INTERNATIONAL MONETARY FUND

The Fund's Income Position for FY 2010—Actual Outcome

Prepared by the Finance Department

In consultation with the Legal Department and the Office of Budget and Planning

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1. **This paper presents the Fund's net income outcome for FY 2010**. The actual outcomes in this paper follow the closing of the Fund's accounts for the financial year and completion of the FY 2010 external audit conducted by Deloitte & Touche, the Fund's external auditor. The paper also provides an update on the restructuring costs incurred during FY 2010.

2. **Actual FY 2010 net operational income was SDR 367 million, close to the April projection of SDR 365 million** (Table 1).[1] Table 2 provides details of the variance between the actual outcome and the April projections. Operational income was some SDR 954 million compared with the projection of SDR 957 million. Higher-than-projected returns from the Investment Account (IA) were offset by lower-than-projected lending income. Expenditures were modestly lower, reflecting the actual budget outturn.

3. **IA returns**. The IA saw relatively strong performance with a return of 2.55 percent in FY 2010, exceeding the SDR interest rate by 226 basis points (IA returns in FY 2009, which benefitted from falling interest rates, were 6.29 percent and exceeded the SDR interest rate by 449 basis points).

4. **Restructuring costs**. Restructuring costs incurred during FY 2010 amounted to about SDR 35 million. Of these costs, SDR 7 million was recognized as an expense during FY 2010 for costs related to services from which the Fund benefits such as salaries during the staff delay/deferral period. The remaining SDR 28 million was charged against the restructuring provision established in FY 2008. Annex I provides further details on the restructuring costs.

5. **IAS 19 expense**. The Fund's pension and employee benefits expense is determined under the provisions of IAS 19. A timing difference arises between the actuarially

[1] See *Review of the Fund's Income Position for FY 2010 and FY 2011*.

determined expense related to benefits earned by employees for rendering services during the financial year and the amount actually funded under the administrative budget. The actuarially determined IAS 19 expense for benefits earned during FY 2010 amounted to SDR 219 million. Funding to the pension plans and other long-term employee benefits for FY 2010 amounted to SDR 107 million, giving rise to an IAS 19 timing difference of SDR 112 million (Tables 1 and 2).

6. **Pension reform costs**. The amendments to the staff retirement plans, effective May 1, 2011, resulted in the immediate recognition during FY 2010 of some SDR 21 million in past service costs for vested benefits.[2]

7. **Gold profits.** Net income includes profits from gold sales during FY 2010 amounting to about SDR 3.8 billion, representing sales of 251 metric tons (about 62 percent of the approved 403.3 metric tons). As agreed by the Executive Board at the discussion in April on the Fund's income position, the gold profits have been retained in the GRA pending the amendment of the Articles of Agreement to broaden the investment mandate.

8. **No decisions are required at this time.** The Executive Board took all necessary decisions in April 2009 and during the review of the Fund's income position for FY 2010 and FY 2011.[3] In accordance with those decisions, the FY 2010 income of the IA has been transferred to the General Resources Account and the FY 2010 net income has been placed in the Special Reserve.

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[2] See paragraph 5 in *Review of the Fund's Income Position for FY 2010 and FY 2011*.

[3] See *Review of the Fund's Income Position for FY 2009 and FY 2010* and *Review of the Fund's Income Position for FY 2010 and FY 2011*.

Table 1. Income and Expenditures for FY 2010
(In millions of SDRs)

	Projections 1/	Actual outcome
A. Operational income	**957**	**954**
Lending income	**798**	**788**
Margin for the rate of charge	344	342
Service charges 2/	191	186
Surcharges	263	260
Investment income	**144**	**152**
Interest free resources	**11**	**11**
SCA-1 and other	9	9
Gold book value	2	2
Reimbursements	**4**	**3**
MDRI-I Trust and SDR Department	4	3
B. Expenses 3/	**592**	**587**
Net administrative expenses	558	554
Capital budget items expensed	8	7
Depreciation	26	26
C. Net operational income position (A-B)	**365**	**367**
Gold profits 4/	3500	3753
Restructuring costs	-12	-7
IAS 19 timing difference 5/	-94	-112
Pension reforms (IAS 19 expense) 6/	-19	-21
Net income position	**3740**	**3980**
Memorandum Items:		
Fund credit (average stock, SDR billions)	34.4	34.2
SDR interest rate (in percent)	0.25	0.29
Average US$/SDR exchange rate	1.56	1.56

1/ See *Review of the Fund's Income Position for FY 2010 and FY 2011*.
2/ Includes commitment fees, which are refundable (when disbursements take place) so income only arises at expiration or cancellation of an arrangement to the extent planned disbursements are not made.
3/ The administrative expenses reported in the FY 2010 financial statements, see Table 3, include non-operational costs (i.e., the restructuring costs and the IAS 19 timing difference).
4/ Includes announced gold sales during the off-market phase of 212 metric tons in October and November and 39 metric tons sold during the on-market phase through end-April.
5/ IAS 19 is the accounting standard that prescribes the accounting treatment for pension and employee benefit costs.
6/ Accrued costs upon adoption of the amendments to the staff retirement plan.

Table 2. Operational Income Variances/Changes [1/]
(In millions of SDRs)

A.	Income sources: previous projection	957
	Changes due to:	
	Investment Account income	8
	Margin for the rate of charge, service charges and surcharges 2/	(10)
	Reimbursement of MDRI-I Trust and SDR Department	(1)
A.1	Income sources: actual outcome	954
B.	Administrative and capital expenses: previous projection	592
	Change due to:	
	Actual budget outturn 3/	(6)
	Reimbursement from MDRI-I Trust	1
B.1	Administrative and capital expenses: actual outcome	587
C.	Net operational income: actual outcome (A.1 – B.1)	367

Totals may not add due to rounding differences.

1/ This table explains the changes from the previous estimates.
2/ The lower lending income reflects rephasing of disbursements under certain arrangements.
3/ The actual budget outturn of $863 million, was some $8 million lower than the 9-month projection.

Table 3. Reconciliation of Administrative Expenses
(In millions of U.S. dollars unless otherwise indicated)

Net administrative budget outturn	**863**
Capital budget items expensed	10
Depreciation	41
Total expenses per Table 1	914
Total expenses per Table 1 (in SDR millions) 1/	**587**
Restructuring costs (SDR millions)	7
Pension reforms IAS 19 expense (SDR millions)	21
IAS 19 timing difference (SDR millions) 2/	112
Total administrative expenses per the audited financial statements (SDR millions)	**725**

Totals may not add due to rounding.

1/ Based on the average FY 2010 US$/SDR exchange rate of 1.56.
2/ This reflects the difference between FY 2010 pension and other employee benefit costs (SDR 107 million) and the IAS 19 actuarial expense (SDR 219 million).

Annex 1. Accounting for Restructuring Costs

The Fund's FY 2008 financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), included a provision for restructuring costs. Under IFRS, an accrual of SDR 68 million was required in FY 2008 when the Fund committed to, and began the process of implementing the voluntary staff separation plan. The provision included costs for which no services were expected to be rendered by separating staff (e.g., the modified SBF payments and costs related to outplacement and retraining of separating staff). During FY 2009, costs were charged to the provision and the balance at end-FY2009 was SDR 55 million. Costs related to services from which the Fund benefits (e.g., salaries during the staff delay and/or deferral period under the voluntary separation plan) are recognized as they are incurred.

During FY 2010, restructuring costs amounted to SDR 35 million (about US$55 million) and are reconciled to the budget outturn in Table 4. These costs comprised two elements:

1. Costs of SDR 28 million which were incurred in FY 2010 but for which no services were rendered (e.g. the modified SBF payments, outplacement and retraining of separating staff), were charged against the restructuring provision established in FY 2008.

2. Costs of SDR 7 million are related to services from which the Fund benefitted during FY 2010 (e.g., salaries during the staff delay period of up to 12 months under the voluntary separation plan). These costs are recognized as expenditures when they are incurred (and thus were not charged against the restructuring provision).

Following utilization of a further SDR 28 million (see above) against the restructuring provision during FY 2010, the remaining provision at end-FY 2010 amounted to SDR 27 million.

Table 4. Reconciliation of FY 2010 Financial Reporting Costs to the Budget
(In millions of U.S. dollars)

Costs recognized in the financial statements 1/	**55**
Add: Pension and employee benefit contributions 2/	7
Total costs—budget outturn	**62**

1/ A total of SDR 35 million (SDR 28 million charged against the provision and SDR 7 million related to staff delay costs) converted at the FY 2010 average US$/SDR exchange rate of 1.56.
2/ The budget outturn includes pension contributions made with respect to separating staff, but under IFRS the contributions are included in plan assets.