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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-eighth Meeting
Montreal, 3-7 April 2006

REPORT ON OPTIONS FOR A CONSISTENT APPROACH TO THE APPLICATION OF MISCELLANEOUS INCOME, EXCHANGE RATE LOSSES AND GAINS, AND BANK CHARGES FOR FUNDS APPROVED BY THE EXECUTIVE COMMITTEE AND ANY CONSEQUENCES OF ALTERNATIVE APPROACHES (FOLLOW-UP TO DECISION 47/47)

Introduction

1. The Fund Secretariat informed the Executive Committee at its 47th Meeting that during the reconciliation of accounts for 2004 it discovered that the implementing agencies had accounted for miscellaneous income, bank charges and exchange rate losses and gains in different ways. It was unclear the extent to which such charges were being absorbed by funds approved for project approvals and agency fees by the Executive Committee. It was also unclear whether agencies were offsetting such charges against interest or other income they received on behalf of the Multilateral Fund as this could constitute expenditures against funds not approved by the Executive Committee.

2. The Executive Committee decided, "to request the Secretariat, in cooperation with the implementing agencies and the Treasurer, to submit a report, as a follow-up to the present decision, on options for a consistent approach to the application of miscellaneous income, exchange rate losses and gains, and bank charges for funds approved by the Executive Committee and any consequences of alternative approaches, for consideration by the Executive Committee at its 48th Meeting" (decision 47/47, para. c).

3. The Fund Secretariat requested the implementing agencies and the Treasurer to indicate what was meant by these terms, identify any consequences for the reconciliation of accounts, and indicate how the items were charged to approved agency fees and/or project accounts. It also asked for comments on a common approach to recording such charges. This document provides a description of these terms as used by the Treasurer and by each agency at the Multilateral Fund level, adjustments to be made based on the review of these accounting terms, a common approach for addressing these types of charges in the future, and comments and recommendations from the Fund Secretariat.

Miscellaneous Income

4. Miscellaneous income to the Multilateral Fund consists of: funds provided by the Government of Canada in addition to its annual pledged contribution, to cover the cost differentials of hosting the Fund Secretariat in Montreal instead of Nairobi; any payments made for the costs of hosting meetings of the Executive Committee outside Montreal; and, for new contributing countries' retroactive contributions to the Fund.

5. Some interest received from interest-bearing accounts held by implementing agencies on behalf of bilateral agencies had been included in miscellaneous income. As a result of the review, the relevant funds were re-assigned to interest.

6. The World Bank does not have miscellaneous income line item for its accounts. UNDP indicated that miscellaneous income would be very rare, but could consist of interest income accrued by a government and returned to UNDP. This would occur only in those cases where cash advances were involved.

7. UNEP indicated that cases of miscellaneous income were rare, but could include refunds of expenditures charged to prior periods, accepted resources for which no purpose was specified,

cheques that remained un-cashed one year from their dates of issuance, and other sundry incomes.

8. UNIDO indicated that, since the commencement of its activities under the Multilateral Fund, and consistent with the United Nations Standard Accounting System, it had reported miscellaneous charges such as bank charges, losses due to exchange rates (currency re-evaluations), and late charges related to closed projects, as negative miscellaneous income in its annual reporting to the Executive Committee. According to UNIDO, following the annual approvals by the Executive Committee, funds were transferred by the Treasurer on this basis, net of the charges for negative miscellaneous income, bank charges, losses due to exchange rates and late charges against closed project. After discussions with the Fund Secretariat, UNIDO has agreed that, beginning in 2006, such charges would be assigned to the relevant projects and, if necessary, to administrative costs.

Exchange gains/losses

9. Exchange rate gains and losses are reported in the Report of the Treasurer on the status of contributions. Exchange rate gains/losses occur during the currency conversion of contributions and promissory notes into US dollars for the Multilateral Fund.

10. UNDP stated that, in cases where Fund resources are advanced for nationally executed projects, the funds are normally advanced in the local currency based on the prevailing UN rate of exchange at the time of the transaction. Any resulting revaluation gain/loss is credited or charged to the relevant project account effectively reducing or increasing project expenditure for a given period.

11. UNEP stated that any differences are presently recorded at the Fund level and are not recorded at the project level. Exchange rate gains are shown in UNEP's income and expenditure statement under the heading "Miscellaneous income", and losses under "Operational expenses". Historically, the treatment of exchange rate losses and gains was not always consistent with the approach described above, since they were shown separately on the income side of the statement of income and expenditure, and changes in reserves and fund balances were shown as "Gain/loss on exchange".

12. As indicated above, UNIDO had charged exchange rate losses or credited exchange rate gains as "miscellaneous" but has agreed to modify the classification of these charges starting in 2006.

13. For the World Bank, losses and gains due to currency conversion occur only in cases where unencashed promissory notes that have been assigned to the Bank are subsequently cashed.

Bank charges

14. Bank charges are incurred as part of the operation of the Trust Fund and have been charged to the Multilateral Fund by the Treasurer.

15. At implementing agency level, UNDP specified that bank charges could be assigned to either project costs or administrative costs (agency fees). Charges arising from a specific transaction (and therefore assignable to a project account) are treated as a transaction cost for that activity. Charges associated with corporate banking services are provided centrally by the Treasury Division of UNDP. These are operational services and include disbursements to vendors, remittance of funds to UNDP country offices, and receipt of contributions. The fees charged by the banks for providing these services are prorated among all the accounts according to source of funds, as support costs.

16. In UNEP's accounts, bank charges are charged to the programme support cost budget, or agency fees, and not against the funds approved for project implementation.

17. As indicated above, UNIDO had charged bank charges as negative "miscellaneous" but has agreed to modify these charges starting in 2006.

18. The World Bank charge for the Ozone Trust Fund is 3.5 basis points (0.0035%) which includes both asset management (investment) and cash management. It is calculated based on the balance of funds that are being invested on average during a year. Bank charges incurred by financial intermediaries are also part of administrative costs.

Consequences to the Reconciliation of Accounts

19. The purpose of the reconciliation of accounts that is presented annually to the Executive Committee pursuant to decision 38/9, paragraph d, is to ensure that the net funds approved as indicated in the Fund Secretariat's Inventory of Approved Projects correspond to the sum shown in the implementing agencies' annual progress reports, which corresponds to the net income received as recorded in the implementing agencies' annual financial statements.

20. Gains/losses due to currency conversion, bank charges, and negative miscellaneous income that are not charged to projects costs or administrative costs would be identified as a reconciling item in the reconciliation of accounts. Also any late charges against project accounts that resulted in negative miscellaneous income would be identified as a reconciling item in the reconciliation of accounts.

Comments of the Fund Secretariat

21. The Executive Committee provides implementing agencies with only two types of approvals, namely, project costs and administrative costs. Any additional charge not so accounted for that is offset against any interest due to the Fund constitutes expenditures against funds not approved by the Executive Committee.

22. UNIDO has proposed to modify its practices starting in 2006. The Fund Secretariat informed UNIDO that all costs (past, present and future) should be reassigned to project costs or administrative costs since no other costs have been approved by the Executive Committee. The Secretariat also informed UNIDO that if any project and agency fee costs had been returned to the Executive Committee, and subsequently identified as a late charge, such charges could be brought to the attention of the Executive Committee in the context of completed projects with

balances for compensation. However, this would not apply to project overruns, because pursuant to decision 17/22 no project overruns are allowed. It should also be noted that UNIDO agreed to recommendations b and c.

23. The Executive Committee may wish to confirm its understanding that the only costs approved for implementing agencies have been classified as either project or administrative costs. Moreover, any costs not classified in this way should be reported in the context of the 2005 reconciliation of accounts to be submitted to the 50th Meeting.

RECOMMENDATIONS

24. The Executive Committee may wish to:

(a) Note the Report on options for a consistent approach to the application of miscellaneous income, exchange rate losses and gains, and bank charges for funds approved by the Executive Committee, and any consequences resulting from alternative approaches (follow-up to decision on financial planning for the triennium 2006-2008 as contained in UNEP/OzL.Pro/ExCom/48/43);

(b) Confirm that the costs approved for implementing agencies should be classified as either project or administrative costs; and

(c) Request that all implementing agencies that have any costs that have been charged to their Multilateral Fund accounts, that were not assigned to either project or administrative costs, report on these levels of costs in the context of the 2005 reconciliation of accounts to be submitted to the 50th Meeting.
