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THE FUND'S INCOME POSITION FOR FY 2015 - ACTUAL OUTCOME

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THE FUND'S INCOME POSITION FOR FY 2015—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports the Fund's income position for FY 2015 following the closing of the Fund's accounts for the financial year and completion of the external audit. FY 2015 net income, including income from surcharges, amounted to SDR 1.6 billion or about SDR 133 million more than estimated in April. The bulk of this difference reflects a smaller net loss in the valuation reported under the revised accounting standard for employee benefits (IAS 19).

In accordance with decisions taken in April 2015, investment income from the Fixed-Income Subaccount of SDR 84 million has been transferred from the Investment Account to the GRA. GRA net income for FY 2015 of SDR 1.5 billion has been placed to the Fund's reserves, further strengthening the Fund's precautionary balances, which reached SDR 14.2 billion at the end FY 2015.

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1. **This paper presents the Fund's net income for FY 2015.** The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2015 external audit conducted by PricewaterhouseCoopers, the Fund's external auditor.¹
2. **The overall FY 2015 net income was SDR 1.6 billion, slightly above the April projections (Table 1).**² This outcome reflects the following results:
 - **Lending income.** Lending income (including surcharges) amounted to SDR 2.77 billion, in line with the April estimate. Income from the margin, service charges, commitment fees, and surcharges were broadly in line with previous projections.
 - **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount amounted to SDR 84 million, broadly in line with the earlier estimate of SDR 82 million. The Endowment Subaccount returned about SDR 181 million (compared with the earlier estimate of SDR 174 million) reflecting income from the newly invested portion of the endowment.³
 - **Expenses.** Total expenses of SDR 765 million were about SDR 11 million higher than projected in April. Net administrative expenses were about SDR 17 million higher than the earlier estimate mainly due to an appreciation of the US\$/SDR exchange rate (SDR 23 million); offset slightly by lower spending under the net administrative budget (SDR 6 million).⁴ Depreciation and capital budget items expensed were slightly lower than the earlier projections. Table 2 provides a reconciliation between the net administrative budget outturn and the administrative expenses in the FY 2015 audited financial statements.
 - **IAS 19 timing difference.** The FY 2015 IAS 19 timing difference amounted to SDR 694 million compared to the April estimate of SDR 847 million (Table 3).⁵

¹ See Audited Financial Statements for the Financial Year Ended April 30, 2015.

² See Review of the Fund's Income Position for FY 2015 and FY 2016.

³ The funding for the endowment's assets is being phased over three years in equal tranches and began in 2014. The endowment assets will be invested in a conservative, globally diversified portfolio consisting of fixed income assets and a limited portion of equities (including real estate investment trusts) in accordance with a strategic asset allocation benchmark.

⁴ The actual budget outturn for FY 2015 was about USD 10 million lower than the estimated outturn largely due to lower-than-projected spending on travel (see FY 2015 Administrative and Capital Expenses and Output Cost Estimates).

⁵ The Fund's pension and employee benefit expense is determined by the provisions of IAS 19, under International Financial Reporting Standards (IFRS). See Accounting for Employee Benefits (IAS 19) in the Review of the Fund's Income Position for FY 2015 and FY 2016 for further background.

The timing difference comprises the sum of two factors:

(i) The difference between the actuarially determined annual IAS 19 expense that measures, on an accrual basis, the increase in obligations under the staff retirement plan stemming from an additional year of staff service and the funding (cash appropriation) for the year. The IAS 19 expense for FY 2015 amounted to SDR 265 million compared to the actual funding of SDR 116 million giving rise to a timing difference (loss) of SDR 149 million. These results were broadly in line with the April estimate.

(ii) Actuarial gains and losses that arise from revaluing retirement plan obligations and plan assets as required by the amended IAS 19. Under the amended IAS 19, these actuarial gains and losses are now fully reflected in the Fund's income in the year that they arise instead of being deferred and recognized in future years. The FY 2015 actuarial losses of SDR 545 million decreased by about SDR 146 million from the earlier estimate in April. While the discount rate used in the IAS 19 determination was broadly unchanged from the April estimate, the net present value of plan obligations was lowered largely as a result of the use of updated demographic and financial assumptions including salary scale, health care costs, and pension increases.⁶

3. Precautionary balances. Precautionary balances amounted to SDR 14.2 billion at year end, higher than the earlier projection of SDR 14.0 billion. The increase is mainly attributable to the overall IAS 19 timing difference of SDR 694 million being lower than the loss estimated in April of SDR 847 million.

⁶ The April estimates were based upon the FY 2014 demographic and financial assumptions. 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).

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

	FY 2015	
	April Projections 1/	Actual Outcome
A. Operational income	1,455	1,453
Lending income	1,310	1,307
Margin for the rate of charge	743	742
Service charges	62	60
Commitment fees	505	505
Fixed-Income Subaccount	82	84
Interest free resources 2/	6	6
Reimbursements	57	56
MDRI-I Trust, CCR Trust, and SDR Department	4	3
PRG Trust	53	53
B. Expenses 3/	754	765
Net administrative expenditures	689	706
Capital budget items expensed	33	28
Depreciation	32	31
C. Net operational income (A-B)	701	688
Surcharges	1,464	1,463
IAS 19 timing adjustment 4/	-847	-694
Endowment Subaccount (gold profits) investment income	174	181
Contribution to CCR Trust 5/		-13
Net income position 6/	1,492	1,625
<u>Memorandum Items:</u>		
Outstanding Fund credit (average balances, SDR billions)	74.3	74.2
SDR interest rate (average, in percent)	0.1	0.1
US\$/SDR exchange rate (average)	1.48	1.47
Precautionary balances (end of period, SDR billions)	14.0	14.2

Source: Finance Department and Office of Budget and Planning

1/ See Review of the Fund's Income Position for FY 2015 and FY 2016.

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

3/ See Table 2 for a reconciliation to the administrative expenses reported in the financial statements for FY 2015.

4/ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations (see Table 3).

5/ On February 4, 2015, the IMF Executive Board approved the transformation of the Post-Catastrophe Debt Relief Trust (PCDR) into the Catastrophe Containment and Relief Trust (CCR) Trust. In addition, the Executive Board decided to liquidate the MDRI-I Trust and transfer the Special Disbursement Account (SDA) resources in the MDRI-I Trust to the CCR Trust.

6/ See "Total comprehensive income" of the Audited Financial Statements for the Financial Year Ended April 30, 2015.

4. No decisions are required at this time. The Executive Board took all necessary decisions in April 2015 during the review of the Fund's income position for FY 2015 and FY 2016. Income from the Endowment Subaccount of SDR 181 million is retained in the Investment Account (IA), while income from the Fixed-Income Subaccount of SDR 84 million has been transferred to the GRA in August 2015 and used for meeting the FY 2015 administrative expenses of the Fund. FY 2015 GRA net income (SDR 1.5 billion)⁷ has been placed in the Fund's general reserves.^{8,9} Consistent with the discussions in April, currencies of SDR 2.7 billion available for the transfer to the IA (comprising net income retained in the GRA in FY 2014 of SDR 1.2 billion and SDR 1.5 billion in FY 2015), would continue to be retained in the GRA pending the Executive Board's review of the investment strategy for the Fixed-Income Subaccount.¹⁰ The option to retain the currencies in the GRA does not require a Board decision.

Table 2. Reconciliation of Administrative Expenses—FY 2015
(in millions of U.S. dollars, unless otherwise stated)

Net administrative budget outturn 1/	1,010
IAS 19 (accrual vs. funding) timing difference 2/	246
Depreciation	45
Capital budget items expensed	41
Reimbursements from PRG Trust, CCR Trust, and SDR Department	-83
Total administrative expenses per the audited financial statements (USD millions)	1,259
Total administrative expenses per the audited financial statements (SDR millions) 3/	857

Source: Finance Department and Office of Budget and Planning

Totals may not add due to rounding differences.

1/ See FY 2015 Administrative and Capital Expenses and Output Cost Estimates.

2/ Reflects the difference between the IAS 19 expense (USD 410 million) and the actual funding in FY 2015 (USD 164 million).

3/ Based on the effective weighted average FY 2015 U.S. dollar/SDR exchange rate of 1.47 for all expenses; the effective average exchange rate for individual expenditure components may differ due to the timing of exchange rate movements during the year.

⁷ GRA net income is SDR 1,457 million comprising of total net income of SDR 1,625 million less investment income from the endowment of SDR 181 million retained in the IA and an add-back of SDR 13 million for the contribution to the CCR Trust (see Table 1).

⁸ See page 7 of Audited Financial Statements for the Financial Year Ended April 30, 2015.

⁹ Decision No. 4 in Review of the Fund's Income Position for FY 2015 and FY 2016 provides for the transfer to the GRA of the income of the Fixed-Income Subaccount of the IA (SDR 84 million) for meeting the Fund's FY 2015 administrative expenses.

¹⁰ Staff could revert to the Board with a proposal to transfer all or part of the full amount of SDR 2.7 billion to the IA for investment following the completion of this review.

Table 3. Reconciliation of IAS 19 adjustments—FY 2015
(in millions of SDRs)

	FY 2015	
	April Projections 1/	Actual Outcome
Accrual vs. Funding	-156	-149
Pension cost accrual	-265	-265
Pension funding	109	116
Actuarial losses	-691	-545
Total IAS 19 timing difference	-847	-694

Source: Finance Department

1/ See Review of the Fund's Income Position for FY 2015 and FY 2016.