



# Pilot Auction Facility Trust Fund

## Financial Report

Prepared by the Trustee

*As of December 31, 2015*



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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, 2015

### ***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, 2015, pledges and contributions to the PAF Trust Fund totaled US\$ 53.40 million. Of this amount, US\$ 32.90 million has been deposited by five contributors into the PAF Trust fund.

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

As of December 31, 2015, the PAF Trust Fund earned investment income of approximately USD 0.06 million on the undisbursed balance of the Trust Fund. The PAF Trust Fund portfolio has returned 0.34% from inception (December 2014) through December 31, 2015. The PAF Trust Fund balance is allocated to a short term fixed income portfolio.

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

As of December 31, 2015, the PAF Participants Committee had approved funding from the PAF Trust Fund totaling USD 29.83 million, in respect of administrative budgets of the PAF to support the activities of the PAF Secretariat and Trustee and the budget for the first auction.

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

Based on PAF Participants Committee decisions, the Trustee has transferred USD 4.83 million up to December 31, 2015 to cover administrative costs of the PAF Secretariat and Trustee.

### ***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, 2015 amounted to US\$ 28.13 million.

### ***Funds Available for PAF Participants Committee Funding Decisions:***

Funds available to support PAF Participants Committee funding decisions amounted to USD 3.13 million<sup>3</sup> as of December 31, 2015.

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

<sup>3</sup> Total amount of Funds Available does not include the balance of Sweden's contribution receivable of USD 13 million (to be paid at the time of bond redemption), but Sweden's total contribution amount is considered when planning the size of future auctions.

## 1. PAF Trust Fund Summary – Inception through December 31, 2015

In USD millions

	Total	% of Total
<b><u>Donor Pledges and Contributions</u></b>		
Contributions	53.40	100.0%
Pledges	-	0.0%
<b>Total Pledges and Contributions</b>	<b>53.40</b>	<b>100.0%</b>

<b><u>Cumulative Resources</u></b>		
<u>Resources received</u>		
Cash Receipts	32.90	61.5%
Investment Income earned	0.06	0.1%
Other Income a/	0.08	0.1%
<b>Total Resources Received</b>	<b>33.04</b>	<b>61.7%</b>
<u>Resources not yet received</u>		
Contributions not yet received	20.50	38.3%
Pledges	-	0.0%
Total resources not yet received	20.50	38.3%
<b>Total Potential Resources (A) (in USD millions)</b>	<b>53.53</b>	<b>100.0%</b>

<b><u>Cumulative Funding Decisions</u></b>		
Auction	25.00	83.8%
Administrative Budget	4.83	16.2%
<b>Total Funding Decisions Net of Cancellations (B)</b>	<b>29.83</b>	<b>100.0%</b>
<b>Total Potential Resources Net of Funding Decisions (A) - (B)</b>	<b>23.70</b>	
<b>Total Potential Resources Net of Funding Decisions and Operational Reserve</b>	<b>23.70</b>	

<b><u>Funds Available</u></b>		
Funds Held in Trust with no restrictions	28.13	
Approved Amounts Pending Cash Transfers	25.00	
<b>Total Funds Available to Support Participants Committee Decisions b/</b>	<b>3.13</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/ Total amount of Funds Available does not include the balance of Sweden's contribution receivable of USD 13 million (to be paid at the time of bond redemption), but Sweden's total contribution amount is considered when planning the size of future auctions



## 2. Pledges and Contributions as of December 31, 2015

*In millions*

Contributor	Curr	Pledge in Currency of Contribution	Effective (or signed) Contribution	Effective (or signed) Contribution USDeq.	Receipts in Currency of Contribution	Receipts in USDeq. a/
Climate Cent Foundation	USD	2.50	2.50	2.50	2.50	2.50
Germany	EUR	15.00	15.00	18.40	15.00	18.40
Sweden	USD	15.00	15.00	15.00	2.00	2.00
Switzerland	USD	2.50	2.50	2.50	2.50	2.50
United States	USD	15.00	15.00	15.00	7.50	7.50
<b>Total Contributions Received</b>						<b>32.90</b>

a/ Represents actual USD receipts

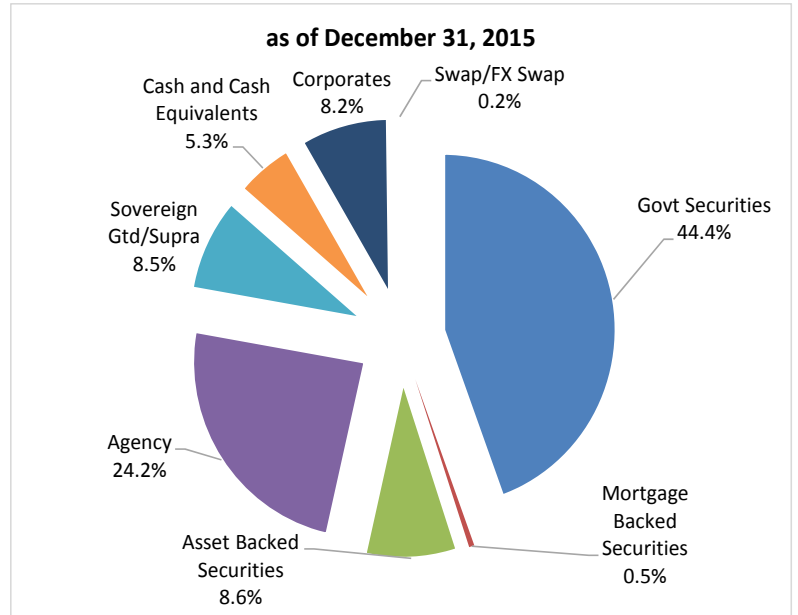


### 3. Asset Mix and Investment Income

#### 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. On July 1, 2015, the World Bank formally adopted 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, agency, corporates, and asset backed securities.



#### INVESTMENT RETURNS

The PAF funds are invested in accordance with the investment strategy established for all of the trust funds administered by the World Bank. The PAF funds are invested in a short term fixed income portfolio with an investment horizon of one year. The PAF Trust Fund portfolio (which totaled approximately USD 28.13 million at end-December 2015) earned approximately USD 0.06 million in investment income since inception.



## 4. Cumulative Funding Decisions

*In USD millions*

<b>Activity</b>	<b>As of December 31, 2015</b>
<b>Auctions</b>	
First Auction	25.00
<b>Sub-total</b>	<b>25.00</b>
<b>Administrative Budget</b>	
FY16 Secretariat	2.73
FY16 Trustee	0.41
FY15 Secretariat	1.19
FY15 Trustee	0.51
<b>Sub-total</b>	<b>4.83</b>
<b>Total</b>	<b>29.83</b>

### SNAPSHOT OF FUNDING DECISIONS:

- The cumulative funding decisions made by the PAF Participants Committee up to December 31, 2015 amount to USD 29.83 million for administrative budgets of the PAF Secretariat and Trustee for fiscal years 2015 and 2016 as well as the budget for the first auction that took place in July 2015.





## 5. Funds Available

In USD millions

	<u>As of December 31, 2015</u>
	(a)
<b>1. Cumulative Receipts</b>	<b>33.04</b>
a. Cash receipts from Contributors	32.90
b. Investment Income earned on undisbursed balances	0.06
c. Other Income a/	0.08
<b>2. Cumulative Cash Transfers</b>	<b>4.91</b>
a. Bond repayments	-
b. Administrative Budget	4.83
c. Commitment Fee to IBRD a/	0.08
<b>3. Funds Held in Trust ( 3 = 1 - 2 )</b>	<b>28.13</b>
<b>4. Financial Reserve</b>	<b>-</b>
<b>5. Funding Decisions Pending Cash Transfer</b>	<b>25.00</b>
<b>6. Funds available to support Participants Committee decisions ( 6 = 3 - 4 - 5 ) b/</b>	<b>3.13</b>

a/ Represents commitment fee based on outstanding unpaid amount of Sweden's contribution  
b/ Total amount of Funds Available does not include the balance of Sweden's contribution receivable of USD 13 million (to be paid at the time of bond redemption), but Sweden's total contribution amount is considered when planning the size of future auctions

### HIGHLIGHTS FOR THE PERIOD INCEPTION (DECEMBER 2014) THROUGH DECEMBER 31, 2015:

- **Funds Held in Trust** represent cumulative receipts less cumulative cash transfers. As of December 31, 2015, Funds Held in Trust totaled USD 28.13 million due to:
  - Contributions received from five contributors
  - Investment income of approximately USD 0.06 million earned from inception through December 31, 2015
  - Offset by cash transfers for administrative budget during the period amounting to USD 4.83 million.
- **Funding Decisions Pending Cash Transfer** total USD 25 million, representing the budget allocated for the first auction. **Funding Availability** amounted to USD 3.13 million as a result of the factors outlined above.