

TRANSFER OF OCR SURPLUS TO THE ASIAN TSUNAMI FUND

Asian Development Bank
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ABBREVIATIONS

ADF	–	Asian Development Fund
OCR	–	Ordinary Capital Resources

NOTE

In this Report, "\$" refers to US dollars

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TRANSFER OF OCR SURPLUS TO THE ASIAN TSUNAMI FUND

A. Background

1. ADB will establish an Asian Tsunami Fund¹ (ATF) as a dedicated means of financing the emerging needs of the tsunami-affected development member countries (DMCs) as they arise. It is proposed that the amount of \$312 million, currently held in ADB's ordinary capital resources (OCR) surplus account, be transferred to the Asian Tsunami Fund. Based on the needs assessment of the tsunami-affected DMCs, it is proposed that the Board of Directors make a further recommendation to the Board of Governors at a later stage, to transfer, after allocation to reserves, an amount up to \$288 million to the Asian Tsunami Fund from OCR net income.

2. In accordance with a formal interpretation of the Agreement Establishing the Asian Development Bank (the Charter) by the Board of Directors,² allocation to the Asian Development Fund (ADF) by the Board of Governors of current year OCR net income, in excess of reserves, which would otherwise be available for distribution to members, is justified within the context of ADB's purpose and functions and is consistent with the Charter. Following the same logic as applied in the 1997 Charter interpretation, it is permissible to transfer OCR surplus, which is available for distribution to members, to the Asian Tsunami Fund.

B. Transfer of OCR Surplus to the Asian Tsunami Fund

3. At the end of 2004, the balance of the OCR surplus account amounted to \$312,117,178.³ At the time OCR net income was allocated by the Board of Governors to the surplus account, it was considered that such income was not necessary to meet the reserve requirements of ADB. By allocating OCR net income to the surplus account, the Board of

¹ Details regarding the rationale for the establishment of the Asian Tsunami Fund, and the objectives, scope, operating principles regarding such Fund, and the applicable regulations, are set forth in ADB. 2005. *Asian Tsunami Fund*. Manila

² ADB. 1997. *Legality of OCR Net Income and Surplus Transfers to the Asian Development Fund*. Manila.

³ The Board of Governors of the Asian Development Bank (ADB), by Resolutions Nos. 216, 238, 243, 250, 256 and 298 allocated, after allocation to reserves, a total of \$832,117,178 from ADB's OCR resources to surplus, over the years 1991 to 2004. The Board of Governors, by Resolutions Nos. 217, 251, 256, 264 and 269 allocated a total of \$520,000,000 to the Asian Development Fund and the Technical Assistance Special Fund, over the years 1991 to 1999. At the end of 2004, the balance of the surplus account amounted to \$312,117,178.

Governors preserved the flexibility to determine at a later stage how to use such surplus, in lieu of a distribution to members.

4. The proposed transfer of OCR surplus will have an impact on the equity and net income position of ADB. However, ADB's capital adequacy ratio, currently at 50.5 percent, is substantially above the target ratio of 35 percent. The transfer of \$312 million surplus is projected to reduce the capital adequacy ratio by approximately 1.3 percent. Annual income is projected to be reduced by approximately \$9.4 million at current interest rate environment. Thus, the impact of the proposed transfers of surplus is not so material as to affect ADB's fundamental financial position and outlook.

C. Recommendation

5. To assist DMCs affected by the earthquake and tsunami disaster at the end of 2004, it is recommended that the Board of Directors recommend to the Board of Governors, through the submission of the Report and Resolution as attached hereto (Annexes A and B) that the amount of \$312 million, being OCR net income previously allocated to surplus, be transferred to the Asian Tsunami Fund.

6. It is further recommended that this matter be submitted to the Board of Governors under the Special Procedure provided in Section 3 of the By-laws, with a request for a vote by facsimile or email within 10 days of the date of transmittal.

**TRANSFERS OF ORDINARY CAPITAL RESOURCES SURPLUS
TO THE ASIAN TSUNAMI FUND**

DRAFT REPORT OF THE BOARD OF DIRECTORS

1. The Board of Governors of the Asian Development Bank (ADB), by Resolutions Nos. 216, 238, 243, 250, 256 and 298 allocated, after allocation to reserves, a total of \$832,117,178 from ADB's ordinary capital resources (OCR) to surplus, over the years 1991 to 2004. The Board of Governors, by Resolutions Nos. 217, 251, 256, 264 and 269 allocated a total of \$520,000,000 to the Asian Development Fund and the Technical Assistance Special Fund, over the years 1991 to 1999. At the end of 2004, the balance of the surplus account amounted to \$312,117,178.
2. The Board of Directors, after due consideration, recommends that the Board of Governors transfer to the Asian Tsunami Fund \$312 million, being OCR net income of ADB previously allocated to surplus. Such recommendation is made to support reconstruction, rehabilitation and development activities in tsunami-affected developing member countries, on such terms and conditions as may be determined by the Board of Directors. A recommendation regarding transfer of OCR net income to the Asian Tsunami Fund will be made to the Board of Governors at a later stage.
3. A draft Resolution implementing the recommendation in paragraph 2 is attached. The Board of Directors considers that a decision on this matter should be taken as soon as possible and that the Special Procedure in Section 3 of the By-Laws of the Bank should be invoked for the purpose. Accordingly, the Board of Directors has authorized the President to transmit to each Governor the text of the draft Resolution together with this Report, with a request for a vote by facsimile or telex within 10 days of the date of transmittal.

(DRAFT) RESOLUTION NO. _____

**TRANSFER OF ORDINARY CAPITAL RESOURCES SURPLUS TO THE
ASIAN TSUNAMI FUND**

The Board of Governors

Having accepted the Report of the Board of Directors on the transfer of \$312 million of net income from the ordinary capital resources of the Asian Development Bank (ADB) previously allocated to surplus,

RESOLVES:

The amount of \$312 million, being net income of ADB's ordinary capital resources previously allocated to surplus, shall be transferred to the Asian Tsunami Fund. The amount so transferred shall be used in accordance with such terms and conditions as may be determined by the Board of Directors.