



# Pilot Auction Facility Trust Fund

## Financial Report

Prepared by the Trustee

*As of December 31, 2019*



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## Introduction

The Pilot Auction Facility (PAF) was initiated as a result of a report from the Methane Finance Study Group<sup>1</sup>, an international group of experts convened at the request of the G8. It is an innovative climate finance mechanism that pioneers the use of auctions to allocate scarce public resources and leverage private sector financing to stimulate investment in projects that reduce greenhouse gas emissions at low cost by piloting the auction of tradeable put options which would guarantee a floor price for qualifying emission credits.

The PAF Trust Fund was established in December 2014. This report covers the financial status of the PAF Trust Fund, and is produced by the Trustee in accordance with the Trustee's role in the PAF Framework, as set forth under Section E, which states:

*“The Trustee will prepare annual financial reports of the PAF Trust Fund.”*

In addition, Section 6 of the Standard Provisions in the Contribution Agreement/Arrangement states as follows:

*“The Trustee will maintain separate records and ledger accounts in respect of the funds deposited in the Trust Fund and transfers made therefrom. The Trustee will report to the Participants Committee annually on the financial status of the Trust Fund including information on the status of Contributions, investment income, commitments, transfers and funds available for allocation of funding by the Participants Committee.”*

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<sup>1</sup> “Methane Finance Study Group Report, Using Pay-for-Performance Mechanism to Finance Methane Abatement”, Methane Finance Study Group. 2013.



## PAF Trust Fund Financial Summary as of December 31, 2019

### ***Pledges and Contributions:***

A pledge represents a contributor's expression of intent to make a contribution. Pledges are converted to Contributions by way of a countersigned Contribution Agreement/Arrangement.

As of December 31, 2019, pledges and contributions to the PAF Trust Fund totaled USDeq. 77.81 million. Of this amount, USDeq. 77.81 million has been deposited into the PAF Trust fund – USDeq. 53.40 million in the PAF window, and USDeq. 24.41 million in the Nitric Acid Climate Action Group (NACAG) window.

### ***Investment Income:***

As of December 31, 2019, the PAF Trust Fund earned investment income of approximately USD 3.77 million on the liquid balances in the Trust Fund. The PAF Trust Fund portfolio has returned 2.69% in calendar year 2019. The PAF Trust Fund balance is allocated to a short term fixed income portfolio.

### ***Funding Approvals:***

As of December 31, 2019, the PAF Participants Committee had approved funding from the PAF Trust Fund totaling USD 55.73 million, in respect of the budget for three auctions and administrative budgets of the PAF to support the activities of the PAF Secretariat and Trustee.

### ***Cash Transfers:***

The Trustee has transferred USD 42.63 million up to December 31, 2019, including USD 28.90 million related to bond redemption for the three auctions.

### ***Funds Held in Trust:***

Funds Held in Trust<sup>2</sup> reflect contributions paid-in from contributors, investment income, and other income less cash transfers. Funds Held in Trust as of December 31, 2019 amounted to USDeq. 39.14 million.

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<sup>2</sup> Funds Held in Trust represents balance of cash, investments and unencashed promissory notes (if any) as of the reporting date.

## 1. PAF Trust Fund Summary – Inception through December 31, 2019

In USD millions

	Total	% of Total
<b><u>Donor Pledges and Contributions</u></b>		
Contributions	77.81	100.0%
Pledges	-	0.0%
<b>Total Pledges and Contributions</b>	<b>77.81</b>	<b>100.0%</b>

<b><u>Cumulative Resources</u></b>		
<u>Resources received</u>		
Cash Receipts	77.81	95.2%
Investment Income earned	3.77	4.6%
Other Income a/	0.19	0.2%
<b>Total Resources Received</b>	<b>81.77</b>	<b>100.0%</b>
<u>Resources not yet received</u>		
Contributions not yet received	-	0.0%
Pledges	-	0.0%
Total resources not yet received	-	0.0%
<b>Total Potential Resources (A) (in USD millions) b/</b>	<b>81.77</b>	<b>100.0%</b>

<b><u>Cumulative Funding Decisions</u></b>		
Auctions	42.19	75.7%
Administrative Budget	13.55	24.3%
<b>Total Funding Decisions Net of Cancellations (B)</b>	<b>55.73</b>	<b>100.0%</b>
<b>Total Potential Resources Net of Funding Decisions (A) - (B) b/</b>	<b>26.04</b>	
Commitment Fee to IBRD a/	0.19	
<b>Total Potential Resources Net of Funding Decisions and Commitment Fee to IBRD a/ b/</b>	<b>25.85</b>	

<b><u>Funds Available</u></b>		
Funds Held in Trust with no restrictions	39.14	
Approved Amounts Pending Cash Transfers	13.29	
<b>Total Funds Available to Support Participants Committee Decisions b/</b>	<b>25.85</b>	

Note: Sub-totals may not add up to due to rounding

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution

b/ Does not include proceeds from sale of put options (premium) totaling approximately USD 4.39 million as confirmed by World Bank Treasury as of reporting date



## 2. Pledges and Contributions as of December 31, 2019

*In millions*

Contributor	Curr	Pledge in Currency of Contribution	Effective (or signed) Contribution			Receipts in Currency of Contribution		Receipts in USDeq. a/
			PAF	NACAG	Total	PAF	NACAG	
Climate Cent Foundation	USD	2.50	2.50	-	2.50	2.50	-	2.50
Germany	EUR	35.00	15.00	20.00	35.00	15.00	20.00	42.81
Sweden	USD	15.00	15.00	-	15.00	15.00	-	15.00
Switzerland	USD	2.50	2.50	-	2.50	2.50	-	2.50
United States	USD	15.00	15.00	-	15.00	15.00	-	15.00
<b>Total Contributions Received</b>								<b>77.81</b>

a/ Represents actual USD receipts

Note: totals may not add up to due to rounding

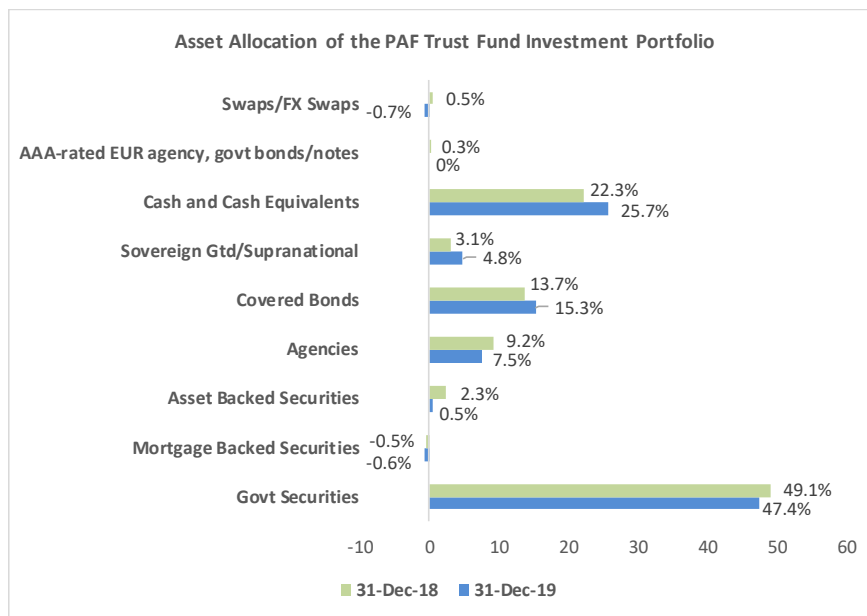


### 3. Asset Mix and Investment Income

#### ASSET MIX

Funds held in trust by the World Bank (as the Trustee) are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. The World Bank uses the Conditional Value-at-Risk (CVaR) measure as the risk constraint in the management of trust funds. Funds are managed such that the expected maximum loss, as measured by the CVaR, at the portfolio’s investment horizon, is not to exceed 1% with 99% confidence.

The portfolio allocation by asset class has the largest allocations to government securities and money market instruments.

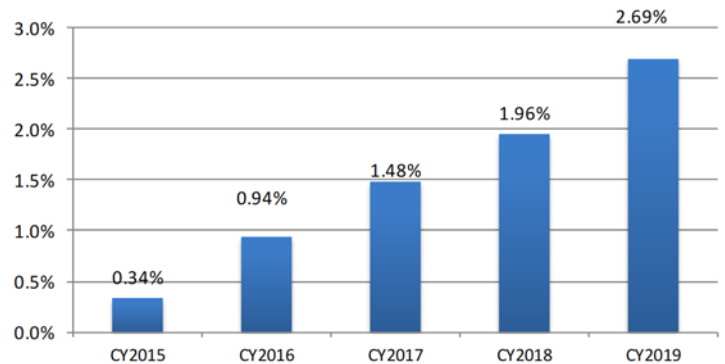


*Note:* The negative position in swaps was primarily due to changes in foreign currency exchange (FX) rates in cross currency basis swaps. Such swap instruments are used to implement currency hedges on bond positions within the portfolio. These hedges remain in place.

Mortgage Backed Securities allocation includes To-Be Announced (TBA) contracts for which only Mark-To-Market (MTM) is used to calculate the value of the position which, as a result, could be negative.

#### INVESTMENT RETURNS

The PAF Trust Fund balances are invested in accordance with the investment strategy established for all trust funds administered by the World Bank. They are invested in a short term fixed income portfolio with an investment horizon of one year. The PAF Trust Fund portfolio has earned approximately USD 3.77 million in investment income at December 2019.





## 4. Cumulative Funding Decisions as of December 31, 2019

*In USD millions*

<u>Auctions a/</u>	<u>PAF</u>	<u>NACAG</u>
First Auction	16.98	-
Second Auction	13.15	-
Third Auction	12.06	-
	<b>42.19</b>	-
<b><u>Administrative Budget</u></b>		
Secretariat	12.28	-
Trustee	1.27	-
	<b>13.55</b>	-
<b>Total Funding Decisions</b>	<b>55.73</b>	-

a/ Represents (i) actual bond redemption amount transferred from the PAF Trust Fund through December 2019 and (ii) amount of bond redemptions due in 2020





## 5. Funds Available as of December 31, 2019

In USD millions

	PAF	NACAG
<b>1. Cumulative Receipts</b>	<b>56.12</b>	<b>25.65</b>
a. Cash receipts from Contributors	53.40	24.41
b. Investment Income earned	2.53	1.24
c. Other Income a/	0.19	-
<b>2. Cumulative Cash Transfers</b>	<b>42.63</b>	<b>-</b>
a. Bond redemption	28.90	-
b. Administrative Budget	13.55	-
c. Commitment Fee to IBRD a/	0.19	-
<b>3. Funds Held in Trust ( 3 = 1 - 2 )</b>	<b>13.49</b>	<b>25.65</b>
<b>4. Funding Decisions Pending Cash Transfer</b>	<b>13.29</b>	<b>-</b>
<b>5. Funds available to support Participants Committee decisions ( 5 = 3 - 4 )</b>	<b><u>0.20</u> b/</b>	<b><u>25.65</u></b>

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution  
b/ Does not include proceeds from sale of put options (premium) totaling approximately USD 4.39 million as confirmed by World Bank Treasury as of reporting date

Note: Sub-totals may not add up to due to rounding