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REPORT OF THE INVESTMENT ADVISORY BODIES

LIMITS OF INVESTMENTS IN INDIVIDUAL INSTITUTIONS

Note by the Director

Summary:	Proposal to increase the maximum amount of investments in any one institution.
Action to be taken:	Decide on the maximum investment amount and amend the Financial Regulations accordingly.

Introduction

1 The 1992 Fund's investments in any given institution are subject to certain limits, as provided in Financial Regulation 10.4(c), which reads:

"10.4 The assets of the 1992 Fund shall be invested by the Director in accordance with Financial Regulation 10.1 and the following principles:

- (c) the maximum investment in any bank, building society or discount house shall not normally exceed 25% of the 1992 Fund's total assets; the investments in any such institution by the 1992 Fund and the 1971 Fund shall not together normally exceed £10 million;"

Proposal by the Investment Advisory Bodies

2 The Investment Advisory Bodies of the 1992 Fund and 1971 Fund have proposed that the normal limit for investments of the assets of the two Organisations should be increased from £10 million to £15 million. The reasons for this proposal are set out in the Investment Advisory Bodies' Report to the Assembly as follows (document 92FUND/A.3/5, paragraph 3(e)):

The expansion of the IOPC Funds' membership has led to the Funds becoming involved in more incidents and becoming exposed to claims for compensation for significantly higher amounts than in earlier years. This has necessitated the levy of contributions for higher amounts. Consequently, the amounts to be invested have been growing whilst the number of financial institutions which meet the IOPC Funds investment criteria have been declining due to mergers and downgrading of credit ratings. In addition, many institutions which meet these criteria have limited need of sterling deposits or rarely pay competitive rates. Having explored new areas for placing the growing deposits of the Funds' as set out in paragraphs 3.2 (c) and (d) above, the Advisory Bodies continue to believe that adherence to the strict investment criteria is paramount. With an increasing deposit base, the Advisory Bodies take the view that an increase of the limit which applies to investment in any given financial institution on the approved list is preferable to extending the list to less secure institutions. Under Financial Regulation 10 of both Funds, the maximum investment by the 1971 Fund and the 1992 Fund in any one institution should not normally together exceed £10 million, as decided by the Assemblies in June 1996. The Advisory Bodies have recommended to the Director that the normal limit laid down in the Financial Regulations should be increased from £10 million to £15 million.

Director's proposals

3 The Investment Advisory Bodies have expressed the view that the maximum amount to be held in any one financial institution should be increased, since the amounts to be invested have grown and the number of institutions meeting the criteria for investments has been declining. It is likely that the amounts held by the 1971 Fund will decrease significantly during 1999, and beyond, and it is difficult to predict the level of the assets which will be held by the 1992 Fund. The Director nevertheless agrees with the Investment Advisory Bodies and proposes therefore that the maximum investment which the 1992 Fund and the 1971 Fund may normally hold in any given institution should be increased from £10 million to £15 million.

4 Under Financial Regulation 10.4(c) investments may be made with the discount houses. The IOPC Funds have not made investments with discount houses in recent years, and the role of these institutions is declining. For this reason the Director proposes that the reference to discount houses should be deleted.

5 If the Director's proposals were approved, the Assembly may wish to amend Financial Regulation 10.4(c) to read as follows (amendments underlined):

"10.4 The assets of the 1992 Fund shall be invested by the Director in accordance with Financial Regulation 10.1 and the following principles:

- (c) the maximum investment in any bank or building society^{<1>} shall not normally exceed 25% of the 1992 Fund's total assets; the investments in any such institution by the 1992 Fund and the 1971 Fund shall not together normally exceed £15 million;"

Action to be taken by the Assembly

6 The Assembly is invited to:

- (a) consider the Director's proposal to increase the maximum investment which the 1992 Fund and the 1971 Fund may normally hold in any given institution from £10 million to £15 million;
- (b) consider deletion of the reference to discount houses in Financial Regulation 10.4(c); and
- (c) if the Assembly approves the Director's proposals, to adopt the revised text of Financial Regulation 10.4(c) set out in paragraph 4 above.

<1> The words "or discount house" have been deleted.