



International Oil Pollution
Compensation Funds

Agenda Item 5	IOPC/OCT19/5/3	
Date	11 September 2019	
Original	English	
1992 Fund Assembly	92A24	●
1992 Fund Executive Committee	92EC73	
Supplementary Fund Assembly	SA16	●

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 2018 to 30 June 2019 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 2017 to 30 June 2018.
- 1.2 This report contains particulars of investments of the 1992 Fund and the Supplementary Fund for the period 1 July 2018 to 30 June 2019.
- 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 2018 (1 January 2018 to 31 December 2018) and the period 1 January 2019 to 30 June 2019.

2 **Official rates**

2.1 The Bank of England (BoE) base rate for the period 1 January 2018 to 30 June 2019 was as follows:

	BoE base rate
1 January 2018–1 August 2018	0.50%
2 August 2018–30 June 2019	0.75%

2.2 The European Central Bank (ECB) refi rate for the period 1 January 2018 to 30 June 2019 was as follows:

	ECB refi rate
1 January 2018–30 June 2019	0.00%

2.3 The Bank of Korea base rate for the period 1 January 2018 to 30 June 2019 was as follows:

	Bank of Korea base rate
1 January 2018–29 November 2018	1.50%
30 November 2018–30 June 2019	1.75%

2.4 The Central Bank of the Russian Federation (CBR) base rate for the period 1 January 2018 to 30 June 2019 was as follows:

	CBR key rate
1 January 2018–8 February 2018	7.75%
9 February 2018–22 March 2018	7.50%
23 March 2018–13 September 2018	7.25%
14 September 2018–13 December 2018	7.50%
14 December 2018–13 June 2019	7.75%
14 June 2019–30 June 2019	7.50%

2.5 The United States federal funds base rate for the period 1 January 2018 to 30 June 2019 was as follows:

	US federal funds rate
1 January 2018–20 March 2018	1.50%
21 March 2018–12 June 2018	1.75%
13 June 2018–25 September 2018	2.00%
26 September 2018–18 December 2018	2.25%
19 December 2018–30 June 2019	2.50%

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 2018 and the period 1 January 2019 to 30 June 2019 respectively, is set out below.

3.1.1 1992 Fund

Period	Pounds sterling	Euros	Korean won	Russian roubles	United States dollars	Total interest
	Fixed term deposits & call accounts	Fixed term deposits	Fixed term deposits	Fixed term deposits	Fixed term deposits	
	£	£	£	£	£	£
1 January– 1 December 2018	369 733	-	212 435	15 003	275 317	872 488
Average rate of interest earned in 2018 on fixed term deposits	0.71%	-	1.30%	2.68%	2.14%	-
1 January– 30 June 2019	49 652	-	72 375	-	115 965	237 992

3.1.2 Supplementary Fund

Period	Fixed term deposits & Call/Notice Accounts	Total Interest
	£	£
1 January–31 December 2018	10 428	10 428
Average rate of interest earned in 2018 on fixed term deposits	0.85%	-
1 January–30 June 2019	6 176	6 176

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 During the reporting period substantial payments were made in relation to the *Hebei Spirit* and *Prestige* incidents resulting in the cash assets of the 1992 Fund falling in 2019. As at 30 June 2019, the cash assets stood at some £61.2 million compared to £108.8 million as at 31 December 2018.

4.2 At its April 2019 session, the Executive Committee approved the Director's proposal to make a payment of KRW 22 billion (USD 19.3 million) to the Skuld Club and some KRW 27.5 billion to the Government of the Republic of Korea, in respect of the *Hebei Spirit* incident. The USD and KRW currencies which were purchased and invested for this incident were fully utilised when the payments were made in April 2019.

4.3 At the same session, the Executive Committee decided to authorise the Director to pay the Spanish Court some EUR 27.2 million out of the Court judgment of some EUR 28 million. The payment to the Court was made in April 2019.

4.4 Pursuant to Financial Regulation 10.4 of the 1992 Fund, an amount of some EUR18.3 million is being held by the 1992 Funds. As at 30 June 2019, EUR 17 million is being held in respect to the *Agia Zoni II* incident. The euros are being held in current accounts with five counterparty banks incurring no interest. The euros are not placed on fixed term deposits in order to avoid negative interest rates which would erode the principal.

- 4.5 The 1992 Fund's working capital is being held in pounds sterling (GBP) and United States dollars (USD). As at 30 June 2019, the General Fund held some USD 6.2 million to mitigate currency risk. In December 2018, payment of compensation was made from the General Fund for the *Nesa R3* incident where USD was used to buy Omani rials.
- 4.6 Information on the spread of investments with various financial institutions at the end of each month for the period 1 July 2018–30 June 2019 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 2019 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 2019.
- Annex III: 1992 Fund: fixed term investments in Korean won (KRW) as at 30 June 2019.
- Annex IV: Supplementary Fund: fixed term investments in pounds sterling and balances as at 30 June 2019 in call/notice accounts which provided enhanced yield with the added advantage of liquidity.
- Annex V: 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.
- 5.3 There were no occasions when the maximum investment in any bank or building society in the case of the 1992 Fund exceeded 25% of its total assets.
- 5.4 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 V. The limit applies to banking groups rather than individual financial institutions. During the reporting period, the limit was exceeded on one occasion for a total of four days with Barclays Bank due to payments in respect of the *Prestige* and *Hebei Spirit* incidents detailed in paragraph 4.3.
- 5.5 Annex V includes any investments where the combined assets of the 1992 Fund and the Supplementary Fund were in excess of the normal limits.
- 5.6 Barclays Bank plc and HSBC Bank plc are designated as the main operational house banks, and Lloyds Bank plc was added during the reporting period. BNP Paribas and Santander are designated as temporary house banks since they are used to hold euros for the *Agia Zoni II* incident. KEB Hana Bank, HSBC Korea, ING Bank Korea and KDB (Korea Development Bank) were used to hold Korean won for the *Hebei Spirit* incident. Since the normal limit is set in pounds sterling, any volatility in the exchange rate affects the conversion of foreign currency deposits to pounds sterling.

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)/dual currency investments (DCIs) in line with the recommendation of the IAB. A DCD/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 claims arising from incidents.
- 6.4 During the reporting period one GBP/EUR DCI was entered into, maturing in December 2019, as there is 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.

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ANNEX I

1992 FUND – MONTHLY BALANCES ON GBP INVESTMENT ACCOUNTS FROM 1 JULY 2018 TO 30 JUNE 2019

Institution	31.07.18	31.08.18	30.09.18	31.10.18	30.11.18	31.12.18	31.01.19	28.02.19	31.03.19	30.04.19	31.05.19	30.06.19
	£	£	£	£	£	£	£	£	£	£	£	£
BNP Paribas	6 600 000	6 600 000	6 100 000	6 100 000	4 500 000	5 700 000	5 700 000	5 700 000	7 700 000	2 000 000	2 000 000	2 000 000
DBS Bank Ltd	7 500 000	7 500 000	11 250 000	11 250 000	10 750 000	4 000 000	4 000 000	7 500 000	7 500 000	7 000 000	7 000 000	7 000 000
HSBC Bank plc	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000
Int'l e Nederlanden Bank (ING Bank NV)	6 750 000	3 750 000	-	-	-	-	-	-	-	-	-	-
Oversea-Chinese Banking Corporation Ltd	2 000 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	3 000 000	3 000 000	1 500 000	1 500 000	1 500 000	1 500 000
Santander Bank Plc	-	-	-	-	-	-	-	-	5 000 000	5 000 000	5 000 000	5 000 000
Sumitomo Mitsui Banking Corporation	3 500 000	7 500 000	7 500 000	8 250 000	8 250 000	8 250 000	8 000 000	8 000 000	8 000 000	2 750 000	2 750 000	2 750 000
Total	32 350 000	32 850 000	32 350 000	33 100 000	31 000 000	25 450 000	26 700 000	30 200 000	35 700 000	24 250 000	24 250 000	24 250 000

Call/Notice accounts (enhanced yield and liquidity)	£
Bank of Scotland plc (Lloyds Banking Group)	65 542
Lloyds Bank plc	7 592 911
Santander UK plc	5 044 733
Sub-total, 30 June 2019	12 703 186
Total GBP invested, as at 30 June 2019	36 953 186

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ANNEX II

1992 FUND – MONTHLY BALANCES ON UNITED STATES DOLLARS INVESTMENT ACCOUNTS FROM 1 JULY 2018 TO 30 JUNE 2019

Institution	31.07.18	31.08.18	30.09.18	31.10.18	30.11.18	31.12.18	31.01.19	28.02.19	31.03.19	30.04.19	31.05.19	30.06.19
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
BNP Paribas	3 000 000	3 000 000	3 000 000	3 018 208	3 025 942	3 025 942	3 040 976	3 040 976	3 040 976	-	-	-
DBS Bank Ltd	4 362 094	4 362 094	4 362 094	4 377 983	4 377 983	2 577 983	2 577 983	2 600 000	2 600 000	2 600 000	2 617 548	2 617 548
Lloyds Bank Plc	2 027 000	2 027 000	2 034 191	2 034 191	2 034 191	2 034 191	2 050 733	2 050 733	2 050 733	2 064 625	2 064 625	2 100 000
Oversea-Chinese Banking Corporation Ltd	7 622 000	7 622 000	7 666 344	7 666 344	7 682 479	5 045 268	5 067 602	5 067 602	5 067 602	-	-	-
Sumitomo Mitsui Banking Corporation	6 508 625	6 508 625	6 546 088	6 546 088	6 565 142	6 565 142	6 599 694	6 599 694	6 599 694	1 500 000	1 500 000	1 500 000
Total	23 519 719	23 519 719	23 608 718	23 642 815	23 685 737	19 248 527	19 336 987	19 359 004	19 359 004	6 164 625	6 182 173	6 217 548

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ANNEX III

1992 FUND – MONTHLY BALANCES ON KOREAN WON INVESTMENT ACCOUNTS FROM 1 JULY 2018 TO 30 JUNE 2019

2018

Institution	31.07.18	31.08.18	30.09.18	31.10.18	30.11.18	31.12.18
	KRW	KRW	KRW	KRW	KRW	KRW
HSBC Bank plc	5 078 813 237	-	-	-	-	-
Int'le Nederlanden Bank (ING Bank NV)	8 121 013 498	8 144 553 312	8 144 553 312	8 158 845 329	8 166 814 173	8 166 814 173
KDB Bank	6 699 701 311	6 699 701 311	6 725 876 034	6 725 876 034	6 741 612 741	6 741 612 741
KEB Hana Bank	3 928 675 296	3 944 321 110	3 944 321 110	3 955 041 018	3 959 676 542	3 959 676 542
Total	23 828 203 342	18 788 575 733	18 814 750 456	18 839 762 381	18 868 103 456	18 868 103 456

2019

Institution	31.01.19	28.02.19	31.03.19	30.04.19	31.05.19	30.06.19
	KRW	KRW	KRW	KRW	KRW	KRW
HSBC Bank plc	-	-	-	-	-	-
Int'le Nederlanden Bank (ING Bank NV)	8 185 922 280	8 185 922 280	8 185 922 280	-	-	-
KDB Bank	6 741 612 741	6 769 524 864	6 769 524 864	-	-	-
KEB Hana Bank	3 969 073 451	3 969 073 451	3 978 825 410	-	-	-
Total	18 896 608 472	18 924 520 595	18 934 272 554	0	0	0

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ANNEX IV

SUPPLEMENTARY FUND – MONTHLY BALANCES ON POUNDS STERLING INVESTMENT ACCOUNTS FROM 1 JULY 2018 TO 30 JUNE 2019

Institution	31.07.18	31.08.18	30.09.18	31.10.18	30.11.18	31.12.18	31.01.19	28.02.19	31.03.19	30.04.19	31.05.19	30.06.19
	£	£	£	£	£	£	£	£	£	£	£	£
Sumitomo Mitsui Banking Corporation	390 000	390 000	390 000	390 000	350 000	350 000	350 000	350 000	350 000	350 000	350 000	350 000
Total	390 000	390 000	390 000	390 000	350 000	350 000	350 000	350 000	350 000	350 000	350 000	350 000

Call/Notice accounts (enhanced yield and liquidity)	£
Lloyds Bank plc	506 998
Barclays bank plc	606 440
Sub-total 30 June 2019	1 113 438
Total GBP invested, as at 30 June 2019	1 463 438

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ANNEX V

**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 2018 TO 30 JUNE 2019**

Institution	Period during which limit exceeded	Number of days	Amount by which limit exceeded	Reason for exceeding limit**
<i>Investments (pounds sterling, euros, Korean won and Russian roubles) in excess of £15 million (£20 million in respect of house banks)</i>				
Barclays Bank plc*	04–08/04/2019	4	£9.5 million – £23 million	Payments in respect of <i>Hebei Spirit</i> and <i>Prestige</i> incidents

* House bank

** Hedging Guideline 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.