

**LAPSE OF
TIME**

EBS/21/10

February 23, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Framework Interim Account—Establishment of the Interim European Union Subaccount (the “Interim EU Subaccount”)**

Board Action: Executive Directors’ **consideration** on a lapse of time basis

Deadline to Request Board Meeting, after which Proposed Decision Deemed Approved: **Friday, February 26, 2021 12:00 (noon)**

Proposed Decision: Page 3

Publication: Proposed, after Friday, March 5, 2021

Questions: Ms. Kaltani, FIN (ext. 39414)
Ms. Budras, FIN (ext. 35456)
Mr. Westelius, FIN (ext. 35404)
Mr. Gumbanjera, FIN (ext. 36260)
Mr. Otokwala, LEG (ext. 35842)



February 23, 2021

FRAMEWORK INTERIM ACCOUNT—ESTABLISHMENT OF THE INTERIM EUROPEAN UNION SUBACCOUNT (THE “INTERIM EU SUBACCOUNT”)

Approved By
**Andrew Tweedie and
Rhoda Weeks-Brown**

Prepared by the Finance and Legal Departments

At the request of the European Union (EU), represented by the European Commission, staff proposes the establishment of a sub-account under the Framework Interim Account (FIA) to receive and hold, on an interim basis, European Union financial contributions.

BACKGROUND

1. In response to the COVID-19 crisis, in March 2020, the Executive Board approved a number of immediate enhancements to the Catastrophe Containment and Relief Trust (CCRT) to enable the Fund to provide debt service relief to its poorest and most vulnerable members. In the context of the approval of the first CCRT tranche, the Managing Director launched an urgent fundraising effort to enable the CCRT to provide relief for up to a maximum of two years through April 13, 2022, while leaving the CCRT adequately funded for future needs. To date, the Executive Board has approved two six-month tranches of debt relief amounting to SDR 352 million and covering the period through April 13, 2021.

2. On November 23, 2020 the EU announced a substantial contribution to the CCRT that will help unlock additional debt service relief to the 29 CCRT-eligible countries.¹ This contribution is critical for the financing of a third tranche of debt relief covering the period after April 13, 2021. The European Union has requested the opening of an interim holding account for placement of its contribution pending transfers to the CCRT in connection with tranche disbursements.

¹ See press release [here](#).

PROPOSAL

- 3.** Staff supports the EU's request and proposes that the Fund establish the Interim European Union Subaccount (the "Interim EU Subaccount") under the Framework Interim Account, which was established pursuant to Decision No. 16626-(19/103), December 18, 2019 as an umbrella temporary holding account for member contributions.²
- 4.** The Interim EU Subaccount would allow the Fund to receive and hold, on an interim basis, the European Union financial contributions to support debt relief or other operations, as appropriate, pending the transfer of such resources to the appropriate account in line with instructions from the European Commission.
- 5.** It is expected that the initial use of the Interim EU Subaccount would be to receive and hold the EU's pledged contribution to the Catastrophe Containment Window (CC window) of the Catastrophe Containment and Relief Trust (CCRT). Those resources will ultimately be transferred to the CCRT in line with the Contribution Agreement FED/2021/423-298 between the Fund and European Union.
- 6.** Article V, Section 2(b) authorizes the Fund, upon request, to perform financial and technical services, including the administration of resources contributed by donors, that are consistent with the purposes of the Fund.
- 7.** The establishment of the Interim EU Subaccount is consistent with the purposes of the Fund, and therefore, it is proposed that the Executive Board approve the establishment of the account.

² EBS/19/112, 12/4/2019

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

Establishment of the Interim European Union Subaccount (the “Interim EU Subaccount”) under the Framework Interim Account

1. Pursuant to Article V, Section 2(b), the Fund approves the establishment of the Interim European Union Subaccount (the “Interim EU Subaccount”) under the Framework Interim Account, which was established pursuant to Decision No. 16626-(19/103), December 18, 2019.
2. Consistent with paragraph 2 of the Instrument to Establish the Framework Interim Account (the “Instrument”) (Annex I), the Interim EU Subaccount shall be managed in accordance with the terms and conditions attached to this decision (Attachment).

Attachment

Terms and Conditions of the Interim European Union Subaccount

Consistent with paragraph 2(a) of the Instrument to Establish the Framework Interim Account, the terms and conditions of the Interim European Union (EU) Subaccount shall be as follows:

1. The purpose of the Interim European Union Subaccount ("Subaccount") is to receive and hold, on an interim basis, EU financial contributions in support of debt relief or other operations, as appropriate, pending the transfer of such resources to the appropriate account in line with the instructions of the European Union, as represented by the European Commission.
2. The resources held in the Subaccount will be held in SDR-denominated cash accounts that may accrue income or expenses in the relation to the account. The resources shall not be invested.
3. The Subaccount shall be terminated by the Fund: (a) as determined by the Fund upon the request of the Managing Director; or (b) upon the request of the European Commission, as promptly as practicable, whichever is earlier. Upon termination of the Subaccount, any remaining balances in the Subaccount shall be paid in full to the European Commission, unless mutually agreed otherwise.
4. Any amendment to the terms and conditions of the Subaccount requires approval by the Executive Board as well as the concurrence of the European Commission.

Annex I. Framework Interim Account Instrument

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish the Framework Interim Account in accordance with Article V, Section 2(b) (the "Account"), which shall be governed and administered by the Fund in accordance with the terms and conditions of this Instrument.

1. The purpose of the Account is to serve as an interim vehicle for the holding and administration of any resources of Participants, pending instruction from each Participant as to the disposition of its share of such resources. For the purposes of this Instrument, a "Participant" shall be a Fund member, or can be a non-member that wishes to have the Fund hold, on an interim basis, resources on behalf of that Fund member or non-member pending further instructions.
2. One or more subaccounts within the Account may be established to perform the purposes of the Account.
 - (a) The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director and at the request of a Participant. When proposing the establishment of a subaccount, the Managing Director shall specify the terms and conditions of the subaccount.
 - (b) A subaccount may be used to hold and administer resources from one or more Participants, in accordance with this Instrument and the terms of the subaccount.
3. The SDR shall be the unit of account. Resources provided to any subaccount shall be in any freely usable currency or such other media as may be agreed by the Fund and the Participant. Payments made by the Account shall be made in SDRs, any freely usable currency, or such other media as may be determined by the Fund. Transfers may be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.
4. Upon the instruction of a Participant, the Fund shall transfer all or part of the resources in a subaccount that are attributable to the Participant, including the participant's pro rata share of any investment returns, to any account specified by the Participant.
5. Unless provided otherwise under the terms and conditions applicable to any subaccount in the Account, the resources held in such subaccount and not immediately needed for operations of the subaccount shall be invested at the discretion of the Managing Director. Investments pursuant to this paragraph may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund, (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member, and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Earnings net of any

investment costs associated with such investments as provided under paragraph 12 below shall accrue to the subaccount and shall be available for the purpose of the subaccount.

6. The assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations or losses incurred in the administration of the Account; nor shall the assets of the Account be used to discharge or meet any liabilities, obligations or losses incurred in connection with any such other accounts of, or administered by, the Fund. Unless otherwise specified in the terms and conditions of a subaccount in the Account, the assets and property held in each subaccount of the Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of any other subaccount of the Account. The terms and conditions of a subaccount in the Account may authorize the Fund to transfer resources in this the subaccount to other subaccounts in the Account or to any other account.

7. The Fund shall maintain separate financial records and prepare financial statements for the Account. Such records and statements, which shall include a breakdown with respect to each subaccount in the Account, shall be expressed in SDRs and prepared in accordance with accounting principles followed by the Fund.

8. The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions of the Account. The audit shall relate to the financial year of the Fund.

9. The Fund shall report on the assets and property and on the operations and transactions of the Account, including a breakdown with respect to each subaccount, in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the audit report of the external audit firm on the Account.

10. Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis*, the same rules and procedures as apply to operations of the General Resources Account of the Fund.

11. Subject to the requirement of Fund approval specified in paragraph 2(a), the Managing Director is authorized (a) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as she deems necessary to carry out the operations of the Account, and (b) to take all other measures she deems necessary to implement the provisions of this Instrument.

12. No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account or any subaccount established under this Account unless otherwise specified in the terms of the subaccount. All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and

hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the relevant subaccount.

13. The Account may be terminated by the Fund at any time, and the termination of the Account shall terminate each subaccount thereof. A subaccount shall be terminated by the Fund (i) as determined by the Fund upon the request of the Managing Director; (ii) upon request from a Participant with the concurrence of all other Participants contributing to the subaccount at the time of termination, or (iii) as promptly as practicable following the receipt of instructions from every Participant regarding the distribution of its resources in the Account, whichever is earlier. In the event of termination of the Account or any subaccount, each Participant with resources remaining in the relevant subaccount at the time of termination shall have paid in full to it the amount of such resources.

14. The provisions of this Instrument may be amended by a decision of the Fund and with the concurrence of each Participant with resources held in any subaccount of the Account at the time of such decision. Such concurrence for any proposed amendment of this Instrument may be presumed if Participants do not object within thirty days after the issuance of the proposed amendment to Participants.

15. Any questions arising under this Instrument or the terms of any subaccount between a Participant and the Fund shall be settled by mutual agreement between the Participant and the Fund.