Climate Investment Funds

CTF-SCF/TFC.9/12
October 16, 2012

Joint Meeting of the CTF and SCF Trust Fund Committees
Istanbul, Turkey
November 2, 2012

Agenda Item 5

BASIS OF REPORTING FOR THE CTF AND SCF FINANCIAL STATEMENTS

NOTE PREPARED BY THE TRUSTEE

PROPOSED DECISION

The joint meeting of the CTF and SCF Trust Fund Committees confirmed its desire that the financial statements of the Clean Technology Fund and Strategic Climate Fund administered by IBRD as Trustee be prepared going forward, using the special purpose basis of accounting as presented and described in Note 2[1] to the December 31, 2011 special purpose financial statements, including any future amendments to that note which the Trustee deems necessary.

[1] Note 2 – Annex 1: Notes to the special purpose financial statements: Significant Accounting Policies

I. BACKGROUND

1. In October 2011, the Auditing Standards Board (ASB) issued Audit Standard AU-C 800 which deals with the audits of financial statements prepared in accordance with special purpose frameworks and is effective for audits of periods ending on or after December 15, 2012. These include the financial statements of IBRD as Trustee for both the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF) which are prepared using a special purpose basis of accounting.

II. KEY POINTS IN AU-C 800

2. The special purpose framework is now defined as one of the following bases: cash, tax, regulatory or contractual. The financial statements of CIF are not prepared under the cash, tax or regulatory basis but on the contractual basis.

3. This new standard requires the auditor to ensure that management has obtained sufficient documentation to demonstrate that the preparation and audit of special purpose financial is performed following discussions with CIF participants.

III. IMPACT ON THE CIF PROGRAM: WHERE THE BANK IS A TRUSTEE FOR THE CTF AND SCF

4. The December 31, 2011 financial statements for the Bank as Trustee for both the Clean Technology Fund and the Strategic Climate Fund were prepared using a special purpose basis of accounting. In order to comply with the new auditing standard and in order for the Trustee to continue preparing special purpose financial statements for the Bank as Trustee for the Clean Technology Fund and Strategic Climate Fund, the TF Committee is requested to approve the Proposed Trust Fund Committee Decision. Should the Proposed Trust Fund Committee Decision not be approved, the Bank will be required to prepare the December 2012 financial statements using the cash basis of accounting.

Note 2 - Significant Accounting Policies

Basis of Special Purpose Presentation – These special purpose financial statements have been prepared for the specific purpose of reflecting the sources and applications of contributions received from contributors and net Trust Fund resources, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS).

These special purpose financial statements have been prepared solely for the information and use of the CTF Trust Fund Committee, IBRD as the Trustee of the Trust Fund, and the contributors to the Trust Fund, and are not intended to be and should not be used by anyone other than these specified parties.

Basis of Accounting **–** The Trustee approved the special purpose basis of accounting. The Trust Fund's special purpose financial statements are prepared on the accrual basis of accounting, with the exception of (i) administrative budget expenses, which are accounted for on a cash basis; and (ii) net investment income earned by the other MDBs on funds received from the CTF Trustee, which are also accounted for on a cash basis. Reflows and returns of CTF funds disbursed by MDBs, such as principal repayment, interest and other reflows are accrued when the cash is received by the MDBs from the project recipients. The specific accounting policies are as described below:

Share of cash and investments in the Pool – Amounts paid into the Trust Fund but not yet disbursed are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, IDA, IFC, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (collectively, the "World Bank Group"). IBRD, on behalf of the World Bank Group maintains all trust fund assets separate and apart from the funds of the World Bank Group. The Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD, on behalf of the World Bank Group. These sub-portfolios may hold all or a portion of the instruments held by the Pool.

Generally, the Pool includes cash and liquid financial instruments such as time deposits, money market securities, government and agency obligations, and asset-backed securities. The Pool may also include securities pledged as collateral under repurchase agreements with other counterparties and receivables from resale agreements for which it has accepted collateral. Additionally, the Pool includes derivative contracts such

as currency forward contracts, currency swaps, interest rate swaps, and the contracts to purchase or sell mortgage-backed securities to-be-announced (TBAs). Payables and receivables associated with the investment activities are also included in the Pool.

The Pool is a trading portfolio and is reported at fair value, with gains/losses included in net investment income. The share in pooled cash and investments represents the Trust Fund's share of the Pool's fair value at the end of each reporting period and is not deemed to be equivalent to cash for the purpose of the special purpose statements of cash flows.

Contributions and contributions receivable – The Trust Fund holds all paid in contributions, and the Trustee manages them in accordance with the contribution agreements/arrangements with the contributors and based on the funding decisions made by the CTF Trust Fund Committee.

Contributors may make contributions in the form of (i) a grant contribution, (ii) a capital contribution, or (iii) with the consent of all contributors to the Trust Fund and the Trustee, a loan contribution.

A grant contribution to the CTF may be used to finance grants, concessional loans and other financial products, such as guarantees. Capital contributions to the CTF may be used to finance concessional loans and other financial products, such as guarantees, but not grants. Loan contributions to the CTF may be used to finance concessional loans and other financial products, such as guarantees, on terms no more concessional than the contributions. The term "capital contribution" defines the permitted use of funds vis-à-vis "grant contribution" and "loan contribution", and does not mean that share capital or equity instruments have been issued to contributors in return for capital contributions received.

Upon termination of the Trust Fund, any remaining unallocated funds, including related reflows and returns of other funds, and net investment income, if any, held by the Trust Fund will be returned to contributors on a pro-rata basis, to be calculated using specific measurements which differ for grant contributors and capital contributors as defined in the relevant contribution agreements/arrangements.

Unconditional grant and capital contributions are recorded as revenue in the special purpose statements of activities upon execution of a contribution agreement/arrangement between a contributor and the Trustee. Contributions receivable are reported at nominal value, net of an allowance for doubtful receivables, if any. Contributions receivable are individually assessed for impairment at each date of the statement of financial position. When contributions receivable are overdue beyond dates specified in the contribution

agreements/arrangements, the Trustee reduces the carrying value by recognizing a provision and an allowance for doubtful receivables as specified in the table below:

Contributions Receivable	
Period in arrears	**Allowance percentage**
24 months	50%
36 months	100%

Loan contributors provide loans to the CTF at a rate of 0.75% interest per annum, with a 20 year maturity and a 10 year grace period on principal repayment. Therefore repayments will begin from year 11 through year 20. Contributors that have made loan contributions to the Trust Fund will receive repayments based on the agreed loan terms.

Project expense and liabilities – The CTF Trust Fund Committee approves project funding to be disbursed by the Trust Fund to MDBs to fund CTF projects. Project expenses and liabilities to the MDBs are recognized upon the CTF Trust Fund Committee's approval. Project liabilities are paid to the MDBs upon their request in accordance with the financial procedure agreements between the Trustee and the MDBs (the FPAs). Project liabilities may be denominated in either U.S. dollars or euro.

MDB fees expense and MDB fees payable – In accordance with the FPAs, fees are paid to the MDBs to cover their expenses associated with the project cycle management of CTF projects. The Trust Fund recognizes MDB fee expenses and MDB fees payable upon approval by the CTF Trust Fund Committee. MDB fees are paid to the MDBs upon their request.

Administrative budget expense – The CTF Trust Fund Committee, on an annual basis, approves the budget for administrative services to be paid by the Trust Fund. The administrative budgets primarily cover the costs incurred by the Trustee, the Administrative Unit and the MDBs for the performance of their administrative services and other activities in support of the CTF. Once approved, and further allocated by the MDB Committee in the case of country programming budgets, administrative budget amounts pertaining to the Trustee, the Administrative Unit and the MDBs are paid upon their request. The administrative budget is reported on a cash basis.

Net investment income – Investment income earned on CTF funds held by the World Bank and IFC is credited directly in the Trust Fund on an accrual basis. Net investment income includes realized and unrealized investment income/loss.

Net investment income from other MDBs – In accordance with the FPAs, net investment income earned on CTF funds held by the MDBs shall be returned to the Trust Fund upon the Trustee's request. Net investment income from other MDBs is reported on a cash basis. No investment income earned by the other MDBs has been received.

Returns/reflows of CTF funds disbursed by MDBs – Upon transfer of funds to MDBs through project expense, MDBs may disburse CTF funds to project recipients in the form of loans or other financial products, such as guarantees. In accordance with the FPAs, repayments of principal, interest or other fees from MDB loans and other financial products issued using CTF funds are reported and remitted by the MDB to the Trustee. These amounts are reflected in the Trust Fund when they are received and reported by the MDBs.

Change in Accounting Policy – During the year, the accounting policy for the Trust Fund recording returns/reflows of CTF funds disbursed by MDBs was changed from cash basis (recording returns/reflows when received by the Trust Fund) to the accrual basis (recording returns/reflows when the cash is received by the MDBs from the recipients). The purpose of the change was to report in the special purpose financial statements the returns/reflows received by the MDBs but not yet transferred to the Trust Fund. This change has been applied retrospectively. For the fiscal year ended December 31, 2010, the impact of the change was an increase in the returns/reflows of CTF funds disbursed by MDBs, the returns/reflows receivable from the MDBs, and the net trust fund resources by $2,082,354.

In addition, the presentation of the special purpose statements of cash flow was changed to separately present unrealized gains and losses arising from changes in foreign currency exchange rates. This change had no net impact on the special purpose statements of cash flows. In prior years, unrealized gains and losses arising from changes in foreign currency exchange rates were presented net as changes in the associated assets and liabilities within operating activities and financing activities. This change has been applied retrospectively in the special purpose statements of cash flows. For the fiscal year ended December 31, 2010, the unrealized foreign exchange gains separately presented amounts to $12,040,649.

Reclassification – Certain reclassifications of prior year amounts have been made to conform to the current year's presentation. Specifically, in the special purpose statements of activities, "contributions" now includes the amount previously presented as "transfer from other trust fund" of $350,000,000 in 2010. The reclassification was made because while the amount was received as a transfer from another trust fund, it is a contribution to this Trust Fund.

Translation of currencies – The Trust Fund's special purpose financial statements are presented in U.S. dollars, which is the Trust Fund's functional and presentation currency. Transactions in currencies other than the U.S. dollar are reported at the market rates of exchange in effect on the date of the transaction. At the end of each reporting period, assets and liabilities that are not denominated in U.S. dollars are revalued at the market rate of exchange prevailing at the end of the respective reporting period. Any adjustment resulting from currency exchange rate changes is recognized as foreign currency exchange gain/loss.

Use of estimates – The preparation of the special purpose financial statements requires management to make estimates and assumptions based upon information available as of the date of the special purpose financial statements. Actual results could differ from these estimates. The main area in which management makes estimates and assumptions in determining the amounts to be recorded is the fair value of financial instruments.