September 26, 2022
Approval: 10/3/22

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/51-2

4:50 p.m., April 27, 2020

2. Review of the Fund's Income Position for FY 2020 and FY 2021-2022

Documents: EBS/20/58 and Sup. 1

Staff: Nana, FIN; Chociay, FIN; Bradbury, FIN

Length: 1 hour and 5 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
D. Mahlinza (AE)	
M. Raghani (AF)	
	C. Moreno (AG), Temporary
N. Ray (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
	A. Guerra (CE)
L. Levonian (CO)	
R. Kaya (EC)	
A. Buisse (FF)	
	K. Merk (GR)
S. Bhalla (IN)	
D. Fanizza (IT)	
T. Tanaka (JA)	
J. Mojarrad (MD)	
	S. Geadah (MI)
	V. Rashkovan (NE)
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
M. Rosen (US)	

J. Lin, Secretary
O. Vongthieres, Summing Up Officer
D. Al-Jarbou / E. Mannefred, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: E. Gelbard, E. Gemayel. Asia and Pacific Department: A. Gulde, D. Kihara**.** Communications Department: K. Langdon. European Department: P. Dohlman, D. Iakova. Fiscal Affairs Department: A. Lemgruber Viol, E. Nedde, S. Tareq. Finance Department: S. Bradbury, H. Chociay, M. Manno, D. Nana, A. Tweedie, O. Unteroberdoerster**.** Human Resources Department: K. Kochhar. Institute for Capacity

Development: R. Nord. Independent Evaluation Office: M. Kell. Information Technology Department: L. Abello**.** Legal Department: H. Pham, B. Steinki, J. Swanepoel**.** Middle East and Central Asia Department: A. Arvanitis, G. El-Masry, R. Mariduena, M. Vera Martin. Office of Budget and Planning: M. Shannon. Office of the Managing Director: O. Demirkol, M. Jones, G. Okamoto, A. Sayeh, M. Schrader. Office of Risk Management: A. Jamaludin. Statistics Department: H. Wagner. Western Hemisphere Department: A. Husain, M. McIntyre. Executive Director: A. Andrianarivelo (AF), S. Chodos (AG), R. von Kleist (GR). Alternate Executive Director: M. El Qorchi (MD), C. Just (EC), L. Palei (RU), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: W. Abdelati (MI), M. Choueiri (MI), J. Garang (AE), M.Gilliot (FF), B. Jappah (AE), B. Lischinsky (AG), Z.Mahyuddin (ST), C. Quaglierini (IT), S. Senich (US), M. Sidi Bouna (AF), N.Thiruvenkadam (IN), A. Tolstikov (RU), J.Weil (CO). Advisors to Executive Directors: F. Al-Kohlany (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), D. Cools (NE), J. Garang (AE), A. Korinthios (IT), R. Lopes Varela (AF), T. Manchev (NE), M. Merhi (MI), M. Shimada (JA), I. Skrivere (NO), J. Yoo (AP), Y. Zhao (CC), J. Barroso (BR).

2. REVIEW OF THE FUND'S INCOME POSITION FOR FY 2020 AND FY 2021-2022

Mr. Mojarrad and Mr. Nadali submitted the following statement:

We thank staff for an informative report, and welcome the Board's review of the Fund's income position for FY 2020 and FY 2021-22. Despite a net operational income of SDR 1.4 billion, Fund is expecting a net loss of SDR 1.0 billion for the GRA in FY 2020 on account of the large downward actuarial (IAS-19) adjustment, resulting from a steep decline in the discount rate used to measure the Fund's retirement plan obligations. Excluding pension-related gain or loss, the income outlook for FY 2021-22 is projected to be strong. In this regard, and in view of the sensitivity of the pension-related gains and losses to changes in the discount rate, we agree with staff's approach not to include pension assumptions and projected return in the income scenarios. We can support the proposed decisions, and wish to highlight the following points:

We continue to have reservations on reimbursing the GRA for PRGT administrative expenses (Decision 2). Although the reimbursement is said to be an important element of the Fund's new income model, the reimbursement should be suspended, given that demand for PRGT resources now exceeds available supply in light of the COVID-19 pandemic. This would be consistent with the proposed suspension of reimbursements related to the Special Disbursement Account (SDA) resources in the Catastrophe and Relief (CCR) Trust and PRG-HIPC Trusts for FY 2020. We note the preliminary review of the methodology for SDA-related reimbursements, and look forward to presentation of final findings and recommendations to the Board next April.

The sharp sell-off in risk assets during March has wiped out the estimated SDR 167 million investment income from the endowment subaccount (EA) at end-February and driven the EA's investment return into negative territory for FY 2020. The reduced cumulative EA retained earnings should be reinvested to allow for the buildup of a larger cushion against adverse return scenarios.

We agree that the SDR 1.0 billion net loss in GRA for FY 2020 should be charged against the special reserve, which constitutes the first line of defense against administrative losses. Could staff confirm that in case of a net GRA income in FY 2021, any gain up to SDR 1.0 billion should be credited to the special reserve before the excess is allocated equally between the special and general reserve, subject to Board's approval?

The unchanged margin for the basic rate of charge at 100 basis points for FY 2021-22 is adequate to cover the Fund's intermediation costs, build up reserves, and keep borrowing costs aligned with long-term market conditions. We note that the projected resumption of reserve accumulation in FY 2021-22 will help achieve the indicative medium-target for precautionary balances of SDR 20 billion by FY 2023. The margin should again be set under the exceptional circumstances clause of Rule I-6(4), given that Fund's lending income continues to cover a significant portion of its non-lending operating costs.

Finally, we welcome the confirmation that the impairment assessment under IFRS 9 will have no impact on the FY 2020 annual financial statements, and look forward to the planned briefings.

Mr. Chodos, Mr. Lischinsky and Ms. Moreno submitted the following statement:

We thank staff for the well-written reports. This report, coupled with the Medium-Term Budget report, was circulated shortly after the Fund sharply revised downward the growth rate projections for 2020, for broadly all countries of the world. Isolation measures, travel restrictions, among other containment measures, have been in place up to different degrees in each country, since the beginning of March, and will continue for an uncertain period.

Considering the challenging circumstances, we acknowledge the high level of uncertainty under which the key assumptions were adopted, including the discount rates. The projected demand for lending is a crucial new element that was not in the picture two months ago. The set of revised conditions—including pension-related expenses—led to a projected net income loss of SDR 1 billion for the GRA in FY 2020. We agree with staff's recommendation that this loss be charged against the special reserve, so that after needed adjustments, precautionary balances are projected to amount to SDR 16.7 billion. We also take note that future operational deficits would be charged, as well against the special reserve, without a specific Executive Board decision, notwithstanding that net income allocations would be decided between the general and special reserve.

We take note that the projections for net income for FY 2021 and 2022 are SDR 1.4 billion and SDR 1.8 billion, respectively, excluding the impact of any pension-related gain or loss. However, as conveyed in previous occasions, in the future we encourage staff to consider a mechanism to smooth the impact of high volatility in projected pension-related flows on the Fund's income statements and projections. We acknowledge that there is not an easy solution, but it is clear that this high volatility hampers the quality of the information content of statements and projections.

We support all the proposed Decisions. We welcome that no reimbursement will relate to CCR and ORG-HIPC Trusts for FY 2020, and that PRGT administrative expenses will be drawn from the reserve account to the GRA (Decision 2). In this regard, the reimbursements of the PRGT to the GRA is an administrative cost which is considered as part of operational income of the Fund. Could staff clarify if this is also included in Table 1. B. Expenses, on page 4 of the Supplementary Information?

Against a background of a low-for-long interest rate environment, equity sell-offs, and more broadly, historically high volatility in financial markets, we take positive note of the relatively good performance of the fixed-income (FI) and endowment (EA) subaccounts. In turn, we agree with the FI income transfer to the GRA and the retainment of the EA income (Decision 3). Keeping the margin for the rate of charge at 100 basis points and setting it for FY 2021 and 2022 (Decision 4) is a reasonable proposal, since lowering it would reduce the pace of accumulation at a time when total expenses are estimated to be SDR 14 million higher than previously projected. The exceptional circumstances clause, which set the margin at 100 basis points in May 2008, continues to apply in an environment of persistently low global interest rates.

As staff underscores, the opportunity to have the much-needed discussion about the adequacy of precautionary balances will come later in the year. Given the historical demand for emergency financing, a detailed analysis would be needed to better assess the medium-term outlook.

Mr. Bhalla and Mr. Natarajan submitted the following statement:

We thank the staff for the informative paper and supplementary information on the income position of the Fund. Projections of Fund's income and expenditure is subject to uncertainties arising out of the impact of COVID-19 pandemic as it depends on change in lending operations and behavior of financial markets. While short-term and sudden challenges can adversely impact the financial condition temporarily, the Fund should be able adapt to the changing environment and continue to remain financially robust and resilient.

Compared to the initial projections, the current income position of FY 20 is significantly affected by changes in income from lending operations, investment income and pension related adjustments required as per International Accounting Standards (IAS), with an overall net loss to General Resources Account (GRA). The operational lending income is expected to be lower than original estimates by about SDR 179 million, primarily due to decrease in outstanding credit. However, the sudden change in the economic outlook because of the pandemic has resulted in an increased demand for emergency financing from many member countries which is currently estimated at SDR 32 billion. This provides an outlook of steady increase in lending income in FY 21-22.

Investment income from fixed-income subaccounts is currently revised at SDR 253 million as against SDR 208 million estimated last year. This increase is due to favorable performance of the portfolio due to decline in bond yields but remains uncertain given the bond market volatility. The decline in earnings from interest free resources is due to sharp decline in interest rates. In FY 21-22, investment income from fixed-income subaccounts is expected to decline sharply due to sharp fall in interest rates. Low interest would also affect income from interest-free resources and reimbursements.

Sharp decline in discount rates of 89 basis points during FY 20 has resulted in pension losses of about SDR 2375 million, mainly due to net actuarial remeasurement loss of SDR 2204 million. Expected loss in FY 20 is proposed to be charged against the special reserves. Projected income and expense for FY 21-22 remain volatile because of pension-related gain or loss which is highly unpredictable.

In this overall scenario, the lending income is expected to be above intermediation cost but may not ensure positive reserve accumulation due to pension related uncertainty and fall in investment income. After decline in FY 20, reserve accumulation may have to resume in FY 21-22 at a steady pace. Considering the current circumstances, we agree with the staff proposals on the Fund's income position.

Ms. Levonian and Mr. Weil submitted the following statement:

Thank you to staff for their report and supplementary information. We recognize that the crisis has made it challenging for staff to present a current snapshot of the Fund's financial position and welcome the supplementary information which contains material updates. Events have derailed staff's well-laid plans to present the Board with a comprehensive picture of Fund profitability, solvency, and impairment policy through a series of thoughtful papers. It will be important to get financial reporting back on track, and we welcome this first step.

We support the decisions being proposed. With respect to income disposition, we were encouraged to see healthy returns from the fixed-income subaccount (FI), which enabled the FI to meet its objective of helping to protect the Fund's balance sheet. We regret that the more growth-oriented endowment subaccount (EA) ultimately incurred a loss, driven by negative equity and real estate returns, and look forward to the initiation of payouts from the EA beginning in FY21. We support the status quo with respect to the margin for the rate of charge given long-term credit market trends. However, it will be important to have a robust discussion regarding potential changes to the margin in 2021, especially if current emerging market credit conditions persist.

We stress the importance of net operational income (rather than net income) as the most useful measure of Fund profitability. By this measure, the Fund's lending and investment operations performed quite well and very close to initial projections. It is crucial for this message to come across clearly to shareholders who may suffer from 'sticker shock' in relation to the net loss of SDR 1,145 billion.

The large FY 2020 net loss is being driven by IAS-19 pension revaluations and is not a reflection of the probability of Fund operations or the solvency of the SRP. Actuarial gains and losses arising from revaluations of pension and employee future benefit obligations can be large and subject to frequent revision. While IAS-19 promotes full transparency to users of financial statements, it can also mask underlying income trends, which can actually make financial results more difficult to interpret. In particular, changes in the value of future benefit obligations (which pass through to net income) are highly sensitive to discount rates, which in turn are driven by prevailing interest rates. This creates significant uncertainty in projecting the Fund's bottom line given the difficulty associated with projecting the path of future interest rates. Further, short but intense periods of market volatility can create large swings in pension asset values, which also pass through to net income. In light of this, we very much welcome the addition of analysis of the sensitivity of net income to discount rate and asset return assumptions.

There is very significant lending income upside that is not captured in current income projections. Staff should find an appropriate balance between conservatism and realism in projecting income, particularly in an economic downturn. We took note of staff's decision to include only current program arrangements and existing RFI requests in projecting lending income. This assumption is likely to be far too conservative given baseline assumptions around the current crisis, let alone the WEO downside scenario. We also took note of area departments' assumption of a sharp spike in UCT-conditionality programs on the horizon, in the context of the FY21 budget discussion. This information is being presented to the Board as justification for a potential budget increase. Further, the Fund has recently added the SLL to its toolkit with the expectation of demand. We repeat our call for a Board briefing on a range of program engagement scenarios driven by the crisis, leveraging intelligence from area departments. We recognize that there are sensitivities and uncertainties involved with modelling future program engagement, but the Board requires this information to discharge its responsibilities. The scenarios to be presented to the Board should provide implications for lending income, GRA liquidity, and operational/budget demands.

We expect to revisit the discussion of the Fund's precautionary balances soon. Given the impact of the FY20 net loss on reserves, it will be important to pick-up the prior discussion of the Fund's precautionary balances to ensure that the memberships' resources will continue to be protected from loss. We expect that discussion to be underpinned by more realistic FY21 and FY22 income projections that consider the program engagement ramifications of the WEO downside scenario (at a minimum). We also look forward to the planned discussion of the Fund's approach to impairment to ensure that Fund reporting balances the unique nature of the institution with the need for transparency and accountability.

Ms. Mahasandana, Mr. Tan, Mr. Mahyuddin and Ms. Susiandri submitted the following statement:

We thank staff for their report and useful engagement on this issue. We support the proposed decisions and would like to provide some comments as follows:

The Fund's Income Position

We note that the projected net income in FY2020 is lower than the April 2019 estimate and subject to the uncertainty of the underlying assumptions. While net operational income remained in surplus, the Fund's income position recorded a net-loss due to the significant unrealized losses from the revaluation of assets and liabilities in the pension-related account. As the pension-related remeasurement is expected to continue to have a significant impact on the Fund's income position, we encourage staff to explore a long-term strategy to manage this volatility. We are cognizant of staff's assessment that the volatile pension-related gains and losses due to the discount rate and asset performance tend to offset each other over time. In this context, we urge staff to consider further ways to deal with the volatility and the impact of unrealized gains and losses on the Fund's annual net income. We agree that the SDR 1.0 billion net loss in GRA for FY2020 should be charged against the special reserve that constitutes the first line of defense against administrative losses

We note with caution that uncertainties due to the impact of the global pandemic will linger on the near-term income projections (FY2021/22). Thus, we encourage staff to closely monitor latest developments and keep the Board updated of the Fund's income position, arising from higher lending or further delay in disbursement.

Decision 1, 2, 3: Reimbursement to the GRA and Transfer of Investment Income to the GRA

We support the proposed reimbursement actions and income disposition to the GRA to facilitate the Fund in fulfilling its mandate and ensure the adequacy of reserves. We note that reimbursement for the expenses related to the SDR department and the cost of administering PRGT is in line with the Articles of Agreement and an Executive Board Decision. As the expense of the Special Disbursement Account (SDA) would also be reimbursed to the GRA, we support staff's ongoing work on the review of the methodology for SDA-related reimbursement to enhance the Fund's governance. We welcome the proposed decision to transfer the FY2020 income from the FI subaccount to the GRA to help cover the Fund's expenses, which is in line with the agreed payout policy. This income transfer will lower the overall GRA net loss that will be charged to the Fund's special reserves.

Decision 4: Margin of the Rate of Charge

We can agree with staff's assessment to maintain the margin of the rate of charge at 100 bps for FY2021/22. We see that this margin would continue to allow the lending income to remain substantially in excess of the Fund's intermediation cost and help accumulate the Fund's reserves to the indicative target, albeit at a slower pace compared to the previous projection in 2019. We appreciate the simulation prepared under different margins of the rate of charge. While the current level of margin generally remains aligned with the long-term credit market conditions, we see merit in reviewing this margin again in the near future. In particular, we wonder if a lower margin of 80 basis could be considered appropriate under certain circumstances. Could staff elaborate their views on this, and their main consideration in balancing the expectation of the long-term market funding in relation to the "lower for longer" interest rate environment with other associated risks? In addition, we urge caution with regard to the more subdued investment income outlook in the near and medium term, which would lead the Fund to be more reliant on its lending income to cover non-lending expenses. Based on all these considerations, we welcome a more in-depth assessment by staff when reviewing the level of the margin of the rate of charge before the end of FY 2021.

Mr. Fanizza, Mr. Ray, Ms. Riach, Mr. Rashkovan, Ms. Quaglierini, Ms. Andreicut, Mr. Manchev and Mr. Yoo submitted the following joint statement:

We thank staff for an informative paper. We see merit in a more comprehensive approach to budget issues. Thus, we welcome that the budget and income discussions are taking place on the same day. We believe a unified document could make the budgetary discussions more meaningful. The adjustment to pension-related spending to reflect the IAS19 accounting standards is unexpected in its actual size for FY2020. This adjustment blurs the picture of the income position related to Fund's activities, which becomes more difficult to assess. We support all proposed decisions on pp. 25 and 26 and offer the following comments:

We would encourage a more integrated and clearer approach to the Fund's budget, by considering together both the spending and income sides. Looking forward, we would appreciate it if staff could work towards developing a budget document that puts revenues and expenditures together with their impact on the Fund's financial position. This would constitute a key tool for implementing the Fund's policy priorities and monitor risks, while allowing the Board to best perform its oversight role.

We understand that the pension-related adjustments are very volatile and difficult to predict (Figure A2.1), but it is true that this year's adjustment seems to be the largest on record. We see merit in the sensitivity analysis presented in the report, but there could be more room to explore the impact of pension-related expenses on the precautionary balances' accumulation over the medium term. This exercise could allow us to better assess if pension-related adjustments are temporary or not. We would welcome staff's comments on this. Moreover, we understand the size of actual adjustment will become available only in June 2020 in the Fund's annual financial statements and may differ from the projection significantly. The report would benefit from a more detailed explanation of the reasons behind the large adjustment to avoid misinterpretations. We agree to charge the GRA net loss against the special reserve.

We note that the income position for FY2021 and FY2022 is assessed to be strong. In addition, lending demand – which reflects prudent assumptions – is likely to be understated as it assumes 46 new program requests, when in fact we have had more than 100 inquiries about emergency support only. The FY2021 and FY2022 lending projections are broadly unchanged in the staff Supplement. We wonder whether it would be appropriate to take into account the likely new requests for other GRA arrangements.

We concur with all four proposed decisions, including the margin for the rate of charge.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for their report and useful engagement on this issue. We support the proposed decisions and would like to offer the following points for emphasis.

First, we take note that the projected net income in FY2020 is lower than the April 2019 estimate and that the Fund's income position recorded a net-loss due to the significant pension-related remeasurement losses resulting from a reduction in the discount rate. As the pension-related remeasurement is expected to continue to have a significant impact on the Fund's income position, we encourage staff to explore possible ways to deal with its impact on the Fund's annual net income, especially in the context of a prolonged low interest rate environment. We agree that the SDR 1.0 billion net loss in GRA for FY2020 should be charged against the special reserve that constitutes the first line of defense against administrative losses.

Second, we caution against the uncertainties in the FY2021-2022 income outlook regarding the impact of the global pandemic. The outbreak of the pandemic would probably bring about the largest economic contraction in the Fund's history, and there could also be large uncertainties regarding the Fund's lending income. In this regard, we encourage staff to conduct stress tests of different scenarios as well as corresponding responses in each scenario. We also encourage staff to closely monitor the latest developments and keep the Board updated of the Fund's income position.

Third, we agree with staff's assessment to maintain the margin of the rate of charge at 100 bps for FY2021. We understand that this is an appropriate choice after taking into consideration a bunch of factors including the coverage of intermediation costs, reserve accumulation, and alignment of the Fund's borrowing costs with market conditions. We appreciate the simulation prepared under different margins of the rate of charge, and we support to review the margin of the rate of charge periodically.

Mr. Rosen and Ms. Senich submitted the following statement:

We thank staff for the report and supplements. We support the proposed decisions on the SDR Department Assessments, the PRG Trust Reimbursement, the Transfer of Investment Income, and on the Rate of Charge for the Use of Fund Resources.

Given the uncertainty surrounding the economic environment, we understand that market fluctuations make it difficult to forecast income in the out years with much precision in regular times, much less in times of crisis. Yet even taking into account the sensitivities and uncertainties involved with modelling future program engagement, we do not believe there is a compelling argument not to show possible upside scenarios for lending income based on reasonable assumptions of future program demand. The report's projected lending income includes only current program arrangements and existing RFI requests. This assumption is likely to be far too conservative given baseline assumptions around the current crisis, let alone the WEO downside scenario, and presents an overly pessimistic picture of future Fund income.

We note the large, unrealized actuarial losses due to the IAS 19 reporting standard for the Fund's Staff Retirement Plan. We recognize that the accounting standards mean that we can expect volatile actuarial gains and losses depending on changes to the discount rate and on overall market performance. As long as the Fund has a defined benefit plan, it will be very difficult to predict what reported net operating income will be in future years. Unrelated to the accounting reporting standard losses, should persistently low rates of return continue in the medium term, the Fund may need consider adjusting staff's contribution to the plan upward in the future.

Due to the pension losses, this year the Fund will be taking away from, rather than adding to its precautionary balances. We are concerned that at the current trajectory, precautionary balances will not reach their target in an acceptable amount of time. While a crisis situation is not a time for an international financial institution to raise its rate of charge, we would want to consider increasing the rate of charge in future reviews should accumulation of precautionary balances proceed too slowly. We would expect the discussion of the rate of charge to be more closely linked with the discussion of precautionary balances during future reviews. Can staff provide more information on when the Board can expect to revisit the precautionary balances discussion?

Mr. Tanaka, Mr. Harada and Mr. Shimada submitted the following statement:

We thank staff for the informative paper on the review of the Fund's income position for FY 2020 and FY 2021-2022, as well as for the very useful outreach. As we broadly agree with the staff's analyses, we support all the proposed decisions, and limits our comments to the following points.

We urge the staff to be cautious on external communication regarding the income position of FY2020. While the estimated income loss does not arise from the Fund's lending activities, we should be vigilant for reputational risk of prevailing public mistrust on the adequacy of the Fund's resource envelop, given rapid increase in Fund's credit outstanding due to the current COVID-19 crisis. It is crucial to clearly explain income positions derived from the Fund core business and from the pension operation and their respective influences on the Fund's balance sheet. To this end, as an accounting practice regarding IAS 19, we see merit on creating a new reserve focusing on the pension expense, especially in the current market condition of low interest rate and high volatility. This would contribute to clearer external communication on the Fund's financial situation than under the current accounting rule that the special reserve and general reserves absorb IAS 19 expense. We request the staff to consider creating the new reserve. We would like to invite staff to comment on this point.

We agree with the staff proposal to maintain lending margin as 100 bps, considering that investment income under the current market condition can remain insufficient to cover the Fund's non-lending activities. Regarding the investment income, we particularly take note of the estimated loss for FY 2020 in Endowment subaccount (EA). While we welcome that the performance of EA has shown resilience thanks to its diversified portfolio under the current passive investment strategy, the Fund should continuously adjust its investment management of EA to market condition in an appropriate and agile manner. In this context, we wonder whether the investment strategy of the subaccount, including its asset allocation, is needed to be reviewed in a near term. Staff's comments are welcome. The current market turmoil and high uncertainty over global economic outlook call for a closer monitoring in terms of enterprise risk management. In this regard, at this challenging juncture, we encourage management and relevant departments to closely communicate on this issue. We look forward to further analyses in Annual Report of the Investment Account and Trust Accounts.

It is regrettable that the paper does not include multi-projection of lending income in FY 2021-2022 under likely scenarios which reflect increase of UCT-programs, draws on current precautionary arrangements and use of SLL. While we understand that there is high uncertainty in the future demands for the Fund programs, we are of the view that the Executive Board should be informed of more granular analyses of income projection based on multi-scenarios and sensitivity tests, and of its influence on balance sheet , to perform its oversight function properly. We encourage staff to report these analyses to the Executive Board in the near future.

We take note with concern that the capacity of burden sharing mechanism is limited, due to the historically low SDR interest rate. While we understand that the strength of the Fund's balance sheet is warranted by multi-layered mechanism, burden sharing mechanism plays important roles as a cushion of income loss caused by arrears and as the source for SCA-1. Given that surge in the Fund's credit risk due to COVID-19 pandemic is inevitable, we urge staff to revisit this issue in the context of the discussion on the Fund's Precautionary Balances.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Mehmedi submitted the following statement:

We thank staff for their comprehensive report as well as the supplement, and helpful outreach to our office. We recognize that 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. The Fund still enjoys a prudent financial position despite staff projecting a net income loss for the GRA in FY2020 due to pension related downward adjustment stemming from accounting for the pension benefits, taking into account the inherent volatility which nets out over a longer time span. We appreciate

Annex II which extends the analysis and illustrates the sensitivity of the FY 2021 and FY 2022 baseline projections to changes in the two key actuarial assumptions: the discount rate and asset returns. As we have stated in the past, we do not see the defined benefit pension system as a major risk to the Fund's income and finances if proper safeguards are in place to insulate the year-to-year volatility. We support all four decisions pertaining to the FY 2020 and FY 2021-22 as proposed by staff.

The key factors that affect the FY 2021-2022 income outlook seem to be on the conservative side. We appreciate the sensitive analysis on the income effects of changes in some of the assumptions in Table 3. However, despite the potential cancellations and changes in the timing of purchases under existing arrangements, we are surprised that lending income should only rise modestly in FY2021-22 despite the surge in demand for Fund lending in the form of emergency financing, argumentation of existing programs, and potential requests by members for new arrangements. Staff's comments on the underlying assumptions underpinning their projections for lending income in FY2021 are welcome. We underscore that budgetary resources should remain appropriate to meet the demands due to the crisis. As fighting an unprecedented crisis requires substantial extra resources, there are merits in considering whether the administrative expenses should continue to reflect a flat net administrative budget in real terms. To this end, we are open to a discussion of a supplementary budget once budgetary reallocations and efficiency savings are exhausted and a clearer picture of both crisis and post-crisis related needs emerges so that we continue to deliver effectively on our core mandate.

Building up precautionary balances to reinforce the Fund's balance sheet is warranted but there are merits in assessing the pace of accumulation. While the precautionary balances are expected to decrease to SDR 16.5 billion this fiscal year, we note that reserve accumulation is projected to resume in FY2021 and FY2022 and that the indicative medium-term target for precautionary balances of SDR 20 billion could be reached by FY 2023. While we agree that the medium-term target should be maintained, the fast-evolving risk environment calls for a close monitoring of developments. To this end, we call for a Board discussion on the adequacy of precautionary balances.

We concur that no adjustment to the margin for the rate of charge set at 100 basis points over the SDR interest rate is needed for the period of FY 2021-22. The cost of Fund credit at the current margin remains aligned with the market conditions and the Fund's income model. However, the margin seems to be slightly higher than needed to cover the Fund's intermediation costs. Against this backdrop and given the exceptional circumstances due to the COVID-19 pandemic, we look forward to the mid-period review next year to carefully assess, as allowed under the existing rules, whether the margin may be set at a level other than that required to cover intermediation expenses and accumulate reserves.

We take note of the implementation of IFRS9 and that no impact is expected on the FY 2020 annual financial statements. Nonetheless, the Fund's approach to provisioning for impairment losses and managing credit risk should be very delicate and cautious, including when assessing the credit quality of the GRA and PRGT portfolios and potential arrears. To this end, we look forward to the long overdue Board meeting on the Fund's approach to provisioning for impairment losses.

Mr. Raghani and Mr. Sidi Bouna submitted the following statement:

We thank staff for the reports on the Review of the Fund's Income Position for FY2020 and FY2021-2022. Our chair supports all four proposed decisions and would like to make the following comments.

The unprecedented uncertainty surrounding the global outlook has made the projections of the Fund's income more challenging. In particular, the exceptionally high market volatility is having a significant impact on the discount rate applied to assess the obligations under the retirement plan. Also, the impact on the Fund's medium-term income from the large number of arrangements that have recently been approved will depend on the duration of the crisis and the potential additional requests for new arrangements from the membership to address the fallout from the pandemic.

We note that the net income is projected to record a loss of SDR 1.0 billion for the GRA in the current fiscal year ending in April 2020. Despite the solid performance of the fixed-income subaccount, we understand that this loss can be explained largely by the significant pension-related loss, estimated at SDR 2.4 billion, which, in turn, is affected by the steep decline in the discount rate. We support the staff's recommendation to charge this loss against the special reserve, consistent with the provision under the Articles of Agreement that administrative deficits must be written off first against the special reserve. However, we also note that as a result of this write-off, the level of precautionary balances will decline from SDR 19.2 billion, initially projected in April 2019, to SDR 16.5 billion, thereby slowing the pace of reserve accumulation. Thus, the prospects of achieving a SDR 20 billion target for precautionary balances over the medium-term have been further delayed until FY2023. That said, we wonder whether consideration was given to suspending the reimbursement to the GRA of PRGT administrative expenses in line with the proposal made for the Catastrophe Containment and Relief (CCR) and PRG-HIPC Trusts for FY20. We welcome the staff's comments. Looking ahead, we are hopeful that the pension-related gains and losses will balance each other over time and look forward to the discussion on approaches to provisioning for impairment losses under IFRS 9.

While we recognize the exceptional current global economic environment and its impact on the Fund's income, we also note that net income and precautionary balances are projected to recover over the medium-term. However, the medium-term estimates of net income and precautionary balances exclude pension-related expenses. Could staff elaborate on the impact of the large and significantly volatile pension-related expenses on the projected improvement in net income and precautionary balances over the medium term?

Mr. Geadah and Ms. Merhi submitted the following statement:

We thank staff for their report. We note that income projections for both the near and medium term remain subject to high uncertainties given the COVID-19 pandemic. We support the proposed decisions.

The income outlook for FY2021–2022, excluding the accounting adjustment to pension contributions, is expected to remain strong. The Fund's lending and investment operations performed quite well and very close to initial projections. We agree with Ms. Levonian that the focus should be on net operational income (rather than net income) as the most useful measure of Fund profitability. We note that the projected net income loss of about SDR 1 billion for

FY2020 in the GRA, mainly reflecting a higher pension related adjustment required per International Accounting Standards (IAS 19).We note the uncertainties related to the discount rate used to measure the Fund's retirement plan obligations at April 30, 2020, and the full year asset returns on the retirement plan and the Endowment Subaccount (EA), due to the recent volatility in financial markets. We would accordingly welcome an update from staff on the FY2020 outcome as soon as feasible. We concur with staff that the outlook for the coming years is highly sensitive to interest rates and demand for Fund resources, which could well exceed current projections.

There are significant risks to Fund income and finances as elaborated by staff. We take note that the risk of cancellation or rephasing of purchases under existing arrangements could be mitigated by members seeking additional sources of funding as the crisis unfolds. However, the low interest rate environment is expected to diminish the contributions from investment income in the near term. We are pleased that the broadening of non-lending income sources under the Fund's new income model is helping to mitigate some of the income risk.

While precautionary balances are now projected to decline to SDR 16.5 billion by end-FY 2020, we welcome that reserve accumulation is still projected to remain strong in the next few years. The indicative medium-term target of SDR 20 billion for precautionary balances is now expected to be attained in FY2023. Continued vigilance in this regard is warranted, given that the outlook for subsequent years remains highly sensitive to potential new lending. We agree with staff's recommendation that net income loss be charged against the special reserve, which is the first line of defense against administrative losses and look forward to a discussion on the adequacy of the Fund's precautionary balances.

Mr. Bevilaqua, Mr. Fachada, Mr. Saraiva and Mr. Barroso submitted the following statement:

We thank the staff for a comprehensive and well written report and for the outreach to our office. The COVID-19 pandemic fallout has had important repercussions in the Fund's balance sheet and results, and brought to the forefront some important issues to be dealt with in the context of the discussion of the Fund's income position.

While the Fund's operational income remains robust, the overall accounting results are very fluid given market developments, thus requiring careful communication with the public. Market volatility is expected to remain high in the context of the COVID-19 pandemic. The situation is unusual given the important negative impact of pension-related losses on results and the possibly misleading signals about the Fund's balance sheet and operational soundness. Communication with the public should make clear that pension-related results follow standard IAS 19 accounting rules and have been affected by the recent large swings in discount factor and asset returns. It could also point to the historical record showing that large income movements resulting from asset prices and discount rates have been smoothed on average over longer periods. It is crucial that communication underscores that the Fund's balance sheet remains robust and that it is prepared to increase its operations in response to the crisis, with a positive medium-run impact balancing out the current headline negative result. Does staff share this concern with communication and what would be the approach to minimize perception risks?

The increase in lending operations puts pressure on the Poverty Reduction and Growth Trust (PRGT) resources and asks for considering urgent and extraordinary options to support the Trust's balance sheet. The increase in PRGT operations, which already unleashed a new round of mobilization of lending resources to the Trust, also suggests that its reserve and subsidies accounts will need to be topped up some time soon. Since reserves in the PRGT are much more difficult to replenish than in the GRA, we should be mindful about transferring resources from the former, especially as they back important lending facilities that are proving crucial to support low-income economies in their response to the COVID-19 pandemic. While a more stable medium-term solution could be discussed soon in the context of the PRGT framework, an adjournment of the administrative reimbursement in the FY 2020 seems to be a sensible immediate first step. Overall, the impact on the Fund's income statement would be very small relative to the large swings in asset prices. We therefore tentatively propose to suspend Decision 2, also asking staff to inform about the conformity of this possibility to the relevant regulations.

The recurring income volatility resulting from pension-related gains or losses warrants further study to better accommodate it on the Fund accounting framework. If we agree that special reserves and general reserves have predominantly a precautionary purpose and should bear the risk of Fund lending activities, it makes little sense to accumulate in these accounts resources accruing from changes in the present value of pension assets and liabilities. Even less so if the changes are very unstable due to highly volatile discount rates and asset prices. It seems sensible to explore the feasibility and legality of other accounting approaches, such as establishing a dedicated reserve account to buffer pension-related volatility. This could in principle improve communication with the public and also help the Board to more easily identify underlying issues. We would like staff to elaborate on this issue at the Board meeting.

The high level of Fund income volatility is likely to persist in the upcoming period, leaving it uncertain whether a positive income result will be achievable in FY2021. While staff proposes that income allocation to reserve accounts should be decided just upon positive income realizations, we recall that the Board had agreed to decide on the allocation framework this year. A possible compromise would be to adopt the previous consensus of splitting equally any positive income stream in the next two years between the general and special reserve accounts. In the same spirit, while we recognize that the accumulation of precautionary reserves would converge earlier to the indicative target by maintaining the margin for the rate of charge at 100 bps, the possibility of larger than expected lending operations might allow for a similar timeline with a slightly lower margin. Reducing the margin by 20 bps, at this time, would have the benefit of signaling further financial support to countries relying on GRA resources to cope with the pandemic.

Mr. Mahlinza, Mr. Sitima-wina, Mr. Garang and Mr. Jappah submitted the following statement:

We thank staff for a comprehensive report and supplement which provide details on the Fund's income position in the wake of the COVID-19 pandemic and the attendant implications for the use of and the adequacy of Fund resources. We note the net loss of about SDR 1.0 billion projected for the General Resources Account (GRA) for FY2020, reflecting a significant adjustment for pension-related expenses (IAS 19), advance repurchases during the period, delays in certain large disbursements and increased administrative expenses. Further, we welcome the outlook for FY2021-2022, which points to a projected increase in the net income position. Given the considerable uncertainty and sensitivity around the assumptions, we look forward to the firming up of these projections at an appropriate time as well as regular Board updates on the Fund's income position. We broadly agree with the staff's appraisal and recommendations and make the following points for emphasis.

We note from the report that the Fund's bottom line has been significantly impacted by pension-related (IAS 19) losses. Further, this estimate is only based on the latest available information on portfolio performance and discount rate. Considering the fluidity of market conditions, the net income position remains subjected to large swings. To this end, we appreciate the update which shows a slightly worsening picture on the GRA and a modest loss on the endowment subaccount. That said, there is a need to narrow the variations in the pension-related adjustments, which differ considerably from one year to another. In this regard, we welcome staff's comments on the possibility of accruing for probable impairment losses to avoid large swings in actual outcomes between financial years.

Decisions Pertaining to FY2020

We support the proposed decisions 1 and 3, relating to the disposition of Fund's income on the basis that they are in keeping with the Fund's Articles of Agreement and practices endorsed by the Executive Board to (i) reimburse the GRA for the expenses of conducting the business of the SDR Department, and (ii) transfer the income from the Fixed-Income Sub-account of the Investment Account to the GRA to meet FY2020 administrative expenses.

Decision 2 provides for the reimbursement to the GRA for the total amount of the cost of administering the Poverty Reduction Growth Trust (PRGT) in FY 2020. While we support this decision, which is consistent with past practice, we think the Fund could forego charging the administrative expenses on the Trust this year considering the exceptional circumstances created by COVID-19 and the associated demands on PRGT resources.

Decisions Pertaining to FY2021–22

We support Decision 4 which sets the margin for the rate of charge on the use of Fund's resources for FY2021–2022 at 100 basis points over the SDR interest rate. We take note that this margin will cover intermediation costs and generate a contribution to reserves. It also appears broadly aligned with long-term credit market conditions. Further, the rate of charge is consistent with the recent Board decision on the review of precautionary balances.

Finally, we take note that staff is in the process of finalizing the IFRS 9-related country assessments and that at this stage staff expects no impact on the FY2020 annual financial statements. We look forward to a Board update on this before the FY2020 statements are finalized. Further, in the context of the exceptional circumstances clause, we recognize that for the time being, the Fund will continue to rely on its lending income to cover a significant portion of its non-lending operating costs. That said, we positively note that non-lending income would gradually rise in the medium term and contribute to the Fund's reserve accumulation.

Mr. Trabinski and Mr. Heim submitted the following statement:

The Fund's income projections are subject to heightened uncertainty. We take note that for FY2020, a net operational loss is expected, mainly due to high pension-related expenses (IAS 19) and the incurred loss of the Endowment Subaccount. These projections, and thus the overall outcome, may still change considerably, given the high degree of volatility. Against this background, we encourage staff to monitor developments closely and keep the Board well-informed.

The Fund should be vigilant to the risks associated with the defined-benefit Staff Retirement Plan (SRP). The high IAS 19 expense projected for FY2020 is the main cause for income loss for the GRA in FY 2020 and should serve as a reminder of the risks to the Fund's income associated with the SRP. The SRP exposes the Fund to financial risks from volatile pension-related expenses.

A further increase in precautionary balances is essential. We note that credit risk is already elevated and will rise further with the expected increase in credit outstanding, and due to the nature of emergency lending. Hence, the expected drop in precautionary balances in FY2020 is of concern. Moreover, while reserve accumulation is projected to resume in FY2021 and FY2022, supported by increasing lending income, the pace of accumulation remains highly uncertain.

We agree to continue to set the rate of charge at 100 bp over the SDR rate for FY2021–2022. With the proposed margin, the costs of Fund credit appear to be broadly in line with long-term credit market conditions. We support to keep the margin at the current level, consistent with the exceptional circumstances clause. However, in light of the present uncertainty, in particular on the further build-up of precautionary balances, it is important to review the margin before the end of FY2021.

We support the decisions pertaining to FY2020. The income from the Fixed-Income Subaccount of the Investment Account should be transferred to the GRA to meet FY2020 administrative expenses. We also agree with fully retaining in the endowment any net investment income earned in the Endowment Subaccount in FY2020, in line with its payout policy framework adopted in 2018. Further, we support that (i) the GRA be reimbursed for expenses for conducting the business of the SDR Department, in line with the Articles of Agreement, and (ii) the PRGT has to reimburse the GRA for expenses of administering the PRGT.

Mr. Merk and Mr. Buetzer submitted the following statement:

We thank staff for the report and support the set of proposed decisions. Based on the rapidly growing credit demand, income projections for the years to come are expected to be strong. However, the overall outlook of the Fund's income position is a matter of concern, and with that in mind we would like to provide a number of comments:

In the short-term, we are confronted with an estimated considerable income loss resulting from pension related (IAS 19) adjustments that will have an adverse effect on the accumulation of the Precautionary Balances (PB). The estimated loss, which cannot be covered by the combined lending and non-lending income, will require recourse to the special reserves, and thereby result in a decline of the PBs. Consequently, the long-standing PB-target of SDR 20 billion will again be missed by a large margin. Overall, it is unfortunate that the overarching principles under the new income model cannot be met.

Given the extremely volatile non-operative (actuarial) risk of IAS 19 related adjustments for pension liabilities to the income position and the PB, we would welcome staff's comments how this issue could be addressed, e.g. in the accounting framework.

Regarding investment income, we have to accept that achieving the projected returns in the global interest rate environment ("low for long") remains more than challenging. We therefore caution against overoptimistic projections, including the timeline for reaching the PB target. In this context, a real return target of the endowment of 3 percent appears ambitious in the current low interest environment, which is likely to persist for a prolonged period of time. In light of an actual annualized real return of just over one percent since inception, income projections for the short to medium-term that are based on these actual past returns, might generate projections that are closer to the actual outcome for FY2021/22.

In contrast to the assumptions for the investment and endowment returns, projections for the lending income are very conservative as they are based on existing arrangements and do not incorporate the likely surge in UCT-conditionality programs. Notwithstanding the necessity to adhere to prudent accounting standards, the presentation of an alternative downside scenario, aligned with the WEO downside scenario and the medium-term budget paper outlook, would have provided valuable information.

More generally speaking, we repeat our call for a Board briefing on a range of program engagement scenarios driven by the crisis, leveraging intelligence from area departments. The scenarios to be presented to the Board should provide implications for lending income, GRA liquidity, and operational/budget demands. This would be essential for the Board to exercise its fiduciary role.

Lastly, it is worrisome that increasing risks from lending coincide with extremely limited capacities for burden sharing in case of occurring arrears and deferred charges. Beyond the rapidly increasing credit volume per se, we see an increasing proportion of out-standing credit from arrangements with low or no program conditionality (RFI, RCI, SLL, FCL, PLL). The lack of these crucial elements of the Fund's risk mitigation policy will contribute to rising potential lending risks, which will have to be addressed in due course.

Mr. Villar, Mr. Guerra, Ms. Arevalo Arroyo and Mr. Montero submitted the following statement:

We thank staff for the initial paper and the updated assessment of the Fund's income position for FY2020 and FY2021-2022. We broadly agree with the staff's analysis and recognize that projections of the Fund's income position are currently subject to augmented uncertainties related to the impact of the COVID-19 pandemic on key assumptions. We support all the proposed decisions and will provide some comments for qualification.

Staff now projects a net income loss of about SDR 1 billion for FY 2020 in the GRA. Also, it is expected that the endowment subaccount will have a slightly negative result. We agree with staff that given ongoing financial market volatility, considerable uncertainties remain regarding the discount rate that will be used to measure the Fund's retirement plan obligations, as well as the full year returns on its assets. Nevertheless, it is clear FY2020 will end with a considerable net income loss; thus, we agree the loss should be charged against the special reserve account. Going forward, we would expect more weight given to the replenishment of the special reserve account, so that it can continue its key role as the first line of defense against administrative losses. The pension-related position will continue to be particularly volatile in the coming years, introducing a significant degree of uncertainty in the Fund's resulting income and reserves. For this reason, we call on staff to coordinate with the External Audit Committee and the external auditor firm to look for ways to smooth the impact of IAS-19 on net income. We would like to ask staff to elaborate on different possibilities to achieve this smoothing.

The income outlook for FY 2021–2022, notwithstanding the impact of the pension-related gain or loss, is expected to remain strong, even though based on rather conservative assumptions for Fund lending. The average stock of loans in FY2021, at around SDR 96 bn, will barely be 30 bn higher than in FY2020. This may be inconsistent with the information conveyed elsewhere and may have implications on, e.g., the projected path of reserve accumulation. While we acknowledge that the current circumstances are challenging and there is considerable uncertainty regarding the assumptions, we would have benefited from some scenario analyses with projections for a higher lending demand, including potential SLL demand. Thus, we look forward to more updates on the developments affecting the IMF's balance sheet and net income sources.

Under the current global environment of persistently low interest rates, the exceptional circumstances clause to set the margin for the basic rate of charge continues to apply.

With current information, we are willing to support staff's proposal to keep the margin for the rate of charge in 100 basis points for financial years 2021 and 2022. However, we consider that the mid-period review of the margin level will be a good opportunity for a more informed discussion with a clearer picture of the impact of the current crisis in lending income. A comprehensive review might be warranted to ensure that levels of the margin, surcharges, special charges and precautionary balances continue to be adequate. Additionally, we look forward to the briefing on provision for impairment losses in line with the IFRS-9 standards.

Mr. Mouminah, Mr. Keshava, Mr. Aldrees and Ms. Preston submitted the following statement:

We thank staff for the informative reports in a rapidly changing and uncertain income environment. We agree with the proposed decisions and limit our remarks to the following:

Fund Net Income FY2020

We note the projected net loss position for the Fund in FY2020. This is primarily driven by the revaluation of the Fund's future pension obligations (liabilities) as required under international accounting standards (IAS 19). The standards prescribe that the future liability be measured at present value on the 30 April 2020, using an actuarially determined discount rate that mirrors movement in interest rates. Therefore, we understand the unpredictable nature of the revaluation adjustments that have injected volatility to the Fund's net income position. We understand that this result is not a reflection of the profitability of Fund operations or the sustainability of the SRP. However, this conclusion is not obvious - especially for external observers and so we urge staff to consider how this result can be carefully communicated to avoid misunderstanding or undue alarm. Notwithstanding the technical requirement for this revaluation to take place, we would appreciate staff's further comments and analysis on the longer-term implications of these movements and what this means for the Fund.

We agree with the recommendation to charge the net loss for FY 2020 against special reserves, following well established practice. We regret the impact that this will have on the precautionary balances.

Net Income Projections FY2021-2022

It is important that the Board has a robust, realistic and timely view on the outlook for net income in order to discharge its fiduciary responsibilities. We note the conservative assumptions incorporated into the projections for the Fund's future lending income. While we acknowledge the uncertainty and sensitivity of the assumptions underpinning these projections, we regret that they are yet to reflect the latest information available about demand for Fund resources. Recognizing the uncertainty and fluidity of the current environment, we welcome regular updates from staff on developments impacting the income projections and the consequences for precautionary balances and the pace of accumulation. We also insist that the assumptions in the income and budget papers are consistent.

We support the proposal that the margin for the rate of charge for the period FY2021–2022 should be unchanged at 100 bps. Given the changing environment, we underscore the importance of having a comprehensive discussion on this issue and look forward to re-visiting it before the end of FY 2021.

We expect the discussion on the Fund's precautionary balances to take place soon. We note the expected decline in the precautionary balances in FY 2020 and the lower projected level of accumulation looking ahead. We also recognize the upside potential for lending income to indeed be higher than currently projected, which if realized, could result in a faster than projected accumulation and level of the precautionary balances. Staff comments are welcome.

We look forward to the finalized IFRS 9-related country assessments for the FY 2020. While we note the initial positive assessment that no impact is expected on the annual financial statements, we look forward to the upcoming Board briefing ahead of the financial statements being finalized.

Mr. Poso and Ms. Skrivere submitted the following statement:

We thank staff for the informative paper on the Review of the Fund’s Income Position for FY 2020 and FY 2021-2022, as well as the very helpful Supplement providing an update on the most recent developments. We support the proposed decisions.

We note that the projected net income loss mostly stems from the significant pension-related (IAS 19) losses, resulting largely from the significant reduction in the discount rate, but also from the sudden worsening of the expected returns. We also note that projecting these factors is highly uncertain, and the pension-related (IAS 19) gains and losses can be very volatile year-on-year in a defined benefit pension plan. In this light, we welcome that staff has provided the sensitivity analysis, illustrating the possible range of outcomes under different assumptions about the discount rate and asset returns.

We note that staff assumes the lending income to increase steadily in FY 2021-22. We note that consistent with past practice and the prudence principle, these projections only take into account already approved arrangements, excluding possible new arrangements. However, given that Fund’s lending activity has significantly ramped up over the past weeks, and will likely increase going forward as several countries could be expected to switch from an emergency financing arrangement to a UCT-conditionality program, it is likely that lending income will increase at a faster pace. We would have appreciated if staff had provided a range of possible outcomes, not least reflecting the recent changes to the Fund lending toolkit, including the introduction of the SLL.

We look forward to returning to the discussions on the Fund’s Precautionary Balances and provisioning for impairment losses. We recognize that the rapidly deteriorating economic outlook brings unprecedented levels of uncertainty making it particularly difficult to assess the implications on the Fund’s finances. However, we note that the next financial year starts with lower than expected precautionary balances, the EMBI spread has sharply increased, and that the credit risks in the Fund’s lending portfolio are increasing. Therefore, a higher than proposed rate of charge or alternative mechanisms to accelerate the pace of the accumulation of precautionary balances might be warranted. We would appreciate if staff could provide an indicative timeline of when the Board discussions on the Review of the Adequacy of the Fund's Precautionary Balances, and the Informal Session (to Engage): Provisioning for Impairment Losses in the Context of the Fund could be scheduled?

Mr. Buisse, Mr. Rozan and Ms. Gilliot submitted the following statement:

We thank staff for their informative report on the Fund's income position. The global health and economic crisis have prompted a swift reaction from the Fund, highlighting the need to act quickly and respond in the most effective manner to unprecedented financing needs. Ensuring the adequacy of the Fund's firepower is and will remain critical until this crisis is over. While we acknowledge that overall income projections remain subject to substantial uncertainty, we find the proposed decisions adequate at the current juncture. We encourage staff to make regular follow up with the board, as well as to provide a variety of scenarios going forward to understand possible outcomes.

Income position for FY2020

The proposed decisions are consistent with the forecasted expenditure and the net income loss for the GRA in FY 2020. Going forward, it is clear that the new lending environment, with a generation of new programs, will set a different financial trajectory for the years to come. We also note that the investment income projection remains subject to high uncertainty given financial market elevated volatility and encourage staff to keep the board regularly updated going forward.

We agree with the reimbursement to the GRA of SDR Department and PRGT related expenses (proposed Decision 1 and 2). We also support the proposal to suspend reimbursements related to SDA resources in the Catastrophe Containment and Relief (CCR) and PRG-HIPC Trusts for FY2020. In this respect, we look forward to staff presenting their final findings and recommendations when the next Fund's income position review for FY2021 will be presented to the Board. We note that total expenses of the GRA are estimated to be slightly higher than expected given the stronger annual average US dollar/SDR exchange rate, but net operational income is largely impacted by large pension-related (IAS 19) expenditure and net actuarial remeasurement losses related to significant reduction in the discount rate. We thank staff for the interesting Annex II on IAS 19 accounting for employee benefits and sensitivity analysis. Indeed, we understand that the discount rate is determined as an extrapolation of yields on high-quality corporate bonds (HQCB) and consequently its effect is liable to translate into additional potential volatility in income compared to other previous methodologies like the corridor method. IAS 19 does not specify which corporate bonds should qualify as HQCB but since, given the current dry-up of liquidity, this asset class might be more limited, we are wondering to what extent applying judgement to determine the appropriate population of HQCB or government bonds to refer to could be contemplated and useful to determine the discount rate. In addition, regarding the measurement of gains and losses which reflect the difference between actuarial assumptions at the end of the reporting period versus those at the beginning, could staff explain why the latter are not recognized in Other Comprehensive Income? Staff rightly specifies that forward-looking projections have not been built into the income scenarios due to the volatility of assumptions. However, without prejudging the soundness of the Fund's operational income, a tentative projection of the pension-related (IAS 19) adjustment outcomes would provide more visibility to its medium-term income position.

The transfer of the Fixed-Income Subaccount's income to the GRA and the retainment of the Endowment Subaccount's income in the Investment Account seem perfectly consistent to meet the expenses of the Fund on the one hand while rebuilding income on the other hand through reinvestment (proposed Decision 3). Lastly, we agree that the GRA net loss for FY 2020 be charged against the special reserve.

FY 2021-2022 Income Outlook

We thank staff for the timely and useful Supplementary Information paper and the paragraph added on key risks to Fund's income outlook and precautionary balances including uncertainties on US dollar/SDR exchange rate path, new lending arrangements and changes in actuarial assumptions impacting the annual pension-related gain or loss under IAS 19. The Fund must prepare to a more complex environment for lending but also for investment and income-raising. In this regard, we believe more detailed underlying assumptions are needed for the Board to be fully informed and better able to appreciate the realism of income outcomes. More specifically, we would like to highlight that:

- Lending income projections have been rightly revised upward but remain somewhat conservative. More information is warranted on the underlying assumptions regarding margin income, service charges and surcharges for FY 2021 and 2022 as new RFI arrangements could be followed by traditional GRA-funded facilities. We are also surprised that Short-Term Liquidity Line potential financing is not accounted for in the projections. Consistent with lower-than-expected projections for investment income and the need to cover non-lending operating costs, we agree to maintain the margin for the rate of charge at 100 basis points for FY 2021-22 (proposed Decision 4).

- Investment account performance scenarios detailed in Annex III of the first document are very useful. Since the safer port in a sea of uncertainty is diversification, we would have seen merit in having more options presented according to the illustrative range of expected investment returns.

Finally, in line with our previous comment on the conservatism of staff's income forecasts, we would be interested in staff's underlying assumptions for lending income presented in Annex III of the Supplementary Information paper which reflects a sharp decrease in lending income from FY 2024 to FY 2026.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the informative report and subsequent update. We are facing exceptional uncertainty and unpredictable developments in the global economy and financial markets. In such an environment any assessment of the future financial position of the Fund has a wide margin of error. Therefore, it would be important to present more than one scenario of the Fund's future income position. We would also expect more frequent updates of the Fund's financial situation.

We support all proposed decisions and would like to offer only three comments.

First, on the current projections of lending income. We agree with many colleagues who believe that staff's approach is too conservative and does not adequately capture current developments. Staff follow the rule that the Fund's lending income should be calculated on the basis of already approved arrangements. In normal times it is reasonable, but these are not normal times. We have a long line of programs, which are waiting to be approved over the next few weeks or months. We, therefore, see the need for a Board meeting on the future program engagement scenarios, which should be underpinned by the information from the area departments. We would welcome an update on the Fund's lending income based on these scenarios.

Second, on the impact of the IAS-19 pension revaluations on the Fund's income position. Wide fluctuations of the Fund's income positions driven by these revaluations do not reflect the real profitability of the Fund's operations. We, therefore, agree with Ms. Levonian and Mr. Weil that the net operational income (rather than net income/loss after IAS 19 adjustment) is the most useful measure of Fund profitability. Like Mr. Tanaka, Mr. Harada and Mr. Shimada, we underscore the importance of proper public communication regarding the Fund's financial position, especially in the current crisis environment, when public trust in the robust financial position of the IMF is critical.

Third, on the impact of the IAS-19 pension revaluations on the Fund's precautionary balances. As a consequence of a sharp drop in the discount rate and poor asset performance, revaluation-related losses are estimated at about SDR 2.4 billion, resulting in the projected decline of precautionary balances to SDR 16.5 billion, significantly lower than the SDR 19.2 billion estimated in

April 2019. These revaluation losses are charged against the Special Reserve, the precautionary balances are reduced, and the projected path of their accumulation is shifted downwards.

However, it is unclear if these virtual losses have a real impact on the Fund's reserves, at least in the short term. Could staff explain whether the reduction of the Special Reserve is real (i.e. in the end of FY 2020 the assets should be somehow transferred to the Staff Retirement Plan - SRP), or it is virtual, and is represented by some offsetting accounting entry, which could be changed without any impact on the real assets in the Special Reserve? How and when could/should the IAS-19 pension revaluations be transformed into real contributions from the Fund's reserves to the SRP?

As of now, we feel that concerns about slow accumulation of precautionary balances are somewhat premature, as the situation may change momentarily if, for example, the interest rates (and a discount rate used in IAS-19 revaluation) start to increase. We, however, look forward for the Board discussion of the Fund's precautionary balances, which should analyze the impact of different factors, including the Fund's lending income scenarios, SRP needs, interest rate movements, etc. It may also be reasonable to consider these issues alongside with the analysis of the Staff Retirement Plan situation. Could staff provide information when the Board can expect such a discussion?

The Acting Chair (Mr. Furusawa) made the following statement:

As we consider the Fund's income position today, we face two areas that currently go in different directions and where uncertainties are unusually high. The first is the extent to which the Fund income may be boosted in the coming years by the sharp rise in Fund lending that many expect to see as part of the Fund's response to the COVID-19 crisis. This is mainly an issue for FY2021 and 2022, as the current fiscal year is almost over and the projections in the supplement to the staff paper already incorporated the current emergency lending.

Looking beyond this immediate response, there is much greater uncertainty over how much the Fund will ultimately be called on to lend, and therefore the future path of lending income. I am asking staff to reflect on how we can provide you with more frequent updates during the year on changes to the income outlook as Fund lending evolves.

The second area of uncertainty relates to the size of the annual pension adjustment, which is expected to be substantially negative in FY2020 and to more than outweigh the broadly positive outcome for net operational income.

Given these conflicting developments, we will need to be very careful in our public messaging when the income results are released to ensure that it conveys the correct impression of the Fund's underlying income position.

The Deputy Director of the Finance Department (Mr. Bradbury), in response to questions and comments from Executive Directors, made the following statement: [1]

Our written responses address the bulk of Directors' technical questions, but I would like to amplify a couple of them and make some broader observations.

First, many Directors commented on the income projections for FY2021-2022 and the basis on which they are prepared. As we explained in the paper, these projections include emergency financing requests and inquiries as of April 14, together with augmentations and disbursements under existing precautionary arrangements. However, they do not include explicit provision for possible new drawing arrangements, new Flexible Credit Lines (FCLs), or potential demand for the new Short-Term Liquidity Line (SLL).

Many Directors have considered these projections to be overly conservative and have called for additional lending demand scenarios. The approach that staff took in the paper was to incorporate all the information that we had as of the date it was issued. Work is underway with SPR on some broader demand scenarios, but it is not yet completed, and we did not want to front run that work and include it in this income paper scenarios that did not have a solid basis.

Staff plan to present the results of the joint work with SPR to the Board in the coming weeks, and we will explore the scope for providing at least a ballpark estimate for the income effects at that time. More generally, we plan to update the Board if there are significant changes in the income outlook and will provide a comprehensive update at the time of a possible supplemental budget.

Second item, on IAS-19, for FY2020, the General Resources Account (GRA) is projected to make a loss of around 1 billion SDRs in large part due to the substantial pension-related loss under IAS-19. Several questions have been raised about whether there is any scope to manage the volatility of this item. To a large extent, our hands are tied. Under IAS-19, we are required to conduct an actuarial remeasurement of the net present value and future benefit obligations. And with discount rates at a very low level, any significant incremental change in the rates can translate into relatively large swings in

[1] Prior to the Board Meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

income. This year the loss has been exacerbated by the impact of the recent turmoil in financial markets on the plan investment performance.

That said, there may be scope to mitigate the impact on the Fund's precautionary balances of losses under IAS-19 by exploring the creation of a separate unrealized gains and losses reserve, where the cumulative unrealized gains and losses from IAS-19, as well as other items, could be recorded and not included in the Fund's precautionary balances. Staff is planning to research this in the coming financial year and report back to you.

The other point I would like to stress in this context is the IAS-19 adjustment in the GRA financial statements is quite separate from the actuary's assessments of the funding status of the plan. This latter assessment was completed very recently based on FY2019 data and indicated that the plan is funded through FY2038. This will change to take account of what happens in FY2020, particularly in the investment performance area; but the accounting adjustment here does not really have a direct bearing on the plan's funded status.

More generally, we very much agree with those Directors who emphasized that how we communicate this year's result is going to be very important. We envisage that the focus will be on the strength of the Fund's operational income while framing the IAS-19 loss as an accrual adjustment driven by accounting standards.

On precautionary balances, several chairs raised the question of the timing of the biannual review of the adequacy of the Fund's precautionary balances. This had been initially planned for March 18, but we felt it was better to delay the discussion so that staff could provide Directors with at least an initial assessment of the impact of the COVID-19 pandemic on credit risks and the target for precautionary balances. Looking back, we believe that was the correct decision. Staff is now studying how quickly we can come back to the Board, recognizing, as I have already discussed in terms of income projections, that the situation remains very fluid. Our general sense is that it may be better to come back to this important discussion soon, rather than waiting until we have a comprehensive picture of the impact of the crisis on Fund loan demand, which may take longer to emerge.

The next point is on the Poverty Reduction and Growth Trust (PRGT) reimbursement, where a few Directors had raised a question of whether the reimbursement to the GRA of the costs of administering the PRGT should be suspended in light of the uptick in demand for PRGT resources. Temporary suspension of reimbursement of the GRA for PRGT administrative expenses is one of the contingent measures set out in the three-pillar strategy for the self-sustaining PRGT financing framework that was agreed in 2012. Staff's view is that this issue should be considered as part of a broader review of the

PRGT finances and not really on a piecemeal basis in the context of the current paper. Staff is still considering the timing of such a review as part of the broader work program on PRGT resources.

Mr. Fanizza made the following statement:

I would like to do is to thank staff for the remarks explaining what they were doing. It is really quite useful as it also stressed the need to improve the whole process and make things clear. That is what we were discussing in the previous meeting, the importance of integrating the two.

Finally, I really understood the meaning of the accounting standards adjustment to pension liability including the explanation of the meaning of carving out expenses. It seems very reasonable, and it would be great if we could do it, so I encourage staff to explore that possibility.

The bottom line of the financial position of the Fund is going to be one, and not the only element. We have to take in consideration in assessing whether to agree or not with ever increasing structural spending, and that should be a concrete element. We cannot say then we are projecting very weak revenues and then spend a bit more. It will not work, so it would be good that we try to make it more consistent. I share completely the point raised by Ms. Levonian.

Also, I should also say we agree to keep unchanged the margin of the rate of charge for the period of next fiscal years if appropriate. Even then a sense of the dimension of our lending activity is important. If the lending activity becomes really big, maybe there is even some scope for reducing the margin. If we are very pessimistic, maybe we can lean on the opposite side. Hence, staff should provide different scenarios on the expected lending inaudible.

Ms. Levonian made the following statement:

I wanted to acknowledge the fluidity of the Fund’s income picture and your adeptness at being able to present this picture to us. We support all the decisions, and we commented extensively on the substance of these matters in our grays, so I am just going to focus actually on two points.

First, on the income projections, we note Mr. Bradbury’s remarks. The Board is looking for a more realistic projection on lending income so that our stakeholders have a more complete picture of potential Fund profitability; but lending income is actually only a narrow aspect of a broader issue. Modeling lending will be fundamental for us to collectively guide the Fund through the crisis and recovery from an operational, budgetary, liquidity, risk, and income perspective. We understand that assumptions will need to be made and that sensitivities will need to be managed. Relative to the trails ahead for the membership, these seem like rather minor obstacles to overcome.

Secondly, regarding the sizeable net loss, here I want to sympathize with the Finance Department. Our Canadian authorities are also under IAS-19 and have been experiencing significant income volatility due to actuarial revaluations, mostly to the downside. The Canadian Finance Minister has been explaining to taxpayers that while this standard of accounting is responsible, it can actually mask the underlying fiscal picture.

We do not see the pension loss as a reflection of Fund operations or pension solvency, and we stated in our gray, lending and investment operations are generally performing quite well, so it will be important for the net loss to be properly contextualized in our financial statements and communications.

In closing, we look forward to receiving regular updates on Fund finances throughout the crisis. In particular it will be important to revisit Fund precautionary balances just as soon as we have discussed future program engagement scenarios.

Mr. Merk made the following statement:

We support the set of proposed decisions. That being said, I would like to provide a few brief comments as the overall outlook of the Fund's income position is a matter of concern to us.

First, we are confronted with a considerable income loss resulting from pension-related adjustments, as explained by Mr. Bradbury, that will have an adverse effect on the accumulation of the precautionary balances. However, the large expected increase in lending and associated risk would warrant the opposite, a substantial increase in precautionary balances. We therefore share the view expressed by many other Directors in their gray that we should have a discussion on how to strengthen precautionary balances further.

In that context, we think exploring whether including an unrealized gains and losses position in the accounting framework, as suggested by Mr. Bradbury, seems to be a reasonable approach and step.

Second, we caution against the, from our perspective, overoptimistic projections regarding investment income and would consider a more realistic assessment important.

Third, projections for the lending income appear very conservative, and Mr. Bradbury referred to that, as they are based on existing arrangements and do not incorporate the likely surge in conditionality programs. Let me stress, we support adherence to prudent accounting standards, but the presentation of alternative scenarios could provide valuable information, and we thank Mr. Bradbury for his remarks in this regard and look forward to this discussion.

Lastly, we stay concerned that increasing risks from lending coincide with extremely limited capacities for burden-sharing in the case of arrears and deferred charges.

Mr. Bevilaqua made the following statement:

I want to start by thanking Mr. Bradbury and his team for a well-written and very informative report and for the outreach to our office. We issued a gray and I'll make only three points for emphasis.

First, market volatility and the impact of the crisis on asset prices and interest rates are impinging heavily on our financial results, especially given the large adjustment in the net present value of assets and liabilities of our pension scheme. The significant net loss for the Fund in FY20 is a reflection of those market movements. And it contrasts with the robust operational result of the Fund, which is expected to become even stronger in the coming years with the probable boost in demand for GRA resources. Such a situation poses a communication challenge for the Fund in conveying its financial results, being simultaneously transparent and truthful to the numbers and international accounting standards, while highlighting its underlying financial strength.

Second, and related to the first one, I think we should move as fast as safely possible to a new accounting arrangement in which future pension-related gains would accrue to a specific reserve account, which would work as a buffer separate from the precautionary reserves. Pension-related losses in the future would then be covered (as much as possible) by that account. In this way, the balance sheet would convey a more accurate picture of the Fund's underlying financial situation for the membership and the public in general. I take note of staff's answer to technical questions on this respect, and I am looking forward to discussing at the Board the studies that are planned for this upcoming year on this respect.

Third, and finally, I want to reiterate the proposal of temporarily suspending the PRGT reimbursement of administrative expenditures by the GRA. The extraordinary demand for PRGT resources has unleashed a campaign for replenishing the funding for PRGT lending operations and will put a lot of pressure on its reserve accounts.

As we know, PRGT reserves are very difficult to assemble, requiring some more intricate financial engineering or, possibly, bilateral contributions on top of those the Fund will seek for the subsidy accounts. Therefore, I think it would be advisable to interrupt immediately the drain on PRGT reserve account (a measure already taken in the aftermath of the global financial crisis) and discuss a medium-term approach in due time of when the PRGT framework comes to the Board within the next two months.

Mr. Rashkovan made the following statement:

I welcome continued efforts on streamlining the process around the medium-term budget, income position, Risk Report, and policy priorities. At the same time, this chair would still want to reemphasize that an integrated approach to the Fund's budget is reasonable by considering together both the spending and income sides. And it is clear that the budget and income position report documents are now prepared by two different units and even maybe serve different aims; but the presentation of the overall position of the Fund, it would work to see them together consolidated.

Second, like Mr. Tanaka in his gray, we call for cautious external communication regarding the 2020 income position given the sensitivity of the 2021 and 2022 baseline pension projections and changes in the two key actuarial assumptions. We would also urge staff to better clarify in communication if the pension-related net income adjustments are temporary or long-term.

Third, we support the proposal to charge this year's loss against the special reserve consistent to our last year's vote on income distribution. However, we remain open to discussing optimal approaches for defining and allocating the income or loss going forward. We believe that this approach will also help the Board define an acceptable trajectory for building the Fund's precautionary balances.

Finally, while we support the decision to maintain the rate of charge at 100 basis points, the report may benefit from presenting some alternative proposals, especially in the current low-for-even-longer interest rate environment.

Mr. Rosen made the following statement:

We support the proposed decision and issued a gray statement, but I wanted to highlight a few points for emphasis. I echo what other Directors have said in their gray statements and interventions.

The expected lending income for the years ahead is based on a snapshot in time without consideration for the sizeable expansion in lending we expect to see in the near future. We believe there is a way for staff to show scenarios for future income that make reasonable assumptions of future programs, and we would like to see those in future reviews, and we look forward to the paper that Mr. Bradbury referred to in his opening remarks.

We are being asked to make a decision on the rate of charge separate from a review of the Fund's precautionary balances, and while we support leaving the rate of charge unchanged during this crisis, in the future we will need to consider whether to raise the rates in order to make sure we are on the right track to achieve precautionary balances targets.

Having a better picture of the Fund's future income and program demands will help in this assessment, and we welcome the possibility that staff could come back to us with this review in the near term. We agreed with staff that the PRGT reimbursement should be considered as part of a larger review of PRGT finances.

Finally, we agree with what other Directors have said regarding communication around how the pension losses are portrayed to outside audiences. It will be very important to put the accounting reporting standards losses in context so it does not imply that the Fund finances are at risk or being mismanaged, and we are happy to hear that staff are also taking this into consideration.

Mr. Mouminah made the following statement:

I have three things: on communication, income position, and the precautionary balances.

On communication, again we underlined in our gray that the large FY2020 loss is primarily driven by revelations of the Fund's future pension obligation and is not a reflection of the soundness of the Fund's operation or sustainability of the staff retirement plan. This conclusion may not become very obvious, especially for external observers. Like Mr. Rashkovan just now and Mr. Rosen, we therefore stress the need for careful communication of the FY2020 outcome to avoid misunderstanding and undue alarm. This matter was also highlighted by Mr. Tanaka in his gray.

In this context, we welcome the staff report's careful approach to communication, as outlined in the written answers, emphasizing the technical nature of the loss and highlighting the overall strength of the Fund. Also, we welcome the staff's plan to review whether there are options to account separately for unrealized gains and losses arising from IAS-19 to help its understanding. This may also help make communication better, even with the Board.

On income position and precautionary balances, we raised the issue of the overly conservative nature of the projection for lending income, as mentioned by others. We think it is important that the Board has fully informed, realistic, and balanced discussion about the potential path of future lending income, along with implications for the precautionary balances. In this context, we welcome that staff would increase the frequency of updates to the Board in comments made by Mr. Bradbury, and we look forward to the engagement in the coming weeks.

Finally, we reiterate our longstanding position to build up precautionary balances to reinforce the Fund's balance sheet.

Mr. Tanaka made the following statement:

We support all proposed decisions and issued a gray and will make a comment on one issue, the internal and external communication, as Mr. Rashkovan, Mr. Rosen, and Mr. Mouminah commented.

Given the high uncertainty in the world economy, as we mentioned on many occasions, sharing precise and accurate information has been and will be more important than ever. Namely, internal communication between management, staff, and the Board, and external communication between the Fund and the public.

On the internal communication side, we request management and staff for presenting holistic financial operations of the Fund based on granular analysis so that the Board will discuss big-picture financial situation and the financial risk management of the Fund.

While we understand that there is high uncertainty in the future demands for Fund programs, we are of the view that the Executive Board should be informed of more granular analysis of income projection based on March scenarios and sensitivity tests and of its influence on balance sheets to perform its oversight function properly. In this regard, we welcome the staff's answer that they are preparing the postponed precautionary balance Board meeting and will provide some scenario-based income projections at that Board.

On the external communication side, we should be vigilant for reputational risks of possible or already prevailing public misunderstanding on the adequacy of the Fund's resources envelope given rapid increase in Fund's credit outstanding due to current COVID-19 crisis. In this regard, we echo Ms. Levonian that the net operational income, rather than net loss after IAS-19 adjustment, is the most useful measure of Fund profitability and welcome staff's answer that the Fund's press release will highlight the strengths of the Fund's overall finances.

We also welcome that staff will review accounting options to mitigate the volatile effect from IAS-19 on Fund's income, including creating a new reserve, which could make external communication easier.

Mr. Kaya made the following statement:

We support all the proposed decisions but would like to make the following points just for emphasis.

While the Fund's operational income remains robust, the income loss for the GRA arrangement in FY2020 is significant due to pension-related downward adjustments stemming from accounting for the pension benefits. Considering the current income volatility resulting from pension-related gains or losses, like several other Directors, we also see merit in assessing how to smooth the impact of high volatility in projected pension-related loss on the Fund's income statements and accommodate it on the Fund's accounting framework in line with the IFRS framework. Given that the estimated income loss does not arise from the Fund's lending activities, it is critical that the income position for FY2020 is carefully communicated to the public to avoid any potential reputational risk.

Lastly, we underscored in our gray that the chief factors that affected FY2020-2022 income outlook seem to be on the conservative side, especially staff projections on the lending income. Like a number of other Directors, we also call for a Board briefing on a range of program engagement scenarios driven by the crisis. We note that the scenarios should provide informational implications for lending income, GRA liquidity, and operational and budget demands.

Mr. Poso made the following statement:

We appreciate that we are having this discussion right after the meeting on budget. Revenues and costs are often driven by the same dynamics but not always to the same direction, like this financial year. We have issued a gray supporting the proposed decisions. Therefore, I would like to focus only on one issue today.

In addition to the Fund's prudent lending policies and its preferred creditor status, precautionary balances are an integral part of the Fund's risk management framework. Already before this crisis there was a notable concentration risk to our loan portfolio. Given the current fragile and uncertain global economic environment and the unprecedented demand for Fund financing, the credit risks we are taking are clearly on the rise. In this respect, I would like to ask staff how much the key risk measures, the so-called Emerging Markets Bond Index (EMBI) spread, has increased in basis points since end-February.

In addition, I would like to ask whether staff sees that the five-year rolling average of this risk measure is sufficiently and timely informing the Board's decisions as regards the precautionary balances. We expect a holistic discussion on precautionary balances in the near future so that the Board could assess the past and future developments and the related implications on the Fund's precautionary balance target and the pace of accumulation.

Lastly, like Mr. Rosen in his gray and in his remarks, we would expect a discussion of the rate of charge to be more closely linked with the discussion on precautionary balances in the future.

Ms. Moreno made the following statement:

As other Directors mentioned, including additional scenarios could take into account this uncertainty and in particular the related uncertainty on financial requests. So, again, we welcome the clarification in the initial remarks that this work is already underway.

Having said that, we support the proposed decision; and just for emphasis, the need to consider ways of smoothing the impact of pension-related volatility of income would be much welcome.

Mr. Guerra made the following statement:

We recognize the complexity of undergoing this analysis in the current context, which makes the projections of the Fund's income position subject to substantial uncertainty. I will comment briefly on four points.

First, we support staff's plans to review whether there are options to account separate or unrealized gains and losses, such as pension-related [resource].

Second, we take note that the assumptions for foreign lending were more conservative than we would have expected and may have implications on the projected path of reserves accumulation, for instance. Thus, we look forward to more updates on the developments affecting the IMF balance sheet and net income sources when more information about lending demand is available. In particular, we look forward for an update in the upcoming precautionary balances discussion.

Third, we support the staff plans to bring forward the next Board review of the Investment Account for FY2020. We agree with staff what this timing will allow the review to take into consideration the impact of COVID-19 crisis more fully and align the review with that of the PRGT investment strategy.

My last point. On communication, we join other Directors in that the press release should highlight the strength of the Fund's overall finances before reporting on the net loss projected for fiscal year.

Mr. Geadah made the following statement:

First, we should be very careful in our external communications regarding the income position. Our communication should underscore the fact that the Fund's balance sheet remains robust and that the Fund is in a strong position to increase its operations in response to the crisis.

My second point is more general, and it is more like food for thought and probably for the future. While I welcome the fact that our net income position is strong, in an ideal world, Fund surveillance would be so effective that our income from lending, the main source of revenue, would be zero. The Fund would be very effectively providing an international public good for which the membership should be happy to pay. It is like paying for the fire department that you do not get to use, luckily so, but it will still be important to have. My bottom line is that as long as the Fund has the resources to finance its operations, we should be less concerned with the income position as long as these operations are conducted in an efficient manner and properly targeted.

Ms. Mahasandana made the following statement:

We note that the Fund income position for FY2020 recorded a net loss due to significant pension-related unrealized losses. Looking ahead, we also recognize that the Fund income projection is subject to a high level of uncertainty due to the unprecedented crisis. We have issued a gray and would like to just offer a few brief remarks for emphasis.

First, like many other Directors, we highlight our concern on the volatility of the Fund net income resulting from the pension-related remeasurement. These adjustments undermine the income position projections and may create public misunderstanding regarding the Fund performance and the resource position. Therefore, we encourage staff to explore various accounting options for defined benefit pension scheme that could reduce its volatility's impact to the Fund net income position, and this includes creating a separate reserve account to absorb the unrealized gain or loss from the pension account. We welcome staff's plan to conduct this research and engagement with the Board in the future envisaged and as mentioned by the technical response from the staff. We also recommend staff to look to other IFIs and other institutions' practice on this.

We also share the same concern with Mr. Tanaka, Mr. Rashkovan, Mr. Rosen, Mr. Mouminah, and other Directors on the potential misinterpretation and implications regarding the adequacy of the Fund resources to deal with the present pressing circumstances. We underscore the importance of careful and clear communication to Board members, countries, and the public at large.

Lastly, we also echo Mr. Rosen and the other Directors regarding providing the more positive and optimistic scenario on the income projections and look forward to the engagement from the staff with the Board in the near future.

Mr. Natarajan made the following statement:

Evaluating the income position, particularly in the context when we just discussed the budget, is contextual and very important. Looking into the huge impact that the current crisis that has made on the income position, we have to take this very seriously, and as we support the proposals, we have the following comments:

Firstly, the lending operations of the Fund and the volatility in the financial market, currently the way they are working has fundamentally altered the asset value and the income distribution of the Fund. We believe it is not only for this year, and it is there to stay for a long time. What we observe is that as the staff has provided, the income position is expected to increase. Of course, the extent of increase is a matter of estimation at this stage. Certainly, that is the one upside in the current scenario.

On the downside, the investment income is expected to fall and also more particularly the pension-related losses. So as some of these changes are long term, as low for long says, the investment strategy of the Fund must be adaptive so as to ensure the resilience of the Fund's finance. We do appreciate the comments made on the investment strategy but believe that the changes in the circumstances require a look at that.

As far as the pension losses or gains over the period is concerned, we have to look at it in a long-term perspective because it is a long-term fight. And based on our past experience, as well as the expected future scenario, we are to develop two scenarios. In fact, my final comment would be on the fact that this would give us a balanced perspective about when we communicate to the external world how the pension losses impact not in a particular year by providing a longer-term perspective, both the past as well as into the future.

Mr. Raghani made the following statement:

Like other Directors, we agree that the Fund's economic position in FY2020 is sound despite the substantial projected net income loss for the current fiscal year resulting from the significant increase in the pension-related expense. We would like therefore to associate ourselves with the chairs that have called for a careful communication of the Fund's finances following today's Board meeting to avoid potential risk perception related to the adequacy of the Fund's resources.

We also share the view that the Fund's income outlook remains strong over the medium term and the staff's projected lending income in particular may be conservative given the significant increase in the number of new arrangements to respond to the pandemic. We would like to support the Directors who have called on staff to consider options to smooth the impact of the volatility of pension-related adjustments on net income and precautionary balances.

Finally, on the issue of the reinvestment of the GRA for PRGT expenses, we have indicated in our gray that consideration should be given to suspending reimbursement of the cost of administration of the PRGT during the current fiscal year. Similar views have been issued by Mr. Bevilaqua and Mr. Mojarrad.

We have taken note of the staff's comments made at the beginning of the meeting but would like to support Mr. Bevilaqua's call this afternoon for temporary suspension for the reinvestment of the cost of administering the PRGT given the significant increase in the number of programs for LICs to address the current crisis and the pressure that this high demand creates on the limited PRGT resources.

The Deputy Director of the Finance Department (Mr. Bradbury), in response to further questions and comments from Executive Directors, made the following additional statement:

There is obviously a very broad consensus that how we communicate this year's results is going to be especially critical. It is heartening to hear the remarks from Ms. Levonian that the experience of the Canadian authorities suggests we are not alone in this boat in terms of how we frame the message and of taking a long-term perspective. I did appreciate the comments on that which is also going to be important.

Let me at the same time just touch on the related issue of what we might do in terms of the unrealized gains and losses reserve. That would purely be a balance sheet matter designed to take away from the Fund's precautionary balances the volatility that we see from this item because, as you have seen, in this year's results, there is an unrealized IAS 19 loss of over SDR 2 billion , which goes straight into precautionary balances, reduces them by about SDR 2 billion, slows the starting point for accumulation, and is not a helpful way to deal with something that is inherently very volatile, and so carving these unrealized IAS 19 gains and losses out, ring-fencing them into reserves on the balance sheet is one possibility that we want to explore.

What we cannot do is to smooth this item in the income statement. There is no possibility of doing that under the current financial reporting framework dictated by IFRS. I just wanted to be very clear on that, that we will be living with this to the extent that there is future volatility in discount rates, so I just wanted to emphasize that point.

On income projections, I fully understand the Board's thirst for information in the current circumstances. We have never been here before, but as I said at the outset, we are working with SPR to come out with some lending demand scenarios, but in doing so, we want to make sure that we are standing on firm ground when we provide information to the Board, but we have heard the call, and we are responding.

There were a few questions on the setting the margin for the rate of charge. Yes, consideration could be given to lowering it. If you take a sort of rate volume analysis of the Fund's income statements equally, as others pointed out, we are going to be lending significantly greater sums. Now, the Fund does not explicitly price the risk, but that might be an argument for increasing the margin; but all the while, we need it to be guided by the agreed framework set out in the rule for analyzing whether there is scope for changing the margin upwards or downwards.

I think in that context, I may just call on my colleagues to answer the very specific question about EMBI spreads.

The staff representative from the Finance Department (Mr. Chociay), in response to questions and comments from Executive Directors, made the following statement:

Just addressing the question from Mr. Poso on the EMBI spreads, recapping why we do this type of analysis, it all stems from the Rule I-6(4) that sets the framework under which we set the margin. So the margin basically has two key objectives. One is to cover the Fund's intermediation expenses, and the other one is to generate an amount of net income for placement to reserves. These two objectives should be fulfilled under a certain quality assurance criteria, which is that our margins should be in line with long-term credit market conditions. Specifically for this last part of the determination from Rule I-6(4), to keep in mind with long-term credit and market conditions, is why we do the analysis of EMBI spreads.

Just to provide some information on recent movements on EMBI spreads, basically we were at end-February roughly stable with our preferred measure of EMBI spreads, which is the five-year average of EMBI spreads [lowest quartile] in a composite way. We do an average of dollar and euro EMBI spreads in proportion to the currency weight in the SDR basket and this measure at end-February was around 140 basis points. Our five-year rolling average was around 150 basis points. What we see now in March and April is that this measure went up: it reached a peak of 286 basis points over this period and is now at around 262 basis points, so we can roughly say that it increased by 100 basis points. We did use this new information to rerun our five-year averages and five-year medians, and they are broadly unchanged, as we mentioned in the supplement. However, we will still keep track of possible movements. We do not expect them to affect the five-year averages, just by the nature of the average, over the short-term, but we will keep these developments under review.

Why we still use these five-year averages is basically because we try to get a measure that is stable enough and informative at the same time. This is a practice that we have had for some time. Maybe in the future we can consider looking to some more forward-looking measures, but for the time being, this backward-looking analysis over a long-term horizon has served us well and was even good enough to get us through the financial crisis, when we had a spike in EMBI spreads but we still had stable measures that provided good information for the Board to make its decision.

The Acting Chair (Mr. Furusawa) made the following statement:

As many of you have requested, the staff will look for opportunities to brief you more frequently on the Fund's income position as it evolves during the year, and staff will also look into the scope for ring-fencing the volatile pension-related gains and losses of the Fund's balance sheet.

Finally, we will be very careful in our public communication, as many Directors mentioned.

The following summing up was issued:

Executive Directors welcomed the review of the Fund's income position and broadly supported all the proposed decisions. They recognized that the 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. They called for timely updates to the Board as warranted by developments.

Directors noted that the FY 2020 income from the Fund's lending and investment operations in the General Resources Account (GRA) is strongly positive and in line with the initial projections, but that a net loss is projected as a result of the revaluation of the pension related expense under the IAS 19 accounting standard. They stressed the importance of communicating these developments clearly to the public. Directors agreed that, consistent with the relevant Board decision, the GRA net loss for FY 2020 be charged against the special reserve.

Directors observed the considerable income volatility introduced by the pension related adjustments under the IAS 19, which blurred the picture of the Fund's income position. They recognized that the resulting gains and losses are very difficult to forecast. Many Directors encouraged staff to explore ways to manage the volatility and potential impact on the overall income position in the future.

Directors noted that the income projections for FY 2021 22 are highly sensitive to the underlying assumptions, including the level of credit outstanding. In this context, most Directors considered that the updated income projections appear too conservative given the potential impact of large-scale lending in response to the COVID 19 pandemic. They called for a close monitoring of developments and a robust discussion of adverse scenarios with potential implications for lending income in FY 2021 22. A few Directors called for a more integrated approach, considering together both the income and expenditure sides of the Fund's budget.

Most Directors supported maintaining the margin for the rate of charge at 100 basis points over the SDR interest rate for FY 2021 22 under the exceptional circumstances clause. Directors recognized the decline in the precautionary balances in FY 2020 and the uncertainties regarding the projected lending income and the pace of reserve accumulation over the medium term. They nevertheless concurred that there has been no fundamental change in the factors relevant for setting the margin since its last review in April 2019. A few Directors, however, saw scope to temporarily reduce the margin as part of the Fund's efforts to help borrowing members deal with the impact of the pandemic. In light of the implications of the projected loss for reserves, Directors looked forward to the upcoming review of the Fund's precautionary balances and an opportunity to review the margin level before the end of FY 2021. They underscored the importance of achieving the indicative medium-term target for precautionary balances.

Directors broadly agreed to reimburse the GRA for the cost of administering the PRGT. However, a few Directors would have preferred that reimbursement be suspended as part of the efforts to boost the resources available to the PRGT.

The Executive Board took the following decisions:

Review of the Fund's Income Position for FY2020 and FY 2021–2022 - Assessment Under Article XX, Section 4 for FY 2020

Pursuant to Article XVI, Section 2 and Article XX, Section 4 of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2019 through April 30, 2020; and

(ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2020 with an amount equal to 0.00132887 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department. (EBS/20/58, 04/13/20)

Decision No. 16771-(20/51), adopted
April 27, 2020

Review of the Fund's Income Position for FY2020 and FY 2021–2022 - Poverty Reduction and Growth Trust Reimbursement for FY 2020

In accordance with paragraph 3 of Decision No. 8760-(87/176), adopted on December 18, 1987, an amount equivalent to SDR 61.76 million, representing the cost of administering the Poverty Reduction and Growth Trust (PRGT) for FY 2020, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Resources Account. (EBS/20/58, 04/13/20)

Decision No. 16772-(20/51), adopted
April 27, 2020

Review of the Fund's Income Position for FY2020 and FY 2021–2022 - Transfer of Investment Income for FY 2020 to General Resources Account

The income of the Fixed-Income Subaccount of the Investment Account for FY 2020 shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2020. The income of the Endowment Subaccount for FY 2020, if any, shall be retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account. (EBS/20/58, 04/13/20)

Decision No. 16773-(20/51), adopted
April 27, 2020

Review of the Fund's Income Position for FY2020 and FY 2021–2022 - The Rate of Charge on the Use of Fund Resources for FY 2021 and FY 2022

Pursuant to Rule I-6(4)(a), last sentence of the Fund’s Rules and Regulations, the rate of charge for FY2021 and FY 2022 shall be 100 basis points over the SDR interest rate under Rule T-1 of the Fund’s Rules and Regulations. (EBS/20/58, 04/13/20)

Decision No. 16774-(20/51), adopted
April 27, 2020

APPROVAL: October 3, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

1. We take note that the projections for net income for FY 2021 and 2022 are SDR 1.4 billion and SDR 1.8 billion, respectively, excluding the impact of any pension-related gain or loss. ***However, as conveyed in previous occasions, in the future we encourage staff to consider a mechanism to smooth the impact of high volatility in projected pension-related flows on the Fund's income statements and projections.***
2. ***We request the staff to consider creating the new reserve. We would like to invite staff to comment on this point.***
3. ***Given the extremely volatile non-operative (actuarial) risk of IAS 19 related adjustments for pension liabilities to the income position and the PB, we would welcome staff's comments how this issue could be addressed, e.g. in the accounting framework.***
4. ***In this regard, we welcome staff's comments on the possibility of accruing for probable impairment losses to avoid large swings in actual outcomes between financial years.***
5. ***We call on staff to coordinate with the External Audit Committee and the external auditor firm to look for ways to smooth the impact of IAS-19 on net income. We would like to ask staff to elaborate on different possibilities to achieve this smoothing*****.**
6. The recurring income volatility resulting from pension-related gains or losses warrants further study to better accommodate it on the Fund accounting framework. ***We would like staff to elaborate on this issue at the Board meeting*****.**

- The Fund's financial statements are prepared under International Financial Reporting Standards (IFRS). They are audited by the external auditors under the oversight of the External Audit Committee. IAS 19 is the standard that deals with accounting for pension and other employee benefits which introduces volatility to Fund income as the full impact of remeasurement gains and losses incurred during the year is reflected in the annual pension-related (IAS 19) adjustment. As noted in Figure A2.1 of the main paper, the gains and losses can be substantial on an annual basis, but they tend to offset each other over time. Complying with the requirements of IAS 19 ensures that the financial statements are in full compliance with IFRS. Any 'smoothing' of income is not allowed under IAS 19.
- In light of the unprecedented IAS 19 losses incurred this year and the volatile nature of the gains and losses in the past, staff plans to review whether there are options to account separately for unrealized gains and losses such as the pension-related (IAS 19) gains and losses, for example as a 'carve-out' within a reserve, including how to treat these unrealized amounts vis-à-vis precautionary balances. Staff plans to conduct research on this issue in the coming financial year.

7. ***To what extent applying judgement to determine the appropriate population of HQCB or government bonds to refer to could be contemplated and useful to determine the discount rate?***
8. ***Regarding the measurement of gains and losses which reflect the difference between actuarial assumptions at the end of the reporting period versus those at the***

beginning, could staff explain why the latter are not recognized in Other Comprehensive Income?

- For the purposes of valuing the pension liability under IAS 19 we use the discount rate derived from the FTSE Pension Discount Curve. This rate, which is commonly used for discounting pension liabilities on an accounting basis, is independently reviewed by the Fund's actuaries – Willis Towers Watson and is widely used amongst Plan sponsors and consultants for measuring pension liabilities.
- The 'Remeasurement Gains and Losses' line in the *Text Table: Reconciliation of pension-related (*IAS *19) gains and losses* is equivalent to the 'Other Comprehensive Income' line in the Annual Financial Statements of the General Department.

9. ***Notwithstanding the technical requirement for this revaluation to take place, we would appreciate staff's further comments and analysis on the longer-term implications of these movements and what this means for the Fund.***
10. ***How and when could/should the IAS-19 pension revaluations be transformed into real contributions from the Fund's reserves to the SRP?***
11. It may also be reasonable to consider these issues alongside with the analysis of the Staff Retirement Plan situation. ***Could staff provide information when the Board can expect such a discussion?***

- The pension-related gains and losses under the accounting standards have been very volatile over the years. By contrast, the funding or cash contribution of the plan has been quite stable at 14% p.a. for the SRP and 7% for the RSBIA for many years. According to the latest Board Paper for the Fund's FY2021 contribution to the Staff Retirement Plan (SRP), projections indicate that an annual contribution of 14 percent of pensionable gross remuneration from the Administrative Budget, together with contributions from the SRP reserves, are estimated to be sufficient to fund the SRP through FY 2038. This is based on the current funding-related actuarial assumptions.
- Every five years, a detailed review of the funding actuarial methods and assumptions, alongside a sensitivity analysis, is performed, with the next review planned for mid-2020, after the April 30, 2020 valuation results are finalized.
- As noted, the unrealized accounting loss is separate from the cash contributions made annually by the Fund. It is retained in the special reserve until offset by future gains. Staff plans to conduct research on whether there are options to account separately for unrealized gains and losses such as the pension-related (IAS 19) gains.

12. ***Staff's comments on the impact of pension-related expenses on the precautionary balances' accumulation over the medium term.***
13. ***Could staff elaborate on the impact of the large and significantly volatile pension-related expenses on the projected improvement in net income and precautionary balances over the medium term?***

- In line with the FY 2021-22 sensitivity analysis of the two key actuarial assumptions on income, viz. the discount rate and asset returns in the paper, any increase in these assumptions will increase GRA income, and decreases will reduce it. Given the wide range of possible outcomes on income and precautionary balances, staff's view is that it is better to explain the outcome of the pension-related (IAS 19) adjustment relative to a zero base in future years.

Lending Income Projections

14. ***Staff's comments on the underlying assumptions underpinning their projections for lending income in FY2021 are welcome.***
15. ***We would have appreciated if staff had provided a range of possible outcomes, not least reflecting the recent changes to the Fund lending toolkit, including the introduction of the SLL.***
16. ***We also recognize the upside potential for lending income to indeed be higher than currently projected, which if realized, could result in a faster than projected accumulation and level of the precautionary balances. Staff comments are welcome.***

- The baseline lending projections include the current pipeline of emergency financing for which there is some certainty. This comprises mainly RFI requests and inquiries, augmentations, the recent large drawdown on a PLL - programs that are approved or at advanced stage of discussion as of early April. It does not include the arrangements under the new SLL, FCLs, any additional RFIs or other arrangements given the uncertainty regarding their size and timing. Addition of such new facilities to the projections would provide certain upside to any future lending income projections.
- In light of the ongoing uncertainty in the current evolving situation staff limited the projections to the baseline scenario in the paper and did not include an alternate high lending scenario. Staff will explore ways to provide more frequent updates to the Board going forward. In particular, we will provide an update in the upcoming precautionary balances discussion.

Reimbursement of the GRA for PRGT Expenses

17. ***Could staff clarify if this is also included in Table 1. B. Expenses, on page 4 of the Supplementary Information?***

- This is correct. The GRA is reimbursed for the expenses of administering the PRGT and this is included in Net administrative expenditures.

Margin for the Rate of Charge

18. ***Could staff elaborate their views on this, and their main consideration in balancing the expectation of the long-term market funding in relation to the "lower for longer" interest rate environment with other associated risks?***

- As discussed in the paper, the margin is set consistent with the objectives in Rule I-6(4), namely to cover the Fund's intermediation expenses and generate an amount of net income for placement to reserves, while keeping in line with long-term credit market conditions. Recent data on EMBI spreads, while volatile, point to tighter market conditions, suggesting the margin should be at least maintained to avoid misalignment with market conditions going forward. Staff will keep market developments under review and the Executive Board will have an opportunity to revisit this issue in the FY2021 mid-period review of the margin.

Income Allocation

19. ***Could staff confirm that in case of a net GRA income in FY 2021, any gain up to SDR 1.0 billion should be credited to the special reserve before the excess is allocated equally between the special and general reserve, subject to Board's approval?***

- If as projected, the Fund had a positive net operational income position in FY 2021, staff could propose that the Executive Board adopt a decision to place a portion the Fund's net income for FY 2021 (at least equal to the FY2020 loss) to the Fund's Special Reserve. This would be consistent with the decision agreed in FY 2009 to replenish the loss charged to the special reserve in the preceding year (FY 2008).

General

20. While we welcome that the performance of EA has shown resilience thanks to its diversified portfolio under the current passive investment strategy, the Fund should continuously adjust its investment management of EA to market condition in an appropriate and agile manner. In this context, ***we wonder whether the investment strategy of the subaccount, including its asset allocation, is needed to be reviewed in a near term. Staff's comments are welcome.***

- The investment strategy and Rules and Regulations for the IA are reviewed by the Executive Board every 5 years (the last review was in 2018). This regular review cycle is appropriate given the Endowment's long-term investment horizon.
- However, staff is planning to bring forward the next Board review of the IA to FY 2022. This timing will allow the review to take into consideration the impact of the COVID-19 crisis more fully as it develops, and align the timing of IA review with next review of the PRGT investment strategy.
- In the meantime, portfolio performance and developments will continue to be monitored and reported in detail to the Board through the Annual Report for the IA and TA and an associated informal briefing.

21. We note the uncertainties related to the discount rate used to measure the Fund's retirement plan obligations at April 30, 2020, and the full year asset returns on the retirement plan and the Endowment Subaccount (EA), due to the recent volatility in financial markets. ***We would accordingly welcome an update from staff on the FY2020 outcome as soon as feasible*****.**

- The Fund's annual financial statements will provide the final outcome for all elements of income and expenditure for the year ended April 30, 2020. Following the completion of the year-end audit the financial statements will be made available to the Executive Board around late June 2020.

22. It is crucial that communication underscores that the Fund's balance sheet remains robust and that it is prepared to increase its operations in response to the crisis, with a positive medium-run impact balancing out the current headline negative result. ***Does staff share this concern with communication and what would be the approach to minimize perception risks?***

- The net operational income projections excluding the pension-related (IAS 19) is projected at about SDR 1.4 billion in FY 2020 and is expected to remain strong in FY 2021-22, even under staff's modest lending projections. The press release will highlight the strength of the Fund's overall finances this before discussing the net loss projected for FY 2020.

23. ***Can staff provide more information on when the Board can expect to revisit the precautionary balances discussion?***
24. ***We would appreciate if staff could provide an indicative timeline of when the Board discussions on the Review of the Adequacy of the Fund's Precautionary Balances, and the Informal Session (to Engage): Provisioning for Impairment Losses in the Context of the Fund could be scheduled?***

- Staff is currently exploring the appropriate timing of the discussion in light of the rapidly evolving situation regarding Fund lending and possible linkages with other policy discussions.