



International Oil Pollution
Compensation Funds

Agenda Item 5	IOPC/NOV21/5/3	
Date	14 September 2021	
Original	English	
1992 Fund Assembly	92A26	●
1992 Fund Executive Committee	92EC77	
Supplementary Fund Assembly	SA18	●

REPORT ON INVESTMENTS

Note by the Secretariat

Summary:	The Director has prepared particulars of the investments of the 1992 Fund and the Supplementary Fund for the period 1 July 2020 to 30 June 2021, and of any changes which have taken place since his previous report.
Action to be taken:	<u>1992 Fund Assembly and Supplementary Fund Assembly</u> Information to be noted.

1 Introduction

- 1.1 Financial Regulation 10.2 provides that the Director shall submit, to each regular session of the governing bodies, particulars of the current investments of the respective Fund, and inform them of any changes which have taken place since his previous report. The Director's previous report covered the period 1 July 2019 to 30 June 2020.
- 1.2 This report contains particulars of investments of the 1992 Fund and the Supplementary Fund for the period 1 July 2020 to 30 June 2021.
- 1.3 A listing of all the fixed term deposits placed with the various financial institutions during that period was provided to the joint Investment Advisory Body (IAB) and reviewed at each of its quarterly meetings to ensure that placements meet the requirements of the Internal Investment Guidelines.
- 1.4 Pursuant to Financial Regulation 10.6, for purposes of investment, all monies in the General Fund, (Major) Claims Funds, Contributors' Accounts and any special accounts may be merged. Any resulting income shall accrue to the respective fund or account pro rata, provided, however, that interest on the Contributors' Accounts shall be calculated as set out in the Internal Regulations of each of the Funds.
- 1.5 At its April 2017 session, the 1992 Fund Administrative Council decided to amend Financial Regulation 10.4(a) to mitigate the currency risk of holding the 1992 Fund's working capital exclusively in pounds sterling. Financial Regulation 10.4(a) now provides that the 1992 Fund's assets shall be held in pounds sterling or, if the Director considers it appropriate, in other currencies required to meet claims and claims-related expenses (document IOPC/APR17/9/1, paragraph 6.2.4).
- 1.6 Information is provided both with respect to the investment income earned in the financial year 2020 (1 January 2020 to 31 December 2020) and the period 1 January 2021 to 30 June 2021.

2 Official rates

2.1 The Bank of England (BoE) base rate for the period 1 January 2020 to 30 June 2021 was as follows:

	BoE base rate
1 January 2020–10 March 2020	0.75%
11 March 2020–18 March 2020	0.25%
19 March 2020–30 June 2021	0.10%

2.2 The European Central Bank (ECB) refi rate for the period 1 January 2020 to 30 June 2021 was as follows:

	ECB refi rate
1 January 2020–30 June 2021	0.00%

2.3 The United States federal funds base rate for the period 1 January 2020 to 30 June 2021 was as follows:

	US federal funds rate
1 January 2020–2 March 2020	1.75%
3 March 2020–14 March 2020	1.25%
15 March 2020–30 June 2021	0.25%

3 Interest earned on investments

3.1 The interest income (which is shown on an accrual basis, i.e. when it is earned by the respective Fund) on investments in the calendar year 2020 and the period 1 January 2021 to 30 June 2021 respectively, is set out below.

3.1.1 1992 Fund

Period	Pounds sterling	United States dollars	Total interest
	Fixed term deposits & call accounts	Fixed term deposits	
1 January–1 December 2020	£145 213	£59 767	£204 980
Average rate of interest earned in 2020 on fixed term deposits	0.48%	0.95%	-
1 January–30 June 2021	£11 366	£2 789	£14 155

3.1.2 Supplementary Fund

Period	Fixed term deposits & Call/Notice Accounts
1 January–31 December 2020	£5 987
Average rate of interest earned in 2020 on fixed term deposits	0.44%
1 January–30 June 2021	£1 009

- 3.2 The credit markets remained stable over the reporting period, which meant no change was required to the lending limits in the Internal Investment Guidelines. Lending to Group 1 banks has a maximum maturity of 12 months, and lending to Group 2 banks has a maximum maturity of six months. A counterparty list is published by the IAB at its quarterly meetings and the IAB advise changes to the list between meetings, should the need arise.

4 Current investment situation

- 4.1 Pursuant to Financial Regulation 10.4 of the 1992 Fund, an amount of some EUR 20.1 million is being held by the 1992 Fund. As at 30 June 2021, EUR 0.8 million is being held in respect of the *Prestige* incident and EUR 19.3 million in respect of the *Agia Zoni II* incident.
- 4.2 Cash deposits in euros currently yield a negative interest rate so euros are usually held in current accounts. During the reporting period, two operational house banks started charging negative interest rates on current accounts and four other banks are limiting the volume of euros which can be held without incurring a negative interest charge. Exceptionally, a euro deposit of EUR 5 million was placed with Overseas Chinese Banking Corporation (OCBC Bank) for three months, yielding a positive interest rate of 0.05%.
- 4.3 The 1992 Fund's working capital is being held in pounds sterling (GBP) and United States dollars (USD). As at 30 June 2021, the General Fund held some USD 8.25 million to mitigate currency risk.
- 4.4 Information on the spread of investments with various financial institutions at the end of each month for the period 1 July 2020–30 June 2021 is set out at the Annexes to this document, as follows:

Annex I: 1992 Fund: fixed term investments in pounds sterling (GBP) and balances as at 30 June 2021 in call/notice accounts which provided enhanced yield with the added advantage of liquidity.

Annex II: 1992 Fund: fixed term investments in United States dollars (USD) as at 30 June 2021.

Annex III: Supplementary Fund: fixed term investments in pounds sterling and balances as at 30 June 2021 in call/notice accounts which provided enhanced yield with the added advantage of liquidity.

Annex IV: Investments made in excess of normal limits laid down in the Funds' Financial Regulations

5 Limits for investments in any one financial institution

- 5.1 Pursuant to Financial Regulations 10.4(c) and 10.4(d), the maximum investment in any bank or building society of the respective Fund's assets shall not normally exceed 25% of these assets or £10 million, whichever is the higher. The maximum investment in any bank or building society by the Funds shall not together normally exceed £15 million or £20 million in respect of the Funds' house bank(s) or not normally exceed £25 million when the two Funds' combined assets exceed £300 million.
- 5.2 Pursuant to Financial Regulation 10.4(e), the Director is required to report to the governing bodies, at its next regular session, any investments in excess of the normal limits pursuant to Financial Regulation 10.4 (c) and 10.4 (d).
- 5.3 Details of investments plus amounts held in interest-bearing accounts in excess of the normal limit with any one financial institution are given in Annex IV.

- 5.4 The limits apply to banking groups rather than individual financial institutions. Since the normal counterparty limit is set in pounds sterling, any volatility in the exchange rate affects the conversion of foreign currency deposits to pounds sterling and the effect of these changes to the limits are considered at the time of deposits being placed.
- 5.5 There was one occasion when the maximum investment in any bank or building society in the case of the 1992 Fund exceeded 25% of the 1992 Fund's total assets pursuant to Financial Regulation 10.4(c). This limit was exceeded for 7 days from 16 to 22 July 2020 with Santander Bank due to a change in the exchange rate between euros and pounds sterling.
- 5.6 During the reporting period the maximum limit of £15 million or £20 million was not exceeded pursuant to Financial Regulation 10.4(d).
- 5.7 Barclays Bank plc and HSBC Bank plc are designated as the main operational house banks, and Lloyds Bank plc, BNP Paribas and Santander UK Ltd are designated as temporary house banks since they are used to hold euros for the *Agia Zoni II* incident.

6 Financial instruments used

Dual currency deposits/dual currency investments

- 6.1 Since 2002, the 1992 Fund has occasionally invested pounds sterling in the form of dual currency deposits (DCDs), now referred to as dual currency investments (DCIs), in line with the recommendation of the IAB. A DCI is a type of deposit where an amount is placed in pounds sterling (the base currency) with a financial institution which meets the 1992 Fund's investment criteria for prudent investment at an enhanced rate of interest.
- 6.2 In return for this enhanced yield, there is a possibility that the principal sum will be repaid in a second currency if, at expiry of the deposit, the exchange rate between pounds sterling and the second currency is below a certain rate (i.e. a predetermined conversion rate chosen at the time the deposit is placed).
- 6.3 The duration of each deposit, as well as the second currency, is selected to satisfy the 1992 Fund's cash flow requirements. The possibility that the principal amount will be converted to the second currency at the predetermined conversion rate, known as the 'strike rate', is acceptable to the 1992 Fund as it has an ongoing requirement for the second currency to meet its claims liability arising from the incident(s).
- 6.4 During the reporting period one GBP/EUR DCI was entered into, maturing in December 2021, as there was an ongoing requirement for euros in respect of the *Agia Zoni II* incident.

7 Action to be taken

1992 Fund Assembly and Supplementary Fund Assembly

The 1992 Fund Assembly and Supplementary Fund Assembly are invited to take note of the information contained in this document.

ANNEX I

1992 FUND – MONTHLY BALANCES ON GBP INVESTMENT ACCOUNTS FROM 1 JULY 2020 TO 30 JUNE 2021

Institution	31.07.20	31.08.20	30.09.20	31.10.20	30.11.20	31.12.20	31.01.21	28.02.21	31.03.21	30.04.21	31.05.21	30.06.21
	£	£	£	£	£	£	£	£	£	£	£	£
DBS Bank Ltd	6 750 000	6 500 000	6 500 000	6 500 000	6 500 000	6 500 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000
HSBC Bank plc	-	-	-	-	-	-	5 500 000	5 500 000	5 500 000	5 500 000	5 500 000	5 500 000
Lloyds Bank plc	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	-	-	-	-	-	-
Qatar National Bank	-	-	-	-	-	-	-	-	-	-	5 000 000	7 500 000
Santander UK plc	4 500 000	4 500 000	4 500 000	3 500 000	3 500 000	3 500 000	4 250 000	4 250 000	4 250 000	4 250 000	4 100 000	1 600 000
Sumitomo Mitsui Banking Corporation	9 500 000	9 000 000	9 000 000	9 000 000	9 000 000	9 000 000	9 000 000	9 000 000	9 000 000	9 000 000	4 000 000	4 000 000
Total	26 750 000	26 000 000	26 000 000	25 000 000	25 000 000	25 000 000	24 750 000	24 750 000	24 750 000	24 750 000	24 600 000	24 600 000

Call/Notice accounts (enhanced yield and liquidity)	£
Santander UK plc	4 673 560
Sub-total, 30 June 2021	4 673 560
Total GBP invested, as at 30 June 2021	29 273 560

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ANNEX II

1992 FUND – MONTHLY BALANCES ON UNITED STATES DOLLARS INVESTMENT ACCOUNTS FROM 1 JULY 2020 TO 30 JUNE 2021

Institution	31.07.20	31.08.20	30.09.20	31.10.20	30.11.20	31.12.20	31.01.21	28.02.21	31.03.21	30.04.21	31.05.21	30.06.21
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Barclays Bank Plc	4 250 000	3 500 000	3 500 000	-	-	-	-	-	-	-	-	-
Qatar National Bank	-	-	-	-	-	-	-	-	-	-	-	3 500 000
Oversea-Chinese Banking Corporation Ltd	-	-	-	3 000 000	3 000 310	3 000 585	3 000 888	3 500 000	3 500 184	3 500 440	3 500 674	-
Sumitomo Mitsui Banking Corporation	3 000 753	3 000 753	3 001 497	4 500 000	4 500 543	4 501 068	4 501 769	4 000 000	4 000 257	4 000 733	4 001 167	4 000 000
Total	7 250 753	6 500 753	6 501 497	7 500 000	7 500 853	7 501 653	7 502 657	7 500 000	7 500 440	7 501 174	7 501 841	7 500 000

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ANNEX III

SUPPLEMENTARY FUND – MONTHLY BALANCES ON POUNDS STERLING INVESTMENT ACCOUNTS FROM 1 JULY 2020 TO 30 JUNE 2021

Institution	31.07.20	31.08.20	30.09.20	31.10.20	30.11.20	31.12.20	31.01.21	28.02.21	31.03.21	30.04.21	31.05.21	30.06.21
	£	£	£	£	£	£	£	£	£	£	£	£
Sumitomo Mitsui Banking Corporation	300 000	300 000	300 000	300 000	300 000	0	0	0	0	0	0	0
Total	300 000	300 000	300 000	300 000	300 000	0	0	0	0	0	0	0

Call/Notice accounts (enhanced yield and liquidity)	£
Lloyds Bank plc	511 601
Barclays Bank plc	813 100
Sub-total 30 June 2021	1 324 701
Total GBP invested, as at 30 June 2021	1 324 701

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ANNEX IV

**1992 FUND AND SUPPLEMENTARY FUND INVESTMENTS MADE
IN EXCESS OF THE NORMAL LIMITS LAID DOWN IN THE FUNDS'
FINANCIAL REGULATION 10.4(d) FROM 1 JULY 2020 TO 30 JUNE 2021**

Institution	Period during which limit exceeded	Number of days	Amount by which limit exceeded	Reason for exceeding limit
<i>Investments (pounds sterling, dollars and euros) in excess of £15 million (£20 million in respect of house banks)</i>				
Santander UK plc*	16/07/20-22/07/20	7	£84 000	The limit was exceeded due to the change in the exchange rates between EUR and GBP. Transfer of EUR 1 500 000 made from Santander UK plc to Barclays Bank plc on 22 July 2020.

* Temporary house bank