International Oil Pollution Compensation Funds

Agenda item 5	IOPC/NOV25/**5/6**	
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1992 Fund Assembly	92A30	●
1992 Fund Executive Committee	92EC85	
Supplementary Fund Assembly	SA22	●

REPORT OF THE JOINT INVESTMENT ADVISORY BODY

Note by the joint Investment Advisory Body

Summary:	The joint Investment Advisory Body reports on its activities since the November 2024 sessions of the governing bodies of the 1992 Fund and the Supplementary Fund.
Action to be taken:	<u>1992 Fund Assembly and Supplementary Fund Assembly</u> Information to be noted.

1 <u>Introduction</u>

1.1 Pursuant to the mandate of the joint Investment Advisory Body (IAB) of the 1992 Fund and the Supplementary Fund, this Body shall submit, through the Director, to each regular session of the governing bodies, a report on its activities since the previous regular session. The report is set out at the Annex to this document.

1.2 In view of the fact that the governing bodies decided in March 2005 that there should be a joint IAB for the 1992 Fund and the Supplementary Fund, it has been considered appropriate for this Body to present a single report to the governing bodies for the two organisations.

2 <u>Action to be taken</u>

<u>1992 Fund Assembly and Supplementary Fund Assembly</u>

The 1992 Fund Assembly and Supplementary Fund Assembly are invited to take note of the information provided in the joint IAB's report contained at the Annex.

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ANNEX

REPORT OF THE JOINT INVESTMENT ADVISORY BODY OF THE 1992 FUND AND THE SUPPLEMENTARY FUND FOR THE PERIOD NOVEMBER 2024 TO AUGUST 2025

1 Introduction

1.1 This report has been issued in the name of the joint Investment Advisory Body (IAB) of the 1992 Fund and the Supplementary Fund. It has been prepared in August 2025 to allow sufficient time for it to be distributed on a timely basis, and any material updates will be included in the IAB's verbal presentation.

1.2 The mandate of the IAB, as laid down by the governing bodies of the two Funds, is:

(a) to advise the Director in general terms on investment matters;

(b) in particular, to advise the Director on the tenor of the Funds' investments and the suitability of institutions used for investment purposes;

(c) to draw the Director's attention to any developments which may justify a revision of the Funds' investment policy as laid down by the governing bodies;

(d) to advise the Director on the management of currency exposure relating to incidents; and

(e) to advise the Director on any other matters relevant to the Funds' investments.

1.3 At its November 2023 session, the 1992 Fund Assembly reappointed the following persons as members of the IAB for a term of three years; until the regular sessions of the governing bodies in 2026:

- Mr Alan Moore, a financial and investment consultant, formerly head of Global Markets (Europe), State Street Bank & Trust and co-founder and advisor to Molten Markets Inc.;
- Ms Beate Grosskurth, an experienced international banker, who has held senior positions with State Street Bank of Boston, Brown Brothers Harriman and CME Group; and
- Mr Marcel Zimmermann, a financial and investment consultant, former Head of Money Markets and Foreign Exchange at the Swiss National Bank in Zurich.

2 Meetings

2.1 At the time of preparing this report, the IAB had held three meetings with the Secretariat during the period covered by this report, namely on 5 December 2024, 20 March 2025 and 3 June 2025. Another meeting is scheduled for 16 September 2025. All the meetings were held at the IOPC Funds' offices.

2.2 The IAB has met regularly by videoconference, and also prior to the quarterly meetings with the Secretariat. The IAB also discusses market events and any matters concerning the IAB through other electronic communication channels. There has also been frequent contact between members of the IAB and the Secretariat on various issues that have arisen.

3 Main issues considered

The main issues are detailed under the following headings:

- Economic summary;
- Credit markets;
- Hedging the currency risk arising from incidents;
- Other important issues; and
- Objectives for the coming year.

4 Economic summary (covering the period from November 2024 up to August 2025)

4.1 The prospects for the global economy have become much more uncertain and unpredictable in recent months, marking a notable departure from the relative optimism of the previous year when a soft landing was in sight. Trade disruptions now threaten to reshape the global economic landscape. The new United States (US) trade policy has elevated measures of economic uncertainty to levels typically associated with crises and sparked high volatility in financial markets. As a result, the outlook for global growth has been downgraded, with mixed implications for inflation across economies.

4.2 The global economy was growing at a moderate rate ahead of the disruptions that have defined recent months. Global GDP growth was just over 3 percent in 2024, broadly in line with mid-2024 expectations. According to the International Monetary Fund (IMF), global GDP growth is projected to slow slightly this year and next year, with inflationary pressures easing further (Table 1).

Table 1: Key economic indicators for selected regions/countries

	Real GDP			Consumer prices (a)			Central bank rates		
	2024	2025p	2026p	2024	2025p	2026p	latest		ΔNov24
World	3.3%	3.0%	3.1%	5.7%	4.3%	3.6%			
United States	2.8%	1.9%	2.0%	3.0%	3.0%	2.5%	4.25%	(1)	-0.50%
Euro Area	0.9%	1.0%	1.2%	2.4%	2.1%	1.9%	2.00%	(2)	-1.25%
Germany	-0.2%	0.1%	0.9%	2.5%	2.1%	1.9%			
France	1.1%	0.6%	1.0%	2.3%	1.3%	1.6%			
United Kingdom	1.1%	1.2%	1.4%	2.5%	3.1%	2.2%	4.00%	(3)	-1.00%
Japan	0.2%	0.7%	0.5%	2.7%	2.4%	1.7%	0.50%	(4)	0.25%
China	5.0%	4.8%	4.2%	0.2%	0.0%	0.6%	1.40%	(5)	-0.10%

Sources: International Monetary Fund (July and April 2025 World Economic Outlook), central banks
Note: (a) annual average (p) projection (1) Target range for the federal funds rate, lower bound (2) Deposit facility (3) Official bank rate (4) Target for the short-term interest rate (uncollateralized overnight call rate) (5) Seven-day reverse repo rate

4.3 The stable aggregate outcome for global growth in 2024 masked significant differences across economies. The US stood out as the strong performer among advanced economies, with economic growth in 2024 once again surprising to the upside. By contrast, growth in Europe and Japan was weak. Economic trends in emerging market economies were also varied. In China, strong expansion in manufacturing output and exports enabled the country to achieve the GDP growth target of 5 percent for 2024, despite the ongoing adjustment in the property sector.

4.4 The relatively favourable global outlook of early 2025 was overshadowed by major policy shifts and heightened financial market volatility. The announcement of significant US tariffs on Canada and Mexico in January came as a surprise to many and was followed by a series of product- and country-specific tariff proposals over subsequent months, culminating in the announcement of broad-based tariffs on US imports from all trading partners in early April. This marked a watershed moment for the global economy, with the potential to weaken demand, disrupt global supply chains and destabilise the global trading system. The April proposals included 'reciprocal' tariffs of at least 10 percent on almost all countries, with significantly higher rates targeting those with large bilateral trade surpluses. These measures raised fears of retaliation. However, subsequent developments saw the US administration scale back the size and scope of its tariff proposals, introducing temporary pauses, carve-outs for certain goods and more modest trade deals with select partners. Tariffs were accompanied by several other major policy changes in the US that heightened concerns about policy direction and stability. The US administration also introduced significant shifts in immigration, regulatory and fiscal policy, while doubts were raised about its commitment to central bank independence. Beyond the policy measures themselves, the repeated cycle of announcements, adjustments and reversals has fostered an atmosphere of uncertainty and volatility, compounding the challenges for the global economy.

4.5 Inflation continued to ease, reaching or approaching central bank targets in most economies. Several economies, including the euro area, have seen downside surprises. In the US, inflation has risen over recent months, with tentative signs that tariffs and a weaker dollar are contributing to higher prices of imported consumer goods, and increasing costs for producers who rely on imported intermediate goods.

4.6 With inflation reaching or approaching targets, most central banks eased monetary policy to support economic growth. A key exception to this broad easing trend was the Bank of Japan, which lifted its policy interest rate to 0.5 percent, a level last seen about two decades ago. In addition to reducing policy rates, several advanced economy central banks continued to shrink their balance sheets. This was primarily done by contracting their government bond portfolios, largely through the passive roll-off of maturing securities. This process has generally proceeded smoothly.

4.7 As the soft landing for the global economy came into view, financial markets performed strongly through 2024 and early 2025. In the US, equities rallied on the back of solid growth throughout 2024 as well as expectations of looser regulation and tax cuts from the incoming administration. Similarly, European equity markets surged in late 2024, driven by growing optimism, partly related to the improvement in banks' earnings. This optimism was further bolstered by news that Germany eased its constitutional debt brake for defence-related expenditure and also committed to spending EUR 500 billion – more than 10 percent of its GDP – on infrastructure over the next 12 years. Meanwhile, the US dollar appreciated against most currencies in the second half of 2024, reflecting the relatively strong economic fundamentals of the US economy.

4.8 Global financial markets saw a dramatic escalation of volatility when the US tariffs announced in early April exceeded market expectations. With markets already on edge due to greater policy uncertainty, gauges of volatility surged to levels not seen since the pandemic, as investors became increasingly risk averse. In April, stock markets across the globe plunged, with investors curbing their US dollar exposures, and safe-haven flows accruing in gold and other major currency markets. Short-term yields in the euro area, Japan and the United Kingdom dropped swiftly, also driven in part by investors' anticipation of easing monetary policy. Long-term yields were less responsive, as investors appeared reluctant to increase duration risk exposure. This was particularly evident in US Treasury markets, with large price swings and an increase in long-term yields. Unusually for a risk-off episode, the US dollar depreciated against many currencies, particularly the euro, the yen and the Swiss franc, as investors proceeded to cover some of the currency risk of their US asset holdings. As the larger proposed tariffs were walked back, financial markets stabilised and recovered. Measures of market volatility returned to the range observed in the second half of 2024. Equity markets rebounded, reaching fresh year-to-date highs in some jurisdictions.

4.9 At the time of writing, oil was trading slightly lower than last reported in November 2024, at USD 63 per barrel (West Texas Intermediate). Oil prices increased materially during military strikes between the Islamic Republic of Iran and Israel in June 2025, with the increase primarily reflecting higher risk premiums, because the physical supply of oil was not disrupted. This geopolitics-induced increase has now largely receded, and bearish fundamentals are back in focus, with strong supply from both inside OPEC+ (the Organization of the Petroleum Exporting Countries plus selected non-member countries, including Russia) and sources outside of OPEC+ outpacing tepid growth in demand.

Outlook for the third quarter and beyond

4.10 The effects of recent policy developments are expected to have a material negative impact on the economic outlook. In assessing the economic effects of tariffs, several channels are key, from the direct impact of the tariffs on the economy and the implications for supply chains, to the indirect effects associated with the reaction of financial markets and other policy responses. Yet assessing the strength of these channels is difficult, not only because of continuous shifts in policy but also because of the practical and legal complexity of enforcing them, as well as the lack of recent precedents to assess their effects.

4.11 Risks to the global economic outlook are tilted to the downside. A rebound in effective tariff rates could lead to weaker growth. Elevated uncertainty could start weighing more heavily on activity. Geopolitical tensions could disrupt global supply chains and push commodity prices up. Larger fiscal deficits or increased risk aversion could raise long-term interest rates and tighten global financial conditions.

5 Credit markets

5.1 Consistent with the favourable backdrop for markets, credit spreads generally remained compressed by historical standards. Temporarily, following the announcement of tariffs in early April, corporate credit spreads across the rating spectrum soared.

5.2 On 16 May 2025, Moody’s downgraded the US debt rating from Aaa to Aa1, bringing it in line with the credit assessments of the other major rating agencies. Credit ratings of other major economies remained unchanged over the reporting period. However, the global financial crisis and the pandemic have left many economies with higher public debt and large fiscal deficits, with debt levels in many cases reaching historic peacetime highs. These levels are projected to rise further, as deficits – which were 6-7 percent of GDP in several major economies in 2024 – are expected to close only partially or at a slow pace in the coming years. Debt levels will also face upward pressure from population ageing, which drives up pension and healthcare costs, as well as from emerging demands such as infrastructure investment, the transition to greener energy and growing defence needs. While higher public debt levels can be sustainable in the presence of strong income growth and low interest rates, current and future conditions look less favourable. As noted above, global economic growth is expected to remain subdued for the foreseeable future. Moreover, interest rates may not return to the low levels observed in the pre-pandemic decade.

5.3 The financial system remained resilient. While accommodative financial market conditions boosted banks' profits and valuations last year, the sharp decline in bank stock prices observed after the April tariff announcement highlights the risks faced by the sector. In 2024, widening net interest margins and, for larger banks, strong results from asset management, advisory services and trading services, expanded revenues. At the same time, lacklustre but stable global growth did not materially increase the cost of credit, as asset quality improved. As a result, banks' profitability has rebounded sharply, particularly that of European banks, and valuations improved, driven by expectations of regulatory easing.

5.4 The review of ratings for the Funds' eligible counterparties by the main rating agencies resulted in a few upward adjustments of single ratings, with three banks, the Bank of Scotland, Lloyds Bank plc and Landesbank Baden-Wuerttemberg moving up from the Group Two to the Group One list of banking counterparties. On an aggregate basis, the situation is little changed, with the overall number of banking counterparties remaining at 34.

5.5 Credit Default Swap (CDS) spreads over the reporting period stayed within moderate ranges and capital ratios remained at perfectly acceptable levels.

6 <u>Hedging the currency risk arising from incidents</u>

6.1 Hedging activity to minimise the risk of adverse currency movements has been concentrated on two recent incidents (*Gulfstream* and *Marine Honour*) during the reporting period.

6.2 There are six incidents at present for which compensation is payable and currency management is required.

Table 2: Incidents requiring currency management

	Estimated amount to be paid			Currency held for compensation*			
	local currency		equivalent in GBP	local currency		Coverage relative to estimated amount to be paid	Coverage relative to amount levied
Agia Zoni II	EUR	37.7	31.7	EUR	18.9	50%	
Incident in Israel	ILS	21.5	4.5	ILS	18.9	88%	
Princess Empress	PHP	604.4	8.1	PHP	0.0	0%	
Bow Jubail	EUR	30.0	25.2	EUR	15.1	50%	
Gulfstream	TTD	237.0	26.1	USD	7.8	23%	58%
Marine Honour			45.1			28%	32%
	USD	11.8		USD	6.1	52%	
	SGD	63.0		SGD	14.3	23%	

Note: data as of 3 June 2025 | in millions of currency units, except as otherwise noted | * including forward transactions
EUR=euro | ILS=Israeli shekel | PHP=Philippine peso | TTD=Trinidad and Tobago dollar | SGD=Singapore dollar | GBP=British pound

6.3 The hedging levels for *Agia Zoni II* and *Bow Jubail* remain at the benchmark level of 50 percent. These levels are considered appropriate.

6.4 A reduction in the estimated amount of compensation to be paid for the Incident in Israel (from ILS 55 million to ILS 32 million, of which ILS 10.5 million have been paid out) caused the foreign exchange coverage to increase from the benchmark level to 88 percent.

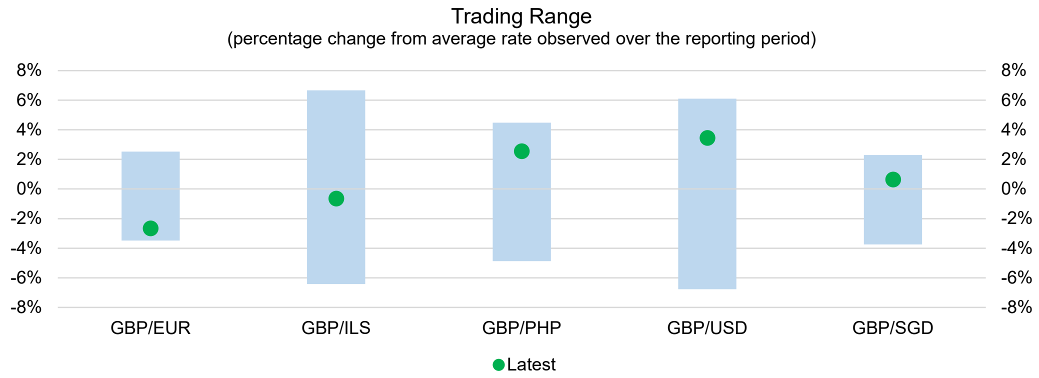
6.5 As mentioned in the previous year's report, payments for the *Princess Empress* incident continued to be executed as small-value money transfers processed through a remittance service that allows recipients in the Philippines to collect the money from a nearby branch of the remittance service, i.e. without necessitating a bank account. With this approach, the remittance service provider is paid in GBP and direct currency hedging is thus not possible.

6.6 For the *Gulfstream* incident which occurred in Trinidad and Tobago, USD 7.8 million of foreign exchange coverage are held, representing 58 percent of the respective levies received. Trinidad and Tobago runs a 'managed float' exchange rate system, where the exchange rate of the TTD against the USD is maintained within a narrow band. Under these circumstances, the USD holdings act as a proxy hedge.

6.7 The compensation liability for the *Marine Honour* incident is split between SGD and USD, currently estimated at 70 percent and 30 percent, respectively. The USD liability is based on claims received, whereas the SGD liability is based on estimated claims, some of which have not yet been received from the Government of Singapore. Against this backdrop, the IAB advised to target a hedge ratio of 50 percent for the USD exposure and 25 percent for the SGD exposure, due to the uncertainty of the estimate for the latter.

Currency charts

6.8 For the five exposure currencies, currency charts against pounds sterling (GBP) covering the period 1 November 2024 to 8 August 2025 have been included to illustrate the movements that have taken place:


Trading Range
(percentage change from average rate observed over the reporting period)
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
GBP/EUR
GBP/ILS
GBP/PHP
GBP/USD
GBP/SGD
Latest


GBP/EUR
1.22
1.21
1.20
1.19
1.18
1.17
1.16
1.15
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11.24
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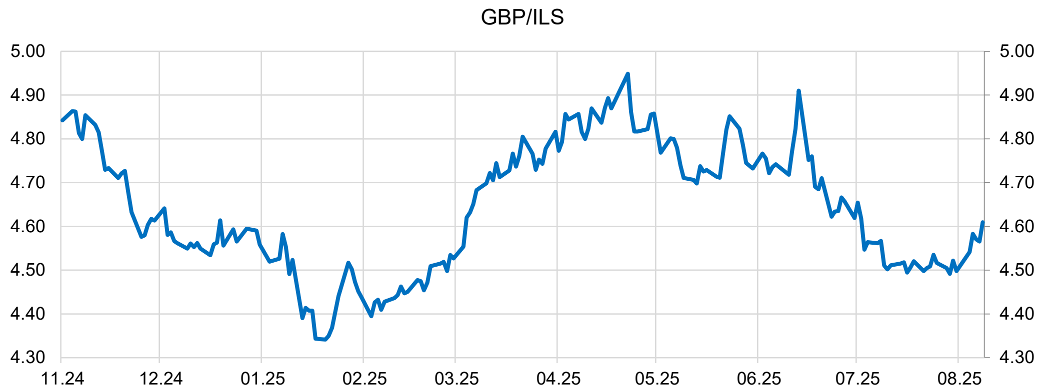
GBP/ILS
5.00
4.90
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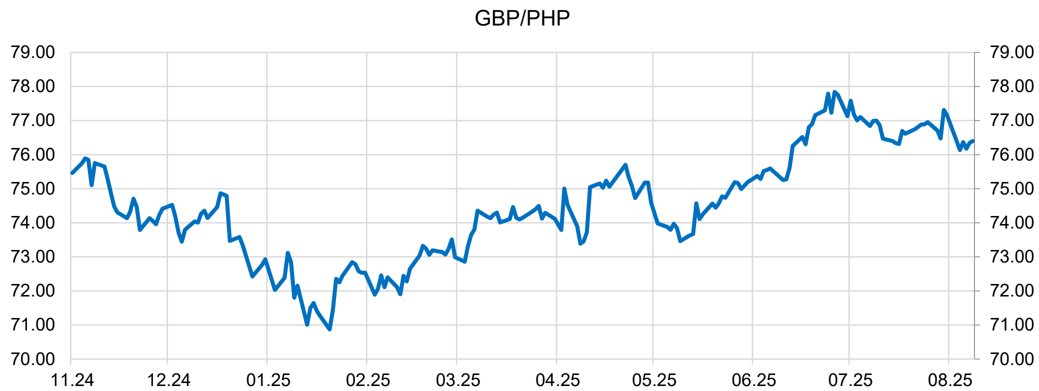
GBP/PHP
79.00
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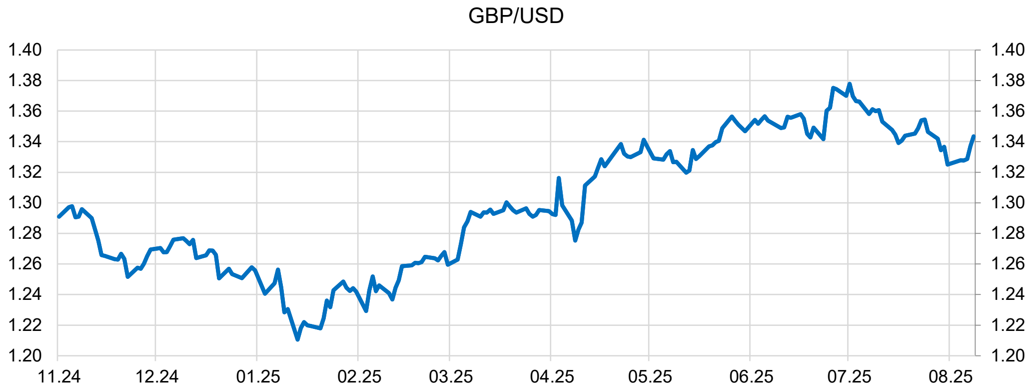
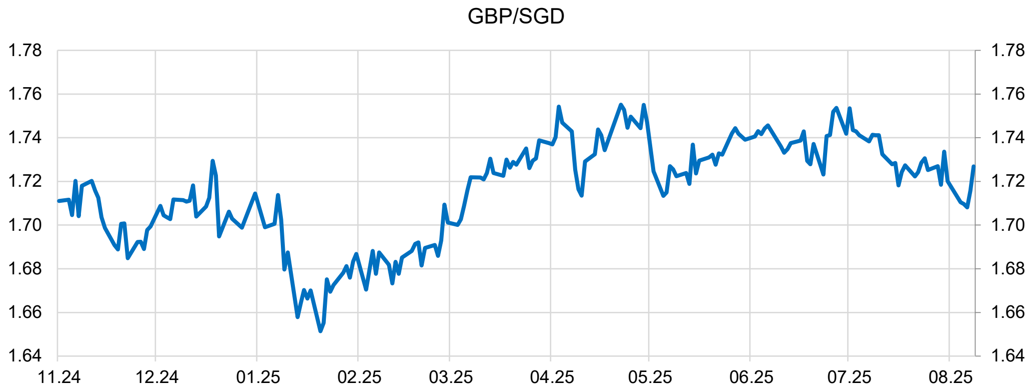




6.9 Foreign exchange movements during the reporting period were most noticeable in the USD and in currencies where the local exchange rate is somewhat aligned with the USD (i.e. PHP, SGD). GBP/USD appreciated, particularly after the tariffs were announced in early April. As the EUR benefited more due to expected higher growth in the euro area after Germany's incoming coalition announced a massive infrastructure boost via a debt rule overhaul, the GBP weakened about 3 percent against the EUR.

7 <u>Other important issues</u>

Internal procedures for investment and cash management controls

7.1 The IAB has reviewed the Internal Investment Guidelines and the Hedging Guidelines at each of its meetings. No changes were made during the reporting period.

Monitoring of the IOPC Funds' financial risks

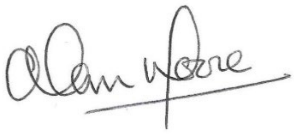
7.2 The IAB has continued to monitor the Funds' financial risks on a daily basis. Given the benign credit environment, as described in paragraph 5.3 above, no actions were warranted. Furthermore, the exchange rates of currencies to which the Funds have an exposure to, or other currencies that are also likely to also have an impact, were routinely monitored by the IAB.

Technology to transact in financial markets and access financial market data

7.3 On request of the Secretariat, the IAB arranged and participated in discussions with two electronic trading platform providers which the IOPC Funds could potentially utilise to execute foreign exchange and money market transactions, and achieve possible settlement and back-office administrative efficiency gains. Furthermore, it supported the Secretariat in evaluating its current access to financial market data.

8 Objectives for the coming year

8.1 The IAB intends to continue to focus on its responsibilities set out in section 1.2 during the course of the coming year.

Beate Grosskurth Alan Moore Marcel Zimmermann

16 September 2025

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ATTACHMENT I

Internal Investment Guidelines

As reviewed on 16 September 2025

The IOPC Funds may only invest with banks and building societies and the following guidelines should apply:

1. In order to be eligible for investments, a bank or building society should satisfy the following:
   (a) Common Equity Tier 1 (CET1) capital ratio of at least 9.5% or higher;
   (b) A five-year credit default swap (CDS) spread of a maximum of 100 basis points. A breach of which would trigger a review to ascertain whether the credit markets were weaker in general, or whether the credit worthiness of the counterparty concerned was subject to a particular credit-negative event, that would warrant its temporary, or permanent exclusion from the lending list;
   (c) Minimum short-term credit rating from two of the three main credit rating agencies, Fitch, Moody's and Standard & Poor's as follows:
      - For maturities of up to 12 months (Group 1) of F1+, P1 and A1+; and
      - For maturities of up to six months (Group 2) of F1, P1 and A1.
2. A banking institution should be either a parent bank, a full branch of its parent bank or a wholly owned subsidiary meeting the above criteria.
3. The normal limits for investments in any financial institution laid down in Financial Regulations 10.4(c) and 10.4(d)[1] should apply to deposits with any given institution or banking group.
4. The house banks should be the Funds' main operational banks, i.e. with which current accounts are held for the day-to day banking needs and banks used for specific incidents (which meet the Funds' investment criteria) to hold currency other than pounds sterling should be categorised as temporary house banks in order to utilise the higher limit.
5. Subject to the normal limits referred to in paragraph 3 above, deposits with banks and building societies should not exceed 25% of the 1992 Fund's and the Supplementary Fund's combined deposits. Deposits in the Supplementary Fund should be held with more than one institution.
6. For liquidity purposes a minimum amount equivalent to the respective Fund's working capital should be maturing within three months.
7. Investments should not exceed one year.
8. Rollovers of deposits are permitted without limit to the number of rollovers or the cumulative deposit and rollover period, provided that the banking institution continues to satisfy the criteria in paragraphs 1-5 of these guidelines.
9. In consultation with the joint Investment Advisory Body, the Director will maintain a list of approved institutions.

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[1] Financial Regulations 10.4 (c) and 10.4 (d) read:

10.4 (c) the maximum investment in any bank or building society of the 1992 Fund's [and the Supplementary Fund's combined] assets shall not normally exceed 25% of these assets or £10 million, whichever is the higher;

10.4 (d) the maximum investment in any bank or building society by the 1992 Fund and the Supplementary Fund shall not together normally exceed £15 million or £20 million in respect to the Funds' house bank(s) or not normally exceed £25 million when the three Funds' combined assets exceed £300 million.

ATTACHMENT II

Hedging Guidelines

As reviewed on 16 September 2025

1. For an incident in respect of which compensation will be paid in a currency other than pounds sterling the Director may hedge:
   (a) up to 50% of the levies received for compensation due for an incident (excluding claims related expenses);
   (b) within a six-month period after the levies have been received.
2. If circumstances so warrant, the Director may determine a hedging level higher or lower than 50% and/or a period shorter or longer than six months within which the determined hedging level should be reached. The reasons for such decisions will be laid down in the minutes of the next session of the Investment Advisory Body (IAB).
3. The method of hedging, the percentage of hedging (hedging level) and the period within which that percentage should be reached, is determined by the Director following consultation with the joint IAB.
4. The determined hedging level is continually monitored by the Director and the IAB to ensure it continues to reflect any changes in the anticipated amount of compensation payable and other relevant circumstances. The hedging level should also be adjusted to take account of any payments made in respect of the relevant incident to ensure that the determined hedging level is maintained.
5. Foreign exchange transactions for hedging purposes should not exceed a term of two years. Foreign exchange transactions for hedging purposes exceeding a term of one year require the specific authorisation of the Director.
6. Counterparty banks for foreign exchange transactions should meet the credit criteria set out in the Investment Guidelines. If, for exchange control or operational reasons, a hedging strategy needs to be transacted in a country where these criteria cannot be met, the Director can approve an exception to this guideline.
7. The total foreign exchange exposure with any one financial institution should not exceed four times the available deposit limit approved for that counterparty without the approval of the Director.
8. If it is necessary for the Funds to implement their hedging strategy in case of an incident in a Member State whose currency is not freely convertible, the amounts held with any one financial institution may exceed the investment limits set out in the Funds' Financial Regulation 10.4(d) for considerable periods of time. The investments in excess of the normal limits shall be reported to the regular sessions of the governing bodies and explanation shall be given regarding the need to exceed the applicable investment limits for the purpose of applying the Funds' Hedging Guidelines.