeasurement gains or losses would still feed through to year-to-year fluctuations in the level of PBs. While such changes have tended to offset over time, there could still be significant volatility as occurred in FY 2020. Similarly, the remeasurement gains or losses would continue to affect the maximum transfers to the investment account which are limited under the Articles to the total of the general and special reserves at the time of transfer. The Board would still need to take an annual decision on the allocation of net operational income, excluding IAS 19 remeasurement gains or losses, between the general and the special reserves.[25]

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[22] The policy for precautionary balances and transfer of currencies to the investment account would continue to be assessed independently of any presentational changes for the remeasurement gains or losses in the financial statements.

[23] The special reserve—established in 1957—was initially funded by the proceeds from a gold investment program set up to address the deficits accumulated from annual losses the Fund suffered from its inception to April 1956. The Board subsequently decided that any administrative losses of the Fund would first be written off against the special reserve. See Executive Board Decision No. 708-(57/57), November 27, 1957. Since 1957, annual operational losses of the Fund have been charged against the special reserve.

[24] Placing the IAS 19 remeasurement gains or losses in the special reserve would also be consistent with the Fund's approach in the early 2000s, when it was decided that any IAS 19 remeasurement change was of an accounting nature, and did not reflect actual gain and loss in the Fund's financial resources, and thus should be kept in the Fund's special reserve, which unlike the general reserve is not subject to distribution to the Fund's members. See *Review of the Fund's Income Position, the Rate of Charge, Precautionary Balances, and Burden Sharing for FY 2000 and FY 2001* (EBS/00/70, 04/07/2000) para. 9.

[25] Specifically, under this option, the Board would adopt two separate annual decisions under Article XII, Section 6(a) to allocate net income and loss to the Fund's reserves: (i) one decision to allocate annual IAS19 remeasurement gains or losses to the special reserve, and (ii) one decision to allocate the Fund's net operational income or loss between the general and special reserves.

22. The second option would be to create an additional account outside of the special and general reserve to capture future accumulated IAS19 remeasurement gains/losses (Annex VI - Option 2). This would be a separate equity or retained earnings-type account recognized as an additional reserve of the General Resources Account (GRA). Under this option, future IAS 19 remeasurement gains or losses would no longer be part of the annual net income allocable to the Fund's general and special reserves, thereby making the allocable amount equal to the net operational income before OCI in the Fund's income statement. This new account would be reported as a separate line item in the Statement of Financial Position and the Statement of Changes in Reserves, Resources and Retained Earnings (see Annex VI - Option 2). As this option removes future accumulated IAS 19 remeasurement gains or losses from the Fund's reserves, the new account would not fall under the current definition of PBs; the definition of PBs would have to be changed if it were to include the new account.[26] Excluding the new account would reduce annual volatility in PBs, but could raise questions about the adequacy of PBs in the event of a sustained decline in the new account balance. There would also be similar questions for income transfers to the investment account, which are limited under the Articles to the total of the general and special reserve.[27]

23. Practices among comparator institutions on the presentation of cumulative remeasurement gains and losses in the financial statements differ significantly (Annex VII). Staff conducted a preliminary review of practices among ten comparator institutions. Of these, two apply an approach analogous to option 1 above, while four reflect pension-related remeasurement gains or losses separately within equity as per option 2 above. The remaining four institutions applied a variety of approaches: one reflects pension-related gains or losses through income, two provide detailed disclosure on retained earnings or reserves in the notes to the financial statements, and one provides no detail on remeasurement gains or losses.

24. Based on Directors' initial feedback, staff plans to proceed with the presentational changes discussed in paragraphs 18 and 19 above in its reporting for the FY 2021. Staff could also further explore one of the above two options, recognizing that there is no solution that smooths overall income volatility and that either option involves trade-offs that would need to be carefully considered.

[26] Under the current definition, precautionary balances comprise retained earnings held in the Fund's general and special reserve, and the Special Contingent Account (SCA-1).

[27] Specifically, under Article XII, Section 6(f)(ii), the Fund may not decide to transfer any additional currency amount from the GRA to the investment account if the total transfers would exceed the total amount of the Fund's general and special reserves at the time of such decision. The Board's discussion of the draft Second Amendment indicated that this Article XII, Section 6(f)(ii) was intended to limit the Fund's investment authority such that the Fund could only invest currency holdings arising from operations and not from quota subscriptions. See EBM/75/164, page 20.

Box 1. Key Features of Proposed Changes

Change in presentation of the income statement to two separate statements: a Statement of Profit or Loss and a Statement of Comprehensive Income.

- The impact of IAS 19 remeasurement gains/losses would be presented separately from the financial performance of the core GRA operations and this would isolate the impact of the volatility caused by the IAS 19 remeasurement gain or loss.

Change in presentation of the pension-related gains and losses in the Income Paper.

- Aligns the income paper presentation more closely with the financial statements and isolates the volatile portion of the IAS 19 adjustment.
- Facilitates a more focused review of the Fund's core business activities, and its impact on reserves and the key disposition decisions.

Option 1: Separately identify and 'ring-fence' the IAS 19 remeasurement gains or losses in the special reserve.

- Volatility due to remeasurement gains or losses would be reflected entirely within the special reserve, which is non distributable and therefore better suited for the allocation of unrealized amounts.
- Net remeasurement losses would reduce the amount available for loss absorption in the special reserve.
- Net remeasurement gains would not be available for future distribution to the membership as a dividend.

Option 2: Create an additional account outside of the special and general reserve.

- Volatility due to remeasurement gains or losses would no longer be reflected with the special or general reserve as future IAS 19 remeasurement gains or losses would no longer be part of the annual net income allocable to the Fund's general and special reserves.
- The definition of PBs would have to be changed if it were to include the new account. Excluding the new account would reduce annual volatility in PBs but could raise questions about the adequacy of PBs in the event of a sustained decline in the new account balance.
- There would also be similar questions for income transfers to the investment account, which are limited under the Articles to the total of the general and special reserve.
- Signals a departure from the long-standing past practice of the Fund allocating total GRA income to the special reserve and/or general reserve.

ISSUES FOR DISCUSSION

Directors may wish to comment on the following issues:

Timing of Initiation of the EA Payout

- What are Directors' views on delaying the FY 2021 payout and reassessing it in FY 2022 given the prevailing uncertainty in financial markets and in light of the forthcoming review of the IA?

Options for the Presentation of IAS 19 Remeasurement Gains/Losses

- Do Directors agree that the proposed presentational changes to the financial statements and income paper should be pursued to enhance the disclosures of the impact of the IAS 19 remeasurement gains/losses?
- What are Directors' initial views on the relative merits of further exploring Option 1 or Option 2?

Annex I. Decisions in Effect Related to the FY 2021 Income Position

Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2021:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2021 was set in 2020 at 100 basis points for a period of two years (FY 2021–22).[1] This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), which allows the margin for calculating the basic rate of charge to be set at a level other than that which is adequate to cover the estimated intermediation expenses of the Fund and to generate an amount of net income for placement to reserves.

Burden Sharing for Deferred Charges[2]

Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to decisions taken in 2000 and 2009. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.[3]

Special Charges[4]

For overdue repurchases, the special rate of charge is set to equal the excess, if any, of the SDR interest rate over the basic rate of charge (Paragraph 3 of Decision No. 8165-(85/189), as amended). Pursuant to Rule I-6(4), the basic rate of charge "shall be determined at the beginning of each financial year as the SDR interest rate under Rule T-1 plus a margin expressed in basis points". Since under the current system for setting the basic rate of charge, that rate is always in excess of the SDR interest rate, members are not subject to special charges on their overdue repurchases.

In FY 2019 the Board reviewed the system of special charges and adopted a decision to amend Section VI of the 1985 decision on special charges, to shift the requirement for regular review from the annual review of the Fund's income position to the five-yearly Review of the Fund's Strategy on Overdue Financial Obligations. Accordingly, the next review of the special charges framework would be due by 2022 but could take place sooner if circumstances warrant.

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[1] Decision No. 16774-(20/51), adopted on April 27, 2020.

[2] Decision No. 12189-(00/45), adopted on April 28, 2000, as amended.

[3] See *Recent Fall in the SDR Interest Rate--Implications and Proposed Amendments to Rule T-1* (SM/14/287, 10/16/14.

[4] The requirement for an annual review of special charges was amended. See *Review of the Fund's Income Position for FY 2019 and FY 2020* (EBS/19/16, 03/19/19; and Sup. 1, 04/03/19).

Annex II. Assumptions Underlying the FY 2021 Projections

Assumptions Underlying the Income Projections
(In billions of SDRs, unless otherwise stated)

	Actual through Dec. 2020	FY 2021
Regular Facilities:		
1. Purchases (excl. reserve tranche purchases)	21.7	28.4
2. Repurchases	1.9	6.5
3. Average balances subject to charges	84.3	87.3
4. Average SDR holdings	21.9	21.9
5. Average remunerated positions	91.1	94.5
6. Average investment account assets-Fixed-Income subaccount	16.5	16.5
7. Average investment account assets-Endowment subaccount	5.9	5.9
8. Average borrowings and issued notes	8.4	8.0
	(In percent)	
Return on investments-Fixed-Income subaccount [1]	0.50	0.68
Return on investments-Endowment subaccount [1, 2]	9.60	10.09
Average interest rates:		
SDR interest rate and basic rate of remuneration	0.1	0.1
Basic rate of charge	1.1	1.1
Margin on the rate of charge	1.0	1.0

[1] End-December figure is unannualized.
[2] The projected returns for the Endowment Subaccount is shown in SDR terms.

Annex III. Endowment Payout—Practical Considerations

The Board endorsed a set of criteria for determining a constant real payout rule, supplemented by safeguards to help protect real value of the EA.
Reassess adequacy of retained income cushion ("cushion") based on EA NAV. The target cushion could be sized so the portfolio could absorb one extreme event equivalent to a two-standard deviation market shock. Based on projections, this is equivalent to 17.4 percent. In practice the time required to achieve the required cushion would be uncertain and subject to market conditions. However, the Board could decide to delay payouts for a certain period with the intent of building an adequate income cushion in the EA. The EA cushion represents the difference between the EA's NAV and its corpus. The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the GED.[1] These parameters are calculated monthly by the IMF's custodian.

Review return outlook/projections for EA. The *initial value* of the payout would need to be aligned with a conservative estimate of the projected long-term EA real returns in US dollar terms. This estimate would ideally be associated with a relatively high level of confidence (or conversely a lower than average probability of underperformance). Based on the estimates provided in the Text Figure in the section above, a payout around 1 percent would meet the criteria. For purely illustrative purposes, this paper uses a payout of USD 85 million or around 1 percent of NAV (similar to the example provided to the Board in March 2018).

Current USD amount of initial payout. The constant real payout rule is used to determine future payout amounts after the initial payout is determined. Under this rule, the payout amount for any given year would be calculated as the prior year's payout increased by the deflator (GED). If the payout amount as a percentage of NAV exceeds the maximum limit specified above, it will be suspended.

Maximum limit of payout to trigger future suspension of the payout. Based on the level of the EA's cushion, a maximum limit would be set as a percentage of NAV to trigger suspension of future payouts. An adequate cushion is a prerequisite for commencing payouts and to prevent a start-stop scenario. For example, given the limited size of the cushion (18.4 percent as of December 2020), the implied maximum limit will be very close to the initial payout value and may be reached relatively quickly. For example, a 1 percent initial value of the payout and cushion size of 18.4 percent would imply a maximum limit of approximately 1.2 percent. In other words, if in future years the payout amount reaches 1.2 percent of the current EA NAV, a suspension of payouts would be triggered. Following a suspension, staff will need to repeat the reassessment of the EA cushion as described above and calculate a new maximum limit, before proposing to recommence payouts.

[1] Starting in FY 21, the global external deflator is the U.S. CPI projection as published in the most recent WEO which is the January WEO Update.

Annex IV. IAS 19—Illustrative Disclosures for the Statements of Profit and Loss and Comprehensive Income

Statements of Profit or Loss for the Financial Years Ended April 30, 2020, and 2019

(in millions of SDRs)	Note	2020	2019
Operational income			
Basic charges	17	1,177	1035
Surcharges	17	752	419
Other charges and fees	17	465	253
Interest on SDR holdings	6	170	252
Net income from investments	7	431	689
Total operational income		**2,995**	**2,648**
Operational expenses			
Remuneration of members' reserve tranche positions	18	546	552
Interest expense on borrowings	14	90	175
Administrative expenses	19	916	931
Total operational expenses		**1,552**	**1,658**
Net operational income		**1,443**	**990**
Transfers to the Special Disbursement Account	20	9	—
Contributions from the Special Disbursement Account to the PRG Trust	20	-19	—
Net income		**1,433**	**990**

Statements of Other Comprehensive Income for the Financial Years Ended April 30, 2020, and 2019

(in millions of SDRs)	Note	2020	2019
Net Income		**1,433**	**990**
Remeasurement of net assets/liabilities under retirement benefits plans	11	-2,880	-365
Total comprehensive income/(loss)		**-1,447**	**625**
Total comprehensive income/(loss) of the General Department comprises:			
Total comprehensive income/(loss) of the General Resources Account		-1,869	-64
Total comprehensive income of the Investment Account		431	689
Total comprehensive income/(loss) of the Special Disbursement Account		-9	—
Total comprehensive income/(loss)		**-1,447**	**625**

Note 16: Reserves

(in millions of SDRs)

		General Resources Account						
		Special Reserve			General Reserve			
	Note	Reserve	Remeasurement of defined benefit obligations	Total	Reserve	Remeasurement of defined benefit obligations	Total	Total
Balance at April 30, 2019		**9,152.0**	**955.0**	**10,107.0**	**10,546.0**	**218.0**	**10,764.0**	**20,871.0**
Net income/(loss)		1,011.0		1,011.0				1,011.0
Other comprehensive income/(loss)			(2,880.0)	(2,880.0)				(2,880.0)
Total comprehensive income/(loss)	16	**1,011.0**	**(2,880.0)**	**(1,869.0)**				**(1,869.0)**
Transfer of Investment Account income	16	319.0		319.0				319.0
Balance at April 30, 2020		**10,482.0**	**(1,925.0)**	**8,557.0**	**10,546.0**	**218.0**	**10,764.0**	**19,321.0**

Note: Example assumes application to IAS 19 gains and losses from FY20 onwards. This is for illustration purposes only as the decision approved at the April Income paper discussion allocated the full FY20 GRA net loss to the special reserve.

Annex V. IAS 19— Illustrative Disclosures for the Income Paper

Table 1. Projected Income and Expenditures - FY 2020

(In millions of SDRs, except where indicated)

Current Presentation	
A. Operational income	**2,313**
Lending income	**1,884**
Margin for the rate of charge	667
Service and other charges	91
Commitment fees	374
Surcharges	752
Investment income	**319**
Fixed-Income Subaccount investment income	319
Endowment subaccount payout	0
Interest free resources	**45**
SCA-1 and other	45
Reimbursements	**65**
SDR Department	3
PRG Trust	62
B. Expenses	**891**
Net administrative expenditures	833
Capital budget items expensed	14
Depreciation	44
C. Net operational income (A-B)	**1,422**
Net pension asset/(liability) (IAS 19) losses	-2,971
D. Net operational income after IAS 19 losses	**-1,549**
Endowment Subaccount investment income	112
Special Disbursement Account net income	-10
Net income/(loss) position	**-1,447**
Memorandum items:	
Fund credit (average stock, SDR billions)	66.7
SDR interest rate (average, in percent)	0.8
US$/SDR exchange rate (average)	1.38
Precautionary balances (end of period, SDR billions)	16.0

Alternative Presentation	
A. Operational income	**2,313**
Lending income	**1,884**
Margin for the rate of charge	667
Service and other charges	91
Commitment fees	374
Surcharges	752
Investment income	**319**
Fixed-Income Subaccount investment income	319
Endowment subaccount payout	0
Interest free resources	**45**
SCA-1 and other	45
Reimbursements	**65**
SDR Department	3
PRG Trust	62
B. Expenses	**982**
Administrative expenditures	924
Net administrative budget	833
Net periodic pension cost	91
Capital budget items expensed	14
Depreciation	44
C. Net operational income (A-B)	**1,331**
OCI - Pension-related remeasurement gain/loss	-2,880
D. Comprehensive income - GRA	**-1,549**
Endowment Subaccount investment income	112
Special Disbursement Account net income	-10
Net income/(loss) position	**-1,447**
Memorandum items:	
Fund credit (average stock, SDR billions)	66.7
SDR interest rate (average, in percent)	0.8
US$/SDR exchange rate (average)	1.38

Annex VI. Illustrative Financial Statement Disclosures (Option 1 and Option 2)

Option 1: Ring-fencing within Special Reserve

Statements of Changes in Reserves, Resources, and Retained Earnings for the Financial Years Ended April 30, 2020, and 2019

(in millions of SDRs)

		General Resources Account								
		Special Reserve			General Reserve					
	Note	Reserve	Remeasurement of defined benefit obligations	Special Reserve Total	Reserve	Remeasurement of defined benefit obligations	General Reserve Total	Investment account retained earnings	Special Disbursement Account Resources	Total
Balance at April 30, 2018		**8,877.0**	**1,137.0**	**10,014.0**	**10,269.0**	**401.0**	**10,670.0**	**658.0**	**9.0**	**21,351.0**
Net income		150.0		150.0	151.0		151.0	689.0		990.0
Other comprehensive loss			(182.0)	(182.0)		(183.0)	(183.0)			(365.0)
Total comprehensive income/(loss)	16	**150.0**	**(182.0)**	**(32.0)**	**151.0**	**(183.0)**	**(32.0)**	**689.0**		**625.0**
Transfer of Investment Account income	16	125.0		**125.0**	126.0		126.0	(251.0)		
Balance at April 30, 2019		**9,152.0**	**955.0**	**10,107.0**	**10,546.0**	**218.0**	**10,764.0**	**1,096.0**	**9.0**	**21,976.0**
Net income/(loss)		1,011.0		1,011.0	-			431.0	(9.0)	1,433.0
Other comprehensive income/(loss)			(2,880.0)	(2,880.0)						(2,880.0)
Total comprehensive income/(loss)	16	**1,011.0**	**(1,925.0)**	**(914.0)**	**-**			**431.0**	**(9.0)**	**(492.0)**
Transfer of Investment Account income	16	319.0	.	319.0				(319.0)		
Balance at April 30, 2020		**10,482.0**	**(1,925.0)**	**8,557.0**	**10,546.0**	**218.0**	**10,764.0**	**1,208.0**	**-**	**20,529.0**

Note: Example assumes application to IAS 19 gains and losses from FY20 onwards. This is for illustration purposes only as the decision approved at the April Income paper discussion allocated the full FY20 GRA net loss to the Special Reserve.

Option 2: Separate retained earnings type account

Statements of Changes in Reserves, Resources, and Retained Earnings for the Financial Years Ended April 30, 2020, and 2019

(in millions of SDRs)

		General Resources Account					
	Note	Special Reserve	General Reserve	Remeasurement of defined benefit obligations	Investment account retained earnings	Special Disbursement Account Resources	Total
Balance at April 30, 2018		**10,014.0**	**10,670.0**	**-**	**658.0**	**9.0**	**21,351.0**
Net income		150.0	151.0		689.0	—	990.0
Other comprehensive loss		(182.0)	(183.0)	-	—	—	(365.0)
Total comprehensive income/(loss)	16	**(32.0)**	**(32.0)**	**-**	**689.0**	—	**625.0**
Transfer of Investment Account income	16	125.0	126.0		(251.0)	—	-
Balance at April 30, 2019		**10,107.0**	**10,764.0**	**-**	**1,096.0**	**9.0**	**21,976.0**
Net income/(loss)		1,011.0			431.0	(9.0)	1,433.0
Other comprehensive income/(loss)				(2,880.0)		—	(2,880.0)
Total comprehensive income/(loss)	16	**1,011.0**		**(2,880.0)**	**431.0**	**(9.0)**	**(1,447.0)**
Transfer of Investment Account income	16	319.0			(319.0)		-
Balance at April 30, 2020		**11,437.0**	**10,764.0**	**(2,880.0)**	**1,208.0**	**-**	**20,529.0**

Note: Example assumes application to IAS 19 gains and losses from FY20 onwards. This is for illustration purposes only as the decision approved at the April Income paper discussion allocated the full FY20 GRA net loss to the special reserve.

Annex VII. IAS 19—Assessment of Comparator Institutions

Entity	GAAP	Presentation of defined benefit remeasurement[1]	Where are defined benefit remeasurements reflected in the statement of changes in equity/resources?
Bank of Canada	IFRS	Option 1	Ring-fenced in retained earnings
EBRD	IFRS	Option 1	Ring-fenced in retained earnings
Bank for International Settlements	None	Option 2	Separate account within equity
Reserve Bank of Australia	AAS	Option 2	Separate account within equity
South African Reserve Bank	SARB Act	Option 2	Separate account within equity
African Development Bank	IFRS	Option 2	Separate account within equity
IBRD	US GAAP[2]	N/A	N/A. Disclosed in notes to the financial statements.[3]
Asian Development Bank	US GAAP	N/A	N/A. Disclosed in notes to the financial statements.[4]
Bank of England	IFRS	N/A	Retained Earnings
Reserve Bank of New Zealand	NZ accounting standards	N/A	Operating expenses
IMF	IFRS	N/A	Included fully in special/general reserve, not ringfenced at the moment.

[1] Under option 1 remeasurement gains/losses on post-employment benefits are recorded in a separate reserve or account within equity and shown separately in the statement of changes in equity/reserves.

[2] Under IAS 19, actuarial gains and losses are recognized in OCI and are never recycled to net income in subsequent periods but may be transferred within equity (e.g., from OCI into retained earnings). US GAAP allows entities to recognize actuarial gains and losses in OCI or net income initially. Subsequently, any gains or losses recognized in OCI are recognized in net income under a 'corridor' approach. Under this approach, a corridor is calculated at 10 percent of the greater of the defined benefit obligation or the market-related value of plan assets. Cumulative actuarial gains and losses in excess of the corridor are amortized on a straight line basis to net income over the expected average remaining working lives of plan participants.

[3] IBRD does not show the actuarial gains/losses separately in the main statements. Disclosure is made in the note on accumulated comprehensive income note, which shows the amount in accumulated comprehensive income resulting from actuarial gains/loss. IBRD allocates part of net income, excluding the aforementioned amounts in OCI, to a pension reserve, which consists of the difference between the cumulative actual funding of the pension and postretirement benefits plans, and the cumulative accounting income or expense for these plans, from prior fiscal years. This is disclosed in the reserve note.

[4] Asian Development Bank does not show the actuarial gains/losses separately in the Statement of Changes in Equity. The portion of accumulated comprehensive income attributable to unrealized actuarial gains/losses is disclosed in the note on accumulated comprehensive income.

Annex VIII. Consolidated Medium-Term Income and Expenses

Consolidated Income and Expenses, FY 2021–31 Baseline Scenario[1]

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	Low-lending environment Scenario A SDRi 2% P/out=1.5% FY31	Low-lending environment Scenario B SDRi 1% P/out=1% FY31
	(in SDR millions)								
A. Operational income	**2,273**	**2,968**	**3,088**	**2,792**	**2,435**	**2,169**	**2,027**	**909**	**670**
Lending income	2,027	2,801	2,890	2,544	2,130	1,775	1,554	247	247
Margin for the rate of charge	873	1,007	1,030	974	811	644	552	200	200
Service charge	142	83	95	60	5	0	0	23	23
Commitment fees	70	282	196	0	0	0	0	24	24
Surcharges	942	1,429	1,569	1,510	1,314	1,131	1,002	0	0
Investment income	173	92	115	156	206	279	343	449	279
Fixed-Income Subaccount 1/	113	32	53	94	142	214	277	348	209
Gold endowment pay-out 2/	60	60	62	62	64	65	66	101	70
Interest free resources 3/	7	8	15	23	29	43	57	137	68
SCA-1 and other	7	8	15	23	29	43	57	137	68
Reimbursements	66	67	68	69	70	72	73	76	76
SDR Department	3	3	3	3	3	3	3	3	3
PRG Trust	63	64	65	66	67	69	70	73	73
B. Expenses 4/	**893**	**900**	**929**	**943**	**967**	**977**	**992**	**1,029**	**1,029**
Net administrative budget	835	837	859	867	893	903	919	960	960
Capital budget items expensed	9	9	9	10	10	10	9	11	11
Depreciation	49	54	61	66	64	64	64	58	58
C. Net operational income (loss) (A-B)	**1,380**	**2,068**	**2,159**	**1,849**	**1,468**	**1,192**	**1,035**	**(120)**	**(359)**
D. Pension and other benefits related (IAS 19) gain	1,336	0	0	0	0	0	0	0	0
Net operational income (loss) after pension-related (IAS 19) adjustment (C-D)	**2,716**	**2,068**	**2,159**	**1,849**	**1,468**	**1,192**	**1,035**	**(120)**	**(359)**
Endowment (Gold Profits) Subaccount - Retained Income	506	122	123	117	105	91	151	130	158
Net income (loss)	**3,222**	**2,190**	**2,282**	**1,966**	**1,573**	**1,283**	**1,187**	**10**	**(201)**
	(in US$ millions)								
E. Operational income	**3,227**	**4,303**	**4,475**	**4,075**	**3,554**	**3,188**	**2,998**	**1,382**	**1,019**
Lending income (including Surcharges)	2,878	4,063	4,190	3,714	3,109	2,609	2,299	375	375
Investment income	245	133	165	228	300	410	507	683	425
Interest free resources	10	11	22	33	42	64	84	208	103
Reimbursements	94	96	98	100	103	105	108	116	116
F. Expenses	**1,269**	**1,305**	**1,346**	**1,377**	**1,410**	**1,436**	**1,469**	**1,564**	**1,564**
Net administrative budget	1,186	1,214	1,245	1,266	1,303	1,328	1,360	1,460	1,460
Capital budget items expensed	13	12	13	15	14	14	14	16	16
Depreciation	70	79	88	96	93	94	95	88	88
G. Net operational income (loss) (E-F)	**1,958**	**2,998**	**3,129**	**2,698**	**2,144**	**1,752**	**1,529**	**(182)**	**(545)**
Memorandum Items:									
Fund credit (average stock, SDR billions)	87.3	100.7	103.0	97.4	81.1	64.4	55.2	20.0	20.0
SDR interest rate (in percent)	0.1	0.1	0.2	0.3	0.4	0.6	0.8	2.0	1.0
US$/SDR exchange rate	1.42	1.45	1.45	1.46	1.46	1.47	1.48	1.52	1.52
Precautionary balances (end of period, SDR billions)	18.7	20.8	22.9	24.8	26.2	27.4	28.5	15.0	15.0

[1] The current medium-term projections are conservative and assume that a premium of 50 basis points over the SDR rate is attained in the longer run.

[2] The baseline projections assume a 1 percent payout from the gold endowment commencing in FY 2021. The illustrative scenarios for FY 2031 show a continued payout of 1 percent in a low investment return environment (Scenario B); and a higher payout of 1.5 percent in a high investment return environment (Scenario A).

[3] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA 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 transferred to the IA. 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.

[4] The FY22-24 budget will propose a structural augmentation as part of a two-prong strategy as outlined in *Preliminary Proposals for the FY 2022–FY 2024 Medium-Term Budget* (FO/Dis/21/24, 2/11/21). Projections for the net administrative budget from FY 2022 onwards here show GED and a flat budget envelope, but do not yet reflect the proposed structural augmentation.