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**Frequently Asked Questions on Gold Sale Windfall Profits**

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**ACRONYMS**

AA	Administered Account
BOP	Balance of payments statistics
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual</i> , sixth edition
GRA	General Resources Account
<i>GFSM</i>	<i>Government Finance Statistics Manual 2001</i>
IIP	International Investment Position
<i>MFSM</i>	<i>Monetary and Financial Statistics Manual</i>
<i>MFSMCG</i>	<i>Monetary and Financial Statistics Manual Compilation Guide</i>
PRGT	Poverty Reduction and Growth Trust
SDR	Special Drawing Rights

## **Recording of Transactions and Positions Related to Windfall Profits from IMF Gold Sales in Macroeconomic Accounts, including Member Country Contributions to PRGT**

### **I. BACKGROUND**

1. On February 24, 2012, the Executive Board of the IMF approved the distribution of SDR 700 million (about US\$ 1.1 billion) to all IMF member countries. These resources constitute IMF reserves attributable to a part of windfall profits from recent IMF gold sales. The distribution is aimed at securing resources for the Poverty Reduction and Growth Trust (PRGT).<sup>1</sup> This distribution became effective on October 12, 2012.
2. The windfall gold sales profits are part of the IMF's general resources available for the benefit of all IMF members and cannot therefore be placed in the PRGT for the benefit of only some IMF members. Accordingly, deriving PRGT subsidies from these resources involved a strategy to distribute the amount in the IMF's general reserves attributable to the windfall gold sales profits to all IMF members in proportion to their quota shares, with individual members then deciding to voluntarily contribute a corresponding amount to the PRGT. The distribution to members became effective after members provided satisfactory assurances that they would make new PRGT contributions of at least 90 percent of the overall amount distributed (SDR 630 million—about US\$ 978 million).<sup>2</sup>
3. PRGT operations are conducted through loan accounts, subsidy accounts and a reserve account. The subsidy accounts of the PRGT (i.e., the General Subsidy Account, the Extended Credit Facility Subsidy Account, the Standby Credit Facility Subsidy Account, or the Rapid Credit Facility Subsidy Account) are used to subsidize the rate of interest on PRGT loans to borrowers. These resources finance the difference between the market rate of interest paid to PRGT lenders and the rate of interest paid by the borrowing members.<sup>3</sup> These accounts will receive, if so instructed by members, grant contributions originating from the windfall gold sales profits.

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<sup>1</sup> The PRGT is used by the IMF to provide financial assistance at concessional terms to low-income member countries. It supports low-income countries in their efforts to achieve, maintain, or restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The resources of the PRGT are separate from the IMF's general resources generated from quota subscriptions, and are obtained through voluntary contributions from a broad segment of the IMF's membership, as well as from the IMF itself. The IMF acts as Trustee of the PRGT.

<sup>2</sup> On September 28, 2012, the IMF Executive Board approved an additional distribution of SDR 1.75 billion (about US\$2.7 billion) in the IMF general reserve attributable to the remaining windfall gold sales profits. As with the first distribution, this distribution will be effected only once satisfactory assurances have been provided by IMF members that at least 90 percent of the amount distributed (i.e., at least SDR 1.575 billion) will be transferred or otherwise provided to the PRGT.

<sup>3</sup> A framework for determining the interest rates charged on lending under the PRGT was established in the context of the 2009 low-income countries reforms. The IMF Executive Board, however, endorsed a temporary waiver of interest payments on all PRGT loans, initially to end-2011, and subsequently extended to end-2014.

4. The IMF's Statistics Department prepared a set of Frequently Asked Questions (FAQs)—presented in Section II—with the aim of assisting compilers in their understanding of the recording of distributions of windfall profits from IMF gold sales and subsequent contributions to the PRGT, in balance of payments, government finance, and monetary statistics.

*Question for the Committee:*

*Do members of the Committee have comments on these FAQs on Recording of Windfall Profits from IMF Gold Sales?*

## II. FREQUENTLY ASKED QUESTIONS (FAQS)

### 1. What was the impact of the sale of gold on the IMF's accounts?

The sale of gold by the IMF resulted in a reduction of monetary gold held by the IMF and an increase in IMF cash (deposits). Hence, in principle, the sale of the gold essentially affects the composition of IMF assets, but not the IMF's net worth.<sup>4</sup> Nonetheless, it is recognized that, in published IMF financial statements, gold is valued at historic cost, and therefore the sale of gold did have an impact on IMF net worth as shown in these statements.

### 2. How should the distribution of the general reserve attributable to windfall gold sale profits and the contributions to the PRGT be recorded on balance sheets of IMF member countries?

Equity claims of member countries on the IMF are linked to the Fund's net worth. Using the market valuation principle, those equity claims would be continuously revalued based on changes in the Fund's net worth, in turn reflecting changes in the market value of the Fund's assets and liabilities. For those economies that continuously revalue the equity claim on the IMF, the distribution of the IMF general reserve attributable to windfall gold sales profits reduces the outstanding value of that claim by the value of the distributed amount, plus or minus any changes in the value of the gold between the beginning of the accounting period and the time that it was sold. If an economy has not been continuously revaluing, the impact on the Fund's net worth from the IMF's gold sales, and from the distribution of the general reserve attributable to part of windfall profits on these sales, is dependent on individual circumstances. For example, if an economy relied on IMF financial statements' valuation of the gold at historic cost prior to the gold sales to estimate the value of its equity claim on the Fund, then the IMF sale of the gold, combined with the distribution of the general reserve attributable to windfall profits from gold sales, would result in an *increase* in the member's equity claims on the Fund. This is because the value of the proceeds retained by the Fund

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<sup>4</sup>According to Schedule K, paragraph 2 of the Articles of Agreement, the member countries have claims on the residual value (net worth) of the IMF.

from the sale of the gold would exceed the value of the gold as carried on IMF financial statements.

If the member decides to contribute to the PRGT the entire amount distributed by the Fund, the distribution to the member and the provision of a capital transfer matches. If the member, however, decides to contribute a smaller amount to the PRGT, the difference between the distribution to the member and the contribution to the PRGT would be recorded as an increase in the position under “SDR holdings” or “Deposits-nonresidents”, or a decline in foreign liabilities, or an increase in reserve position in the Fund, depending on how the funds will be provided (see question 5 ahead).

Similar to the recording of SDR assets and liabilities in member countries’ books, a key issue is in which public sector unit’s books to record the relevant stock positions and transactions. The international statistical systems do not specify on which public sector unit’s balance sheet to record the stock positions (for example, the central bank or a general government unit). This is because it is for those members to follow domestic legal and institutional arrangements to determine the ownership and recording of the stock positions in the public sector. The recording principles are set out ahead for both general government and central bank but they only apply to the public sector unit that is engaged in the transactions.

**3. The IMF distributed to its members resources in the general reserve attributable to windfall profits from gold sales. How should these resources be recorded in the member’s macroeconomic statistics?**

**The following discussion pertains to the classification of the distribution in the member’s balance of payments (BOP) statistics:**

Based on *BPM6*, the distribution to IMF members of the general reserve attributable to windfall profits from gold sales should be accounted for as a superdividend. This is because the distribution results from a capital gain of the IMF and not ordinary income. Superdividends are to be treated as withdrawals of equity and not as distributions of earnings (*BPM6* paragraph 8.23 and 11.27).

The BOP account entry should be recorded in “other equity” and not in portfolio (or direct) investment, because the equity claims of IMF member countries on the IMF (the claim on the net worth) should be recorded in “other equity” (*BPM6* paragraph 5.26). The counterpart entry is most likely to be in currency and deposits, assets, but the precise entry depends upon the preferred choice of the distribution of the individual member (see question 5 ahead).

**The following discussion pertains to the classification of the distribution in the member’s government finance statistics:**

For countries where the equity claim on the IMF (the claim on the net worth) is recorded on the balance sheet of the general government, based on the *Government Finance Statistics Manual (GFSM)* and *Public Sector Debt Statistics Guide*, the distribution to IMF members of the general reserve attributable to windfall profits from the sale of gold is recorded in the relevant public sector unit’s accounts as a withdrawal of other equity (“other equity” because the IMF members do not own shares in the IMF). This transaction will result in a reduction in the financial asset “equity and investment fund shares” and an increase in the financial asset “currency and deposits” (subject to the preferred choice of each individual member of the possible four ways of handling the distribution - see question 5 ahead), with no effect on net lending (+) / net borrowing (-).

**The following discussion pertains to the classification of the distribution in the member’s monetary statistics (central bank accounts):**

For countries where the equity claim on the IMF (the claim on the net worth) is recorded on the balance sheet of the central bank, based on the principles of *Monetary and Financial Statistics Manual (MFSM)* and *MFSM Compilation Guide (MFSMCG)*, the distribution to IMF members of the general reserve attributable to windfall profits from the sale of gold is recorded as a withdrawal of other equity “Shares and other equity—nonresidents, assets” and an increase in “Other deposits—nonresidents, assets,” (subject to the preferred choice of each individual member of the possible four ways of handling the distribution - see question 5 ahead).

**4. The IMF received satisfactory assurances from the member countries that new PRGT subsidy contributions equivalent to at least 90 percent of the distribution related to the windfall profits from IMF gold sales will be made. How should these contributions be recorded in the member’s macroeconomic statistics?**

**The following discussion pertains to the classification of the contribution to the PRGT in the member’s BOP statistics:**

Contributions to the PRGT should be recorded in each member’s capital account as capital transfers at the time that they are made. Capital transfers (as opposed to current transfers) are typically large and infrequent (*BPM6* paragraph 12.13).

In regard to the geographic attribution of the contribution, the PRGT has an international nature and therefore is not a resident of an individual country. It was established under Article V, Section 2 (b) of the IMF Articles of Agreement.



**The following discussion pertains to the classification of the contribution to the PRGT in the member’s government finance statistics:**

Based on the *Government Finance Statistics Manual (GFSM)*, a transfer between a government unit and an international organization or other government units is classified as an expense in the form of a grant. In this specific case, this transfer will be a capital grant to an international trust.

This transaction will result in an increase in expense, and a reduction in net lending or an increase in net borrowing. The counterpart is a reduction in financial assets, most probably “currency and deposits,” subject to how the capital transfer is financed (see question 5 ahead).

**The following discussion pertains to the classification of the contribution to the PRGT in the member’s monetary statistics (central bank accounts):**

Based on the *MFSM* and *MFSMCG*, the transaction in the form of the contribution by a member’s central bank to the PRGT should be recorded as a reduction in “Shares and other equity, liability,”<sup>5</sup> and a reduction in financial assets, most probably “Other deposits—nonresidents, assets” subject to how the capital transfer is financed (see question 5 ahead). The reduction in financial assets as a consequence of the capital transfer reduces the value of the central bank’s equity.

**5. Are there different treatments in the macroeconomic accounts if a member receives the windfall profit distribution and does not immediately contribute the resources to the PRGT, as opposed to where the member immediately contributes the resources to the PRGT?**

Based on the members’ individual preferences, the IMF distributed the resources in one of the following four ways (or a combination of them as specified by the member). These options have been designed to accommodate different legal procedures and preferences in place in member countries, and to facilitate contributions to the PRGT.

- (i) The distribution is transferred directly from the IMF’s General Resources Account (GRA) to a PRGT subsidy account. This option may be selected by member countries that do not need to await the resolution of domestic processes (such as approval of the legislative body) to contribute to the PRGT.

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<sup>5</sup> Countries are also requested to indicate the amount of the general reserve attributed to windfall profits that was distributed to them from the gold sale, and the amount of their contribution to the PRGT, under Memorandum Items of the standardized report form for central banks (ISR).

**In the BOP and government finance statistics**, if this option is chosen, the distribution should be recorded as an equity capital withdrawal by the member, and as a capital transfer to the PRGT.

**In the monetary and financial statistics**, under this option, the distribution of the general reserve attributable to windfall gold sales profits and the contribution to the PRGT should be recorded simultaneously as a reduction in “Shares and other equity,” both on the asset and liability side of the central bank balance sheet.

- (ii) The IMF has established a temporary administered account (the “Interim Administered Account for Windfall Gold Sales Profits” in connection with the distribution of SDR 700 million)<sup>6</sup> which is legally and financially separate from all other accounts of the IMF. An IMF member could elect to deposit all or part of its distribution in this Administered Account, pending approval by the member’s legislative body (and/or another legal body in the member country) to contribute the funds to the PRGT. This option may be selected by member countries pending the resolution of domestic processes needed to enable it to make a PRGT subsidy contribution.

**In the BOP and government finance statistics**, if this option is chosen, the distribution to the member should be recorded as an equity capital withdrawal by the member, and the subsequent transaction should be recorded as a deposit in the Administered Account. Under the approved instrument to establish the Interim Administered Account for Windfall Gold Sales Profits, the member will be able to withdraw its deposit in the Administered Account upon demand, which could allow the deposit to fulfill the criteria for inclusion in reserve assets (*BPM6*, paragraph 6.86).<sup>7</sup> The member’s pledge to eventually provide grant resources to the PRGT is not reflected as a liability in the member’s IIP nor the general government balance sheet, because the pledge is not legally binding. A decrease in reserve assets should be recorded when funds are withdrawn from the Administered Account, and a capital transfer should be recorded when the funds are contributed to the PRGT.

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<sup>6</sup> The Administered Account is a form of trust fund, and claims to the account by the members who contributed to it are not claims on the IMF itself. A separate temporary administered account (the “Interim Administered Account for Remaining Windfall Gold Sales Profits”) will be established in connection with the SDR 1,75 billion distribution approved on September 28, 2012, once satisfactory assurances exist regarding the availability of at least SDR 1.575 billion for new subsidy contributions to the PRGT.

<sup>7</sup> Depending on the characteristics of the member’s claim on the Administered Account (such as currency of denomination), it may be included or excluded from reserve assets.

**In the monetary and financial statistics**, if this option is chosen, the distribution is recorded as a decrease in “Shares and other equity—nonresidents, assets” and an increase in “Other deposits—nonresidents, assets.” When the country authorizes to transfer its share of the distribution from the Administered Account to the PRGT subsidy account, this transaction should be recorded as a decrease of both, “Other deposits—nonresidents, assets” and “Shares and other equity, liability”. If the member however, decides to contribute a smaller amount to the PRGT than the distributed amount, the reduction in both “Other deposits—nonresidents, assets” and “Shares and other equity, liability” will be smaller than the original increase when the distribution was recorded.

- (iii) Some IMF members elected to deposit their distribution with the IMF’s SDR Department. The member countries agreed to provide grants to the PRGT that correspond fully or in part to the amount that the members received.

**In the BOP and government finance statistics**, if this option is chosen, the distribution should be recorded as an equity capital withdrawal by the member, and as an increase in holdings of SDRs. (The holdings of SDRs by others would fall by an equivalent amount, because total allocations of SDRs would be unaffected by this sequence of transactions.) The member’s holdings of SDRs should be included in the member’s reserve assets in the BOP. The member’s pledge to eventually provide grant resources to the PRGT is not reflected as a liability in the member’s IIP, because the pledge is not legally binding. At the time of the contribution to the PRGT, the member’s holdings of SDRs would decline, if paid in SDRs.

**In the monetary and financial statistics**, if this option is chosen, the distribution is an equity withdrawal transaction by the member and should be recorded as a decrease in “Shares and other equity—nonresidents, assets” and an increase in “SDR Holdings.” At the time when the country pledges part of its windfall profit toward the PRGT, there is no need for recording this in monetary statistics because the pledge is not legally binding. When the country makes contributions to the PRGT in the future, this transaction should be recorded as a decrease in holdings of reserve assets (“SDR Holdings”), if the contribution is paid in SDRs, and a reduction in “Shares and other equity, liability” by the amount of each contribution.

- (iv) If the member has overdue repurchase obligations to the IMF, the distribution is made in the member’s own currency, which should be recorded as an equity capital withdrawal, and as a reduction in the member’s overdue obligation to the IMF (loans liabilities with the IMF). If a member without overdue repurchase obligations to the GRA decided to receive the distribution in its own currency, the member should record, in addition to an equity capital withdrawal, an increase in reserve position in

the IMF.<sup>8</sup> If the country makes contributions to the PRGT in the member's own currency, the entries depend on how the contribution is financed.

**6. What specific debit and credit entries should member countries record in their balance of payments accounts, and what assets and liabilities should member countries record in their IIP, in connection with the distribution of profits and associated contribution to PRGT?**

**Table. Balance of Payments and International Investment Position Recordings  
Quarter \_ Year 201\_**

<b>Balance of Payments</b> (transactions during the period)		
<b>Step 1. Funds are distributed to the IMF members (option i, ii, iii, and iv) and either transferred to a PRGT subsidy account (option i), or to an Administered Account (option ii), or held in another form (options iii and iv).</b>		
<b>Capital account</b>	<b>Credit</b>	<b>Debit</b>
Capital transfers General government Other capital transfers (or “financial corporations” if grant to PRGT is made by the central bank)		Value of contribution to a PRGT subsidy account, if option (i) is selected.
<b>Financial Account</b>	<b>Net increase in assets</b>	<b>Net incurrence of liabilities</b>
<i>Other investment, assets</i> Other equity <sup>9</sup>	Decrease in other investment/other equity assets (i.e., a credit entry in the financial account), equal to the value of the IMF's distribution to the member, under all options.	
<i>Other investment, assets</i> Currency and deposits  or <i>Other investment, liabilities</i> Credit and loans with the IMF	Increase in currency and deposits (i.e., a debit entry in the financial account) equal to the value of the funds deposited in the Administered Account, if option (ii) is selected and the funds deposited do not meet the criteria of reserve assets.  Decrease in outstanding credit and loan obligations to the IMF (i.e., a debit entry in the financial account) equal to	

<sup>8</sup> The distribution reduces the IMF's holdings of currencies (in the Number 1 Account) and thereby results in an increase in that member's Reserve Position in the IMF.

<sup>9</sup> For *BPM5* reporters, the entry is under *Other investment, assets, other assets*.

<b>Balance of Payments</b> (transactions during the period)		
<b>Step 1. Funds are distributed to the IMF members (option i, ii, iii, and iv) and either transferred to a PRGT subsidy account (option i), or to an Administered Account (option ii), or held in another form (options iii and iv).</b>		
	the value of the IMF's distribution to the member, where option (iv) is applicable (i.e., for a member with overdue repurchase obligations to the GRA).	
<i>Reserve assets</i> Special drawing rights	Increase in SDRs (i.e., a debit entry in the financial account) equal to the value of the SDRs acquired, if option (iii) is selected.	
or <i>Reserve assets</i> Currency and deposits	Increase in currency and deposits (i.e., a debit entry in the financial account) equal to the value of the funds deposited in the Administered Account, if option (ii) is selected and the funds deposited meet the criteria of reserve assets.	
or <i>Reserve assets</i> Reserve position in the IMF	Increase in reserve position in the IMF equal to the value of the reduction in the IMF's holdings of currency in the Number 1 Account, if option (iv) is selected by a member without overdue repurchase obligations to the GRA.	
<b>Step 2. Funds are transferred from an Administered Account (option ii), or from reserve assets (option iii), to a PRGT subsidy account.<sup>10</sup></b>		
<b>Capital account</b>	<b>Credit</b>	<b>Debit</b>
Capital transfers General government Other capital transfers (or "financial corporations" if grant to PRGT is made by the central bank)		Value of contribution to a PRGT subsidy account.
<b>Financial Account</b>	<b>Net increase in assets</b>	<b>Net incurrence of liabilities</b>
<i>Other investment, assets</i>	Decrease in currency and deposits (i.e.,	

<sup>10</sup> In the case where the distribution is made in the member's own currency (option (iv)), the entries depend on how the distribution is financed.

<b>Balance of Payments</b> (transactions during the period)		
<b>Step 1. Funds are distributed to the IMF members (option i, ii, iii, and iv) and either transferred to a PRGT subsidy account (option i), or to an Administered Account (option ii), or held in another form (options iii and iv).</b>		
Currency and deposits	a credit entry in the financial account) equal to the amount transferred to a PRGT subsidy account, if option (ii) is selected and the funds deposited in the Administered Account did not meet the criteria of reserve assets.	
<i>Reserve assets</i>		
Special drawing rights	Decrease in SDRs (i.e., a credit entry in the financial account) equal to the amount transferred to a PRGT subsidy account, the contribution is in the form of SDRs.	
<i>or</i>		
<i>Reserve assets</i>		
Currency and deposits	Decrease in reserve assets, currency and deposits (i.e., a credit entry in the financial account) equal to the amount transferred to a PRGT subsidy account, if the contribution is in the form of currency and deposits that met the criteria of reserve assets.	

<b>International Investment Position</b> (end of period stocks)		
<b>Step 1. Funds are distributed to the IMF members (option i, ii, iii, and iv) and either transferred to an Administered Account (option ii), or held in another form (option iii), or the IMF reduces its holdings of the member's currency in the Number 1 Account (option iv for members without overdue repurchase obligations to the GRA), or funds are used to extinguish the overdue repurchase obligations to the GRA (option iv for members with overdue repurchase obligations to the GRA).</b>		
	Assets	Liabilities
<i>Other investment, assets</i>		
Other equity <sup>11</sup>	IIP assets of the member should reflect its claims on the net worth of the IMF; the IMF's distribution of an amount attributable to windfall gold sale profits to the member reduce the member's other equity claims on the IMF, under all options. (If a member has not continuously revalued it is recommended on practical grounds that	

<sup>11</sup> For *BPM5* reporters, the entry is under *Other investment, assets, other assets*.

<b>International Investment Position</b> (end of period stocks)		
<b>Step 1. Funds are distributed to the IMF members (option i, ii, iii, and iv) and either transferred to an Administered Account (option ii), or held in another form (option iii), or the IMF reduces its holdings of the member's currency in the Number 1 Account (option iv for members without overdue repurchase obligations to the GRA), or funds are used to extinguish the overdue repurchase obligations to the GRA (option iv for members with overdue repurchase obligations to the GRA).</b>		
	the valuation gain be recorded in the same period as the distribution of the proceeds).	
<b><i>Other investment, assets</i></b> Currency and deposits	IIP assets of the member should reflect its deposits in the Administered Account (if option (ii) is selected and the deposits do not meet the criteria of reserve assets).	
<b><i>Other investment, liabilities</i></b> Credit and loans with the IMF	IIP liabilities of the member should reflect a decrease in overdue repurchase obligations to the GRA (where option (iv) applies for a member with overdue repurchase obligations to the GRA).	
<b><i>Reserve assets</i></b> Special drawing rights	IIP assets of the member should reflect its holdings of SDRs; the IMF's distribution of an amount attributable to windfall gold sale profits to the member will increase the member's holdings of SDRs (if option (iii) is selected).	
<b><i>Reserve assets</i></b> Currency and deposits	IIP assets of the member should reflect its deposits in the Administered Account (if option (ii) is selected and the deposits meet the criteria for recording as reserve assets).	
<b><i>Reserve assets</i></b> Reserve position in the IMF	IIP assets of the member should reflect its reserve position in the IMF; the IMF's distribution of an amount attributable to windfall gold sale profits to the member will increase the member's reserve position in the IMF (if option (iv) is selected by a member without overdue repurchase obligations to the GRA).	

<b>Step 2. Funds are transferred from an Administered Account (option ii), or from reserve assets (option iii), to a PRGT subsidy account.<sup>12</sup></b>		
	<b>Assets</b>	<b>Liabilities</b>
<b><i>Other investment, assets</i></b> Currency and deposits	IIP assets of the member reflect the decrease in its deposits in the Administered Account when the transfer is made to a PRGT subsidy account, if the transferred deposits did not meet the criteria of reserve assets.	
<b><i>Reserve assets</i></b> Special drawing rights  <i>or</i>  <b><i>Reserve assets</i></b> Currency and deposits	SDR holdings decrease equal to the amount transferred to a PRGT subsidy account, if the transfer is in the form of SDRs.  IIP assets, currency and deposits, of the member reflect the decrease when the transfer is made to a PRGT subsidy account, if the transfer is in the form of currency and deposits that met the criteria of reserve assets (deposits in the Administered Account may meet the criteria of reserve assets).	

<sup>12</sup> In the case where the distribution is made in the member's own currency (option (iv)), the entries depend on how the distribution is financed.