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United States Government Accountability Office
Washington, DC 20548

July 26, 2012

The Honorable Richard G. Lugar
Ranking Member
Committee on Foreign Relations
United States Senate

Dear Senator Lugar:

Subject: IMF: Planning for Use of Gold Sales Profits Under Way, but No Decision Made for Using a Portion of the Profits

The International Monetary Fund (IMF) has historically financed its operating costs with income earned from the interest that member governments pay to borrow its funds.¹ However, a rapid reduction in IMF lending in the mid-2000s significantly decreased the IMF's income. In response, in 2008 the IMF Executive Board (Board) endorsed a new income model that moved away from relying primarily on lending income to generate revenue and, among other things, called for the IMF to sell 403.3 metric tons of gold to help finance its operations.² In 2009, the Board approved a plan to use projected gold sales profits of roughly \$8 billion for two purposes: (1) to create an approximately \$7 billion endowment for operations that would generate investment income to partially finance IMF operations and (2) to provide about \$1 billion to subsidize concessional, or below-market rate, lending to low-income countries through the Poverty Reduction and Growth Trust (PRG Trust). The IMF concluded the gold sales in 2010 and earned \$10.8 billion in profits from the sales, including unanticipated additional windfall profits of about \$2.8 billion.³ In addition, since 2009, the IMF's income position has greatly improved due to increased income earned from dramatically higher new lending during the global economic crisis.

¹In 1945, governments established the IMF with the main purpose of providing the international financial system with stability. The IMF monitors the world economy, provides policy advice and financing to members experiencing economic difficulties, and conducts economic research and analysis, among other activities.

²The Board only permitted the IMF to sell the gold it obtained after the Second Amendment to the IMF's Articles of Agreement in 1978. The Second Amendment changed the role of gold in the international monetary system and in the IMF.

³We are reporting gold sales profits in U.S. dollars as published by the IMF in September 2011 (*IMF Executive Board Considers Use of Windfall Gold Sale Profits*, Public Information Notice No. 11/121, Sept. 16, 2011). We refer to original projected profits as the amount the IMF earned from the gold sales to fund the endowment for operations, windfall profits as the amount the IMF earned from the gold sales to fund the PRG Trust (for which a use was agreed upon before the sales), and additional windfall profits as the amount the IMF earned from the gold sales in excess of the funds needed for the endowment for operations and PRG Trust (for which a use was not agreed upon before the sales).

In June 2009, Congress authorized the Secretary of the Treasury to instruct the U.S. Executive Director to the IMF to vote in favor of the gold sales and to seek to ensure that the IMF provide additional resources for lending to low-income countries.⁴ Responding to your interest in the IMF's gold sales, we examined (1) the status of the IMF's plan for using profits from the gold sales, and (2) the IMF's proposed options for using the additional windfall profits from the sales.

To address these objectives we reviewed relevant U.S. laws; Department of the Treasury (Treasury) documents; and IMF documents, including the IMF Articles of Agreement, Board decisions, policy papers, financial statements, annual reports, and public information notices. We report IMF financial, PRG Trust lending, and gold sales proceeds and profits data. As needed, we converted IMF special drawing rights (SDRs) to U.S. dollars for reporting purposes.⁵ We also interviewed officials from the Treasury and the U.S. Executive Director's Office to the IMF as well as IMF staff. We determined that the data and information used are sufficiently reliable for the purposes of this report.

We conducted this performance audit from December 2011 to July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The IMF is proceeding with its plan for creating an endowment for operations and increasing its resources for low-income country lending using the approximately \$8 billion in gold sales profits it had projected earning from the 2009–2010 sales. First, the IMF is working to establish the approximately \$7 billion endowment to partially fund IMF operations. The Board is expected to finalize the endowment's investment strategy and governance structure in calendar year 2012 with implementation in financial year 2013,⁶ according to IMF documents and staff.⁷ IMF and U.S. Treasury officials said the Board understood that it would require some time to take the needed actions, including adopting new rules and regulations, to create the endowment for operations. The Board is discussing various aspects of the endowment's investment strategy, such as acceptable risk levels, and governance structure, such as using external managers to help avoid potential conflicts of interests. Second, the Board approved a strategy for the use of about \$1 billion in gold sales profits to subsidize concessional lending to low-income countries through the PRG Trust. Implementation of the Board decision depends on the IMF receiving sufficient assurances from member countries. Before the decision will go into effect, members representing at least 90 percent of the \$1 billion distribution intended for the PRG Trust must first indicate that amounts equivalent to their share of the distribution should be transferred by

⁴Supplemental Appropriations Act, 2009, Pub. L. No. 111-32, June 24, 2009, Sec. 1402 amending the Bretton Woods Agreement Act by adding Sec. 66 (22 U.S.C. § 286rr).

⁵The SDR is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on four key international currencies—euro, Japanese yen, United Kingdom pound sterling, and U.S. dollar—and SDRs can be exchanged for freely usable currencies. On April 12, 2012, 1 SDR equaled approximately \$1.54.

⁶The IMF's financial year 2013 starts on May 1, 2012 and ends on April 30, 2013.

⁷According to IMF staff, the Board met in June 2012 to discuss implementation of the endowment for operations. The Board plans additional discussions on the endowment in October 2012.

the IMF, or will otherwise be provided to the PRG Trust. As of July 9, 2012, the United States and 105 other countries, representing about 79 percent of the proposed distribution, have indicated that they would support subsidizing lending to low-income countries. The IMF is investing the gold sales profits in short-term official deposits pending implementation of the endowment for operations and funding of the PRG Trust. Returns earned on this investment are in the IMF Investment Account.⁸

The IMF Board is considering three main options for using the approximately \$2.8 billion in additional windfall profits from the gold sales but has not decided which option to pursue. The options under consideration are to increase the (1) endowment for operations; (2) PRG Trust resources; or (3) existing precautionary balances.⁹ According to IMF documents, each option has advantages and disadvantages. The first option of using the additional windfall profits to increase the size of the endowment for operations would create a larger income source for IMF operations, but the IMF indicates that placing funds in the endowment for operations is permanent and precludes using funds for other purposes absent any future Board decision. According to the IMF, the second option of using the additional windfall profits for the PRG Trust could help close the projected funding gap in the trust beyond 2014, thus reducing the amount of bilateral contributions needed from IMF members in the short term and providing funds the IMF can use to support lending to low-income countries. However, a difficulty with this option is that it would require securing sufficient assurances from member countries, including the United States, that resources of this amount would be made available to the PRG Trust. If the Board selects this option, the IMF would request the United States to direct the amount attributable to the U.S. share of the windfall profits, almost \$500 million, to the PRG Trust in accordance with the decision. The third option of counting the additional windfall profits toward precautionary balances requires no distribution to members and would help increase the IMF's reserve coverage given its sharply higher lending since the global financial crisis. However, IMF documents indicate that this option does not provide funds to assist low-income countries, though it does not preclude using these funds for other purposes later with Board approval. According to IMF staff, the Board might not discuss the use of the additional windfall profits until late 2012. Until the Board makes a decision, the additional windfall profits remain invested in short-term official deposits where interest gained accrues to the Investment Account.

We are not making any recommendations in this report.

Background

The IMF is governed by a Board of Governors, an Executive Board, and a Managing Director. The Board of Governors, the highest policy-making authority of the IMF, consists of one governor and one alternate governor for each member country. Each member country appoints a governor who is usually the minister of finance or the governor of the central bank. The Board of Governors maintains all IMF powers not granted directly to the Executive Board or Managing Director. Governments appoint the 24-member Executive Board, which provides the day-to-day

⁸The IMF's Articles of Agreement authorize the establishment of an Investment Account whose income may be used to meet the expenses of conducting IMF business. Since the IMF established the Investment Account in June 2006, the Board has adopted annual decisions to transfer income from the Investment Account's non-gold sales profits portfolio to the IMF's General Resources Account to help meet the IMF's administrative expenses.

⁹Precautionary balances are one element of the IMF's multi-layered framework for managing its own financial risks. These balances are available to absorb possible financial losses, thereby helping protect the value of reserve assets that members place with the IMF, through which the IMF provides assistance to members with financing needs.

authority for IMF operational policy and lending, among other matters. The IMF assigned each of its 188 member countries a quota, based broadly on its relative size in the world economy, which determines its contribution to the IMF's ordinary resources.¹⁰ The five largest shareholders—the United States, Japan, Germany, France, and the United Kingdom—each appoints its own Executive Director to the Board, while groups of countries elect most of the remaining members.¹¹ The Board selects the Managing Director of the IMF, who serves as its chairman and chief executive officer.

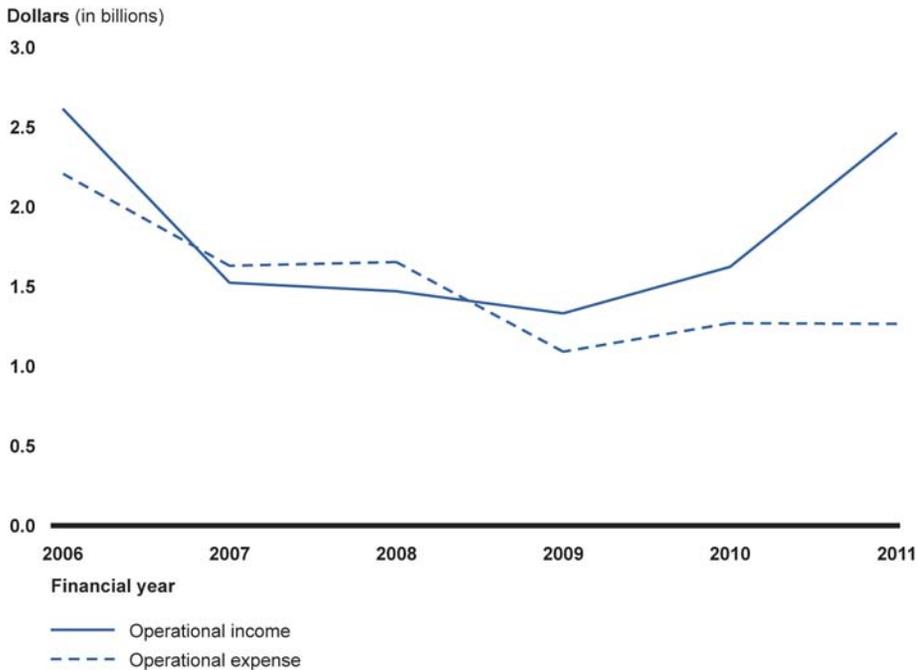
The United States is the largest financial contributor to the IMF, providing 17.69 percent of total IMF resources as of May 21, 2012. As the largest contributor, the United States has the largest voting share, 16.75 percent, providing the U.S. government with veto power over major decisions. At the IMF, a Board decision to sell gold requires approval by an 85 percent majority of the total voting power. Because the United States has more than 15 percent of the voting share, U.S. government support is necessary to approve any gold sales.

To finance its operations, the IMF has relied primarily on income from its lending to member countries. This lending income represents the difference between the rate the IMF charges when it lends and the rate the IMF pays countries for use of their quota resources, or for use of borrowed resources, where applicable, to finance the loan. In the mid-2000s the IMF reported that, given decreasing demand for IMF loans, lending income would not be sufficient to fund IMF operations. However, since that time, the global economic crisis has led to a sharp increase in IMF lending and income resources (see fig. 1).

¹⁰The IMF's ordinary resources are assets held in the General Resources Account that primarily derive from members' quota payments.

¹¹The IMF Executive Board is reviewing a proposed amendment that would facilitate a move to a more representative, all elected Board. Press Release No. 11/486 (Dec. 22, 2011).

Figure 1: IMF Operational Income and Expenses, Financial Years 2006-2011



Source: GAO analysis of IMF documents.

Note: Operational income includes interest and charges, interest on SDR holdings, net income from investments, service charges, and commitment fees. Operational expense includes remuneration, interest expense on borrowing, and administrative expenses, including salaries. We used IMF financial year average U.S. dollar to SDR exchange rates to convert original SDR amounts into U.S. dollars.

In May 2006, the IMF Managing Director established the Committee of Eminent Persons to Study Sustainable Long-term Financing of IMF Running Costs to examine income-generating options, other than lending income, for the IMF and recommend new income models that could generate long-term financing for the IMF's operations. The committee published its report in January 2007, and the Board reached agreement on a new income model for the IMF on April 7, 2008.¹² The new income model includes three core elements:

- Expand the IMF's investment authority to enhance the return on its investments and enable it to adapt its investment strategy over time.
- Create an endowment for operations from the profits of selling a limited portion of the IMF's gold.
- Resume the practice of recovering the costs incurred by the IMF in administering the trust fund for concessional lending to low-income countries, beginning from the financial year in which the IMF adopts a decision authorizing gold sales.

The committee report on the new income model projected that investing the proceeds from the gold sales would provide the IMF with about \$200 million per year, assuming a real rate of return of 3 percent.

¹²Committee to Study Sustainable Long-term Financing of the IMF Final Report (Jan. 31, 2007). IMF Survey, Board Backs Plan to Adopt New Income Model for IMF (Apr. 7, 2008).

To deal with its decreased income, the IMF also restructured its budget over three financial years from 2009 through 2011. In addition, it cut 380 staff positions and other non-personnel spending resulting in a reduction of annual administrative spending by \$100 million in real terms, about 10 percent of total budget expenses.¹³

To create the endowment for operations agreed to in the new income model, between 2009 and 2010, the IMF sold all 403.3 metric tons of gold acquired after the Second Amendment to the IMF's Articles of Agreement in April 1978.¹⁴ All gold acquired after 1978 came from borrowing members who repaid the IMF in gold.¹⁵

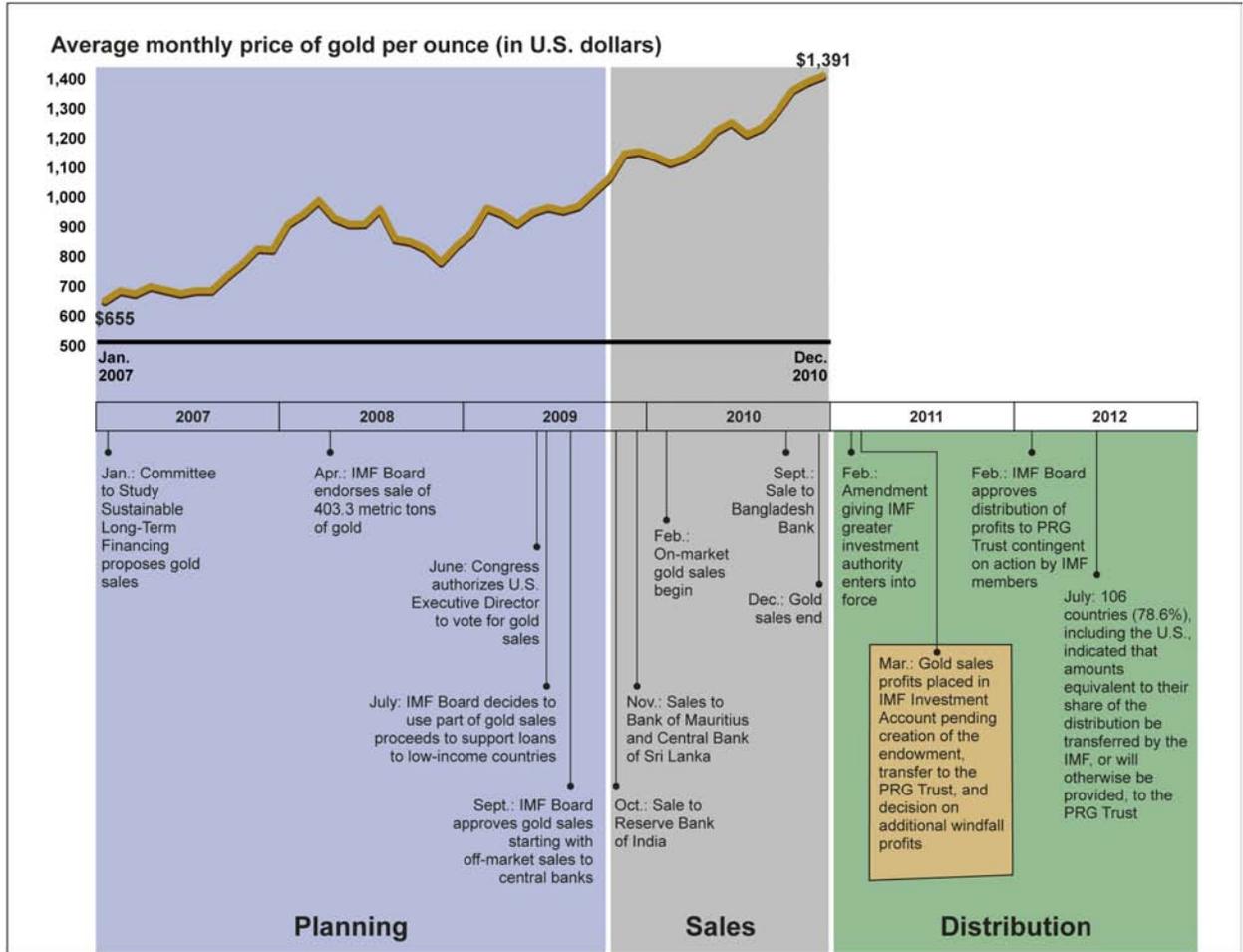
The IMF began the gold sales in October 2009 with off-market sales to central banks. Four central banks purchased a total of 222 metric tons of gold: India (200 metric tons), Mauritius (2 metric tons), Sri Lanka (10 metric tons), and Bangladesh (10 metric tons). The IMF began on-market gold sales in February 2010 and concluded them in December 2010 resulting in the sale of 181.3 metric tons of gold. Figure 2 shows the key events related to the IMF gold sales and the average monthly price of gold during the planning for the gold sales and the actual sales.

¹³Treasury's 2010 report in response to section 1701 of the International Financial Institutions Act, as amended by the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999. Pub. L. No. 105-277, Div. A § 101(d) Title V, § 583.
http://www.treasury.gov/resource-center/international/development-banks/Documents/2011%2006%2010%201815%20NAC%20report_final.pdf.

¹⁴The Board only permitted the IMF to sell the gold it obtained after the Second Amendment to the IMF's Articles of Agreement. Following the Second Amendment, the Articles of Agreement limit the use of gold in the IMF's operations and transactions. The IMF may sell gold at market prices, and may accept gold from member countries for loan repayment. Following the sale of the 403.3 metric tons of post-Second Amendment gold, the IMF holds 2,814.1 metric tons of gold, making it the third largest official holder of gold.

¹⁵Most of this gold came from the IMF's 1999 and 2000 off-market gold transactions with Mexico and Brazil. In these transactions the IMF sold gold to Mexico and Brazil at the market price and placed the profits in a special account invested to fund debt relief under the Heavily Indebted Poor Countries Initiative. The IMF then accepted the gold back, at the same market price, in settlement of Mexico and Brazil's financial obligations. Cambodia also paid its overdue obligations to the IMF in gold in 1992.

Figure 2: Timeline of Key IMF Gold Sales Events



Source: GAO analysis of IMF documents and International Financial Statistics data.

The IMF earned proceeds of \$15 billion, of which \$10.8 billion represented the profits from the gold sales and \$4.2 billion the pre-existing book value of the gold which was converted from a non-liquid to a liquid asset.¹⁶ The Board originally projected earning approximately \$7 billion in profits from the gold sales, based on an average sale price of \$850 per ounce of gold, all of which would be used to fund the endowment for operations.

In April 2009, the Group of 20 (G-20) member countries suggested that some gold sales profits could be used as part of a strategy to increase the IMF's capacity to provide concessional loans to low-income countries. In response to the increase in the prices of food and fuel, as well as the global financial crisis,¹⁷ the IMF also restructured its lending instruments for low-income countries which are financed by the PRG Trust. Uncommitted PRG Trust loan resources,

¹⁶The book value is the value of the gold on the IMF's balance sheets.

¹⁷GAO, *International Financial Institutions Met Many Goals in Response to Financial, Food, and Fuel Crises, but Impact on Spending Difficult to Establish*, [GAO-11-832](#) (Washington, D.C.: Sept. 28, 2011).

including recently secured pledges from bilateral lenders, amounted to \$11.4 billion at the end of February 2012.¹⁸

In July 2009, the Board agreed to a new financing package for low-income countries in order to meet the IMF's projected demand for concessional lending through 2014.¹⁹ The package included plans to generate subsidy resources for the PRG Trust by using resources linked to gold sales windfall profits resulting from an average price greater than the \$850 per ounce originally projected for the endowment for operations. IMF documents estimated that a gold sale price of \$935 per ounce would generate sufficient profits to both fund the \$7 billion for the endowment for operations and provide up to \$1 billion for the PRG Trust.²⁰ Under the low-income country financing package agreed to by the Board, gold sales profits would help generate approximately \$770-920 million (in end-2008 net present value terms) of additional PRG Trust subsidy resources.²¹ However, gold sale prices increased even more than the \$935 per ounce projection to fund the endowment for operations and low-income country financing package. As a result, the IMF earned an additional windfall of \$2.8 billion in extra profits beyond the originally projected \$8 billion (see table 1). The Board is currently considering three main options for these additional windfall profits.

Table 1: Total IMF Gold Sales: Components, Amount Earned, and Intended Use

Component of sales proceeds	Amount earned	Use
Original projected profits	\$7 billion	Endowment for operations
Windfall profits	\$1 billion	PRG Trust
Subtotal profits	\$8 billion	
Additional windfall profits	\$2.8 billion	To be determined
Total profits	\$10.8 billion	
Book value	\$4.2 billion	Held as currency in the General Resources Account
Total proceeds	\$15 billion	

Source: GAO analysis of IMF data.

Figure 3 shows the overall process for selling the 403.3 metric tons of gold, the total proceeds and profits earned from the sales, and the IMF's plans for using the profits from the sales.

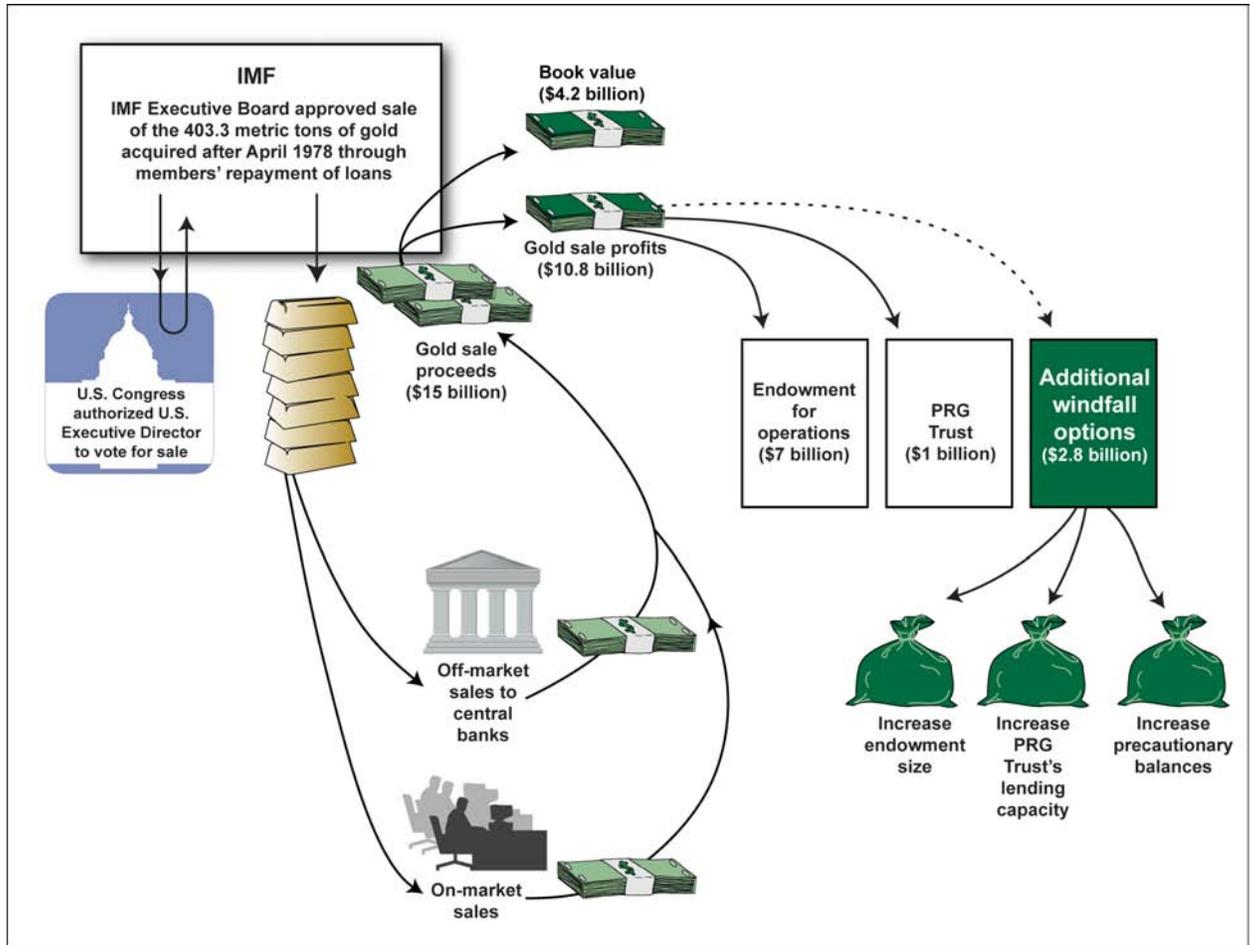
¹⁸As of January 2012, 71 member countries are eligible for PRG Trust lending. Eligibility to borrow from the PRG Trust is generally based on two criteria: (1) a country has an annual per capita gross national income below the World Bank/International Development Association's operational cutoff (which was \$1,175 for financial year 2012) and (2) a country lacks the capacity to access international financial markets on a durable and substantial basis.

¹⁹IMF Announces Unprecedented Increase in Financial Support to Low-Income Countries, Press Release No. 09/268 (July 29, 2009).

²⁰IMF, *Use of Gold Sale Profits – Initial Considerations and Options* (Mar. 16, 2011). IMF, *Use of Windfall Gold Sale Profits – Further Considerations* (Aug. 4, 2011).

²¹The total financing package is intended to raise \$2.3 billion to subsidize the PRG Trust's low-interest concessional lending with the balance coming from other sources, including \$310-620 million (in end-2008 net present value terms) in bilateral contributions from member countries. The remainder of the PRG Trust subsidy resources in the financing package will come from (1) a transfer of resources from the PRG Trust Reserve Account (up to \$950 million in end-2008 net present value terms) and (2) delaying reimbursement to the General Resources Account for the costs of administering the PRG Trust for financial years 2010 through 2012 of approximately \$230-310 million (in end-2008 net present value terms).

Figure 3: The IMF's 2009 and 2010 Gold Sales Process and Outcome



Board-approved plan
 Board has not approved a plan

Source: GAO analysis of IMF data; Nova Development (clip art).

Note: In addition to the three main additional windfall options illustrated, the Board has considered other options.

The IMF Is Proceeding with Its Endowment for Operations and Its Low-Income Countries Lending Plan

The IMF is working to establish the endowment for operations. The Board is expected to finalize the investment strategy and governance structure for the approximately \$7 billion endowment for operations in calendar year 2012 with implementation in financial year 2013, according to IMF documents and staff. IMF and U.S. Treasury officials said that the Board understood when it endorsed the gold sales in 2008 that it would take the IMF time to implement the steps required for creating the endowment for operations. Those steps included completing the gold sales, which took over a year, and amending the Articles of Agreement to expand the IMF's investment authority. In February 2011, IMF members accepted the investment authority amendment. According to the IMF, this amendment enables the Board to determine the investment strategy for the Investment Account and provides flexibility for the IMF to broaden its range of investments in order to enhance the average expected return on those investments. This amendment also provided for the transfer of the gold sales profits from the IMF's General Resources Account to the Investment Account.

According to IMF officials, the Board has discussed the endowment's investment strategy over the past year. The committee report's assumption that the endowment would yield a 3 percent rate of return on its investments over the long term is still guiding the Board's consideration of the potential types of investments for the endowment. The IMF reported that Board members agreed to develop investment policies that will take into account a number of factors, including the IMF's mandate to promote international financial stability, investment objectives, income needs, assessment of acceptable risk levels, and investment practices of other public institutions.²² The Board's discussion of the endowment's investment strategy has ranged from a portfolio based on the current Investment Account's conservative asset allocation to one that is fully diversified with a broader range of asset classes, according to U.S. Treasury officials. The U.S. Treasury prefers a relatively conservative approach in order to protect the principal.

IMF officials said that the Board is discussing the governance structure for the endowment for operations, which will depend, in part, on Board decisions regarding the investment strategy. The IMF reported that Board members agreed to create a governance structure in which the Board plays a central role in determining and monitoring implementation of investment policies.²³ U.S. Treasury officials said that the governance structure should include a strong internal controls framework, and they are examining best practices used by other endowments, international financial institutions, and asset management firms. According to IMF officials, the IMF hired an external legal firm in 2008 to review potential conflict of interest issues and identify mitigation strategies, such as pursuing an investment strategy where the manager does not actively trade investments and hiring an external manager to oversee the endowment for operations. IMF staff said that they have recently re-engaged with this legal firm to discuss the investment options now under consideration. Any new rules and regulations for the endowment for operations will require a 70 percent majority vote from Board members.²⁴

The IMF Executive Board Has Approved Distribution of Profits for Low-Income Countries Lending

In February 2012, as part of the financing package for low-income countries,²⁵ the Board approved the distribution of about \$1 billion in IMF reserves attributable to gold sales windfall profits to help subsidize concessional lending to low-income countries through the PRG Trust.²⁶ However, the timeframe for the actual transfer is uncertain because it depends on additional action by IMF members.

²²IMF, *Report of the Managing Director to the International Monetary and Financial Committee on a New Income and Expenditure Framework for the International Monetary Fund* (Apr. 9, 2008).

²³IMF, *Report of the Managing Director to the International Monetary and Financial Committee on a New Income and Expenditure Framework for the International Monetary Fund* (Apr. 9, 2008).

²⁴The amendment expanding the IMF's investment authority, approved by members in February 2011, states that the IMF may use a member's currency held in the Investment Account for investment as it may determine, in accordance with rules and regulations adopted by a 70 percent majority of the total voting power.

²⁵The IMF's financing package for low-income countries also called for additional bilateral subsidy contributions. As of the end of 2011, 25 countries had pledged about \$311 million in bilateral subsidy contributions for the PRG Trust. These countries include: Algeria, Argentina, Australia, Austria, Botswana, Canada, China, Denmark, Italy, Japan, South Korea, Kuwait, Malta, Morocco, Netherlands, Peru, Philippines, Qatar, South Africa, Spain, Sweden, Switzerland, Trinidad and Tobago, United Kingdom, and Uruguay.

²⁶IMF Executive Board Approves Distribution of US\$1.1 Billion Gold Sales Profits to Facilitate Contributions to Support Concessional Lending to Low-Income Countries, Press Release No. 12/56 (Feb. 24, 2012).

To move the windfall profits into the PRG Trust, the IMF plans to use an indirect transfer mechanism because windfall profits are part of the IMF's general resources and therefore are available for the benefit of all IMF members.²⁷ The PRG Trust resources, however, are only available for the benefit of low-income countries. The indirect mechanism requires the IMF to distribute the approximately \$1 billion in windfall profits to all IMF members in proportion to their quota shares after first obtaining assurances from members representing at least 90 percent of the \$1 billion that they will direct a corresponding amount to the PRG Trust.

IMF members have three main options for the use of the amount equivalent to their shares of the distribution. Members can request that the amounts be:

- Transferred directly to one or more of the PRG Trust subsidy accounts.
- Placed in the newly created Interim Administered Account for Windfall Gold Sales Profits. The purpose of this account is to hold the amount proportional to member's quota share while the member completes any domestic processes needed to direct it to one or more of the PRG Trust subsidy accounts. After the member completes the domestic processes, the member can request, for example, that the IMF transfer the resources from the Interim Administered Account to one of the PRG Trust subsidy accounts.
- Paid directly to them and not transferred to one of the PRG Trust accounts.

Members can also request that the IMF allocate resources toward more than one option. On April 30, 2012, the U.S. Treasury requested that the U.S. share of the resources, almost \$192 million, be transferred directly to the PRG Trust General Subsidy Account. According to U.S. Treasury officials, the United States has the authority to direct the funds to the PRG Trust.

The IMF has decided that it will not distribute the windfall profits until it has received assurance from the members that at least the equivalent of 90 percent of the windfall profits, about \$978 million, will be transferred to the PRG Trust. The IMF expects to receive satisfactory assurances based on past experience using this type of mechanism. Because members can decide to transfer some, or all, of the amount of windfall profits proportional to their quota shares to their own accounts instead of the PRG Trust, the IMF is anticipating some loss of the windfall profits. IMF staff will provide the Board with periodic updates regarding progress toward reaching the goal of approximately \$978 million, and the IMF Managing Director will notify the Board when the threshold is reached. At that time the actual distribution will go into effect. If the 90 percent threshold is not reached, the IMF will not transfer the windfall profits. According to IMF and Treasury officials, a new Board decision for the use of the windfall profits would then be required in order to authorize such a distribution or other action. As of July 9, 2012, 106 countries representing about 79 percent of the distribution have indicated that amounts equivalent to their share of the distribution should be transferred by the IMF, or will otherwise be provided to the PRG Trust.²⁸

²⁷According to IMF officials, under the general IMF legal framework, funds in the General Resources Account are uniformly available to all members and cannot be placed in the PRG Trust for the benefit of only low-income members.

²⁸The IMF periodically updates the number of countries that have pledged their share of the proposed distribution for low-income country lending: <http://www.imf.org/external/np/fin/prgt/index.htm>.

Following the completion of the gold sales in December 2010, the IMF placed the profits in the General Resources Account. In March 2011, after the amendment to the Articles of Agreement expanding the IMF's investment authority entered into force, the IMF transferred these profits to the Investment Account. The Investment Account now contains two portfolios: the gold sales profits portfolio and the original non-gold sales profits portfolio funded by the transfer of currencies from the General Resources Account. The IMF invested the gold sales profits portfolio in short-term official deposits pending further action; such as the implementation of the endowment for operations and transfer of a portion of the windfall profits to the PRG Trust. This conservative investment strategy is designed to preserve the capital of the gold sales profits until the profits are placed in the endowment, according to IMF officials. This portfolio returned \$3.1 million in financial year 2011 and is projected to return \$48.6 million in financial year 2012. These earnings are currently in the Investment Account.

The IMF Board Is Considering Options for Using the Additional Windfall Profits from the Gold Sales but Has Not Made a Decision

The IMF Board is currently considering three main options that have generated the most support from members for distributing the \$2.8 billion in additional windfall profits, or unanticipated earnings yielded from the gold sales. The Board held a preliminary discussion on the use of the additional windfall profits in April 2011 and met again in September 2011. For both meetings, IMF staff issued papers on the options for the additional windfall profits and trade-offs associated with these options.²⁹

One option is to use the additional windfall profits to increase the size of the endowment for operations. This option would increase the size of the endowment from \$7 billion to \$9.8 billion, a 40 percent increase. According to the IMF, increasing the size of the endowment would help ensure a sustainable and diversified income base, as envisioned under the new income model, and create a larger income source for IMF operations. However, the IMF indicates that, absent future Board decisions, placing funds in the endowment is permanent and precludes using funds for other purposes.

A second option under consideration is to use the additional windfall profits to increase the capacity of the PRG Trust. The IMF estimates that pledging the additional windfall profits to the PRG Trust could create a sustainable and self-financed concessional lending framework for low-income countries beyond 2014 and limit the reliance on member contributions. Currently, the IMF projects that the PRG Trust is adequately financed to meet demand through 2014 due to the new financing package for low-income countries the Board approved in 2009. However, IMF documents project that the long-term annual demands on the PRG Trust through 2034 could range from \$1.7 billion to \$2.9 billion, exceeding the projected available resources of approximately \$1.1 billion per year in the PRG Trust after 2014. Such a shortfall could reduce the IMF's concessional lending unless it requests member contributions for the PRG Trust. On the other hand, the IMF notes that a key concern for this option is that it would require a distribution of the additional windfall profits to members with prior agreement that most would transfer the resources to the PRG Trust. However, according to IMF staff, it may be time consuming to receive sufficient assurances that members will direct the transfer of resources to the PRG Trust. The IMF would ask members to follow the same process being used for

²⁹IMF, *Use of Gold Sale Profits – Initial Considerations and Options* (Mar. 16, 2011). IMF, *Use of Windfall Gold Sale Profits –Further Considerations* (Aug. 4, 2011).

distribution of the \$1 billion in windfall profits, discussed earlier.³⁰ If the Board selects this option, the IMF would ask the United States to direct that the amount of the windfall profits proportional to the U.S. quota share, almost \$500 million, be transferred to the PRG Trust. U.S. Treasury officials stated that they support this option.

A third option the IMF Board is considering is counting the additional windfall profits toward precautionary balances. According to the IMF, this option would increase the IMF's reserve coverage given a sharp rise in IMF lending associated with the global financial crisis. In April 2012 the Board conducted a review of the adequacy of precautionary balances and compared the findings to the last review the Board conducted in September 2010.³¹ As table 2 illustrates, precautionary balances have increased as IMF commitments and credit outstanding have risen sharply.

Table 2: IMF Precautionary Balances, Outstanding Credit, and Commitments as of July 2010 and February 2012

IMF Resources	July 2010	February 2012
Total IMF precautionary balances	\$11.1 billion	\$14.3 billion
Total IMF outstanding credit	\$73.8 billion	\$137.7 billion
Total IMF commitments	\$218.7 billion	\$314.3 billion

Source: IMF data.

In September 2010, the IMF set the medium-term target for precautionary balances at \$23 billion.³² At that time, IMF projections indicated that precautionary balances would not reach this target until financial year 2016. The IMF estimates that counting the additional windfall profits toward precautionary balances would accelerate the current timetable for reaching the medium-term target to 2015, a year earlier. According to the IMF, this would increase the IMF's reserve coverage to guard against credit and financial risk. Furthermore, this option does not require distribution to members, and profits would remain in the IMF Investment Account. Also, implementing this option does not preclude a later Board decision to distribute the additional windfall profits to members for transfer to the PRG Trust after first obtaining sufficient assurances that members will transfer the resources to the trust. However, this option does not immediately provide funds to assist low-income countries. In addition, the IMF has stated that the current pace of precautionary balances accumulation is adequate.

According to the IMF, these options are not mutually exclusive and the Board could consider different combinations. For example, the Board could decide to use some of the additional windfall profits for the endowment for operations and some of the additional windfall profits for the PRG Trust using the indirect transfer mechanism. The Board has also considered other

³⁰Under this option, members would direct the additional windfall profits, or otherwise provide amounts as agreed, to the PRG Trust to be used as subsidy resources.

³¹In September 2010 the Board reviewed precautionary balances as of July 2010, and in April 2012, it reviewed precautionary balances as of February 2012.

³²In April 2012 the IMF increased the indicative medium-term target to \$31 billion.

options for providing support to low-income countries, such as providing additional interest relief on PRG Trust credits; augmenting the Post-Catastrophe Debt Relief Trust;³³ or using the additional windfall profits to fund further debt relief, grants, or technical assistance. However, IMF officials stated that these alternative options have not generated significant support from members.³⁴

The IMF Board Has Not Set a Date for Selecting an Option for Additional Windfall Profits

As of May 2012, the IMF Board has not set a date for when it will decide how to distribute the additional windfall profits, according to U.S. and IMF officials. In September 2011, the IMF issued a Public Information Notice³⁵ stating that the Board lacked consensus on how to use the additional windfall profits and thus made no decision. The notice also stated that in a year's time the Board would revisit the use of the additional windfall profits. As of June 2012, IMF officials stated the Board has not decided how it will use the additional windfall profits and might not discuss this again until September 2012. According to IMF staff, the Board reviewed the status of the IMF's precautionary balances and plans to review the IMF's lending instruments for low-income countries before reconvening discussions on the additional windfall profits. U.S. Treasury officials stated that because Board members have a wide divergence of views about the use of the additional windfall profits, they believe it is important to analyze each option and not rush a decision. However, U.S. Treasury officials stated that they would like other members to support the use of the additional windfall profits for low-income countries in the IMF.³⁶ Currently, the additional windfall profits are in the IMF's Investment Account with the other profits from the gold sales. Any interest earned from the additional windfall profits currently remains as part of the IMF's Investment Account pending a Board decision.

³³The Post-Catastrophe Debt Relief Trust is a fund that allows the IMF to join international debt relief efforts for poor countries that are hit by the most catastrophic of natural disasters. The IMF established the PCDR Trust in June 2010.

³⁴IMF officials explained that the Board could in principle decide, with a 70 percent majority of total voting power, to make a distribution to members based on their quota share for the use of members if such a distribution was deemed appropriate. Treasury officials said the Board has not discussed this possibility.

³⁵*IMF Executive Board Considers Use of Windfall Gold Sale Profits*, Public Information Notice No. 11/121 (Sept. 16, 2011).

³⁶Treasury officials stated that they support the use of the additional windfall profits for low-income countries in the IMF, including consideration for increased concessionality of lending for low-income country members.

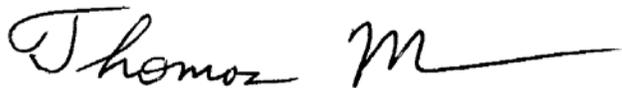
Agency Comments

We provided the Treasury and the IMF a draft of this report for comment. Both the Treasury and the IMF provided written comments that are reproduced in enclosures I and II. In addition, Treasury and the IMF provided technical comments that we incorporated as appropriate. In commenting on this report, Treasury found that the report provided a very good overview of the plans for the use of the IMF's gold sales proceeds, as well as of the considerations being discussed in the IMF regarding the disposition of the additional windfall profits. The IMF found that this report is largely factual and broadly agreed with its findings.

We are sending copies of this report to appropriate committees, the Secretary of the Treasury, and the Managing Director of the IMF. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas M" followed by a long horizontal flourish.

Thomas Melito
Director
International Affairs and Trade

Enclosures - 3

Enclosure I: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 6, 2012

Thomas Melito
Director, International Affairs and Trade
Government Accountability Office
441 G Street N.W.
Washington, D.C. 20548

Dear Mr. Melito,

Thank you for the opportunity to comment on the General Accountability Office (GAO) report titled: "IMF: Planning for Use of Gold Sales Profits Under Way, but No Decision Made for Using a Portion of the Profits." The report provides a very good overview of the plans for the use of the IMF's gold sale proceeds, as well as considerations being discussed in the IMF regarding the disposition of the additional windfall profits. We appreciate the work that has gone into this report and the fine effort by the GAO team.

As your report observes, the decision to sell a portion of the IMF's gold was part of a broader agreement by the IMF Executive Board (Board) in 2008 on a new income model that would place the Fund's finances on a more stable footing, including through the establishment of an endowment. The United States supported that agreement. However, as you also note, because of the sharp rise in gold prices in past years, the proceeds from the IMF's gold sales were far in excess – by approximately \$3.8 billion – of the amount needed to establish the endowment under the new income model, necessitating consideration of what to do with the windfall profits.

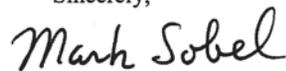
The United States has strongly advocated that the windfall profits be used to support low-income countries in the IMF. At the April 2009 G-20 Leaders' Summit in London – at which point it had become evident that windfall profits would total at least around \$1 billion – President Obama and his G-20 counterparts endorsed the use of a portion of IMF gold sale resources to support the IMF's concessional lending to the poorest countries. With strong U.S. leadership, the Board reached a decision in July 2009 on a new concessional financing package at the IMF, which included the use of approximately \$1 billion of the windfall profits to boost the Fund's concessional subsidy resources. The GAO report provides a good description of the mechanism used to implement this decision.

Congress has played an important role throughout this process. In 2009, Treasury officials held extensive consultations with Congressional members and staff, which uniformly endorsed the view that the \$1 billion in windfall profits be used for low-income country support. The legislation authorizing U.S. support of the IMF gold sales reflected this consensus, providing that IMF support for low-income countries should meet a variety of objectives in terms of scale, concessionality, and timing. The IMF concessional financing package approved by the Board in July 2009 met, and exceeded, these legislative objectives.

The IMF Executive Board is still considering the disposition of the remaining \$2.8 billion in windfall profits. Treasury is again strongly advocating that these profits be used to support low-income countries in the IMF, including giving consideration to increased concessionalization. Treasury has also consulted with stakeholders and Congress on this matter, and looks forward to continuing to do so. As the GAO report notes, given that, in practice, IMF decisions are based on consensus, it is critical that there is broad-based international support for this option before the Board comes to a decision. Thus, we will continue to encourage our foreign counterparts to support the use of the additional windfall profits for low-income countries.

Again, I thank you for the opportunity to comment and commend your team for their work on this report.

Sincerely,

A handwritten signature in black ink that reads "Mark Sobel". The signature is written in a cursive, slightly slanted style.

Mark Sobel
Deputy Assistant Secretary
International Monetary and Financial Policy

Enclosure II: Comments from the International Monetary Fund



INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

July 6, 2012

Mr. Thomas Melito
Director
International Affairs and Trade
United States Government Accountability Office
Washington, D.C. 20548

Dear Mr. Melito:

We welcome this opportunity to comment on your report entitled *IMF: Planning for the Use of Gold Sales Profits, but No Decision Made for Using a Portion of the Profits*. The report is largely factual and we broadly agree with its findings.

A key element of the new income model endorsed by the Executive Board in 2008 was a limited sale of IMF gold to fund an endowment that would help diversify the Fund's income sources. In addition, before approving the sale, the Executive Board endorsed a strategy pursuant to which resources linked to the gold sale would be used to boost the concessional lending capacity of the Poverty Reduction and Growth Trust (PRGT). The gold sales started in October 2009 and were concluded in December 2010. Total proceeds from the gold sales amounted to SDR 9.54 billion, of which SDR 2.69 billion represented the book value and SDR 6.85 billion was profit.

A distribution of reserves equivalent to a portion of the gold sales profits was endorsed in 2009 as a critical element of a financing package aimed at securing adequate resources for the PRGT. The total financing package aimed at doubling the PRGT's concessional lending capacity to SDR 11.3 billion (US\$17 billion) over the period 2009–14. It therefore allowed for much higher lending to low-income members in the period following the 2009 financial crisis. As your report correctly notes, making profits linked to gold sales available for the PRGT requires an indirect approach. A distribution of reserves to all IMF member countries in proportion to their quota shares will only be effected after members have provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—i.e., SDR 630 million—will be transferred or otherwise provided for PRGT subsidies. The timeframe of the operation is therefore contingent upon receiving such assurances from the IMF membership. We are extremely grateful for the instructions we have received from the United States authorities that when the distribution is made the United States' share should be directly transferred to the PRG Trust in support of this initiative.

Aside from the SDR 0.7 billion of reserves linked to windfall gold profits that will be distributed under the plan to boost concessional lending resources through 2014, the Executive Board has already decided to place at least SDR 4.4 billion of the profits—equivalent to the assumed average gold sales price in April 2008 when the key elements of the Fund’s new income model were endorsed—in an endowment designed to diversify the IMF away from a reliance on lending income. The Executive Board has yet to decide how to use the remaining SDR 1.75 billion in windfall gold profits that resulted from a higher-than-anticipated average gold sales price. Your report correctly identifies the main options under consideration, including using the additional windfall profits as part of a strategy to close the PRGT’s projected funding gap after 2014. Further discussions on this are expected in the Board later this year.

Let me thank you once again for the opportunity to comment on your report.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'N. Shinohara', written in a cursive style.

Naoyuki Shinohara

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito, (202) 512-9601 or melitot@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Cheryl Goodman, Assistant Director; Marisela Perez; Rachel Girshick; Mary Moutsos; Bruce Kutnick; Karen Deans; Martin de Alteriis; Etana Finkler; and Kara Marshall made key contributions to this report.

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