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## RULES AND REGULATIONS FOR THE INVESTMENT ACCOUNT

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:

- **Rules and Regulations for the Investment Account**, adopted on January 23, 2013 and amended on March 12, 2014, April 23, 2015, August 31, 2015 and July 29, 2016 by the Executive Board of the IMF.
- A [Press Release](#) indicating the adoption by the Executive Board of the Rules and Regulations for the Investment Account during its January 23, 2013 meeting.

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**International Monetary Fund  
Washington, D.C.**

# Rules and Regulations for the Investment Account

## I. GENERAL PROVISIONS

### Objective of the Investment Account

1. The objective of the Investment Account (IA) is to provide a vehicle for the investment of a part of the Fund's assets so as to generate income that may be used to meet the expenses of conducting the business of the Fund. Achieving this objective would help diversify the sources and increase the level of the Fund's income, thereby strengthening its finances over time.

### Sources of Investment Account Assets

2. The IA may be funded with: (a) currencies transferred from the General Resources Account (GRA) in accordance with Article XII, Section 6(f)(ii) of the Articles; (b) the placement of profits from the sale of pre-Second Amendment gold in accordance with Article V, Section 12(g) of the Articles, in amounts up to the total amount of the Fund's general and special reserves at the time of any decision authorizing such transfers; (c) the transfer of profits from the sale of post-Second Amendment gold in accordance with Article V, Section 12(k) of the Articles; and (d) income from the IA investment that is not transferred to the General Resources Account to meet the expenses of the Fund (Article XII, Section 6(f)(iv)).

### Investment Account Subaccounts

3. The IA shall have a Fixed-Income Subaccount and an Endowment Subaccount, each of which has its own investment objective and shall be managed in accordance with Sections I and II, and I and III, respectively, of these Rules and Regulations (Rules).

4. Transfers of assets between subaccounts may be made with the approval of the Executive Board.

### Responsibilities of the Managing Director

5. The Managing Director is responsible for implementing the investment policies for the IA set out in these Rules.

6. In carrying out the Managing Director's responsibilities, the Managing Director shall (a) establish effective decision-making and oversight arrangements; (b) take the necessary measures, including the adoption of policies and procedures, that seek to avoid actual or perceived conflicts of interest; and (c) establish specific risk control measures and put in place mechanisms to monitor their observance by asset managers.

7. The Managing Director shall consult with the Executive Board regarding (a) the key conflict-of-interest policies and arrangements in the Managing Director's responsibility referred to in paragraph 6, and (b) the key aspects of the investment strategy for the actively managed portion of the Endowment Subaccount referred to in paragraph 29 of these Rules.

8. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the IA. Ad hoc reports shall be prepared as warranted by market or other developments.

### **External Managers**

9. All assets of the IA shall be managed by external managers, except as otherwise set forth in these Rules. The Managing Director shall only select external managers of the highest professional standards, in particular excellent compliance records, strong market reputation, and with sound investment processes.

### **Custody Arrangements**

10. The assets of the IA shall be held in safekeeping by one or more custodian banks or the Bank for International Settlements (BIS). The custodian(s) shall hold the assets of the IA in safekeeping, periodically value the assets held, and hold and invest short-term residual cash balances.

### **Use of Investment Account Income**

11. The income from investment shall be invested, retained in the IA or used to meet the expenses of conducting the business of the Fund. The Fund shall decide on the use of the IA's income for each financial year, including whether any portion of such income will be transferred to the GRA for use in meeting the expenses of conducting the business of the Fund, provided that income generated from the Endowment Subaccount shall not be used in meeting the expenses of conducting the business of the Fund pending the completion of the phasing period for the passively-managed portion of the Endowment Subaccount specified in paragraph 37.

### **Termination or Reduction of the Investment Account**

12. The IA shall be terminated in the event of a liquidation of the Fund and may be terminated, or the amount of the investment may be reduced, prior to the liquidation of the Fund, by a 70 percent majority of the total voting power. The procedures specified in Article XII, Sections 6(f)(vii), (viii) and (ix) of the Articles will apply in the event of the termination of the IA or a reduction in its assets. The Fund's decision to reduce investments in the IA shall specify the subaccount from which assets shall be used to fund a reduction in investments.

### **Audit**

13. The assets of the IA shall be audited by the Fund's external auditors and included in the Fund's annual financial statements.

### **Review of the Rules and Conflict of Interest Policies**

14. The Executive Board shall review these Rules and the Fund's relevant conflict of interest policies by January 2018, and at least every five years thereafter.

## II. FIXED-INCOME SUBACCOUNT

### Investment Objective

15. With a view of generating income while protecting the Fund's balance sheet, the investment objective of the Fixed-Income Subaccount is to achieve investment returns in SDR terms that exceed the 3-month SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years.

### Asset Allocation and Tranches

16. (a) The Fixed-Income Subaccount shall consist of two tranches, a shorter-duration Tranche 1 and a longer-duration Tranche 2.

(b) Tranche 1 assets shall be managed actively against a 0–3 year government bond benchmark index, weighted to reflect the currency composition of the SDR basket. The Managing Director shall establish in the investment management agreements the permitted degree of active management against the benchmark. Eligible asset classes for Tranche 1 are Group 1 and Group 2 asset classes as defined in paragraph 17 below.

(c) Tranche 2 assets shall be managed according to a buy-and-hold investment approach against a 0–5 year government bond benchmark index, weighted to reflect the currency composition of the SDR basket, subject to subparagraph (e) below. Eligible asset classes for Tranche 2 are Group 1 assets as defined in paragraph 17 below.

(d) The allocation of assets to Tranche 1 and Tranche 2 shall be as follows:

(i) Fixed-Income Subaccount assets managed by external managers as of August 31, 2015 shall be placed to Tranche 1, while Medium-Term Instruments (MTI) issued by the BIS and held by the Fixed-Income Subaccount on that date shall be placed to Tranche 2.

(ii) Asset transfers between Tranche 1 and Tranche 2, and the allocation to Tranche 1 and Tranche 2 of future inflows to, outflows from, the Fixed-Income Subaccount shall be determined by the Managing Director, provided that any transfers from the GRA to the Fixed-Income Subaccount attributed to net income for Financial Years 2014 and 2015 shall be placed to Tranches 1 and 2 in the same proportion as the assets in the account on August 31, 2015.

(e) The assets in Tranche 2 shall be phased over a five-year period, with the specific modalities of the phasing to be determined by the Managing Director. The phasing may be suspended or extended up to one year in case of exceptional market conditions.

### Eligible Investments

17. (a) "Group 1 asset classes" shall be limited to:

- i. fixed-income securities issued by national governments of members or their central banks;

- ii. fixed-income securities issued by national agencies of the members whose currencies are in the SDR basket, provided that such securities are included in, or are securities of the same general type issued by the same issuer that are included in, fixed-income national agencies benchmark indices selected by the Managing Director;
- iii. fixed-income securities issued by international financial institutions; and
- iv. obligations issued by the BIS, including without limitation deposits with the BIS and MTIs;

all of which shall be denominated in SDR or the currencies included in the SDR basket.

(b) Group 2 asset classes shall be limited to:

- i. fixed-income securities issued by national governments of members or their central banks denominated in non-SDR currencies selected by the Managing Director or, upon the authorization by the Managing Director, by external managers, provided that any currency selection shall be based on ex ante criteria determined by the Managing Director;
- ii. fixed-income securities denominated in SDR or the currencies included in the SDR basket, comprising: (A) securities issued by subnational governments; (B) mortgage-backed and other asset-backed securities; (C) covered bonds; and (D) short-dated unsecured corporate bonds; provided that such securities are included in, or are securities of the same general type of the same issuers that are included in, fixed-income benchmark indices selected by the Managing Director; and
- iii. cash instruments with maturities of one year or less, that are denominated in SDR or the currencies included in the SDR basket, including: (A) time deposits; (B) certificates of deposit; (C) commercial paper; and (D) reverse repurchase agreements collateralized with fixed-income securities that are issued by national governments of members or their central banks and denominated in SDR or the currencies included in the SDR basket.

18. Up to the maximum 35 percent of the total value of the Fixed-Income Subaccount assets may be invested in Group 2 asset classes, and the breach of this limit shall require prompt action to bring the Fixed-Income Subaccount back within the established limit.

19. In addition to investing in Groups 1 and 2 asset classes, the Fixed-Income Subaccount may temporarily hold uninvested cash balances, including in the custodian bank(s)' short-term instruments.

20. The Fixed-Income Subaccount may not hold any ineligible investment, and any eligible investment that becomes ineligible shall be divested within three months.

### **Minimum Credit Rating**

21. Assets in which the Fixed-Income Subaccount invests, except MTIs, deposits with the BIS and other obligations issued by the BIS, or uninvested cash balances, shall be subject to a minimum credit rating by at least one of the major credit-rating agencies equivalent to A (based on Standard & Poor's long-term rating scale). If the rating threshold is breached, assets shall be divested within three months from the rating downgrade. The Managing Director may establish higher credit ratings for eligible individual asset classes. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice. The Managing Director may also establish higher credit ratings for eligible individual asset classes.

### **Investment Management Arrangements**

22. The assets of the Fixed-Income Subaccount shall be managed by external managers within mandates established by the Managing Director, provided that assets may also be invested by the Managing Director in obligations issued by the BIS, in accordance with these Rules. In addition to the requirements under paragraph 9 of these Rules, in selecting managers for the Fixed-Income Subaccount's actively managed assets, the Managing Director shall take into account their proven skills and track record in generating excess returns after fees. The Managing Director is authorized to manage Fixed-Income Subaccount assets on an interim basis where this is necessary following the termination of a manager and pending the transfer of the assets to a new manager.

### **Prohibited Investment Activities**

23. Short selling and any form of financial leverage are not permitted for the Fixed-Income Subaccount. Hedging and derivative instruments, including options, forwards, futures and swaps, are only allowed for operations authorized under these Rules.

### **Currency Hedging and Derivatives**

24. The exchange rate risk for eligible investments denominated in non-SDR currencies shall be hedged back into SDR basket currencies with the objective to preserve the Fixed-Income Subaccount's SDR basket composition. Currency hedging may be used for SDR basket replication or for achieving overall currency exposure in line with SDR basket.

25. Currency and interest rate derivatives may be used for managing interest rate and currency risks, or reducing costs in the context of portfolio duration adjustments and portfolio balancing.

## **III. ENDOWMENT SUBACCOUNT**

### **Investment Objective**

26. The investment objective of the Endowment Subaccount is to achieve a long-term real return target of 3 percent in U.S. dollar terms. This is consistent with the objective of generating investment returns to contribute to the Fund's income, while preserving the long-term real value of these resources. The subaccount's real return shall be calculated by using the deflator that is used for

purposes of the Fund's administrative budget, the Global External Deflator (GED), provided that the U.S. consumer price index (US CPI) component of the GED shall be adjusted to use the actual US CPI instead of the projected US CPI.

### **Strategic Asset Allocation and Investment Strategy**

27. No less than 90 percent of the Endowment Subaccount assets shall be managed passively (the "passively managed portion") under mandates that require the external managers to closely track benchmark indices selected by the Managing Director, with up to 10 percent of the Endowment Subaccount assets managed actively in accordance with paragraph 29 below (the "actively managed portion").

28. The passively managed portion shall be invested pursuant to the following strategic asset allocation (SAA) benchmark: 20 percent in developed market sovereign bonds; 20 percent in developed market inflation-linked bonds; 15 percent in developed market corporate bonds; 10 percent in emerging market bonds; 25 percent in developed market equities; 5 percent in emerging market equities; and 5 percent in real estate investment trusts (REITs).

29. The actively managed portion may be invested only in the same asset classes as the SAA benchmark for the passively managed portion, with a 65 percent share of fixed-income instruments and a 35 percent share for equities (including REITs) and a permitted maximum deviation of  $\pm 15$  percentage points for each category, but no specific allocation requirements for each asset class within these two categories. The Managing Director, in consultation with the Executive Board, shall determine the investment strategy and investment arrangements for the actively managed portion of the Endowment Subaccount, including the selection criteria and risk parameters for external managers, benchmark indices, the scope and instruments for currency hedging, the phasing of the actively managed portion of the Endowment Subaccount, policy bands and rebalancing procedures, and additional key measures to avoid actual or perceived conflicts of interest.

30. The asset allocation benchmarks for both the passively and actively managed portions above shall not apply to temporary holdings of cash, bank deposits or short-term investments in cash instruments.

### **Rebalancing of the Passively Managed Portion**

31. The passively managed portion of the Endowment Subaccount shall be rebalanced to the SAA benchmark (a) annually, either in the context of implementing the Fund's annual income disposition decisions or, absent such disposition decisions affecting the Endowment Subaccount, at end-July of each year, and (b) when the actual weight of any of the asset classes of developed-market sovereign bonds, developed-market corporate bonds, developed-market inflation-linked bonds or developed-market equities deviates by more than 8 percentage points from the SAA benchmark, or by more than 4 percentage points for any of the asset classes of emerging market bonds, emerging market equities, and REITs. A scheduled annual rebalancing under (a) shall not take place (i) if a rebalancing under (b) is completed within three months prior to that scheduled annual rebalancing, or (ii) during the phasing of initial investments set out in paragraph 37 of these Rules, provided that during this period each manager shall rebalance the portfolio under its management to the SAA benchmark at the time of each funding inflow.

### **Prohibited Investment Activities**

32. Short selling and any form of financial leverage as well as direct investments in gold are not permitted for the Endowment Subaccount. Derivative instruments, including options, forwards, futures, and swaps, are allowed for the passively managed portion of the Endowment Subaccount only for hedging operations authorized under these Rules or to minimize transaction costs in the context of subaccount rebalancing and benchmark replication. For the actively managed portion of the Endowment Subaccount, derivatives may be used as determined by the Managing Director subject to adequate risk control parameters.

### **Currency Hedging**

33. The exchange rate risk for fixed-income instruments denominated in developed market currencies *vis-à-vis* the U.S. dollar shall be hedged for the passively managed portion of the Endowment Subaccount. Permitted hedging instruments include, but are not limited to, currency forwards, futures, swaps, and options. Currency hedging is not permitted for other assets of the passively managed portion of the Endowment Subaccount. Hedging by external managers of the actively managed portion of the subaccount is permitted, but not required, as determined by the Managing Director in accordance with paragraph 29 above.

### **Minimum Credit Ratings for Bonds and Divestment**

34. The Endowment Subaccount shall only invest in bonds that have the following minimum credit ratings by a major credit rating agency: for sovereign bonds, a rating equivalent to BBB+ (based on Standard & Poor's rating scale); and, for corporate bonds, a rating equivalent to BBB- (based on Standard & Poor's rating scale). If the respective rating threshold is breached, assets shall be divested within three months from the rating downgrade. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice. The Managing Director may also establish higher credit ratings for eligible individual asset classes.

### **Investment Management Arrangements**

35. The assets of the Endowment Subaccount shall be managed by external managers within mandates established by the Managing Director in accordance with these Rules. The Managing Director is authorized to manage Endowment Subaccount assets (a) during the phasing of the Endowment Subaccount in accordance with paragraph 37 of these, and (b) on an interim basis where this is necessary following the termination of a manager and pending the transfer of the assets to a new manager.

36. In addition to the requirement under paragraph 9 of these Rules, in selecting managers for passively-managed assets, the Managing Director shall take into account their ability to replicate selected benchmarks with minimal tracking error and cost, and in selecting managers for actively-managed assets, their proven skills and track record in generating excess returns after fees.



**Phasing of Initial Investments**

37. The investment of the passively managed portion of the Endowment Subaccount shall be phased over a three-year period, with equal amounts to be made available to external managers for investment at quarterly intervals. In case of exceptional market conditions, the Managing Director may decide to suspend the phasing or extend this period by up to one year, and to adjust the quarterly installments accordingly. With respect to the actively managed portion, the phasing of investments shall be decided in the context of the investment strategy in accordance with paragraph 29 of these Rules. Pending investment in accordance with the Rules for the passively and actively managed portions of the Endowment Subaccount, the assets of the Endowment Subaccount shall be invested in obligations issued by the BIS with the investment objective to preserve nominal capital while generating income.