



September 2016

THE FUND'S INCOME POSITION FOR FY 2016— ACTUAL OUTCOME

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- The **Staff Report** prepared by IMF staff and completed on August 26, 2016 for the information of the Executive Board. The paper was prepared following completion of the IMF's FY 2016 external audit.

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International Monetary Fund
Washington, D.C.



August 26, 2016

THE FUND'S INCOME POSITION FOR FY 2016—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports the Fund's income position for FY 2016 following the closing of the Fund's accounts for the financial year and completion of the external audit. FY 2016 net income, including income from surcharges, was unchanged from the amount of SDR 998 million projected in April.

GRA net income for FY 2016 of about SDR 1 billion has been placed to the Fund's reserves, further strengthening the Fund's precautionary balances, which reached SDR 15.2 billion at the end of FY 2016.

Following the completion of the Executive Board's review of the investment strategy for the Fixed-Income Subaccount and consistent with the discussions in April, currencies totaling about SDR 3.7 billion will be transferred to the Investment Account during September and October 2016. This comprises currencies equivalent to the net income retained in the GRA in FY 2014 (SDR 1.2 billion) and FY 2015 (SDR 1.5 billion), together with the currencies equivalent to the FY 2016 GRA net income of about SDR 1 billion.

Approved By
Andrew Tweedie (FIN)

Prepared by the Finance Department (Maria Manno, Amadou Ndiaye, Diviesh Nana, and Yan Sun-Wang under the guidance of David Andrews), in consultation with the Legal Department and the Office of Budget and Planning

1. **This paper presents the Fund's net income for FY 2016.** The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2016 external audit conducted by PricewaterhouseCoopers, the Fund's external auditor.¹
2. **The overall FY 2016 net income was about SDR 1 billion, in line with the April projections (Table 1).**² This outcome reflects the following results:
 - **Lending income.** Lending income (including surcharges) amounted to SDR 1.42 billion, in line with the April estimate. Service charges, which constitute only a small part of lending income, were lower following delays in two scheduled purchases while income from the margin, commitment fees, and surcharge income was broadly in line with previous projections.
 - **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount amounted to SDR 18 million, lower than the earlier estimate of SDR 59 million. This change, equivalent to about 0.4 percent of the value of the subaccount, was mainly due to valuation changes at year-end that were reversed the following business day. The Endowment Subaccount incurred a loss of SDR 38 million compared with a projected loss of SDR 58 million. The difference can be attributed to a strong equity market performance during the latter part of the year, which resulted in higher than anticipated returns.³
 - **Expenses.** Total expenses of SDR 786 million were about SDR 9 million lower than projected in April. Net administrative expenses were SDR 1 million lower than earlier estimates, largely reflecting the preservation of the budgeted contingency reserve and lower-than-planned travel spending.⁴ Depreciation was in line with earlier projections; however capital budget items expensed were lower than the amount projected in April following a revision to the timing of HQ1 renewals expensed in FY 2016. Table 2 provides a reconciliation between the net administrative budget outturn and the administrative expenses in the FY 2016 audited financial statements.

¹ See [Audited Financial Statements for the Financial Year Ended April 30, 2016](#).

² See [Review of the Fund's Income Position for FY 2016 and FY 2017-2018](#).

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 See [FY2016—Output Cost Estimates and Budget Outturn Paper](#).

- **IAS 19 timing difference.** The FY 2016 IAS 19 timing difference amounted to SDR 321 million compared to the April estimate of SDR 296 million (Table 3).⁵

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 2016 amounted to SDR 345 million compared to the actual funding of SDR 123 million giving rise to a timing difference (loss) of SDR 222 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 2016 actuarial gains increased marginally by about SDR 19 million from the April projection of SDR 524 million. This modest rise can be attributed to (i) a rise in actuarial gains following higher returns earned from plan assets than projected in April, as well as plan experience differing from that anticipated by the economic and demographic assumptions projected in April; offset by (ii) a corresponding large reduction in actuarial gains reflecting a decrease in the discount rate by about 32 basis points, compared with the earlier projections.⁶

- 3. Precautionary balances.** GRA net income for FY 2016 of about SDR 1 billion was in line with earlier estimates and precautionary balances amounted to SDR 15.2 billion at year-end, also matching the April projection.

⁵ The Fund's pension and employee benefit expense is determined by the provisions of IAS 19, under International Financial Reporting Standards (IFRS). See IAS 19 Accounting for Employee Benefits in the [Review of the Fund's Income Position for FY 2016 and FY 2017-2018](#) for further background.

⁶ 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, salary increases, inflation rate, and future medical costs).

Table 1. Income and Expenditures for FY 2016
(in millions of SDRs)

	FY 2016	
	April Projections 1/	Actual Outcome
A. Operational income	767	714
Lending income	643	634
Margin for the rate of charge	515	515
Service charges	32	23
Commitment fees	96	96
Fixed-Income Subaccount	59	18
Interest free resources 2/	8	5
Reimbursements	57	57
CCR Trust and SDR Department	7	7
PRG Trust	50	50
B. Expenses 3/	795	786
Net administrative expenditures	748	747
Capital budget items expensed	20	12
Depreciation	27	27
C. Net operational income (A-B)	-28	-72
Surcharges	788	787
IAS 19 timing adjustment 4/	296	321
Endowment Subaccount (gold profits) investment income	-58	-38
Net income position 5/	998	998
<u>Memorandum Items:</u>		
Outstanding Fund credit (average balances, SDR billions)	51.5	51.5
SDR interest rate (average, in percent)	0.1	0.1
US\$/SDR exchange rate (average)	1.39	1.39
Precautionary balances (end of period, SDR billions)	15.2	15.2

Source: Finance Department and Office of Budget and Planning

1/ See [Review of the Fund's Income Position for FY 2016 and FY 2017-2018](#).

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 2016.

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/ See "Total comprehensive income" of the [Audited Financial Statements for the Financial Year Ended April 30, 2016](#).

4. No decisions are required at this time. The Executive Board took all necessary decisions in April 2016 during the review of the Fund's income position for FY 2016 and FY 2017-2018. A loss of SDR 38 million incurred in the Endowment Subaccount is retained in the Investment Account (IA), while income from the Fixed-Income Subaccount of SDR 18 million has been reflected in the GRA and used for meeting the FY 2016 administrative expenses of the Fund. FY 2016 GRA net income (SDR 1 billion) has been placed in equal parts to the Fund's general reserve and special reserve.^{7,8} Following the completion of the Executive Board's review of the investment strategy for the Fixed-Income Subaccount on August 31, 2015 and consistent with the discussions in April, currencies totaling about SDR 3.7 billion will be transferred to the IA during September and October 2016.⁹ This comprises currencies equivalent to the net income retained in the GRA in FY 2014 (SDR 1.2 billion) and FY 2015 (SDR 1.5 billion), together with the currencies equivalent to the FY 2016 GRA net income of about SDR 1 billion.

⁷ GRA net income (including SDR 18 million transferred from the Fixed-Income Subaccount) is SDR 1,036 million. This comprises total net income of SDR 998 million and an add-back of the loss from the endowment of SDR 38 million retained in the IA (see Table 1).

⁸ See page 6 of [Audited Financial Statements for the Financial Year Ended April 30, 2016](#).

⁹ Pursuant to Rule 16(d)(ii) of the [Rules and Regulations for the Investment Account](#), as adopted in August 2015, transfers from the GRA to the Fixed-Income Subaccount attributed to net income for FY 2014 and FY 2015 will be placed to Tranches 1 and 2 of this subaccount in the same proportion as the assets in these two tranches on August 31, 2015. The FY 2016 GRA net income will be used to align the weights of Tranches 1 and 2 of the FI Subaccount towards 50:50.

Table 2. Reconciliation of Administrative Expenses—FY 2016
(in millions of U.S. dollars, unless otherwise stated)

Net administrative budget outturn 1/	1,038
Capital budget items expensed	17
Depreciation	38
Total expenses in U.S. dollars millions	1,093
Total expenses in SDR millions (per Table 1) 2/	786
IAS 19 (accrual vs. funding) timing difference (SDR millions) 3/	222
Reimbursements from PRG Trust, CCR Trust, and SDR Department (SDR millions)	-57
Total administrative expenses per the audited financial statements (SDR millions)	951

Source: Finance Department and Office of Budget and Planning

Totals may not add due to rounding differences.

1/ See [FY2016—Output Cost Estimates and Budget Outturn Paper](#).

2/ Based on the effective weighted average FY 2016 U.S. dollar/SDR exchange rate of 1.39 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.

3/ Reflects the difference between the IAS 19 expense (SDR 345 million) and the actual funding in FY 2016 (SDR 123 million). See Table 3.

Table 3. Reconciliation of IAS 19 adjustments—FY 2016
(in millions of SDRs)

	FY 2016	
	April Projections 1/	Actual Outcome
Accrual vs. Funding	-228	-222
Pension cost accrual	-346	-345
Pension funding	118	123
Actuarial gains	524	543
Total IAS 19 timing difference	296	321

Source: Finance Department

1/ See [Review of the Fund's Income Position for FY 2016 and FY 2017-2018](#).