



August 19, 2013

THE FUND'S INCOME POSITION FOR FY 2013—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports the Fund's income position for FY 2013 following the closing of the Fund's accounts for the financial year and completion of the external audit. FY 2013 net income, including income from surcharges, amounted to SDR 2.0 billion, and was in line with the April estimate. In accordance with decisions taken in April 2013, a corresponding transfer of currencies has been made from the GRA to the investment account. The placement of the net income to the Fund's reserves has further strengthened the Fund's precautionary balances, which reached SDR 11.5 billion at the end of FY 2013.

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

1. **This paper presents the Fund's net income for FY 2013.** The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2013 external audit conducted by Deloitte & Touche, the Fund's external auditor.
2. **The overall FY 2013 net income was SDR 2 billion, and is consistent with the April projections (Table 1).**¹ This outcome reflects the following results:
 - **Lending income.** Lending income amounted to SDR 1,444 million, slightly below the earlier estimate of SDR 1,457 million. This result reflects lower-than-projected income from commitment fees (SDR 8 million) due to the extension of a precautionary arrangement that had been expected to expire in FY 2013.² Income from service charges and the margin on the rate of charge was also lower by about SDR 5 million due to the re-phasing of scheduled disbursements under existing arrangements. Surcharge income was SDR 1,240 million, in line with earlier estimates.
 - **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount (reserves portfolio) amounted to SDR 61 million, broadly in line with the earlier estimate of SDR 58 million, while the Endowment Subaccount and the Temporary Windfall Profits Subaccount returned SDR 6 million and SDR 0.4 million, respectively.
 - **Expenses.** Total expenses of SDR 664 million reflect the actual net administrative budget outturn (SDR 628 million), depreciation (SDR 31 million), and capital budget items expensed (SDR 5 million), and are in line with the earlier estimate. Table 2 provides a reconciliation between the net administrative budget outturn and the administrative expenses in the FY 2013 audited financial statements.
 - **IAS 19 timing difference.** The FY 2013 IAS 19 timing difference amounted to SDR 141 million compared to the April estimate of SDR 147 million.³ The actuarially determined IAS 19 expense for FY 2013 amounted to SDR 248 million compared to the actual funding of SDR 107 million, giving rise to a timing difference of SDR 141 million that decreased net income.

¹ See Review of the Fund's Income Position for FY 2013 and FY 2014.

² Commitment fees are refundable if drawings are made under an arrangement and therefore income from these fees is only recognized at the cancellation or expiration of the arrangement.

³ The Fund's pension and employee benefit expense is determined by the provisions of IAS 19, under International Financial Reporting Standards (IFRS). A timing difference results between the actuarially determined IAS 19 expense related to benefits earned by employees during the financial year and the amount actually funded from the budget.

3. No decisions are required at this time. The Executive Board took all necessary decisions in April 2013 during the review of the Fund's income position for FY 2013 and FY 2014. Income from the Endowment and the Temporary Windfall Profits Subaccounts of SDR 6 million is retained in the Investment Account (IA), while income from the Fixed Income Subaccount is transferred to the GRA and used for meeting the administrative expenses of the Fund in FY2013. FY 2013 GRA net income (SDR 2 billion)⁴ has been placed in the Fund's general and special reserves. Currencies amounting to SDR 1.9 billion were transferred from the GRA to the IA in August 2013.⁵

⁴ GRA net income is SDR 1,998 million comprising of total net income of SDR 2,004 million less SDR 6 million (investment income from the Endowment and Temporary Windfall Profits Subaccounts) retained in the investment account (see Table 1).

⁵ Decision No. 7 in Review of the Fund's Income Position for FY 2013 and FY 2014 provides for the transfer of currencies equivalent to the GRA net income of FY 2013 (SDR 1,998 million) to the IA and Decision No. 5 provides for the transfer to the GRA of the income of the Fixed Income Subaccount of the IA (SDR 61 million) for meeting FY 2013 administrative expenses. Consistent with past practice, and for operational expediency, the two transfers are netted, resulting in a net transfer of SDR 1,937 million that took place on August 8, 2013.

Table 1. Income and Expenditures for FY 2013
(in millions of SDRs)

	FY 2013	
	April Projections 1/	Actual Outcome
A. Operational income	1,573	1,562
Lending income	1,457	1,444
Margin for the rate of charge	919	918
Service charges	57	53
Commitment fees	481	473
Investment income (Reserves)	58	61
Interest free resources 2/	5	4
Reimbursements	53	53
MDRI-I, PCDR Trusts, and SDR Department	1	1
PRG Trust	52	52
B. Expenses 3/	661	664
Net administrative expenditures	625	628
Capital budget items expensed	6	5
Depreciation	30	31
C. Net operational income (A-B)	912	898
Surcharges	1,242	1,241
IAS 19 timing adjustment 4/	-147	-141
Retained investment income 5/	6	6
Net income position	2,013	2,004
<u>Memorandum Items:</u>		
Outstanding Fund credit (average balances, SDR billions)	91.9	91.8
SDR interest rate (average, in percent)	0.1	0.1
US\$/SDR exchange rate (average)	1.52	1.51
Precautionary balances (end of period, SDR billions)	11.5	11.5

Source: Finance Department and Office of Budget and Planning

¹ See Review of the Fund's Income Position for FY 2013 and FY 2014.

² Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not yet transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.

³ See Table 2 for a reconciliation to the administrative expenses reported in the financial statements for FY 2013.

⁴ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations.

⁵ Comprising income from the Endowment and Temporary Windfall Profits Subaccounts.

Table 2. Reconciliation of Administrative Expenses
(in millions of U.S. dollars, unless otherwise stated)

Net administrative budget outturn	948
Capital budget items expensed	8
Depreciation	47
Total expenses in U.S. dollars millions	1,003
Total expenses in SDR millions (per Table 1) 1/	664
IAS 19 timing difference (SDR millions) 2/	141
Reimbursements from PRG Trust, PCDR Trust, and SDR Department (SDR millions)	-53
Total administrative expenses per the audited financial statements (SDR millions)	751

Source: Finance Department and Office of Budget and Planning

Totals may not add due to rounding differences.

¹ Based on the effective weighted average FY 2013 U.S. dollar/SDR exchange rate of 1.51 for expenses.

² Reflects the difference between the FY2013 pension and other employee benefit funding (SDR 107 million) and the expense (SDR 248 million) determined under IAS 19.