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IMF POLICY PAPER

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2015 AND FY 2016

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IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- The **Staff Report** on Review of the Fund's Income Position for FY 2015 and FY 2016 was prepared by IMF staff and completed on April 6, 2015 for the Executive Board's consideration on April 27, 2015.

  As noted in the paper, Decision 5 was revised subsequent to the issuance of this paper to revert to the past practice of placing net income of the GRA to the special reserve and general reserve. Placement of the projected FY 2015 GRA net income of SDR 1.3 billion to general reserve would increase it to SDR 8.9 billion, while the special reserve (excluding the gold endowment) would remain at SDR 4 billion.

- A **Staff Supplement**.

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 27, 2015 consideration of the staff report.

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REVIEW OF THE FUND'S INCOME POSITION FOR FY 2015 AND FY 2016

EXECUTIVE SUMMARY

FY 2015 net income is now projected at SDR 1.5 billion. Lending continues to be the main source of income, although advance repurchases have lowered projected lending income in FY 2015 by SDR 0.3 billion. Investment income remains constrained in the low interest environment but the returns were somewhat stronger than projected. A revaluation of pension obligations, required under accounting standard IAS 19 and stemming from a further fall in the discount rate, is projected to entail an adjustment to FY 2015 net income of about SDR 0.8 billion.

The paper proposes that GRA net income of SDR 1.3 billion, which excludes the retained earnings of the gold endowment, be placed to the special reserve.* After the placement to reserves, precautionary balances are projected at SDR 14.0 billion at the end of FY 2015.

The paper further proposes to retain currencies available for transfer to the Investment Account in the GRA, pending completion later this year of the Board's review of the mandate for the Fixed-Income Subaccount.

In April 2014, the margin for the rate of charge was set at 100 basis points for the two years FY 2015 and FY 2016. The margin may be adjusted, in the context of a comprehensive review of the Fund's income position, before the end of the first year of this two-year period (i.e., FY 2015) but only if warranted by fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the two-year period. Staff does not propose a change in the margin.

The projections for FY 2016 point to a net income position of SDR 0.85 billion. Lending income is projected to decline mainly as a result of advance repurchases. These projections are subject to considerable uncertainty and are sensitive to a number of assumptions including upcoming Board reviews on the investment mandate for the Fixed-Income Subaccount.

* The proposed decision was revised subsequently to revert to the past practice of placing net income of the GRA to the special reserve and general reserve, as described in Supplement 1.

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

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INTRODUCTION[1]

1. This paper reviews the Fund's income position for FY 2015 and FY 2016.[2] The paper updates projections provided in April 2014, and proposes decisions for the current year. The paper includes a comprehensive review of the Fund's income position as required under Rule I-6(4) and no change is proposed in the margin for the rate of charge that was established in April 2014 for the period FY 2015-16.[3]

2. The paper is structured as follows: The first section reviews the FY 2015 income position and the main changes from the previous projections; the second section makes proposals on the disposition of FY 2015 net income and placement to reserves; the third section discusses the margin on the rate of charge for FY 2016, updates the income projections for that period, and reviews the projected burden sharing adjustments; and the last section reviews special charges.

REVIEW OF THE FY 2015 INCOME POSITION

3. FY 2015 net income is now projected at SDR 1.5 billion compared with an initial estimate of SDR 2.4 billion (see Table 1).[4] Key factors affecting the updated projections are as follows:

Lending income: Operational lending income (margin, service charges, and commitment fees) is estimated at SDR 1.31 billion, about SDR 48 million or 4 percent lower than the earlier estimate. Surcharge income is now projected at SDR 1.5 billion, some SDR 272 million or 16 percent below the initial estimate. These variables are discussed further below:

- *Margin income* has been revised downwards by SDR 66 million reflecting a decline in credit outstanding in FY 2015. The updated projections point to average credit outstanding of SDR 74.3 billion compared with SDR 80.9 billion projected in April 2014. This decline reflects advance repurchases of SDR 8.1 billion by Ireland and SDR 5.1 billion by Portugal, and the absence since June 2014 of purchases by Greece under its current arrangement; partially offset by the recent purchases of SDR 6.5 billion under the new arrangement with Ukraine.[5]

- *Service charges* have increased slightly from the previous estimate mainly due to purchases by Ukraine, initially on the Stand-By Arrangement (SBA) and more recently on the Extended

[1] Prepared by a team comprising Dannah Al-Jarbou, Alexander Attie, Sonja Davidovic, Andrei Galatanu, Mary Hoare, Hideaki Imamura, Lukas Kohler, Diviesh Nana (lead), Amadou Ndiaye, Breno Oliveira, and Vera Zolotarskaya, under the guidance of David Andrews (all FIN).

[2] A companion paper provides an update on The Consolidated Medium-Term Income and Expenditure Framework.

[3] A New Rule for Setting the Margin for the Basic Rate of Charge (11/23/11) was adopted by the Executive Board in December 2011.

[4] See Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/7/14).

[5] Regarding Greece, this is a technical assumption for the purposes of this paper and does not prejudge the outcome of the current discussions.

Fund Facility (EFF) arrangement. This was largely offset by Greece not making purchases in FY 2015 under its current arrangement since June 2014.

- *Commitment fees* are earned mainly from two Flexible Credit Line (FCL) arrangements and a smaller arrangement under the Precautionary and Liquidity Line (PLL), expiring in FY 2015, and are broadly in line with earlier projections.[6]

- *Surcharge income* is lower than the earlier estimate largely reflecting the advance repurchases by Ireland and Portugal during the year and Greece not making further purchases under its current arrangement.

Investment income: Investment income for FY 2015 is now estimated at SDR 256 million, compared with initial projections of SDR 3 million:

- *The Fixed-Income Subaccount:* While negative returns had been anticipated in April 2014 given market expectations of rising yields, interest rates fell further and in the 10 months through end-February 2015 the subaccount returned SDR 69 million. For the full year, returns from the subaccount are projected at SDR 82 million, but with current yields at historically low levels and offering limited income protection, the portfolio remains vulnerable to downside risks from even a moderate rise in interest rates.

- *The Endowment Subaccount*: The three-year phased investment into the endowment's strategic asset allocation began in March-2014, and SDR 1.76 billion or 40 percent of the portfolio has now been invested. The balance of the portfolio is largely invested in short-term fixed deposits pending the completion of the phased investment. Total portfolio returns were higher than projected, largely as a result of the decline in interest rates noted above, and are now expected to be about SDR 174 million. However, the final outcome for FY 2015 remains subject to considerable market uncertainty.

Reimbursements to the General Resources Account (GRA): In accordance with the Articles of Agreement, the instruments of the CCR and the MDRI-I Trusts (the latter now liquidated), and Board decisions related to the PRGT, the GRA is reimbursed annually for the expenses of conducting the business of the SDR Department, of administering the PRG Trust, and of administering SDA resources in the MDRI-I and the CCR (formerly PCDR) Trusts.[7,8] For FY 2015, expenses of conducting

[6] Commitment fee income is only recognized at the expiration or cancellation of an arrangement. The fees from the two-year Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), and the precautionary Stand-By Arrangements are included in income at their projected expiration date.

[7] In February 2015, the IMF transformed the Post-Catastrophe Debt Relief (PCDR) Trust to create the Catastrophe Containment and Relief (CCR) Trust. This allows the Fund to provide grants for debt relief for the poorest and most vulnerable countries that are hit by catastrophic natural disasters or public health disasters. The relief on debt service payments frees up additional resources to meet exceptional balance of payments needs created by the disaster, and for containment and recovery efforts.

[8] Reimbursement to the GRA from the MDRI-I and the CCR (formerly PCDR) Trusts is for expenses not already attributable to other accounts or trusts administered by the Fund, or to the GRA. The MDRI-I Trust was liquidated in February 2015 (see Proposal to Enhance Fund Support for Low-Income Countries Hit by Public Health Disasters—

(continued)

the business of the MDRI-I Trust amounting to SDR 0.01 million were reimbursed to the GRA in February 2015 in the context of the decision to liquidate the MDRI-I Trust (Decision No. 15708-(15/12), adopted February 4, 2015). The expenses of conducting the business of the SDR Department in FY 2015, which are recovered through an assessment on participants in the SDR Department are estimated at SDR 3.483 million (proposed Decision 1).[9] The expenses for administering SDA related resources in the CCR (formerly PCDR) Trust are estimated at SDR 0.066 million (proposed Decision 2). The estimated PRGT administrative expenses for FY 2015 are SDR 52.94 million (proposed Decision 3).[10] The total reimbursements of SDR 56.5 million are slightly above earlier estimates mainly reflecting increased expenses related to the ongoing review of the SDR valuation basket.

Expenses: Net expenses are estimated to be about SDR 15 million higher than previously projected. As part of the on-going HQ1 renovation project a loss of about SDR 14 million was recognized in FY 2015 representing the net book value of the portion of the building demolished to date. Further losses estimated to be about SDR 11 million in total will be recognized in future years in accordance with the projected renovation schedule. The higher-than-projected capital projects expense was partly reduced by a lower depreciation charge. In addition movements in the U.S. dollar/SDR exchange rate increased the net administrative expenditures by about SDR 9 million, partially offset by FY 2015 net administrative expenditures projected to be about SDR 5 million lower than budgeted.[11]

IAS 19 Adjustment: Staff indicated at the time of past year's income discussion that the amended accounting standard for the reporting of employee benefits (IAS 19) could introduce an additional source of volatility into the Fund's income (Box 1). This is discussed further below.

4. **IAS 19 is the International Financial Reporting Standard (IFRS) that deals with accounting for pension and other employee benefits, including the timing adjustment, in the financial statements of the Employer.**[12] Under IAS 19, an employer's balance sheet, inter alia, shows the funded status of the defined benefit pension plan. The funded status, which is either a net pension asset (or liability), is the difference between the fair value of plan assets and the net

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Decisions) (2/11/15); and the remaining resources were transferred to the General Account of the newly established CCR Trust.

[9] Consistent with paragraph 5(b) of Schedule M, the SDRs taken into account for purposes of calculating the assessment do not include SDR 87 million that, due to the overdue financial obligations of certain members, are being held in an escrow account pursuant to paragraph 5(a) of Schedule M.

[10] Starting in FY 2013, the practice of reimbursing the GRA for the expenses of conducting the business of the PRG Trust was resumed. The reimbursement is an important element of the Fund's new income model endorsed in 2008. See Review of the Fund's Income Position for FY 2013 and FY 2014 (4/15/13).

[11] The projected outturn is approximately US$8 million lower than budgeted (03/30/15) and the updated US$/SDR exchange rate is about 1.48 compared with the earlier projection of 1.50.

[12] For a detailed discussion on IAS 19 Accounting for Employee Benefits including the amendment see Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/07/14).

present value of the defined benefit obligation.[13] The timing adjustment is calculated as the change in the value of the pension asset (or liability) for the period, after taking into account the employer's contributions to the plans. The change in the funded status from one period to the next is thus a function of demographic and financial assumptions underpinning the defined benefit obligation as well as changes in the fair value of plan assets. Historically, the discount rate determined using high-quality US corporate bonds stands out as the most significant assumption and this has had the largest impact on changes in the funded status.

5. Recent trends in market interest rates have translated into significant volatility in the discount rate, serving to further highlight the sensitivity of the defined benefit obligation, and by extension the funded status of the pension plan, to the discount rate. The actuarially determined timing adjustment in FY 2015 results in a projected loss of about SDR 847 million, mainly attributable to a fall in the discount rate since the beginning of the year, as the downward trend in market rates continued, reaching a historic low of 3.58 percent at end-January 2015.[14] In contrast a timing adjustment of SDR 904 million was recognized in FY 2014 attributable to an increase in the discount rate in that year. Of the projected loss of SDR 847 million for FY 2015, about SDR 600 million can be attributed to the change in the discount rate during the year. Going forward, the timing adjustment is expected to remain unpredictable and any volatility in the underlying actuarial assumptions such as the discount rate would translate into volatility in the Fund's income and reserves.

[13] To determine the present value of the defined benefit obligation, the Fund discounts projected future cash outflows by applying demographic assumptions (e.g., mortality and employee turnover), and financial assumptions (e.g., the discount rate and future medical costs). Changes in underlying assumptions from year to year give rise to actuarial gains or losses (e.g., a reduction in the discount rate, and all else being equal, would result in a higher defined benefit obligation and an actuarial loss).

[14] A rule-of-thumb rule applied by the Fund's Actuary is that a one percent change in the discount rate yields about 17 percent to 19 percent change in the defined benefit obligation.

Box 1. IAS 19 Accounting for Employee Benefits

Background

- Since the adoption of International Financial Reporting Standards (IFRS) in FY 2000, the Fund has followed IAS 19 in accounting for employee benefits. The objective of IAS 19 is to ensure that the liability associated with services provided by employees in exchange for benefits to be paid in the future and the related annual expense is properly recognized by the employer in its financial statements. IAS 19 prescribes the accounting by employers for (i) short-term employee benefits (e.g., salaries and wages); and (ii) post-employment benefits (e.g., pension, post-retirement health benefits, and termination grants). The employer recognizes an expense for short-term employee benefits in the period in which an employee has rendered services. Cash outflows associated with long-term benefits are subject to a high degree of uncertainty and are actuarially determined.

Accounting for post-employment and long-term benefits

- To meet the benefit obligations associated with post-employment and long-term benefits, the Fund has sponsored a defined benefit plan (Staff Retirement Plan) and a separate Retired Staff Benefits Investment Account. The Fund reports on the balance sheet a net asset or liability equal to the difference between the fair value of plan assets and the net present value of the defined benefit obligation. The change in the net asset (or liability), after taking into account the employer's contributions to the plans, determines the IAS 19 expense for the year. To determine the present value of the defined benefit obligation, the Fund discounts projected future cash outflows by applying demographic assumptions (e.g., mortality and employee turnover), and financial assumptions (e.g., the discount rate and future medical costs). Changes in underlying assumptions from year to year give rise to actuarial gains or losses (e.g., a reduction in the discount rate, and all else being equal, would result in a higher defined benefit obligation and an actuarial loss).

IAS 19 amendment

- In FY 2014 the Fund implemented the amended IAS 19 thereby eliminating the "corridor method."[1/] As a result, all gains and losses arising from changes in actuarial assumptions are recognized in the year incurred. The amended IAS 19 was implemented retrospectively such that a one-time adjustment for the cumulative unrealized actuarial losses was charged against the reserves on May 1, 2013 (start of the financial year), bringing the Fund's net asset (or liability) and reserves to the same level as if the Fund had never chosen to apply the "corridor method." From FY 2014 onwards, the full impact of actuarial gains and losses incurred during the year is reflected in the annual IAS 19 adjustment.

Accounting vs. funding basis

- The actuarial methods under IAS 19 to measure the IAS 19 expense in the Fund's financial statements are different from the actuarial method used to determine the Fund's annual contribution for the pension plans (i.e., the funding requirement). Therefore, the accounting for employee benefits differs between the Fund's financial statements (accrual basis) and the administrative budget (cash basis for employer's contributions). The resulting timing differences can be substantial but should net to zero over the life of the pension and benefit plans, as from an accounting perspective the IAS 19 adjustments necessarily equal the employer's funding over time.

1/ Under the "corridor method" adopted in FY 2000, principally to minimize the impact of changes in actuarial assumptions on income, actuarial gains or losses above a certain threshold were deferred and amortized over the remaining working lives of employees with the remainder recorded on the balance sheet.

Table 1. Projected Income and Expenditures—FY 2015
(in millions of SDRs)

	FY2015	
	Initial Projections 1/	Current Projections
A. Operational income	**1,382**	**1,455**
Lending income	**1,358**	**1,310**
Margin for the rate of charge	809	743
Service charges	57	62
Commitment fees	492	505
Investment income	**-41**	**82**
Fixed-Income Subaccount	-41	82
Interest free resources 2/	**14**	**6**
SCA-1 and other	14	6
Reimbursements	**51**	**57**
MDRI-I Trust, CCR Trust and SDR Department 3/	1	4
PRG Trust	50	53
B. Expenses	**739**	**754**
Net administrative expenditures	685	689
Capital budget items expensed	16	33
Depreciation	38	32
C. Net operational income position (A-B)	**643**	**701**
Surcharges	1,736	1,464
IAS 19 timing adjustment 4/		-847
Endowment Subaccount (gold profits) investment income	44	174
Net income position 5/	**2,423**	**1,492**
Memorandum Items:		
Fund credit (average stock, SDR billions)	80.9	74.3
SDR interest rate (average, in percent)	0.2	0.1
US$/SDR exchange rate (average)	1.50	1.48
Precautionary balances (end of period, SDR billions)	15.2	14.0

Source: Finance Department and Office of Budget and Planning

1/ Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/7/14).

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 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/ In February 2015, the MDRI-I was liquidated and the PCDR Trust was transformed to create the CCR Trust.

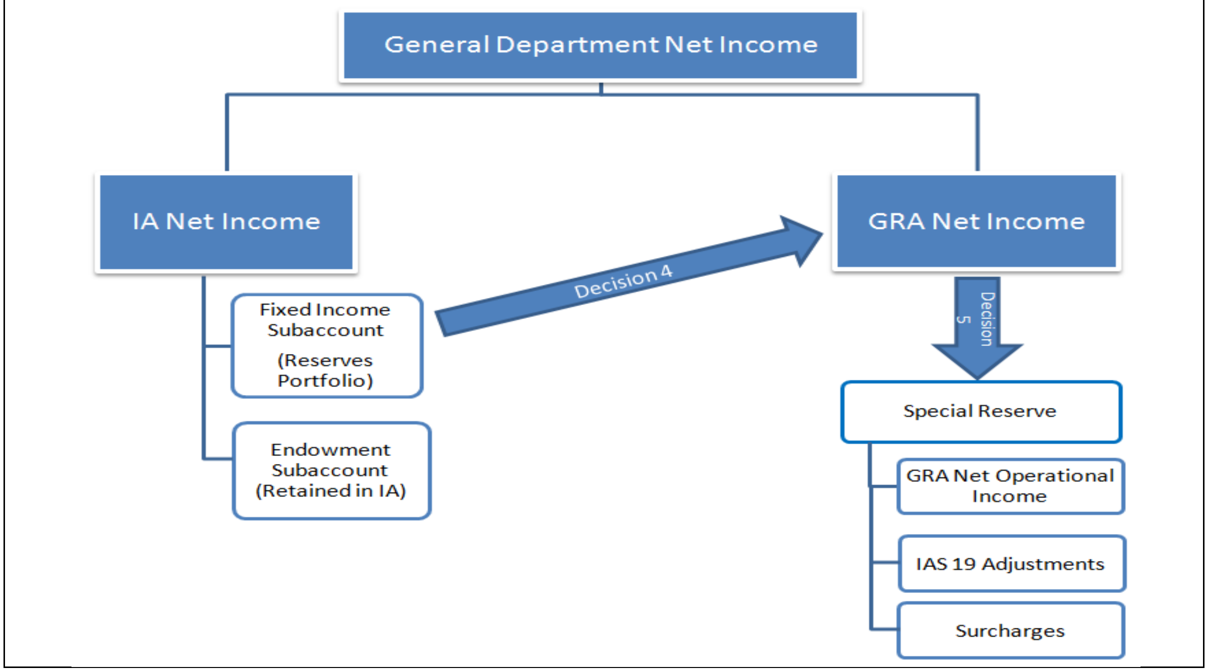
4/ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations.

5/ Net income on the basis presented in the Fund's IFRS annual financial statements.

DISPOSITION DECISIONS

6. As in previous years, the Executive Board needs to consider a number of decisions on the disposition of income for FY 2015. These cover the use of IA investment income earned in FY 2015, which impacts the determination of GRA net operational income in FY 2015; the placement of net income to reserves; and the transfer of currencies from the GRA for any increase in reserves. These elements are discussed below, and presented in Figure 1, beginning with the disposition of IA investment income.*

Figure 1. Summary of Disposition Decisions



7. The use of IA income is guided by the Fund's Articles. Under the Articles, investment income from the IA may be invested, held in the IA, or used for meeting the expenses of conducting the business of the Fund.[15] Further, Article XII, Section 6(f)(ii), permits the transfer of GRA currencies to the IA if, at the time of the decision, the Fund's reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.

8. Staff proposes that income in the subaccounts of the IA be used as follows:

- **Fixed-income Subaccount:** Consistent with past practice, staff proposes that the estimated FY 2015 income of SDR 82 million be transferred to the GRA to be used towards meeting the expenses of the Fund (proposed Decision 4). By so doing the IA income will contribute to the GRA net income, which will be placed in the Fund's reserves as indicated in Figure 1.*

* The proposed decision was revised subsequently to revert to the past practice of placing net income of the GRA to the special reserve and general reserve, as described in Supplement 1.

[15] Article XII, Section 6 (f)(iv). The Board could also, by a 70 percent majority of the total voting power, decide to reduce the amount of the investment in the IA (Article XII, Section 6 (f)(vi)).

- **Endowment Subaccount:** In accordance with the Rules and Regulations of the Investment Account the projected income of SDR 174 million will be retained in the IA, raising the cumulative retained earnings of the IA to SDR 221 million. Furthermore, no income from the Endowment Subaccount may be used for meeting the expenses of the Fund pending the completion of the phased investment of the endowment under the new asset allocation strategy which began in March 2014.[16] No Board decision is required for the reinvestment of these earnings.

9. The Articles permit the Fund's net income of the GRA to be either distributed to members or placed to the general or special reserve (see Box 2). Since the 1970s the practice has been to place annual net income to the special reserve and, in a similar fashion, any income shortfalls incurred have been charged against the special reserve.[17] Beginning in late 1990s, an amount equivalent to surcharge income has been placed to the general reserve when net income has been positive. This practice allowed the Fund to accumulate additional precautionary balances over and above those arising from the margin for the rate of charge, which under the income mechanism that operated prior to the adoption of the New Income Model, was set annually to achieve a net income target amounting to 5 percent of reserves.[18]

[16] See paragraphs 12 and 30 of the Rules and Regulations for the Investment Account (01/25/13).

[17] A Board decision provides that any administrative deficit for any fiscal year of the Fund shall be written off first against the special reserve. Income shortfalls suffered in FY 2007–08 were charged against the special reserve.

[18] See, for example, Review of the Fund's Income Position for FY 2004 and FY 2005 (04/14/2004).

Box 2. The Fund's Reserves

Article XII, Section 6(a) permits the Fund's net income to be distributed to members or placed to the general or special reserve.

Special Reserve. The special reserve was established in 1957. The Board also agreed in 1957 that any administrative losses would first be charged against the special reserve. The special reserve is therefore the first line of defense against income losses. Under the Fund's Articles, no distributions can be made from the special reserve. Since the 1970s, the Fund's practice has been to place GRA annual net income to the special reserve, while surcharge income in the period FY 1998–2006 and in FY 2011–2014 was placed to the general reserve (see below).

General Reserve. The general reserve is available for absorbing capital or meeting administrative losses, as well as for making distributions. Distributions of the general reserve are to be made to all members in proportion to their quota, and require an Executive Board decision adopted by a 70 percent majority of the total voting power. Net income equivalent to surcharge income in the period FY 1998–2006 and in FY 2011-2014 was placed to the general reserve. For the period FY 2007–2010, surcharge income was not placed to the General Reserve and instead was used towards meeting the expenses of conducting the business of the Fund. The practice of placing surcharges to the general reserve was resumed in FY 2011 when the Fund returned to a sufficiently positive net income position.

10. Under the New Income Model, the distinction between regular (or operational) income and surcharge income placed directly to reserves is no longer relevant to setting the margin for the rate of charge. Similarly, the overall pace of reserve accumulation is the same, whether surcharge income is placed to the special or the general reserve. Thus, the main distinction is whether or not the reserves should at some point be considered potentially available for distribution or should be retained permanently on the Fund's balance sheet. Under the framework for precautionary balances adopted in 2010, and reaffirmed subsequently in 2012 and 2014, the Executive Board established a floor for precautionary balances of SDR 10 billion.[19] The presumption is that reserves up to this agreed floor would not be considered available for future distribution.

11. Against this background, staff has revisited this issue of the placement of reserves. When the practice of placing all surcharge income to the general reserve was resumed in 2011, projections suggested that even with all surcharge income placed to the general reserve, the special reserve would continue to increase strongly over the medium term and gradually approach the floor of SDR 10 billion for precautionary balances. However, in the light of early repurchases now underway, maintaining the current practice of placing all surcharge income to general reserve is expected to leave the special reserve well below this floor. Conversely, the alternative approach of placing GRA net income, which includes surcharges, to the special reserve for a period would restore the pace of accumulation of the special reserve, allowing it again to approach the floor for precautionary balances over the medium term.

[19] Review of the Adequacy of the Fund's Precautionary Balances (01/15/14).

12. Staff therefore proposes that GRA net income for FY 2015 be placed to the special reserve (proposed Decision 5)**.** Assuming the transfer of IA income as described above, GRA net operational income would total SDR 701 million. Adding the estimated losses related to IAS 19 timing adjustments of SDR 847 million and surcharge income projected at SDR 1,464 million (see Table 2), GRA net income for FY 2015 available for placement to special reserves is estimated to be SDR 1.3 billion. After placement, the special reserve (excluding the gold endowment) would total SDR 5.2 billion, still well short of the SDR 10 billion floor for precautionary balances, while the general reserve would remain at SDR 7.6 billion.[20] Following this, total precautionary balances at the end of FY 2015 are projected at SDR 14.0 billion after including the SCA-1 balance of SDR 1.2 billion.[21, *]

13. The placement of FY 2015 GRA net income to the special reserve provides scope for further transfer of currencies to the Fixed-Income Subaccount. Article XII, section 6(f)(ii) provides that the transfer of currencies from the GRA to the IA shall not at the time of the decision, exceed the total amount of the general and special reserves. Following the placement of the FY 2015 net income of SDR 1.3 billion to the special reserve, the projected level of the general and special reserves at the end of the financial year will be SDR 17.2 billion, and would remain above the cumulative amount of transfers made thus far to the IA from the GRA of SDR 14.7 billion since FY 2006 when the IA was established. This would allow an additional transfer of currencies from the GRA to the IA of about SDR 2.5 billion, being the maximum transfer of currencies permitted under the Articles.

14. Staff proposes to retain the currencies available for transfer in the GRA pending the completion of the review of the investment strategy for the Fixed-Income Subaccount.[22] In keeping with the decision last year, staff proposes to withhold the transfer of currencies from the GRA to the Fixed-Income Subaccount as an interim measure providing the Fund with time to review the strategic asset allocation for this subaccount. Work on the investment strategy is ongoing and the Board's work program for 2015 envisages completion of a comprehensive review of the investment mandate of the Fixed-Income Subaccount which was initiated last year. The amount available for transfer at the end of the financial year totals SDR 2.5 billion, comprising SDR 1.3 billion for the year and an amount of SDR 1.2 billion retained in FY 2014. Staff could revert to the Board with a proposal to transfer all or part of the full amount of SDR 2.5 billion to the IA for investment

[20] The retention of gold endowment investment income in the IA is in keeping with the Rules and Regulations for the Investment Account and consistent with the presentation in the Fund's annual IFRS financial statements.

[21] Precautionary balances comprise of the special and general reserves, as well as SCA-1 balances, except for amounts in the special reserve attributed to profits from the 2009-2010 gold sales of SDR 4.4 billion. For further discussion on the Fund's precautionary balances see Review of the Adequacy of the Fund's Precautionary Balances (01/15/14).

* The proposed decision was revised subsequently to revert to the past practice of placing net income of the GRA to the special reserve and general reserve, as described in Supplement 1.

[22] The objective of the subaccount is to achieve investment returns that exceed the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over a 12-month investment horizon. Nevertheless, and as acknowledged when the IA was established, there are inherent risks to the IA strategy and some periods of underperformance and even negative returns should be anticipated.

following the completion of this review. The option to retain the currencies in the GRA does not require a Board decision.

FY 2016 INCOME OUTLOOK

15. The income outlook for FY 2016 has been updated since the last estimate provided in April 2014. **The changes stem mainly from a lower path for credit outstanding.** Net income for FY 2016 is now estimated at SDR 0.85 billion (Table 2), compared with SDR 2.1 billion projected a year ago. This positive net income position is expected to be comprised of a small negative balance in operational income together with surcharge income of SDR 0.9 billion and retained earnings in the gold endowment. These income projections, which assume no change in the margin for the rate of charge, are sensitive to a number of factors including the level of global interest rates; the timing of purchases and repurchases under existing arrangements; possible new arrangements; the U.S. dollar/SDR exchange rate and the annual pension expense as determined under the amended IAS 19.[23] The projections are also sensitive to the outcome of the ongoing review of the investment strategy for the Fixed-Income Subaccount, and to a review of the level and structure of surcharges following the implementation of the 14th General Review of Quotas.

[23] Consistent with past practice, the projections only take account of arrangements, approved through end-March 2015 and not possible new arrangements.

Table 2. Projected Income Sources and Uses—FY 2015–2016
(in millions of SDRs)

		FY2015	FY2016
A.	**Operational income 1/**	**1,455**	**660**
	Lending income	**1,310**	**611**
	Margin for the rate of charge	743	521
	Service charges	62	32
	Commitment fees	505	58
	Investment income	**82**	**-24**
	Fixed-Income Subaccount	82	-24
	Interest free resources 2/	**6**	**15**
	SCA-1 and other	6	15
	Reimbursements	**57**	**58**
	MDRI-I Trust, CCR Trust and SDR Department 3/	4	4
	PRG Trust	53	54
B.	**Expenses**	**754**	**763**
	Net administrative expenditures	689	713
	Capital budget items expensed	33	18
	Depreciation	32	32
C.	**Net operational income position (A-B)**	**701**	**-103**
	Surcharges 4/	1,464	830
	IAS 19 timing adjustment 5/	-847	
	Endowment Subaccount (gold profits) investment income 6/	174	123
	Net income position 7/	**1,492**	**850**
Memorandum Items:			
	Fund credit (average stock, SDR billions)	74.3	52.1
	SDR interest rate (average, in percent)	0.1	0.2
	US$/SDR exchange rate (average)	1.48	1.48
	Precautionary balances (end of period, SDR billions)	14.0	14.8

Source: Finance Department and Office of Budget and Planning

1/ Surcharges are excluded from operational income.
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 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/ In February 2015, the MDRI-I was liquidated and the PCDR Trust was transformed to create the CCR Trust.
4/ Surcharges are projected on the basis of current quotas and surcharge thresholds.
5/ The IAS 19 timing adjustment is actuarially determined and is finalized shortly after the end of the financial year.
6/ The projections reflect the phase in of investments to the endowment with the gold profits being invested in short-term deposits during the interim period.
7/ Net income on the basis presented in the Fund's IFRS annual financial statements.

16. In April 2014, the Executive Board set the margin for the rate of charge for financial years 2015–2016 at 100 basis points. The margin was established under Rule I-6(4), as amended effective May 1, 2012. Under this rule, which was amended as part of the Fund's New Income Model (Annex II), the margin should be set to cover the Fund's intermediation costs and help build up reserves; the rule also provides for a cross-check to ensure that the resulting margin maintains a reasonable alignment with long-term credit market conditions (Box 3). In exceptional circumstances, the margin may be set at a level other than that which is adequate to cover estimated intermediation expenses of the Fund and to generate an amount of net income for placement of reserves. The exceptional circumstances clause was relied upon to establish the margin for the period FY 2015-2016 recognizing that in the current environment of very low investment returns, the Fund remains reliant on lending income to finance a portion of its non-lending activities.[24]

Box 3. The Rule for Setting the Margin for the Basic Rate of Charge

Effective May 1, 2012, Rule I-6(4) reads as follows:

"(4) The rate of charge on holdings (i) acquired as a result of a purchase under a policy that has been the subject of an exclusion under Article XXX(c), or (ii) that exceed the amount of the member's quota after excluding any balances referred to in (i), shall be determined in accordance with (a) and (b) below.

(a) The rate of charge shall be determined as the SDR interest rate under Rule T-1 plus a margin expressed in basis points. The margin shall be set at a level that is adequate (i) to cover the estimated intermediation expense of the Fund for the period under; (b) below, taking into account income from service charges; and (ii) to generate an amount of net income for placement to reserves. The appropriate amount for reserve contribution shall be assessed taking into account, in particular, the current level of precautionary balances, any floor or target for precautionary balances, and the expected contribution from surcharges and commitment fees to precautionary balances; provided, however, that the margin shall not be set at a level at which the basic rate of charge would result in the cost of Fund credit becoming too high or too low in relation to long-term credit market conditions as measured by appropriate benchmarks. Notwithstanding the above, in exceptional circumstances, the margin may be set at a level other than that which is adequate to cover estimated intermediation expenses of the Fund and to generate an amount of net income for placement to reserves.

(b) The margin shall be set for a period of two financial years. A comprehensive review of the Fund's income position shall be held before the end of the first year of each such two-year period and the margin may be adjusted in the context of such a review, but only if this is warranted in view of fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the two-year period."

17. While the margin is set for a two year period under Rule I-6(4), a comprehensive review of the Fund's income position must be held before the end of the first year of each

[24] Non-lending income comprises investment income, the implicit returns on the Fund's interest-free resources, and reimbursements from the SDR Department, PRG Trust, MDRI-I Trust, and CCR (formerly PCDR) Trust.

two-year period (for this period the end of FY 2015). The margin may be adjusted by the Board in the context of such a review but, to provide for stability and predictability, only if an adjustment is warranted in view of fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the two-year period.[25]

Coverage of intermediation costs

18. Intermediation costs are estimated at US$98 million in FY 2016 (Table 3). Fund-wide intermediation costs related to generally available facilities (GAF) are derived in consultation with departments using the Fund's Analytic Costing and Estimation System (ACES). They cover direct personnel, travel and other administrative expenses, as well as indirect support and governance costs. In addition, capital and depreciation expenses (which are not part of the ACES methodology) are allocated separately to derive total intermediation costs.

19. Income is expected to remain in excess of intermediation costs in FY 2016.[26] The income from service charges at US$47 million (Table 3, row B) is projected to cover about one half of the intermediation costs in FY 2016. An unchanged margin of 100 basis points would provide further income of about US$771 million (SDR 521 million) in the next financial year.

Reserve accumulation

20. Reserve accumulation is expected to remain robust, albeit at a slower pace than projected earlier, in FY 2016. Advance repurchases by Ireland and Portugal are expected to contribute to a decline in credit outstanding to an average of SDR 52.1 billion in FY 2016. As a result, net income in FY 2016 is projected to be SDR 0.85 billion, significantly lower than the April 2014 projections. At this reduced level of reserve accumulation, precautionary balances are expected to reach SDR 19 billion in FY 2022 and peak around SDR 19.4 billion in FY 2024, remaining beneath the indicative medium-term target of SDR 20 billion that was reaffirmed at the last review of the adequacy of precautionary balances in February 2014.[27] The next review of precautionary balances is tentatively scheduled for early 2016.

21. In addition to the margin and service charges on disbursements, commitment fees for non-drawing arrangements and surcharges contribute to the Fund's income.

- Commitment fees are estimated at US$86 million (SDR 58 million) in FY 2016. Commitment fee income is only recognized at the expiration or cancellation of arrangements and is therefore difficult to predict. The projected commitment fee income for FY 2016 includes the two-year

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[25] Under the new rule, a midyear review of the income position is not required and going forward an update will be provided in the context of the consolidated income and expenditure framework, which is prepared in January as background information to the Committee on the Budget.

[26] Commitment fees are included in the analysis as a source of income that contributes to reserve accumulation. Under this approach, the analysis in setting the margin is insulated from the unpredictability of commitment fees. See paragraphs 19 and 20 of A New Rule for Setting the Margin for the Basic Rate of Charge (11/23/11).

[27] Review of the Adequacy of the Fund's Precautionary Balances (01/15/14).

commitment fees earned on a small FCL arrangement scheduled to expire in that year; larger commitment fees from FCLs approved in FY 2015 will be recognized in the FY 2017.

- Surcharge income is projected to be about US$1,228 million (SDR 830 million) in FY 2016, significantly lower than previously projected.

22. Table 3 simulates reserve accumulation at three different levels of the margin (50, 100, and 150 basis points). Lending income associated with a 100 basis points margin for the basic rate of charge, service charges, commitment fees and surcharges yields potential reserve accumulation of US$2 billion in FY 2016 (Table 3, row G). However, because lending income continues to cover a proportion of non-lending costs, actual reserve accumulation is lower by about US$0.9 billion with projected GRA net income of US$1.1 billion (SDR 0.7 billion) in FY 2016 (Table 3, row I and Table 2). Lowering or increasing the margin to 50 or 150 basis points would yield about SDR 260 million less or more income in FY 2016. Figure 2 illustrates the impact on reserve accumulation over the medium term and suggests that by increasing the margin by 50 basis points, the indicative target for precautionary balances of SDR 20 billion could be reached in FY 2021. However, against the background of continued significant reserve accumulation and uncertainties over the future course of Fund lending, the staff does not at this point propose any change in the margin.

Figure 2. Projected Reserve Accumulation
(in billions of SDRs)

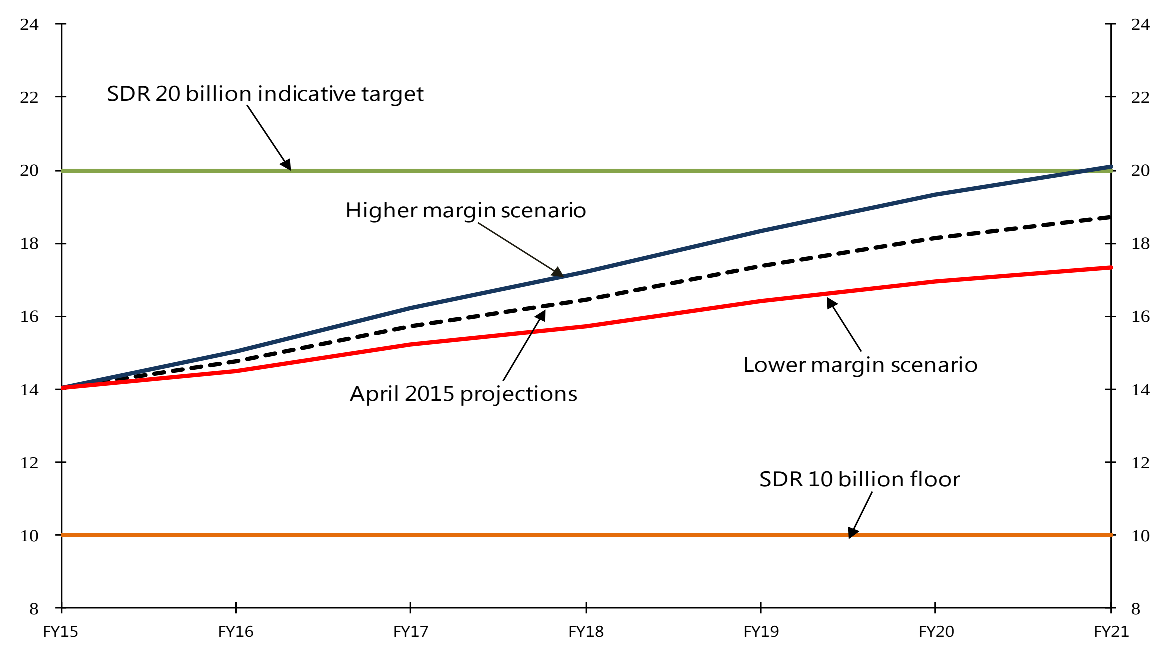


Table 3. Income from the Margin and Reserve Accumulation[1]
(in millions of U.S. Dollars, unless otherwise indicated)

	Actual			Projected	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
A. Intermediation costs 2/	108	95	96	96	98
Less					
B. Service charges	250	80	90	92	47
C. Costs to be covered by income from margin (A-B)	-142	15	6	4	50
D. Income from margin 3/					
50 basis points	...	...	...	...	386
100 basis points	1,248	1,386	1,297	1,100	771
150 basis points	...	...	...	...	1,157
E. Commitment fees 4/	37	714	44	748	86
E.1 FCL/PLL	8	654	29	731	28
E.2 Other	29	60	15	16	58
F. Surcharges 5/	1,403	1,874	2,125	2,167	1,228
G. Potential reserve accumulation 6/ (D+E+F-C)					
50 basis points	...	...	...	...	1,650
100 basis points	2,830	3,959	3,460	4,011	2,035
150 basis points	...	...	...	...	2,421
H. Potential reserve accumulation (as a percent) 7/					
50 basis points	...	...	...	...	7.9%
100 basis points	22.5%	27.6%	19.8%	21.3%	9.8%
150 basis points	...	...	...	...	11.7%
I. Actual reserve accumulation 8/					
50 basis points	...	...	...	...	691
100 basis points	2,283	3,017	4,005	1,951	1,076
150 basis points	...	...	...	...	1,462
J. Actual reserve accumulation (as a percent) 8/					
50 basis points	...	...	...	...	3.3%
100 basis points	18.2%	21.0%	22.9%	10.4%	5.2%
150 basis points	...	...	...	...	7.0%
K. Precautionary balances at the end of FY (in SDR billions) 9/					
50 basis points	...	...	...	...	14.5
100 basis points	9.5	11.5	12.7	14.0	14.8
150 basis points	...	...	...	...	15.0
Memorandum items					
Average Fund credit outstanding (in SDR billions)	80.5	91.8	85.3	74.3	52.1
Number of active arrangements (average) 10/	25	18	13	13	...
Average exchange rate US$/SDR	1.55	1.51	1.52	1.48	1.48

Source: Finance Department and Office of Budget and Planning
1/ For analytical purposes, surcharges and commitments fees are considered for reserve accumulation only.
2/ Costs related to the Fund's "generally available facilities."
3/ Derived by applying the margin against average Fund credit outstanding at the average US$/SDR rate.
4/ Includes commitment fees for expired or cancelled arrangements.
5/ Surcharges are projected on the basis of current quotas and surcharge thresholds.
6/ Potential reserve accumulation is derived by assuming other sources of income are sufficient to cover non-intermediation costs.
7/ Potential reserve accumulation as a percent of precautionary balances at the beginning of the financial year.
8/ Additions to reserves based on net income for the year (excluding retained gold endowment investment income).
9/ Precautionary balances include the Fund's reserves and SCA-1 balance less the gold endowment of SDR 4.4 billion.
10/ Excludes FCL and PLL arrangements.

Alignment of fund borrowing costs with market conditions

23. Rule I-6(4) calls for a cross-check of the margin to long-term credit market conditions. This aims to ensure that the costs of borrowing from the Fund are not too high or low compared with the costs members might face in private credit markets. As in the past, staff has used EMBI spreads as the main basis for the comparison with market borrowing rates.[28] The market cross check provides a useful guide but is not mechanistic, and requires judgment, particularly on the global financial context and future developments. As in the past, two adjustments are made to this metric for measuring long-term market conditions:

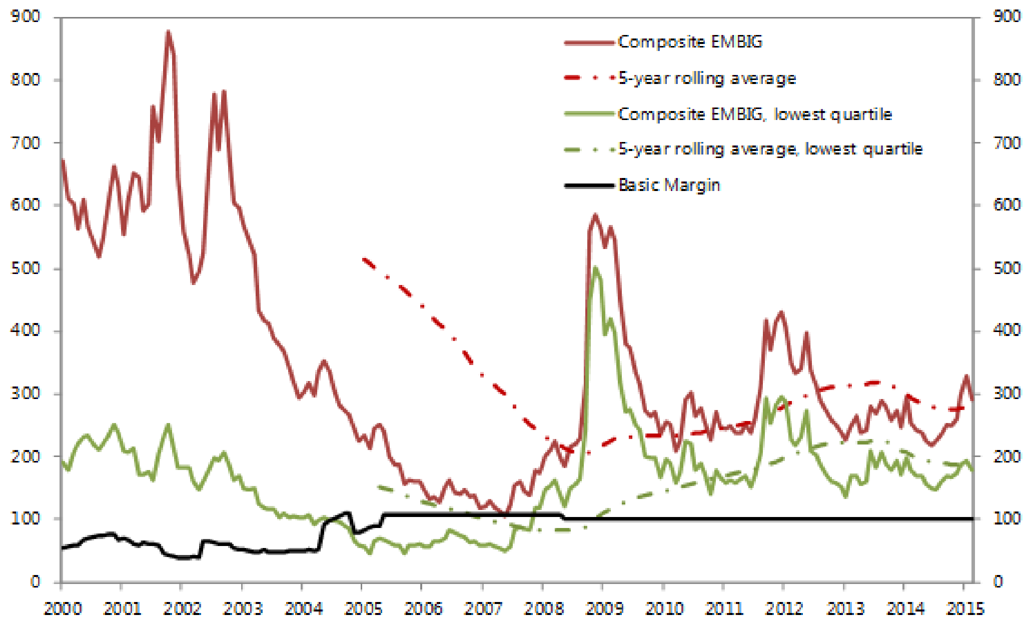
- A risk premium adjustment—an adjustment to take account of the lower credit risks the Fund faces as a cooperative public policy institution. The Fund's preferred creditor status and its lending policies are key factors in reducing these risks. To reflect this, the measure compares the margin to market borrowing spreads applying for the more creditworthy emerging markets, approximated by the lowest quartile of EMBI spreads; and

- A term premium adjustment—an adjustment is made to account for the difference between the SDR interest rate (based on a floating rate composed of three-month instruments) and the comparator EMBI measure (based on five-year fixed-rate instruments).

24. The EMBI spreads adjusted for the risk and term premiums are used as the main basis for comparison with long term market conditions. This measure has remained broadly unchanged since last year at about 155 bps, suggesting that the alignment of the current margin of 100 basis points with long term credit market conditions has been broadly maintained (see Table 4). While market spreads have increased since June 2014, the 5 year average spread is also broadly unchanged (Figure 3). Thus, these market developments do not provide any compelling basis for a change in the margin.

[28] EMBI spreads do not include data for advanced countries, which currently represent a large portion of the Fund's portfolio. Based on currently available measures, however, staff considers that the EMBI-based measure remains the most appropriate metric. See Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/07/14).

Figure 3. EMBIG Spreads: Total Composite and Bottom Quartile (in basis points)[1]



Source: Bloomberg and Staff calculations.

1/ SDR-equivalent rates are calculated using the currency weights in the SDR basket.

Table 4. Long-Term Credit Market and Comparator Spreads
(in basis points)

	2001 - 2005	2006 - 2010	Jan 2011 - Feb 2015
	(Median spread, in SDR-equivalent basis points) 1/		
Country risk spread--EMBI-based measures 2/			
Composite EMBI	401	219	262
Risk adjusted (lowest quartile)	116	155	173
Term premium 3/	1.8	13	18
Term premium adjusted country risk spread			
Composite EMBI	399	206	244
Countries in the lowest quartile	**114**	**142**	**155**
Memorandum item			
Past users of Fund resources 4/	259	225	276
Margin on the basic rate of charge 5/	69	104	100

Source: Bloomberg, JP Morgan and Fund staff calculations.

1/ SDR-equivalent rates are calculated using the currency weights in the SDR basket.

2/ Table reports linear combination of spreads in EMBIG-U.S. dollar and EMBIG-Euro composites. Series were combined using the weights of the U.S. dollar and Euro in the SDR basket (normalized to 100). During the sample period, the combined EMBIG indices contained spreads for a total of 40 countries.

3/ Difference in yields between a five-year fixed-rate SDR bond and the five-year average 3-month SDR interest rate as implied in futures market contracts, adjusted for the higher risk premium of instruments in future markets.

4/ Median level of the SDR weighted U.S. dollar and euro EMBIG spreads for the members with Fund arrangements between 1996 and 2011, excluding advanced countries.

5/ Margin reduced to 100 bps from 108 bps in May 2008. Between 1989 and 2005, the rate of charge was determined by a coefficient to the SDR interest rate that was adjusted with the Fund's total administrative expenses and the volume of Fund credit outstanding. Since May 2005, the margin has been defined in absolute basis points over the SDR interest rate.

25. Based on the foregoing analysis, including the cross-check on alignment with long-term market conditions, staff proposes that the margin for the rate of charge be maintained at 100 basis points for FY 2016 (proposed Decision 6). At this level, the margin will cover intermediation costs, generate a substantial contribution to reserves, and is not significantly out of line with long-term market conditions.

26. Key factors that affect the FY 2016 income outlook are discussed below and presented in Table 2. A sensitivity analysis on the income effects of changes in some of the assumptions is also presented in Table 5.

Lending income. The substantial decline in operational lending income of about 50 percent in FY 2016 mainly reflects a drop in commitment fee income. The lower lending income also reflects the projected decrease in average Fund credit outstanding in FY 2016 to SDR 52.1 billion from SDR 77.1 billion projected in April 2014.

IA investment income

- **Fixed-Income Subaccount**: In FY 2016 this subaccount is expected to make a slight loss of about SDR 24 million.[29] Interest rates are expected to rise more gradually than anticipated in April 2014 reflecting the downward shift of the forward curve of the SDR interest rate in FY 2015. Under the current investment mandate and a rising interest rate environment as implied by forward markets, the subaccount is projected to lose about 20 basis points in FY 2016. As noted, the Executive Board has held an initial informal discussion on the review of the investment strategy for this subaccount and a follow-up discussion is planned for 2015. The reasonableness of the medium-term projections will need to be revisited in light of the outcome of that review. Annex III provides further discussion on the sensitivity of the returns in this portfolio to changes in global interest rates.

- **Endowment Subaccount:** The three-year funding period of the passively-managed portion of the gold endowment began in March 2014 and the projected income for the gold endowment is expected to be about SDR 123 million in FY 2016.[30] Pending their investment in accordance with the strategic asset allocation benchmark for the endowment, gold sale profits will continue to be invested in SDR denominated short-term fixed deposits broadly earning the SDR interest rate.[31] During the funding period, investment income earned from the subaccount is assumed to be retained in the endowment in accordance with the Rules and Regulations of the Investment Account (IA) and is therefore not included in the Fund's operating income. Transfers to the invested portion of the subaccount are conducted on a quarterly basis over three years and are projected to end in FY 2018.

Interest-free resources and reimbursements. Income from interest-free resources is expected to remain subdued owing to the low interest rate environment which is expected to prevail in coming years. Projected reimbursements are based on the FY 2015 estimates.

Expenditures. Net administrative and capital expenditures are consistent with those set in the medium-term budget paper.[32]

Surcharges. Surcharges are projected to decline substantially to SDR 830 million in line with the lower credit path projections, largely reflecting advance repurchases made in FY 2015.

[29] The Fixed-Income Subaccount corresponds to the investment of the Fund's reserves except for the gold profits and currencies retained in the GRA.

[30] It is expected that the Executive Board will consider the payout policy for the endowment toward the end of the phase-in period.

[31] Given the recently agreed floor on the SDR rate, actual returns on short-term deposits could fall short of the SDR rate in the near-term.

[32] See FY 2016–FY 2018 Medium-Term Budget (03/30/15).

Table 5. Sensitivity Analysis-
Effect of Changes in Selected Assumptions on FY 2016 Projected Income
(in millions of SDRs)

Change in:	
SDR interest rate by 50 basis points	
Implicit returns 1/	34
Credit tranche purchases (non-FCL) by SDR 10 billion 2/	290
U.S. dollar exchange vis-à-vis SDR by five percent	34
Investment income margin by 50 basis points	75

1/ Implicit returns on GRA interest-free resources.
2/ Assumes May 1 transaction with full drawing of SDR 10 billion, access of 1,000 percent of quota and no change in current quotas. Includes service charges, margin on the basic rate of charge and level based surcharges (commitment fees are excluded).

27. In October 2014, Rule T-1 and the burden sharing mechanism were amended as the SDR interest rate fell below the minimum required for the mechanism to operate.[33] Notably, a 5 basis point floor on the SDR interest rate was set, the rounding rules on the SDR interest rate and the burden sharing adjustment were changed, and the 1 basis point minimum of the burden sharing adjustment, introduced in FY 2010, was reduced to 0.1 basis point. These measures aim to preserve a minimal capacity of equal burden sharing for protecting the Fund's balance sheet, while limiting potential departures of the SDR interest rate from market interest rates.

28. Given current levels of overdue obligations and lending, and the prevailing low interest rate environment, burden sharing adjustments remain at very low levels. The burden sharing decision allows for a "carry-forward" of excess amounts generated from a minimum adjustment to the rate of charge and the rate of remuneration.[34] If the amounts brought forward are sufficient to offset deferred charges in subsequent quarter(s), no adjustments are necessary for such quarters. This was the case for the adjustments to the rate of charge in FY 2015 (see Table 6).

[33] Under the burden sharing mechanism, where creditors and debtors as a group generate equal amounts to cover deferred charges, a minimum positive SDR interest rate is required for the mechanism to operate. During FY 2015 the SDR interest rate hit historical lows, falling below that minimum level, affecting the functioning of the burden sharing mechanism for deferred charges. See Recent fall in the SDR Interest Rate – Implications and Proposed Amendments to Rule T-1 (10/16/2014).

[34] See The Fund's Income Position for FY 2010—Midyear Review (12/8/2009), paragraphs 8–10.

Table 6. Recent Burden Sharing Adjustment Rates
(in basis points, unless otherwise stated)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15 [4]
								Projected
Rate of Remuneration 1/								
Total average adjustment	14	5	1	–[3]	–[3]	–[3]	–[3]	0.3
Deferred charges	14	5	1	–[3]	–[3]	–[3]	–[3]	0.3
SCA-1	–	–	–	–	–	–	–	–
Rate of Charge 1/								
Total average adjustment	16	5	1	–[3]	–[3]	–[3]	–[3]	–
Deferred charges	16	5	1	–[3]	–[3]	–[3]	–[3]	–
SCA-1	–	–	–	–	–	–	–	–
Average SDR interest rate (in percent) 2/	3.64	1.79	0.29	0.35	0.30	0.09	0.09	0.061
Average basic rate of charge (in percent)	4.72	2.79	1.29	1.35	1.30	1.09	1.10	1.061

1/ The average rates have been calculated using the quarterly burden sharing rates and SDR interest rates.
2/ The SDR interest rates are projected to average 0.192 percent in FY 2016.
3/ Annual average rate less than 0.5 basis points. Based on minimum burden sharing adjustment rate of 1 basis point.
4/ In October 2014 (FY 2015), the minimum for the quarterly burden sharing rate adjustment of 1 basis point was reduced to 0.1 basis point.

REVIEW OF SPECIAL CHARGES

29. The decision on special charges on overdue financial obligations in the GRA and the Trust Fund calls for an annual review. Under the current system, special charges are to be levied on repurchases and charges that are in arrears for more than 10 days. However, special charges on GRA obligations that are overdue for six months or more were eliminated effective May 1, 1992.[35] No special charges have arisen during FY 2015 and no new considerations have arisen during the financial year. No changes are proposed to the current system (proposed Decision 7).

[35] Special charges were established to provide members with an incentive to settle their financial obligations to the Fund in a timely manner. It was also recognized that these charges may complicate the efforts of a member in protracted arrears and those of its donors and creditors to resolve its arrears problem, by increasing the financing needs and making it more difficult for the member to make payments to the Fund equivalent to obligations falling due.

Proposed Decisions*

Decisions Pertaining to FY 2015

- Decision 1 provides for the assessment on SDR Department participants for the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2015.

- Decision 2 provides for the reimbursement to the General Resources Account for the cost of administering SDA resources in the CCR (formerly PCDR) Trust in FY 2015.

- Decision 3 provides for the reimbursement to the General Resources Account for the cost of administering the PRGT in FY 2015.

- Decision 4 provides for the transfer of income from the Fixed-Income Subaccount of the Investment Account to the General Resources Account for use in meeting FY 2015 administrative expenses.

- Decision 5 provides for the placement of FY 2015 General Resources Account net income to the Fund's Special Reserve.

Decisions Pertaining to FY 2015–2016

- Decision 6 maintains the rate of charge on the use of Fund resources for FY 2016 at 100 basis points over the SDR interest rate.

- Decision 7 reviews the system of special charges.

- All proposed decisions may be adopted by a majority of the votes cast.

* Subsequent to the issuance of this paper Decision 5 was revised (see Supplement 1) and approved without a Board discussion.

1. Assessment under Article XX, Section 4 for FY 2015

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, 2014 through April 30, 2015; 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, 2015 with an amount equal to 0.00170655 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

2. CCR (formerly PCDR) Trust Reimbursement for FY 2015

In accordance with paragraph 3 of Decision No. 14649-(10/64) CCR (formerly PCDR), adopted June 25, 2010, as amended, the General Resources Account shall be reimbursed an amount equivalent to SDR 0.066 million by the CCR (formerly PCDR) Trust in respect of the expenses of administering SDA resources in the CCR (formerly PCDR) Trust during FY 2015.

3. PRG Trust Reimbursement for FY 2015

In accordance with paragraph 3 of Decision No. 8760-(87/176), adopted on December 18, 1987, an amount equivalent to SDR 52.94 million, representing the cost of administering the Poverty Reduction and Growth Trust (PRGT) for FY 2015, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Resources Account.

4. Transfer of Investment Income for FY 2015 to General Resources Account

The income of the Fixed-Income Subaccount of the Investment Account for FY 2015 shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2015.

5. Placement of FY 2015 net income of the General Resources Account to the Special Reserve*

The net income of the General Resources Account for FY 2015 shall be placed to the Fund's Special Reserve.

6. The Rate of Charge on the Use of Fund Resources for FY 2016

Pursuant to Rule I-6(4)(b) of the Fund's Rules and Regulations, the Fund has conducted a comprehensive review of the Fund's income position and decided to leave unchanged for FY 2016 the rate of charge determined by Decision No. 15585-(14/37), adopted April 28, 2014.

7. Review of the System of Special Charges

The Fund has reviewed Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986, as amended, on Special Charges on Overdue Financial Obligations to the Fund.

* The proposed decision was revised subsequently to revert to the past practice of placing net income of the GRA to the special reserve and general reserve, as described in Supplement 1.

Annex I. Decisions in Effect Related to the FY 2015 Income Position[1]

Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2014:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2015 was set at 100 basis points for a period of two years (FY 2015-16). This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), which allows the margin for calculating the basic rate of charge to be set at a level other than that which is adequate-e to cover the estimated intermediation expenses of the Fund and to generate an amount of net income for placement to reserves.

Burden Sharing for Deferred Charges

Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to decisions taken in 2000 and 2009. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.[2]

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[1] See Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/7/14).

[2] See Recent fall in the SDR Interest Rate – Implications and Proposed Amendments to Rule T-1 (10/16/2014).

Annex II. Implementation of the New Income Model

In April 2008, the Executive Board endorsed a New Income Model (NIM) aimed at diversifying the Fund's sources of income and reducing the institution's overreliance on income from lending to finance its diverse activities. The NIM reflected many of the measures that had been proposed in early 2007 by the Committee of Eminent Persons chaired by Andrew Crockett, and was designed to develop broader and more sustainable income sources in recognition of the public good aspects of many of the Fund's activities.[1] Adoption of the NIM would require an intensive work program for the Fund over several years. The table below summarizes the main elements of the NIM and the status of their implementation.[2]

Completed	In progress	Not started

Main Element	Implementation	Status
An amendment to the Articles of Agreement to broaden the Fund's investment authority.	The amendment to the Articles came into effect in February 2011 following ratification by three-fifths of IMF members representing 85 percent of the total voting power. The amendment aimed at providing the Fund with flexibility to enhance the expected return on its investments and adapt its investment strategy over time.	
Creation of an endowment funded with profits from the sale of 403.3 metric tons of the Fund's gold holdings.	Gold sales required an 85 percent majority vote of the Executive Board. The gold sales were completed in December 2010 and realized total profits of SDR 6.85 billion.[3] Initial sales were conducted through off-market transactions with central banks and official holders followed by on-market sales.	
Adoption of new rules and regulations for the Investment Account (IA)—a requirement for the Fund to exercise its expanded investment authority under the amended Articles.	In January 2013, the Executive Board approved new rules and regulations for the IA.	
Full implementation of the endowment	The Executive Board has established the strategic asset allocation (SAA) for the endowment and agreed that the investment into this SAA will be phased over three years (funding started in March 2014). Toward the end of the phase-in period, the Executive Board will return to the payout policy for the endowment to determine how much of the endowment's returns will be made available to help cover the Fund's administrative expenses.	
Adopting a new rule for the margin for the basic rate of charge. Previously, the margin was set to generate sufficient income for the Fund to cover all of its administrative expenses and to meet a specific net income target.	In December 2011, the Fund adopted a new rule for setting the margin on the rate of charge. Under the new rule, the margin should be set to cover only the Fund's intermediation (lending) costs and help build-up reserves. However, given the low interest rate environment and phasing of the endowment, the margin has so far been set under the exceptional circumstances clause.	
Reimbursement of PRG Trust expenses.	In FY 2013, the practice of reimbursing the Fund for the expenses of conducting the business of the PRG Trust was resumed.	

Review of the investment mandate for the reserves portfolio	The staff paper Review of the Fixed-Income Subaccount—Selected Considerations circulated on August 5, 2014 initiated the review of the investment strategy on IA-FI. The NIM assumed that these resources could generate 100 basis points over the SDR interest rate.	

Significant progress has been made in implementing the NIM and many of the main elements are now in place. In the meantime, however, the global economic and market environment has changed dramatically. The global financial crisis has increased the Fund's lending income sharply, but non-lending income has been highly constrained by very low global interest rates. In 2008, projected FY 2014 income from investment of the Fund's reserves and interest free resources was expected to be around SDR 386 million (equal to over 60 percent of expenditures). In contrast, actual FY 2014 income from these sources was only about one-tenth of this estimate, largely reflecting an average SDR interest rate of about 0.1 percent compared with a projected rate of 3.5 percent. Moreover, this very low income from reserves occurred despite the fact that actual reserves in FY 2014 (excluding the reserves attributable to the endowment) were close to double the level projected in 2008. Further, the agreement on a three year phasing period for investing the endowment has delayed the expected payout which is expected to help cover the Fund's administrative expenditures. Notwithstanding the above, the current income projections indicate that following the full implementation of the NIM, and assuming that global interest rates revert to more normal historical levels, broad objectives of the NIM remain within reach.

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[1] Final Report of the Committee to Study Long-Term Financing of the Fund (1/31/07).

[2] In addition to these elements geared to broadening the Fund's income, the NIM envisioned that in the event the Fund's precautionary balances are considered to be adequate, the Executive Board could consider making dividend payments to members. The Fund is still accumulating precautionary balances towards the current agreed target of SDR 20 billion. As such, this issue will need to be revisited at a later date.

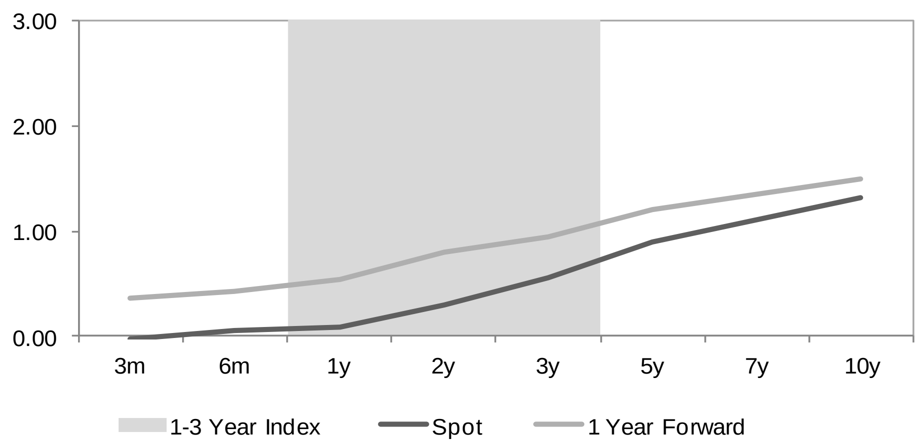
[3] SDR 4.4 billion of the gold profits was used to fund the endowment. In accordance with two decisions adopted by the Board, the remaining profits of SDR 2.45 billion were distributed to members to help finance concessional lending to low-income countries in October 2012 and October 2013.

Annex III. Investment Account (IA) Performance Scenarios[36,37]

Fixed income subaccount (FI)

Government bond yields in the markets of the SDR basket fell slightly in FY 2015, staying around their historically low levels, particularly within the 1–3-year index range. With the tapering of quantitative easing measures in the U.S. and new monetary easing policies in the euro-area, rates in the SDR basket have embarked on diverging paths. This could provide some diversification of market risk to FI assets, but overall, the risk of rising rates remains. As of mid-March 2015, investors anticipate a gradual increase in bond yields: one-year forward yields for SDR-weighted 1–3-year bonds are about 44 basis points (bp) higher than current levels (Figure 4). This magnitude of rate increase is roughly in line with expectations a year ago.[38]

Figure 4. Current Levels of SDR-Weighted Yields and Market-Implied Forward Rates (in percent)



As noted in the past, with yields still close to zero, and offering limited income protection, there is a short-term risk of very low returns or of capital loss or underperformance against the three-month SDR rate if yields rise even moderately. The FI follows a long-term investment strategy and periods

[36] This Annex focuses mainly on the Fixed-Income Subaccount (FI). Gold profits are invested in fixed-term deposits with the BIS until placed in the endowment.

[37] The current investment authority of the FI permits investments in marketable obligations of members whose currencies are used for investment, including the obligations of their central banks and official agencies as well as marketable obligations of international financial organizations such as the World Bank, the European Investment Bank, and the Bank for International Settlements (BIS). The IA portfolio currently comprises bonds of countries in the euro area, Japan, the United Kingdom, and the United States, with a minimum credit rating of A, and BIS medium-term instruments (MTIs). MTIs are obligations of the BIS. Their yield is based on the BIS' reference swap curve. MTIs typically provide a higher initial yield than comparable government bonds, but are subject to risk arising from the widening of swap spreads. The IA Rules and Regulations will, however, will be reviewed in the near future. The Executive Board held an initial informal discussion on the strategy of the FI investment strategy in September 2014 with further discussions planned for the spring of 2015. These discussions are set against the background of the 5th Amendment of the Articles which provided for an expanded investment mandate.

[38] See Review of the Fund's Income Position for FY 2014 and FY 2015–2016 (4/07/14).

of short-term underperformance should be expected. Over time, however, higher average yields will benefit the FI's performance both in absolute terms and also relative to the SDR rate. As noted this strategy will be reviewed by the Board in the near future.

Consistent with past reviews of the Fund's income position, the analysis below outlines possible future return scenarios for the IA relative to the three-month SDR rate, which the FI seeks to exceed over time. Table 7 presents the un-annualized FI returns in the ten-month period to end-February 2015 and assesses the impact on income of a number of possible scenarios through end-FY 2015 and in FY 2016:

1. Yields remain unchanged from mid-March 2015 levels;
2. Yields follow market forward rates (as in Figure 4);
3. Yields increase by 25 bp above market forward rates;
4. Yields decrease by 25 bp below market forward rates;
5. Yields revert to bond yield trough of August 2012.

The results of the above scenarios suggest that positive returns could be achieved if rates stay unchanged, move back to their historical lows, or increase by less than implied by market forwards (about 25 bp less). Returns would be modest however, particularly compared to previous years. The FI would incur a small loss if yields rise in line with market forwards. Relative to the SDR interest rate, the FI would only generate excess returns if yields remain unchanged or rise by 25 bp less than market forwards.

The vulnerability of bond portfolios to rising yields is greater today than for other periods preceding prior central bank tightening episodes such as in 1994 and 2004 as current very low yields have diminished the ability of coupon income to cushion capital losses caused by rising yields. As of mid-March 2015, 1–3 year yields were about 0.32 percent, giving an estimated income return of about 2–3 bp per month. To illustrate such an adverse scenario, the FI bond portfolio could sustain a gradual annual rate increase of about 33 bp (2.7 bp per month) before recording a one-year negative return. This is about 11 bp less than the magnitude of rate increase priced in by market forwards. By comparison, current 1–3 year yields are about 375 and 190 bp lower than at end-1993 and 2003, respectively. A rise in yields in line with or above current market expectations could result in capital losses.

Table 7. Investment Account Performance Scenarios
(unannualized returns in percent)

	Unchanged Yields 1/	Trough Bond Yields, Aug 2012 2/	Forwards -25bps	Forwards	Forwards +25bps
Actual Returns FYTD (May 2014-February 2015)					
3-Month SDR/GRA	0.05	...	...	...	...
Bond	0.76	...	...	...	...
MTIs	0.62	...	...	...	...
IA	0.69	...	...	...	...
Excess Return	0.64	...	...	...	...
FY 2015 (May 2014-April 2015)					
3-Month SDR	0.06	0.06	0.06	0.07	0.07
Bond	0.83	0.88	0.76	0.69	0.61
MTIs	0.70	0.72	0.63	0.56	0.49
IA	0.77	0.80	0.70	0.63	0.55
Excess Return	0.71	0.74	0.63	0.56	0.48
FY 2016 (May 2015-April 2016)					
3-Month SDR	0.05	0.02	0.15	0.33	0.50
Bond	0.43	0.03	0.16	-0.13	-0.41
MTIs	0.48	0.08	0.20	-0.08	-0.37
IA	0.45	0.05	0.18	-0.11	-0.39
Excess Return	0.40	0.03	0.03	-0.43	-0.90
Memo Items:					
Assumed Yields:	Spot	Target Yields		1 year forward	
3-Month SDR/GRA	0.05	0.06		0.44	
Bonds	0.32	0.08		0.81	
MTIs	0.37	0.23		0.85	

Sources: State Street data, Bloomberg, and staff calculations.
1/ From mid-March 2015.
2/ Bond yields reached .08 percent in August 2012; swap spreads were 10 basis points wider than current levels. Assumption is to reach historical lows over the next 12 months.
Note: Actual returns are based on audited performance data provided by State Street. Projections are based on current market levels for SDR weighted 3-month bills, and 2-year government notes, and 2-year MTIs, and on government bond forward rates. Total return assumes a 0.5 bp roll down per month.

Income of gold sales proceeds in the Endowment Subaccount

The passive tranche of the endowment subaccount began its three-year phased implementation in the first quarter of 2014. The share of gold sales profits not yet invested in the endowment is placed in fixed-term deposits with the BIS as an interim measure. This specific arrangement is intended to ensure the funds are liquid and do not face a risk of capital loss.

Setting an income projection in FY 2016 for the endowment subaccount is subject to considerable market uncertainty, in part due to the higher volatility of the markets in which funds are/will be invested, compared with the current IA's fixed income subaccount. So far, in FY 2015, the invested share of the endowment (about one-third) returned 6.2 percent in U.S. dollar terms (the unit of account of the invested share of the Endowment Subaccount), while the balance placed in BIS deposits returned about 6 bp in SDR terms. Compared with the FI, assets invested in the Endowment

Subaccount are exposed to greater market risks, particularly at short horizons. The estimated worst case loss for the invested share of the endowment based on a 1-year 95 percent Value-at-Risk (VaR) is about 8–9 percent in U.S. dollar terms, using State Street's methodology (by comparison the 1-year historical VaR of the FI is about 1 percent).[39] Although market and credit risks are to some extent mitigated by the diversification of the portfolio, these risks are significantly larger than for the FI given the higher duration of the SAA's bond allocation (on average 7.5–8 years) and the allocation to equities. In addition, only non-U.S. dollar developed-market currency fixed-income assets are required and allowed to be hedged, leaving approximately 25 percent of the passive (invested) portion unhedged to the U.S. dollar base currency. Going forward, rising U.S. rates and possible global equity and bond market corrections remain key risks for the EA. The current running yield of the endowment is 0.9 percent (2.4 percent for the invested share and 0.05 percent for the share placed in BIS deposits).

[39] State Street's VaR methodology uses simulated 3-year historical data. VaR is calculated by first modeling the entire returns distribution for all asset classes and a portfolio, then calculating the value at the percentile corresponding to the desired confidence level.

Annex IV. Assumptions Underlying the Income Projections

	Actual through end-February 2015	FY2015 Current Projections	FY2016
		(In billions of SDRs)	
Regular Facilities:			
1. Purchases (excl. reserve tranche purchases)	7.9	12.5	6.4
2. Repurchases	25.0	38.0	15.4
3. Average balances subject to charges	77.4	74.3	52.1
4. Average SDR holdings	12.9	13.0	13.4
5. Average remunerated positions	28.7	28.2	22.2
6. Average investment account assets-reserves 1/	10.4	10.4	10.3
7. Average investment account assets-gold profits	4.5	4.5	4.7
8. Average borrowings and issued notes	40.6	45.4	35.1
		(In percent)	
Return on investments-reserves 2/	0.67	0.79	-0.23
Return on investments-gold profits 3/	3.76	3.87	2.62
Average interest rates:			
SDR interest rate and basic rate of remuneration	0.10	0.10	0.20
Basic rate of charge	1.10	1.10	1.20
Margin on the rate of charge	1.00	1.00	1.00

1/ In FY 2016, currencies available for transfer to the IA are assumed to be retained in the GRA.
2/ End-February figure is unannualized.
3/ The projected returns for the gold endowment reflect the phase in of investments under the strategic asset allocation and the earnings from the short-term deposits held in the interim.

Annex V. Projected Income and Expenses—FY 2015

Linking the analytical presentation with the Fund's income statement

The purpose of this Annex is to prepare a reconciliation between the analytical framework presented in Table 1 of this paper and the traditional format used to prepare the Fund's income statement under IFRS.[40] The formulation of the Fund's income and expense flow results in the same projected net income position. However, the analytical framework is preferred in discussing the income position for two reasons. First, it succinctly captures the main variables that drive the Fund's income position. To this end, the presentation focuses on the net contribution made by the Fund's income-earning assets. Second, the framework is used to reflect certain aspects of the Fund's policy considerations, e.g., surcharge income is not included in the net operational income because it is assumed to be placed directly to reserves to help build up precautionary balances.

The starting point to move from the traditional format in the Fund's financial statements to the analytical framework in the paper is to net the financing costs (remuneration and interest on borrowings) against the income generated from Fund credit and the GRA's SDR holdings. This provides the income from the margin and interest free resources by eliminating the flows from the SDR interest rate between the debtor and creditor members of the Fund. Thereafter, the main adjustments involve re-arranging the various line items on the Fund's IFRS financial statements to the analytical framework. This includes:

- Allocation of surcharges from interest and charges to below the net operational income line reflecting the current Fund policy of placing surcharge income directly to reserves.
- Allocation of retained gold endowment income from investment income since this amount is retained in the investment account.
- Folding-in the reimbursements and the IAS 19 timing adjustments into administrative expenses.

Table 8 below highlights this reconciliation process.

[40] The Annex is prepared in response to requests by Directors to simplify/explain the process of reconciling various aspects of the Fund's financial structure.

Table 8. Reconciliation of the Accounting and Analytical Presentations of Projected Income and Expense—FY2015

	Actual to end-Feb 2015	FY 2015 Projections	Adjustments: Financing costs	Adjustments: Expenses	Adjustments: Surcharges and endowment income	Analytical presentation
			(In millions of SDRs)			
A. Operational income						
Interest and charges	1,977	2,253	-46		-1,464	743
Interest on SDR holdings	7	7	-7			0
Net income from investments	236	256			-174	82
Service charges and commitment fees	536	567				567
Total income	**2,756**	**3,083**				
B. Operational expenses						
Remuneration 1/	18	20	-26			-6
Interest expense on borrowings	25	27	-27			0
Administrative expenses 2/	676	697		57		754
Total expenses	**719**	**744**				
Other reconciling items:						
IAS 19 timing adjustment		-847				-847
Reimbursements				57		57
Surcharges					1,464	1,464
Endowment Subaccount investment income					174	174
C. Net income 3/	**2,037**	**1,492**				**1,492**

1/ Interest free resources lower the Fund's costs by reducing members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund. At the present time, the interest free resources retained in the GRA comprises the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not transferred to the IA.
2/ Administrative expenses presented on an IFRS basis include net administrative expenditures, capital budget items expensed, and depreciation. This is partially offset by reimbursements to the GRA. The IAS 19 timing adjustment at end-February 2015 is excluded.
3/ Income statement on the basis presented in the Fund's annual IFRS financial statements.

Annex VI. Cumulative Burden Sharing Adjustments at end–January 2015[1] (in millions of SDRs)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Albania	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Algeria	7.4	0.5	7.9	1.1	13.2	0.5	13.6	1.1
Angola	0.1	0.0	0.1	0.0	-	0.0	0.0	0.0
Antigua and Barbuda	0.0	-	0.0	0.0	-	-	-	-
Argentina	31.0	-	31.0	4.3	64.7	-	64.7	5.4
Armenia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Australia	-	3.0	3.0	0.4	-	7.0	7.0	0.6
Austria	-	4.6	4.6	0.6	-	7.6	7.6	0.6
Azerbaijan	0.3	-	0.3	0.0	0.9	-	0.9	0.1
Bahamas, The	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Bahrain	-	0.7	0.7	0.1	-	0.9	0.9	0.1
Bangladesh	3.1	-	3.1	0.4	2.9	-	2.9	0.2
Barbados	0.1	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Belarus	0.8	-	0.8	0.1	1.0	-	1.0	0.1
Belgium	-	6.3	6.3	0.9	-	12.3	12.3	1.0
Belize	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Bhutan	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Bolivia	0.9	-	0.9	0.1	0.9	-	0.9	0.1
Bosnia and Herzegovina	0.6	-	0.6	0.1	0.8	-	0.8	0.1
Botswana	-	0.2	0.2	0.0	-	0.3	0.3	0.0
Brazil	23.8	0.1	24.0	3.4	57.4	-	57.4	4.8
Brunei Darussalam	-	0.1	0.1	0.0	-	0.3	0.3	0.0
Bulgaria	3.7	0.1	3.8	0.5	8.2	0.1	8.3	0.7
Burkina Faso	-	0.1	0.1	0.0	-	0.1	0.1	0.0
Burundi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				-				
Cambodia	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Cameroon	0.7	-	0.7	0.1	0.8	-	0.8	0.1
Canada	-	6.2	6.2	0.9	-	14.3	14.3	1.2
Cape Verde	-	0.0	0.0	0.0	-	-	-	-
Central African Republic	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Chad	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Chile	5.8	0.5	6.4	0.9	5.7	1.6	7.3	0.6
China	4.0	7.9	11.9	1.7	3.5	16.2	19.7	1.7
Colombia	-	1.3	1.3	0.2	-	2.3	2.3	0.2
Comoros	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Congo, D.R.	3.4	-	3.4	0.5	3.9	-	3.9	0.3
Congo, Rep.	0.1	-	0.1	0.0	0.2	-	0.2	0.0
Costa Rica	0.4	0.1	0.5	0.1	0.5	0.1	0.6	0.0
Côte d'Ivoire	2.5	-	2.5	0.3	2.4	-	2.4	0.2
Croatia	1.1	-	1.1	0.2	1.6	-	1.6	0.1

Cumulative Burden Sharing Adjustments at end–January 2015
(in millions of SDRs)
(continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Cyprus	0.0	0.2	0.2	0.0	-	0.4	0.4	0.0
Czech Republic	2.2	0.2	2.4	0.3	2.7	0.6	3.3	0.3
Denmark	-	3.5	3.5	0.5	-	6.2	6.2	0.5
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dominica	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Dominican Republic	2.5	-	2.5	0.3	2.2	-	2.2	0.2
Ecuador	2.0	0.1	2.1	0.3	2.6	0.1	2.7	0.2
Egypt	1.4	0.1	1.5	0.2	1.5	0.2	1.7	0.1
El Salvador	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Estonia	0.1	0.0	0.1	0.0	0.3	-	0.3	0.0
Ethiopia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Fiji	0.0	0.1	0.1	0.0	0.0	0.2	0.2	0.0
Finland	-	2.7	2.7	0.4	-	4.6	4.6	0.4
France	-	19.0	19.0	2.7	-	33.5	33.5	2.8
Gabon	0.7	-	0.7	0.1	1.0	-	1.0	0.1
Gambia, The	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Georgia	0.3	-	0.3	0.0	0.4	-	0.4	0.0
Germany	-	38.6	38.6	5.4	-	59.1	59.1	5.0
Ghana	1.7	0.0	1.7	0.2	1.8	0.0	1.8	0.2
Greece	2.0	1.1	3.2	0.4	-	2.1	2.1	0.2
Grenada	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Guatemala	0.4	0.0	0.4	0.1	0.3	0.0	0.3	0.0
Guinea	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Guinea-Bissau	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Guyana	0.4	-	0.4	0.1	0.4	-	0.4	0.0
Haiti	0.2	-	0.2	0.0	0.3	-	0.3	0.0
Honduras	0.4	0.0	0.5	0.1	0.6	0.0	0.7	0.1
Hungary	7.3	0.4	7.7	1.1	6.9	1.3	8.2	0.7
Iceland	0.2	0.1	0.3	0.0	0.0	0.1	0.1	0.0
India	24.0	2.6	26.5	3.7	28.4	3.4	31.9	2.7
Indonesia	14.7	0.9	15.6	2.2	42.5	1.6	44.0	3.7
Iran, I. Rep. of	-	0.1	0.1	0.0	-	0.0	0.0	0.0
Iraq	0.7	0.4	1.2	0.2	0.6	0.3	0.9	0.1
Ireland	1.4	2.0	3.4	0.5	-	3.3	3.3	0.3
Israel	0.6	0.3	0.9	0.1	0.9	0.9	1.7	0.1
Italy	-	17.8	17.8	2.5	-	28.2	28.2	2.4
Jamaica	2.6	-	2.6	0.4	2.9	-	2.9	0.2
Japan	-	40.0	40.0	5.6	-	64.5	64.5	5.4
Jordan	1.7	0.0	1.7	0.2	3.1	0.0	3.1	0.3
Kazakhstan	0.8	-	0.8	0.1	1.7	-	1.7	0.1
Kenya	1.2	0.0	1.2	0.2	1.1	0.0	1.1	0.1
Kiribati	-	0.0	0.0	0.0	-	-	-	-
Korea	7.8	3.5	11.3	1.6	19.6	5.0	24.6	2.1
Kosovo	0.0	0.0	0.0	0.0	-	-	-	-

Cumulative Burden Sharing Adjustments at end–January 2015
(in millions of SDRs)
(continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Kuwait	-	2.8	2.8	0.4	-	4.2	4.2	0.4
Kyrgyz Republic	0.1	-	0.1	0.0	0.3	-	0.3	0.0
Lao P.D.R	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Latvia	0.4	-	0.4	0.1	0.5	-	0.5	0.0
Lebanon	0.1	0.3	0.4	0.1	-	0.3	0.3	0.0
Lesotho	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Liberia	2.4	-	2.4	0.3	3.1	-	3.1	0.3
Libya	-	5.1	5.1	0.7	-	6.4	6.4	0.5
Lithuania	0.5	-	0.5	0.1	1.2	-	1.2	0.1
Luxembourg	-	0.3	0.3	0.0	-	0.6	0.6	0.0
Macedonia, F.Y.R.	0.3	-	0.3	0.0	0.5	-	0.5	0.0
Madagascar	0.4	-	0.4	0.1	0.4	-	0.4	0.0
Malawi	0.3	-	0.3	0.0	0.3	-	0.3	0.0
Malaysia	-	3.2	3.2	0.5	-	5.8	5.8	0.5
Maldives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mali	0.2	0.1	0.2	0.0	0.2	0.1	0.2	0.0
Malta	-	0.4	0.4	0.1	-	0.5	0.5	0.0
Mauritania	0.2	-	0.2	0.0	0.2	-	0.2	0.0
Mauritius	0.2	0.0	0.2	0.0	0.1	0.1	0.2	0.0
Mexico	38.3	0.8	39.1	5.5	57.0	1.2	58.2	4.9
Micronesia	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Moldova	0.5	-	0.5	0.1	1.1	-	1.1	0.1
Mongolia	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Montenegro	-	0.0	0.0	0.0	-	-	-	-
Morocco	2.8	0.2	2.9	0.4	2.8	0.3	3.0	0.3
Myanmar	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Namibia	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Nepal	0.1	0.0	0.2	0.0	0.1	0.0	0.1	0.0
Netherlands	-	9.8	9.8	1.4	-	17.7	17.7	1.5
New Zealand	-	0.7	0.7	0.1	-	1.8	1.8	0.2
Nicaragua	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Niger	0.2	0.1	0.3	0.0	0.2	0.1	0.3	0.0
Norway	-	6.4	6.4	0.9	-	9.2	9.2	0.8
Oman	-	0.5	0.5	0.1	-	0.7	0.7	0.1
Pakistan	7.1	-	7.1	1.0	9.4	-	9.4	0.8
Panama	1.2	0.0	1.2	0.2	1.5	0.0	1.6	0.1
Papua New Guinea	0.3	0.0	0.3	0.0	0.6	0.0	0.6	0.0
Paraguay	-	0.2	0.2	0.0	-	0.2	0.2	0.0
Peru	7.1	0.0	7.1	1.0	9.4	-	9.4	0.8
Philippines	9.2	0.4	9.6	1.3	14.4	0.6	15.0	1.3
Poland	3.4	0.6	4.0	0.6	4.1	1.5	5.6	0.5
Portugal	2.2	2.0	4.2	0.6	0.8	3.8	4.6	0.4
Qatar	-	0.4	0.4	0.1	-	0.7	0.7	0.1
Romania	5.9	-	5.9	0.8	7.4	-	7.4	0.6
Russian Federation	23.7	0.3	24.0	3.4	61.9	-	61.9	5.2

Cumulative Burden Sharing Adjustments at end–January 2015
(in millions of SDRs)
(continued)

Member	Adjustments for Deferred Charges: Charges	Remuneration	Total	Percentage of total	Adjustments for SCA-1: Charges	Remuneration	Total	Percentage of total
Rwanda	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Samoa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
San Marino	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Saudi Arabia	-	10.9	10.9	1.5	-	17.1	17.1	1.4
Senegal	0.5	-	0.5	0.1	0.6	-	0.6	0.0
Serbia	1.9	-	1.9	0.3	3.2	-	3.2	0.3
Seychelles	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Sierra Leone	0.5	-	0.5	0.1	0.5	-	0.5	0.0
Singapore	-	1.8	1.8	0.3	-	3.2	3.2	0.3
Slovak Republic	1.6	0.0	1.6	0.2	2.5	0.0	2.5	0.2
Slovenia	0.4	0.1	0.6	0.1	0.4	0.4	0.8	0.1
Solomon Islands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Somalia	1.1	-	1.1	0.2	1.5	-	1.5	0.1
South Africa	1.7	0.0	1.7	0.2	2.9	-	2.9	0.2
Spain	-	11.2	11.2	1.6	-	16.3	16.3	1.4
Sri Lanka	2.2	0.1	2.3	0.3	2.1	0.1	2.3	0.2
St. Kitts and Nevis	0.0	-	0.0	0.0	0.0	-	0.0	0.0
St. Lucia	0.0	-	0.0	0.0	-	-	-	-
St. Vincent and the	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Sudan	6.1	-	6.1	0.9	8.3	-	8.3	0.7
South Sudan	-	0.0	0.0	0.0	-	-	-	-
Suriname	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Swaziland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sweden	-	4.6	4.6	0.6	-	8.2	8.2	0.7
Switzerland	-	4.4	4.4	0.6	-	10.8	10.8	0.9
Tajikistan	0.0	-	0.0	0.0	0.1	-	0.1	0.0
Tanzania	0.3	-	0.3	0.0	0.3	-	0.3	0.0
Thailand	4.1	1.3	5.4	0.8	9.0	2.0	11.0	0.9
Togo	0.2	-	0.2	0.0	0.2	-	0.2	0.0
Tonga	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Trinidad and Tobago	1.5	0.2	1.7	0.2	1.5	0.3	1.7	0.1
Tunisia	2.4	0.0	2.5	0.3	2.8	0.1	2.8	0.2
Turkey	26.3	0.3	26.6	3.7	50.9	0.5	51.4	4.3
Tuvalu	-	0.0	0.0	0.0	-	-	-	-
Uganda	0.4	-	0.4	0.1	0.3	-	0.3	0.0
Ukraine	6.6	-	6.6	0.9	12.2	-	12.2	1.0
United Arab Emirates	-	2.3	2.3	0.3	-	3.3	3.3	0.3
United Kingdom	-	13.5	13.5	1.9	-	25.8	25.8	2.2
United States	-	102.3	102.3	14.3	-	157.9	157.9	13.3
Uruguay	2.2	0.0	2.2	0.3	5.8	0.0	5.9	0.5
Uzbekistan	0.3	-	0.3	0.0	0.8	-	0.8	0.1
Vanuatu	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Venezuela, R. B. de	15.4	2.1	17.5	2.4	19.8	2.4	22.2	1.9
Vietnam	0.6	-	0.6	0.1	0.9	-	0.9	0.1
Yemen, Rep. of	0.3	0.0	0.3	0.0	0.7	0.0	0.7	0.1

Cumulative Burden Sharing Adjustments at end–January 2015
(in millions of SDRs)
(concluded)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Zambia	5.2	-	5.2	0.7	5.5	-	5.5	0.5
Zimbabwe	0.8	-	0.8	0.1	1.6	-	1.6	0.1
	358.2	355.7	713.8	100.0	603.8	583.9	1,187.7	100.0

1/ Adjustments to charges and remuneration are billed quarterly.

Note: Values of 0.0 represent amounts of less than SDR 0.1 million; "—" denotes no adjustments.

Supplement 1, Review of the Fund's Income Position for FY 2015 and FY 2016—Revised Proposed Decision

5. Placement of FY 2015 net income of the General Resources Account to the Special Reserve and the General Reserve

The net income of the General Resources Account for FY 2015 shall be placed to the Fund’s General Reserve, provided that if net income in FY 2015 exceeds the amount of total surcharge income in FY 2015, an amount equivalent to this excess shall be placed to the Special Reserve.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Reviews the Fund's Income Position for Financial Years 2015-16

The Executive Board of the International Monetary Fund (IMF) completed its annual review of the Fund's income position for the financial years ending April 30, 2015 (FY 2015) and FY 2016 on April 27, 2015.

FY 2015 Income Position

Total FY 2015 net income, including income from surcharges applied to higher access borrowing from the IMF, is estimated at SDR 1.5 billion (US$ 2.2 billion). Net income of SDR 1.3 billion, which excludes the retained earnings of the gold endowment, will be added to the IMF's precautionary balances which are projected to reach SDR 14.0 billion (US$19.8 billion) at end-FY 2015. The net income position for FY 2015 was lower than projected a year earlier. This reflected both early repayments by Ireland and Portugal and an adjustment required under the International Accounting Standard 19 stemming mainly from a further fall in the discount rate used in the valuation of pension obligations.

FY 2016 Income Position

Net income of SDR 0.85 billion (US$1.3 billion) is projected for FY 2016. This projection is sensitive to the timing and amounts of disbursements under approved arrangements included in the projections, possible new arrangements, and the performance of the Fund's investment portfolio. The projected net income will allow the IMF to continue to add to its precautionary balances.

The IMF charges member countries a basic rate of charge on the use of IMF credit, which is determined as the SDR interest rate plus a margin expressed in basis points. In April 2014 the Executive Board set the margin for this rate of charge at 100 basis points for financial years FY 2015 and FY 2016. In the context of this year's comprehensive review of the Fund's income position at the midpoint of this two year period, the Executive Board concluded that the margin should remain unchanged.