



International Oil Pollution
Compensation Funds

Agenda Item 5	IOPC/NOV20/5/3	
Date	6 August 2020	
Original	English	
1992 Fund Assembly	92A25	●
1992 Fund Executive Committee	92EC74	
Supplementary Fund Assembly	SA17	●

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 2019 to 30 June 2020, 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 2018 to 30 June 2019.
- 1.2 This report contains particulars of investments of the 1992 Fund and the Supplementary Fund for the period 1 July 2019 to 30 June 2020.
- 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 2019 (1 January 2019 to 31 December 2019) and the period 1 January 2020 to 30 June 2020.

2 **Official rates**

2.1 The Bank of England (BoE) base rate for the period 1 January 2019 to 30 June 2020 was as follows:

	BoE base rate
1 January 2019–10 March 2020	0.75%
11 March 2020–18 March 2020	0.25%
19 March 2020–30 June 2020	0.10%

2.2 The European Central Bank (ECB) refi rate for the period 1 January 2019 to 30 June 2020 was as follows:

	ECB refi rate
1 January 2019–30 June 2020	0.00%

2.3 The Bank of Korea base rate for the period 1 January 2019 to 30 June 2020 was as follows:

	Bank of Korea base rate
1 January 2019–17 July 2019	1.75%
18 July 2019–15 October 2019	1.50%
16 October 2019–15 March 2020	1.25%
16 March 2020–27 May 2020	0.75%
28 May 2020–30 June 2020	0.50%

2.4 The United States federal funds base rate for the period 1 January 2019 to 30 June 2020 was as follows:

	US federal funds rate
1 January 2019–30 July 2019	2.50%
31 July 2019–17 September 2019	2.25%
18 September 2019–29 October 2019	2.00%
30 October 2019–2 March 2020	1.75%
3 March 2020–14 March 2020	1.25%
15 March 2020–30 June 2020	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 2019 and the period 1 January 2020 to 30 June 2020 respectively, is set out overleaf.

3.1.1 1992 Fund

Period	Pounds sterling	Korean won	United States dollars	Total interest
	Fixed term deposits & call accounts	Fixed term deposits	Fixed term deposits	
1 January– 1 December 2019	£320 274	£72 377	£194 049	£586 700
Average rate of interest earned in 2019 on fixed term deposits	0.85%	1.80%	2.41%	-
1 January– 30 June 2020	£38 295	-	£46 986	£85 281

3.1.2 Supplementary Fund

Period	Fixed term deposits & Call/Notice Accounts	Total Interest
1 January–31 December 2019	£13 923	£13 923
Average rate of interest earned in 2019 on fixed term deposits	0.95%	-
1 January–30 June 2020	£3 914	£3 914

- 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 last reporting period (1 July 2018–30 June 2019) 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 to some £57.5 million compared to £108.8 million as at 31 December 2018. As at 30 June 2020, the cash assets stood at some £60.2 million with contribution income received in 2020 amounting to some £10.8 million mainly as a result of levies made in November 2019 for receipt by 1 March 2020 in respect of the General Fund, and the *Agia Zoni II* and *Nesa R3* Major Claims Funds.
- 4.2 Pursuant to Financial Regulation 10.4 of the 1992 Fund, an amount of some EUR 21.0 million is being held by the 1992 Fund. As at 30 June 2020, EUR 0.8 million is being held in respect of the *Prestige* incident, EUR 19.8 million in respect of the *Agia Zoni II* incident and some EUR 0.3 in respect of the General Fund. The euros are not placed on fixed term deposits in order to avoid negative interest rates which would erode the principal. During the reporting period one EUR deposit was placed with Overseas Chinese Banking Corporation (OCBC Bank) yielding a positive interest rate and the details of the term deposit is as follows:

Financial Institution	Amount placed	Value date	Maturity date	Interest rate	Interest amount	Total amount, Principal plus Interest
OCBC, London	EUR 5 000 000.00	07/04/20	07/07/20	0.05%	EUR 631.94	EUR 5 000 631.94

All other euros are being held in current accounts with six counterparty banks incurring no interest.

4.3 In addition, in respect of the *Hebei Spirit* incident, some USD2.8 million was held to meet the final payment to the Skuld P&I Club of some KRW3.4 billion.

4.4 The 1992 Fund's working capital is being held in pounds sterling (GBP) and United States dollars (USD). As at 30 June 2020, the General Fund held some USD 8.4 million to mitigate currency risk.

4.5 Information on the spread of investments with various financial institutions at the end of each month for the period 1 July 2019–30 June 2020 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 2020 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 2020.

Annex III: Supplementary Fund: fixed term investments in pounds sterling and balances as at 30 June 2020 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 94 days as a result of a deposit of £6 million placed with Lloyds Bank plc on 17 January 2020 (for a period until 17 December 2020) up until the 95-day notice account held with the Bank was repaid on 20 April 2020. The IAB was notified of the deposit to be placed with Lloyds Bank plc and the IAB agreed to the placement, on an exceptional basis, in order to secure a very good fixed term rate in a climate of low interest rates.
- 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. KEB Hana Bank, HSBC Korea, ING Bank Korea and KDB (Korea Development Bank) were used to hold Korean won for the *Hebei Spirit* incident and were also considered as temporary house banks. Except for KEB Hana Bank, the 1992 Fund's accounts with all the other three banks in Republic of Korea were closed in April 2019.

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 was an ongoing requirement for euros in respect of the *Agia Zoni II* incident and for the General Fund. In this instance the principal amount of the deposit of £6.0 million was converted to EUR 6.87 million at the expiry date of the DCI on 13 December 2019.

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 2019 TO 30 JUNE 2020

Institution	31.07.19	31.08.19	30.09.19	31.10.19	30.11.19	31.12.19	31.01.20	28.02.20	31.03.20	30.04.20	31.05.20	30.06.20
	£	£	£	£	£	£	£	£	£	£	£	£
BNP Paribas	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	-	-	-	-	-	-	-
DBS Bank Ltd	7 000 000	6 750 000	6 750 000	3 250 000	3 250 000	3 250 000	3 750 000	6 750 000	6 750 000	6 750 000	6 750 000	6 750 000
HSBC Bank plc	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	-	-	-	-	-	-	-
Lloyds Bank Plc	-	-	-	-	-	-	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000
Oversea-Chinese Banking Corporation Ltd	1 500 000	1 500 000	1 250 000	1 250 000	1 250 000	2 750 000	-	-	-	-	-	-
Santander Bank Plc	5 000 000	5 000 000	4 750 000	4 750 000	4 750 000	4 750 000	4 750 000	6 750 000	5 000 000	5 000 000	4 500 000	4 500 000
Sumitomo Mitsui Banking Corporation	2 500 000	2 500 000	2 500 000	2 500 000	2 500 000	2 500 000	-	2 000 000	4 000 000	11 500 000	11 000 000	11 000 000
Total	24 000 000	23 750 000	23 250 000	19 750 000	19 750 000	13 250 000	14 500 000	21 500 000	21 750 000	29 250 000	28 250 000	28 250 000

Call/Notice accounts (enhanced yield and liquidity)	£
Santander UK plc	4 008 912
Sub-total, 30 June 2020	4 008 912
Total GBP invested, as at 30 June 2020	32 258 912

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ANNEX II

1992 FUND – MONTHLY BALANCES ON UNITED STATES DOLLARS INVESTMENT ACCOUNTS FROM 1 JULY 2019 TO 30 JUNE 2020

Institution	31.07.19	31.08.19	30.09.19	31.10.19	30.11.19	31.12.19	31.01.20	28.02.20	31.03.20	30.04.20	31.05.20	30.06.20
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Barclays Bank Plc	-	-	-	3 800 000	3 802 826	3 806 586	3 810 453	3 814 228	3 814 228	4 571 827	4 571 827	3 571 827
DBS Bank Ltd	2 617 548	2 634 606	2 634 606	2 634 606	-	-	-	-	-	-	-	-
Lloyds Bank Plc	2 100 000	2 100 000	2 112 283	2 112 283	2 112 283	2 119 306	2 119 306	2 119 306	2 119 306	2 119 306	2 119 306	-
Oversea-Chinese Banking Corporation Ltd	-	-	-	-	2 150 000	2 150 000	2 150 000	2 160 723	2 160 723	2 160 723	2 170 008	-
Sumitomo Mitsui Banking Corporation	1 509 669	1 509 669	1 509 669	1 518 349	1 518 349	1 518 349	1 518 349	1 528 280	1 528 280	1 600 000	1 600 000	3 000 228
Total	6 227 217	6 244 274	6 256 557	10 065 238	9 583 458	9 594 241	9 598 108	9 622 537	9 622 537	10 451 855	10 461 140	6 572 054

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ANNEX III

SUPPLEMENTARY FUND – MONTHLY BALANCES ON POUNDS STERLING INVESTMENT ACCOUNTS FROM 1 JULY 2019 TO 30 JUNE 2020

Institution	31.07.19	31.08.19	30.09.19	31.10.19	30.11.19	31.12.19	31.01.20	28.02.20	31.03.20	30.04.20	31.05.20	30.06.20
	£	£	£	£	£	£	£	£	£	£	£	£
Sumitomo Mitsui Banking Corporation	350 000	350 000	350 000	350 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000
Total	350 000	350 000	350 000	350 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000

Call/Notice accounts (enhanced yield and liquidity)	£
Lloyds Bank plc	510 886
Barclays bank plc	611 338
Sub-total 30 June 2019	1 122 224
Total GBP invested, as at 30 June 2019	1 422 224

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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 2019 TO 30 JUNE 2020

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>				
Lloyds Bank Plc*	17/01/20-20/04/20	94	£1.8 million - £3.5 million	The reason for exceeding the limit is to avail of enhanced interest rate. The IAB was consulted and agreed on 14/01/20 that the counter-party limit of 25% of the total Funds' exposure could be breached for the stipulated number of days. The counterparty limit of £20 million for the Bank was not exceeded.

* House bank