

CARIBBEAN DEVELOPMENT BANK



REPORT ON CALLABLE CAPITAL

DECEMBER 2024

CURRENCY EQUIVALENT

[Dollars (\$) throughout refers to United States Dollars (USD) unless otherwise specified]

ABBREVIATIONS

BOD	Board of Director
CDB	Caribbean Development Bank
ICA	Integrity, Compliance & Accountability
VP	Vice-President
CRO	Chief Risk Officer
LGD	Loss Given Default Capital
RAC	Ratio Adjusted Capital
RST	Reverse Stress Test
GC	The Office of General Counsel
MDB	Multilateral Development Bank
OIE	The Office of Independent Evaluation
ORM	The Office of Risk Management

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REPORT ON CALLABLE CAPITAL OF THE CARIBBEAN DEVELOPMENT BANK

1. EXECUTIVE SUMMARY

1.1 This report sets out the conclusions of a review of the procedures and governance relating to the callable capital of the Caribbean Development Bank (**CDB** or the **Bank**) conducted by Management, with the support of shareholders. The review was requested by the Bank's shareholders which are part of the G7, namely Canada, Italy, Germany and the United Kingdom, in the context of the wider call by G20 countries for multi-lateral development banks (**MDBs**) to clarify the circumstances that could lead to a capital call and the processes for making such a call, with a view to incorporating "uplift" from callable capital in their capital adequacy frameworks.

1.2 As at December 31, 2023, CDB's callable capital totaled US\$1,375.13mn. Based on the conclusions of this report, this represents a strong commitment of CDB's shareholders to which the Bank has the legal entitlement, and the governance procedures, to call in the extremely unlikely event that such a call were necessary to enable the Bank to meet obligations to its bondholders and under guarantees.

1.3 Under the Agreement Establishing the Caribbean Development Bank (the **Charter**) the authorized capital stock of the Bank is divided into paid-up shares and callable shares. The Charter makes provision for the Bank to draw on callable capital in advance of a default on its bond and guarantee obligations, in circumstances where the Bank would be unable to meet those obligations from its other sources of funding. Under the general delegation of powers by the Board of Governors to the Board of Directors, the authority to make a call would rest with the Directors.

1.4 The analysis of potential scenarios leading to the complete depletion of CDB's equity through reverse stress testing demonstrates that the shocks required are far more extreme than those considered in standard stress tests for prudent risk management. Moreover, the likelihood of such an event occurring is deemed remote, given CDB's robust financial position, strong capitalization, and sound financial management practices, including its Preferred Creditor Treatment.

1.5 Additionally, CDB takes a proactive approach to anticipating challenges with a forward-looking approach to managing assets and liabilities. Strong support from shareholders further ensures timely intervention ahead of any potential payment deadlines. Should events which have an extreme impact on the Bank's assets and liabilities occur simultaneously, CDB would still have sufficient time to enact measures available under its Capital Adequacy Framework to mitigate financial strain effectively.

1.6 Feedback provided by Canada, Germany, Italy and the United Kingdom¹ (the **Respondent Shareholders**), whose callable capital represents 29.9% of the Bank’s total callable capital, confirms that their callable capital subscriptions represent legal binding commitments, and that they each have in place established internal processes to respond to a call which, in all cases, could be completed within the timeframes required for the Bank to meet its bond and guarantee obligations before they fall due in the extreme stress scenario.

2. INTRODUCTION

2.1 Recommendation 2A of the G20 report “Boosting MDBs’ investing capacity. (2022). An Independent Review of Multilateral Development Banks’ Capital Adequacy Frameworks” (the **G20 CAF Report**) suggests that MDBs “*Incorporate a prudent share of callable capital into MDBs’ own calculation of capital adequacy, following the approach validated by all three credit rating agencies.*”

2.2 Following the G20 CAF Report, in 2023, certain G20 shareholders proposed that the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank undertake an exercise to provide clarity on the circumstances that could lead to a capital call, and the processes for such a call being made by the MDBs and met by shareholders. They recognized that this clarity has value and is an important part of implementing the G20 recommendation on callable capital.

2.3 In a similar vein, and in the context of the general response by MDBs to the G20 CAF Report recommendations, the Bank’s G7 shareholders, namely Canada, Italy, Germany and the United Kingdom, called for Management to undertake a review of CDB’s callable capital to clarify the triggers and procedures for making a capital call and to assess the weight to be attached to the Bank’s callable capital.

2.4 This exercise entailed the following:

- (i) Reviewing the callable capital governance provisions set out in the Charter;
- (ii) conducting a reverse stress test to clarify scenarios under which a capital call may become necessary; and
- (iii) clarifying the legal, accounting, and budgetary treatment of callable capital commitments of the Respondent Shareholders, which had already undertaken this exercise in the context of the callable capital reviews for other MDBs in 2023.

2.5 This report is based on a review of relevant literature, as well as collection of approaches from and

discussion with peer AAA MDBs as well as advice from an expert consultant engaged by the Office of Risk Management to support the reverse stress test. The report does not provide recommendations but forms the basis for further discussions between Management and the Bank's governing Boards and Credit Rating Agencies.

2.6 This report is divided into four sections: the first section sets out the legal analysis of the callable capital governance provisions under the Bank's Charter; the second section provides detail on the reverse stress test conducted on the Bank, the third section summarises the completed questionnaires received from the Respondent Shareholders regarding the legal, accounting and budgetary treatment of their respective callable capital; and the fifth section sets out the conclusions of the exercise.

3. LEGAL ANALYSIS OF GOVERNANCE PROVISIONS

3.1 As with other MDBs, CDB's capital stock is made up of paid-up shares and callable shares.¹ As at December 31, 2023, CDB's callable capital stood at US\$1,375.13 mn.

3.2 The following articles of CDB's Charter set out the provisions on calling callable capital:

Article 7(6):

*"6. Callable shares shall be subject to call **only as and when required** by the Bank to meet its obligations incurred pursuant to sub-paragraphs (b) and (d) of Article 13 on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources. Such calls on unpaid subscriptions shall be uniform in percentage on all callable shares.*

7. Payment of calls referred to in paragraph 6 of this Article may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the Bank for the purpose of which the call is made." [Emphasis added].

Article 13 (b) and (d):

"In its ordinary operations, the Bank may provide or facilitate financing for any regional member or any political subdivision or any agency thereof, or any other entity or enterprise in the public or private sector operating in the territory of such member, as well as for international or regional agencies or other entities concerned with the economic development of the region. The Bank may carry out such operations in any of the following ways:

...

(b) by making or participating in direct loans with funds raised by the Bank in capital markets or

borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;

...

(d) by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development.”

Article 19(1):

*“**Whenever necessary** to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it, chargeable to its ordinary capital resources, the Bank may call an appropriate amount of callable shares in accordance with paragraph 6 of Article 7.” [Emphasis added.]*

3.3 These provisions establish that:

- (i) CDB’s callable capital can only be used to meet obligations with respect to its borrowings for inclusion in its ordinary capital resources or on guarantees chargeable to such resources. Callable capital is not available to finance the Bank’s operations generally.
- (ii) Capital calls must be made against all shareholders pro rata to their callable shares.
- (iii) As concerns the timing for making the capital call, Article 19 of the Charter refers to calls on callable shares to meet borrowings of the Bank “in its ordinary operations.” This implies that the call on callable capital is to be made while the Bank continues to operate as a going concern – not

¹ Article 6(1) of the Charter.

just in a liquidation scenario. The Board of Directors of the Bank confirmed this interpretation in its 1992 decision on the interpretation of the callable capital provisions of the Charter to support the Bank's first capital markets issuance. The decision was guided by a legal opinion from the then CDB General Counsel.

3.4 The 1992 decision of the Board of Directors and accompanying legal opinion were focused primarily on the question of whether the obligations of the shareholders to respond to a callable capital demand are several, meaning that if one shareholder defaults in its obligation to make payment on an initial demand - leaving the Bank with insufficient funds to meet credit liabilities - the Bank may make successive calls on all shareholders up to the amount of their unpaid capital, until it has received sufficient funds to meet its creditor liabilities.

3.5 However, the decision and the legal opinion also address the nature of the Bank's callable capital and the circumstances in which it may be called. The material section of the decision and the legal opinion is as follows:

“The Bank need not defer a call of all or part of the subscribed callable capital which is subject to call to meet obligations of the Bank created under sub-paragraphs (b) and (d) of Article 13 of the Charter until such obligations have actually matured. If for any reason the Bank anticipates that it will not have available funds sufficient to meet its obligations as they mature, it has the right under the Charter to make calls on such callable shares sufficiently in advance of the maturity of such obligations in order to meet them as they mature.”

3.6 Unlike the charters of some other MDBs, CDB's Charter does not specify any form of “waterfall” or order of priority in which its assets may be used to meet its liabilities before a call on callable capital may be made. The sole test in the CDB Charter is that such a call may be made “only as and when required” or, as framed in Article 19(1), “whenever necessary.” We do not consider these to be two separate tests but merely alternative formulations of the same test.

3.7 However, guidance in relation to priority may be obtained from Article 45(2) of the Charter, which provides:

“1. In the event of termination of the operations of the Bank, the liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

2. All creditors holding direct claims shall first be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions. *Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgement, to ensure a pro rata distribution among holders of direct and contingent claims” [Emphasis added]*

3.8 While Article 45 applies on termination of the Bank’s operations, it is consistent with the way in which the Bank conducts business during the period of its ordinary operations, namely that its available assets are first used to discharge its liabilities, before tapping into its unpaid or callable capital. Again, this is consistent with the 1992 decision of the Board of Directors.

(iv) As to who is authorized to make the capital call, Article 19(1) of the Charter provides that “the Bank” may make the call. The Charter does not expressly state which organ of the Bank (the Board of Governors, the Board of Directors or the President (i.e. Management)) can make the call or the detailed procedures to be followed to make the call.

Pursuant to Article 27 of the Charter, all the powers of the Bank are vested in the Board of Governors which may delegate powers to the Board of Directors save for those powers expressly reserved to the Board of Governors under Article 27(2). Under Section 14 of the By-Laws of the Bank, the Board of Governors have effected such delegation to the Board of Directors. The powers expressly reserved to the Board of Governors under Article 27(2) of the Charter do not include the decision to make a call on callable capital.

Pursuant to Article 30 of the Charter, the Board of Directors is responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly in the Charter, exercise all the powers delegated to it by the Board of Governors. However, certain powers of the Bank have been further delegated to the President of the Bank under Article 33(4) of the Charter, pursuant to which the President is the chief executive officer of the Bank and conducts, under the direction of the Board of Directors, the current business of the Bank. The Charter does not expressly state whether the making of a capital call falls within the delegation of powers to the President of the Bank.

While Management has the primary responsibility for monitoring and managing the Bank’s borrowings and prudential ratios, and is therefore well placed to determine when a call on capital would be required, given the extreme circumstances that would give rise to such a call, the impact on the shareholders and the magnitude of the decision, it is considered that this would fall within

the ambit of the Board of Directors.

Absent any specific voting thresholds under the Charter and the Bank's By-Laws for the making of a capital call, the decision would require approval by directors representing a majority of the members' voting power at the meeting, in accordance with Article 32 of the Charter.

3.9 In summary, the review of the legal and governance provisions for the Bank's callable capital demonstrates that, in the unlikely event of an extreme stress scenario, following approval by the Board of Directors, the Bank may make a call on its callable capital against all shareholders pro rata to their commitments, where necessary to meet obligations under its bonds and/or guarantees, prior to such obligations becoming due.

3.10 The Bank's continuous monitoring of, and reporting on, its prudential ratios, within the Capital Adequacy Framework, mean that Management and the Board of Directors would be aware of a deterioration in the financial position and financial projections of the Bank which would warrant a call on shareholders for callable capital, well in advance of the Bank becoming unable to meet its obligations under its bonds and/or guarantees when due.

4. REVERSE STRESS TEST ANALYSIS

4.1 A Reverse Stress Test (RST) was conducted to identify scenarios capable of fully eroding the Bank's net worth, which stood at \$857.1 million as of September 2023, and thus triggering a call on callable capital. Additionally, it assesses these scenarios in terms of their scale and likelihood of occurrence.

4.2 RST is an essential tool in financial risk management. Unlike traditional stress tests, which evaluate an entity's ability to withstand certain adverse scenarios, the RST works in reverse: it begins by identifying the entity's breaking point and then determines which scenarios could lead to that critical state.

4.3 This approach is particularly valuable for uncovering hidden vulnerabilities and gaining deeper insights into extreme risks.

4.4 The Breaking Point was defined as a situation in which CDB experiences a significant depletion of its net worth or equity. A positive outcome of the Reverse Stress Test analysis is that none of the defined scenarios, based on the entity's main vulnerabilities, result in the value of the entity's equity being reduced to zero or to a pre-established minimum amount.

4.5 Risks were identified that could impact on any multilateral development bank (MDB), and in particular CDB. Common risks faced by international financial institutions include Political and Country Risk, Credit Risk, Market Risk, Operational Risk, and Funding Risk.

4.6 Additionally, certain risks, while applicable to any institution, are particularly relevant to MDBs. These include Environmental and Social Risk, Geopolitical Risk, Shareholder Support, the enforceability of callable capital, and the potential loss of Credit Preferred Treatment.

4.7 CDB, like other MDBs, is exposed to all of the above risks to varying degrees, with particular emphasis on credit concentration risk in specific countries. Additionally, CDB holds positions in foreign currencies such as the EUR, Japanese Yen, and Swiss Franc. It also assumes interest rate risk due to extremely distressed financial markets scenarios, whereas roll-over of hedging instruments would not be viable, with CDB's asset operations being structured with variable rates, and funding with fixed-rate instruments.

4.8 Having identified CDB's main vulnerabilities, a stress test was conducted to estimate the impact of extreme adverse scenarios on the value of CDB's net worth and the likelihood of their occurrence.

4.9 For reference, with CDB's AA+ rating from S&P and its Risk-Adjusted Capital Ratio Requirement (RAC), and using the Bank's internal Economic Capital models (ECAP), it is known that the maximum loss resulting from credit events (e.g., concentration risk, climate risks), market events (currency and interest rate risks), or operational events, with a 99.97% confidence level, will be less than \$310.5 million (i.e., a probability of occurrence of 3 in every 10,000 years). These potential losses would consume only 36% of CDB's current equity.

4.10 In developing the Stress Test, the following scenarios were considered:

- Economic slowdowns in member countries, geopolitical tensions, the outbreak of pandemics, natural disasters, climate change and other adverse external events of a systemic nature could lead, in very extreme cases, to a joint default of the primary countries where we operate, based on Credit exposure.
- Market turmoil, sovereign debt crises, and other market related shocks (e.g. USD devaluation against EUR, JPY and CHF; and rising interest rates), could cause significant negative impacts on the market value of our assets and liabilities.
- Cybersecurity breaches and other operational incidents could result in substantial financial losses.

4.11 CDB is a well-capitalized institution, with sound governance, and a clear mandate. One of its main weaknesses, as highlighted by the rating agencies, is having a portfolio concentrated in terms of Country Risk.

4.12 The extreme scenarios of default considered were: the countries with the greatest exposure default together simultaneously (these four countries account for 40% of CDB's default exposure); We consider that the countries default on all the committed amounts (disbursed and undisbursed amounts, i.e. the notional) and that the Loss Given Default is 45% (estimated for private companies)².

² Fitch-Ibca considers the LGD of a MDB to be between 1 and 15% due to the Preferred Credit Status; other authors suggest a LGD of 10%.

Notional (BB&IP)	Net Worth (OCR)
2,252,135,385.20	857,134,000.00

Banking Book & Investment Portfolio	Losses Under Stress	Probability	Years out of 10,000	% on Notional	% on Net Worth
1-max counterpart default (stressed LGD: 45% & Notional)	120,115,804.92	9.218%	922	5.33%	14%
2-max counterpart joint-default (stressed LGD: 45% & Notional)	220,578,950.44	0.739%	74	9.79%	26%
3-max counterpart joint-default (stressed LGD: 45% & Notional)	299,035,080.89	0.048%	5	13.28%	35%
4-max counterpart joint-default (stressed LGD: 45% & Notional)	383,795,428.55	0.001%	0.1	17.04%	45%
4-max counterpart joint-default (stressed LGD: 100% & Notional)	852,878,730.12	0.0000%	-	37.87%	99.5%

In the above extremely stressed conditions, the joint default of the four maximum counterparts will entail losses of \$383.8 mn, an amount that equates to only 45% of the total equity of CDB, an impact that is far from exhausting the available Capital.

4.13 Even considering a 100% Loss Given Default, the losses would reach 852.9, lower than the Equity value respectively as of 9/30/23 (99.5%), as of 12/31/23 (97.4%) and as of 9/30/24 (94.5%).

4.14 The lack of historical precedent or any quantitative grounding means that constructing such a catastrophic scenario is largely judgmental exercise, and its probability of occurrence is extremely difficult to infer.

4.15 However, using the information on the failure probabilities of each of the counterparties, it can be concluded that the probability of occurrence of a scenario such as the one described is infinitesimal.

4.16 Additionally, a combined scenario was modeled involving credit risk stress alongside a general decrease in US Dollar interest rates, an increase in the exchange rates of the Euro, Japanese Yen, and Swiss Franc, severe market value losses in the Investment Portfolio, and major operational losses occurring simultaneously. With an individual probability of once every 100,000 years (0.001% probability of occurrence), this scenario would result in losses of \$500.5 million—impacting only 58% of CDB’s available capital. This means the institution would remain far from its breaking point (default) or the depletion of most of its capital.

Joint- Scenario	Probability	Losses
4-max counterpart joint-default (stressed LGD: 45% & Notional)	0.001%	383,795,428.55
Currency Risk Losses 99.999% (1)	0.001%	43,179,164.49
Interest Risk Losses 99.999% (2)	0.001%	73,545,131.34
IP Market Risk Losses 99.999%	0.001%	8,907,345.78
Operational Risk Losses 99.999%	0.001%	11,045,464.05
Maximum Loss		500,519,724.38
Maximum Loss on Net Worth %		58%

(1) Direction of the Risk: Appreciation of the EUR, JPY and CHF against the USD

(2) Direction of the Risk: Interest Rates Decreasing

4.17 The analysis of potential scenarios leading to the complete depletion of CDB's equity through reverse stress testing demonstrates that the shocks required are far more extreme than those considered in standard stress tests for prudent risk management.

4.18 Moreover, the likelihood of such an event occurring is deemed remote, given CDB's robust financial position, strong capitalization, and sound financial management practices, including its maintenance of Preferred Creditor Treatment.

4.19 Additionally, CDB takes a proactive approach to anticipating challenges, with forward-looking approach to managing assets and liabilities. Strong support from shareholders further ensures timely

intervention ahead of any potential payment deadlines. Should these events having an extreme impact on the Bank's assets and liabilities occur simultaneously, CDB would still have sufficient time to enact measures available under its Capital Adequacy Framework (i.e. Red-Amber-Green monitoring process) to mitigate financial strain effectively.

5. SHAREHOLDER INTERNAL PROCESS

5.1 The Respondent Shareholders have completed a standardized shareholder information template questionnaire developed in the context of the 2023 call for certain MDBs to review their callable capital processes.

5.2 The questionnaire addresses the internal procedures that each shareholder would need to follow in order to meet a call on callable capital, the timelines for carrying out the relevant processes and the legal, accounting and budgetary treatment of their callable capital subscriptions. The completed questionnaires can be found at Appendix..

5.3 The Respondent Shareholders' callable capital represents 29.9% of the Bank's total callable capital.

Based on the responses to the questionnaires the following can be demonstrated:

- (i) The callable capital subscriptions of the Respondent Shareholders represent legally binding commitments, in all cases treated as contingent liabilities.
- (ii) All the respondents identified the approval processes required to respond to a callable capital call and the governance bodies responsible for granting such approvals. The internal procedures for approving payment of callable capital vary amongst the Respondent Shareholders, with all but one Respondent Shareholder's processes requiring some form of parliamentary approval.
- (iii) With respect to timeframes for processing a capital call, there is variance between the Respondent Shareholders, with timings ranging from 6 weeks to 12 months. For some Respondents there is provision for expedited procedures which in one case could reduce the processing time to as little as 1 week.

6. CONCLUSION

6.1 CDB's shareholders have committed US\$1,375.13mn in callable capital to the Bank. This represents a robust commitment from the Bank's shareholders to make additional funding available to CDB which, under CDB's Charter, the Bank could draw in advance of a default, to meet its bond and guarantee obligations.

6.2 The reverse stress testing demonstrates that the likelihood of such an extreme event occurring is deemed remote, given CDB's robust financial position, strong capitalization, and sound financial management practices, including its maintenance of Preferred Creditor Treatment.

6.3 Feedback provided by a representative sample of the Bank's shareholders (being those shareholders with investment grade and representing 29.9% of the Bank's callable capital) confirms that their callable capital subscriptions represent legally binding commitments, and that each shareholder has in place established processes to respond to a call within the time required for the Bank to meet its bond and guarantee obligations before they fall due, in the extreme stress scenario. In conducting this review of the Bank's callable capital, CDB continues to demonstrate its commitment to implementing the recommendations of the G20 CAF Report and CDB member countries' call for the Bank to optimize its capital.

6.4 The results of this review confirm the findings of the G20 CAF Report that callable capital is a powerful instrument expressing the commitment of shareholders to stand behind MDBs. This report forms the basis for the Bank's continued dialogue with peer MDBs and Credit Rating Agencies on means by which the financial value of callable capital can be incorporated into MDB's Capital Adequacy Frameworks in a consistent, rational and prudent way.

Appendix

Shareholder Information Questionnaires

Callable Capital Exercise – Shareholder Information Template

(1) Shareholder

United Kingdom (UK)

(2) Shareholding and Callable Capital Commitments

MDBs* (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)	Callable Capital Commitments (USD billions)
African Development Bank (AFDB)	1.86	\$3.4bn
Asian Development Bank (ADB)	2.04	\$2.740bn
Caribbean Development Bank (CDB)	8.89	\$0.122bn
Inter-American Development Bank (IDB)	0.96	\$1.588bn
Multilateral Investment Guarantee Agency (MIGA)	4.83	\$0.075bn
International Bank for Reconstruction and Development (IBRD)	4.12	\$11.740bn
EBRD	8.59	\$2.2bn
AIIB	3.15	\$2.4bn

These figures are based on the UK's public accounts. Callable commitments in currencies other than USD are converted into USD using exchange rates correct as of 11th January 2024.

*Note: Following the UK's exit from the European Union, the UK has a unique relationship with the European Investment Bank (EIB) through the Withdrawal Agreement and EIB has therefore not been included in the list above.

<p>RAME is specific part of the UK government budget that is spent on items that may be unpredictable or not easily controlled by Government Departments / Ministries.</p>	<p>UK's financial year (April – April) to request significant additional RAME budget is December. If monitoring indicates that a provision may be needed in the final quarter of the financial year, RAME budget would be requested in December to cover this.</p>	
<p>Expected value of call: If the expected value of a call is of a value that would mean that the relevant Ministry would exceed its expenditure limits, then it would have to seek additional resource as part of the ‘Supplementary Estimates’ procedure in February of a given financial year.</p> <p>This is debated and voted on by the House of Commons. Once the estimates have been agreed, they are put into legislative form through a Supply and Appropriation Bill. The House of Lords passes Supply and Appropriation Bills without debate.</p> <p>If the expected value of a call is within the relevant Ministry's expenditure limits and no additional funding is sought, then this step can be skipped.</p>	<p>2-3 months, but time frame will depend on the time of year and the urgency of the call.</p>	<p>FCDO or HMT, depending on the MDB, in coordination with the relevant HMT spending team</p>

<p>Disbursement of call: The disbursement of funds would require approval by an order approved by the House of Commons (pursuant to <u>Section 11(4) of the International Development Act 2002</u>). Preparation for this would start as soon as there is recognition of an elevated risk of a call on callable capital.</p> <p>The order requires approval of the House of Commons and the timescales for this process depend on Parliamentary time available and the political priority afforded to the matter. We would usually allow 2-3 months for an order to be approved, however with</p>	<p>2 – 3 months, but could be expedited.</p>	<p>FCDO or HMT, depending on the MDB, in coordination with the relevant HMT spending team and Parliamentary Officials.</p>
<p>advance planning for a call and in the case of urgency this can be accelerated.</p>		

Size of Call Response: Describe your government’s potential to make available an amount of callable capital above the size of a call that has been made (or is forthcoming), and the associated processes and approvals for the same (if different from the above).

Seeking to make available an amount of callable capital above the size of a call that has been made would require a separate request for funding that would be similar to the process outlined above for seeking financing that exceeds the relevant Department’s expenditure limits, and a further legislative process if the size of the call is increased after an order has already been made in respect of the smaller sum.

(3) Accelerated Processes: Describe your government’s potential to undertake accelerated domestic processes and approvals in response to a call on callable capital (or a call that is forthcoming), including what these processes and approval entail (including any conditions that must be met), their associated timeframes, and whether there are any limitations on the amount of callable capital available through them (recognizing that the existence of these accelerated processes has no effect on the circumstances under which callable capital may be called).

The legislative process can be accelerated - the possibility and timeframe depend on Parliamentary time available and the political priority afforded to the matter.

(4) Callable Capital Available for Immediate Disbursement and Process/Timeframe: Describe any amounts of callable capital that are currently available for immediate disbursement in response to a call on callable capital (including, where applicable, funds that have already been made available through existing or previously approved budgets), and the processes, approvals, and timeframes associated with disbursement of such amounts.

No callable capital would be available for immediate disbursement by the UK - any payments in respect of UK callable capital require Parliamentary Approval (see answer to Q10).

(5) Accounting and Budgeting Procedures: Describe the accounting treatment your government employs when accounting for callable capital, and how callable capital is treated in your government's budget.

- The UK classifies callable capital as a remote contingent liability due to the assessment that the probability of occurrence being unlikely (no call has ever been made on the IFIs' callable capital stock to date). Therefore, per guidance set out in IAS 37 Provision, Contingent Liabilities and Contingent Assets, there is no requirement to report or disclose the liabilities.
- Under UK Government interpretations and adaptations for the public sector, we disclose callable capital as a remote contingent liability in the Parliamentary Accountability section of the relevant Government Department's Annual Report and Accounts ([FCDO](#) / [HMT](#)).
- If a call on callable capital becomes probable – i.e., greater than 50% likelihood – the relevant Government Department / Ministry would increase the provision in its non-cash Resource Annually Managed Expenditure (RAME) budget to the expected amount of the call.
- The payment would be recognised as an accrual in the Department's Expenditure Limits (DEL) once it is certain that the capital will be called (and the RAME provision would be released).

(6) Legal Status of Callable Capital Subscriptions: Describe the legal status of your government's callable capital subscriptions, including the legal basis upon which those subscriptions rest.

While the contingent liability for callable capital may be noted in the orders which provide the legal basis for the UK's capital subscriptions, payment in respect of callable capital is not pre-approved.

Payment in respect of callable capital amounts to a 'relevant payment' to the MDBs, as defined in s.11(2) of the International Development Act 2002.

Pursuant to s11(4) of the Act the payment may only be made if approved by an order made by or with the approval of HM Treasury, which order must first be approved by the House of Commons (s.11(5)). This is in addition to financial requirements to have sufficient spend permission through the Supply and Appropriation Bills.

(7) Cross-MDB Differences: Describe any differences in the way your government treats callable capital from an accounting, legal, or process for responding to a call perspective across the different MDBs.

Callable Capital is treated similarly across all MDBs where the UK is a shareholder. EIB is a separate case – see page 1.

(8) Other Factors: Cite any other factors affecting your government's ability to promptly respond to a call on callable capital.

N/A

Callable Capital Exercise – Shareholder Information Template

(1) Shareholder

Canada

(2) Shareholding and Callable Capital Commitments

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital) as of Dec 2023	Callable Capital Commitments (US\$ billions)^{6,7}
IBRD	2.77%	7.88
AfDB	3.88%	7.25
IDB	4.64%	6.60
ADB	5.22%	6.36
EBRD	3.4%	0.88
AIIB	1.03%	0.80
CDB	9.31%	0.12
MIGA	2.95%	0.05

* Note these figures are based on Canada's Public Accounts. There could be minor differences in valuation between MDB financial statements and Canada's Public Accounts, particularly with respect to foreign exchange rate conversions.

⁶ See 2023 Public Accounts (Vol 1, Section 11, Table 11.7)

⁷ 1 USD: CAD 1.3516

(3) Processes and Approvals: Describe the process your government would undertake and any approvals it would need to respond to a call on callable capital (or a call that is forthcoming). And, where legislative approval is required to respond to a call on callable capital (or a call that is forthcoming), describe the scope of opportunities for engagement with the legislature to seek this approval.

Responsibility for Canada’s membership at MDBs is shared between the Minister of Finance (Department of Finance Canada) and the Minister of International Development (Global Affairs Canada) as given in the table below. In the unlikely event of a call on callable capital from an MDB to which Canada has committed callable capital, the responsible Governor would need to consider the following three factors:

- o whether there is legal/statutory authority for the Governor to disburse such payments;
- o whether there is a previously identified source of funds for said Governor to make such payments; and,
- o whether parliamentary approval (i.e., appropriation) would be required for Canada’s Governor to disburse such a payment.

Detailed information is provided in the table in response to Question 5.

MDBs	Canada’s Governor
IBRD	Minister of Finance
AfDB	Minister of International Development
IDB	Minister of International Development
ADB	Minister of International Development
EBRD	Minister of Finance
CDB	Minister of International Development
MIGA	Minister of Finance

(4) Timeframes: Describe the timeframes associated with these processes and approvals. If the timeframe is conditional upon specific factors, please describe those factors.

The length of the process to execute a payment on callable capital would be a function of the above-mentioned factors, including existing legislation. Indicative timelines are provided in the table in the following question.

(5) Responsibilities: Describe where the responsibilities for these processes and approval reside within your government.

(3) Procedural Step	(4) Timeframe	(5) Responsible Entity
Legal/Statutory Authority: The authority for a Canadian Governor to a specific MDB to honour a call on previously committed callable capital and to disburse funds to such an	0	Department of Finance or Global Affairs Canada,

<p>MDB would need to be aligned with the relevant sections of the respective Canadian legislation (see links in question 10) setting out our country’s interaction with the respective MDB. Such legislation authorizes the appropriate Canadian Governor to purchase shares in each of these institutions (both paid-in and callable capital).</p>		<p>depending on the MDB, in coordination with Justice Canada</p>
<p>Source of Funds: Callable capital is currently noted as a “contingent liability” in the Public Accounts of Canada. In the unlikely event of a call on callable capital from any MDB that Canada is a member of, the respective Governor would need to seek a funding decision from the Prime Minister and Minister of Finance to secure funds from the fiscal framework to make a payment related to callable capital commitments. Such a funding decision could be sought either through the annual federal budget process, or through an “off-cycle” funding decision at any time during the fiscal year.</p>	<p>1-3 months</p>	<p>Funding decision required from the Minister of Finance and Prime Minister. The Department of Finance Canada; or Global Affairs Canada working with the Department of Finance, depending on the MDB, in coordination with the Privy Council Office would undertake work to obtain the decision.</p>
<p>Parliamentary Approval (Appropriation): In most instances, parliamentary approval would be required. In these cases, the callable capital amount would need to be approved by Parliament (both the House and the Senate) through an appropriation act. There are usually four opportunities to seek appropriation throughout a fiscal year – Main Estimates (approx. March and June); Supplementary Estimates A (approx. June); Supplementary Estimates B (approx. December); Supplementary Estimates C (approx. March). For callable capital that has already been appropriated, as in the case of some IBRD callable capital (discussed in Question 8), this step could be skipped.</p>	<p>3-6 months</p>	<p>Decision required by Parliament. The Department of Finance Canada or Global Affairs Canada, depending on the MDB, in coordination with the Treasury Board Secretariat would undertake work to obtain the decision.</p>
<p>Test Payment and other due diligence: The Government of Canada would then execute the callable capital payment, after ensuring necessary due diligence, including test payments.</p>	<p>0-1 month</p>	<p>Chief Financial Officer of the Department of Finance Canada or Global Affairs Canada, depending on the MDB</p>

(6) Size of Call Response: Describe your government’s potential to make available an amount of callable capital above the size of a call that has been made (or is forthcoming), and the associated processes and approvals for the same (if different from the above).

In the case of a subsequent call on capital, so long as the total amount requested remains within the Government of Canada's total existing callable capital commitment to the MDB, the process and timelines would be the same as described in response to questions 3-5 for the second call.

(7) Accelerated Processes: Describe your government's potential to undertake accelerated domestic processes and approvals in response to a call on callable capital (or a call that is forthcoming), including what these processes and approval entail (including any conditions that must be met), their associated timeframes, and whether there are any limitations on the amount of callable capital available through them (recognizing that the existence of these accelerated processes has no effect on the circumstances under which callable capital may be called).

Canada does not have an accelerated process outside of what is described in response to questions 3 - 5.

(8) Callable Capital Available for Immediate Disbursement and Process/Timeframe: Describe any amounts of callable capital that are currently available for immediate disbursement in response to a call on callable capital (including, where applicable, funds that have already been made available through existing or previously approved budgets), and the processes, approvals, and timeframes associated with disbursement of such amounts.

Building on the response to questions 3 - 5, Canada's Parliament has appropriated some of its World Bank – IBRD callable capital. Callable capital that has already been appropriated would be subject to fewer remaining approvals steps and therefore a faster disbursement process (i.e., matter of weeks).

- Canada appropriated up to US\$1.54 billion in callable capital for the IBRD in 2011-12 [Chapter 3 - Bill C-34 - Efull... \(parl.ca\)](#) (search International Bank for Reconstruction and Development in document).

- Canada increased the above-mentioned limit and appropriated a total of US\$2.81 billion in 2019 [2019 Public Accounts Volume II - Appendix I](#)

No other callable capital has been appropriated for any other MDB that Canada is a member of. These amounts may be “noted” in the Public Accounts of Canada or in appropriation acts, but not “appropriated/approved” by Parliament.

(9) Accounting and Budgeting Procedures: Describe the accounting treatment your government employs when accounting for callable capital, and how callable capital is treated in your government’s budget.

Canada’s callable capital commitments at MDBs are classified as “contingent liabilities” with no valuation (i.e., expense) associated with them. This follows Canada’s public sector accounting directives, as below.

The Department (GAC or FIN) would recognize a liability when:

- (1) the probability of occurrence of the future event is likely; and
- (2) the amount of the liability can be estimated.

In terms of probability, the following ranges are used:

- Likely - a greater than 70% probability that a liability may exist;
- Unlikely - a less than 30% probability that a liability may exist; and
- Not determinable - a probability between 30% and 70% that a liability may exist.

Guidance is provided to Departments in this document: [Directive on Accounting Standards: GC 3300-3310 Contingent Liabilities and Loan Guarantees- Canada.ca](#)

In our view, the probability of a call on callable capital occurring is currently estimated to be unlikely.

In the event that there is a call on callable capital (and the relevant appropriation is approved by Parliament), the relevant Department would record an investment that would be included in the Public Accounts. As the investment(s) are considered concessionary, there would be a valuation allowance for the full amount of the callable capital.

The Public Accounts of Canada (Volume 1 – section 11) lists all callable capital contingent liabilities: [Contingent liabilities—Section 11: Contractual obligations, contractual rights and contingent liabilities as at March 31—Volume I: Public Accounts of Canada 2023—Receiver General for Canada—PSPC \(tpsgc-pwgsc.gc.ca\)](#)

(10) Legal Status of Callable Capital Subscriptions: Describe the legal status of your government’s callable capital subscriptions, including the legal basis upon which those subscriptions rest.

- Relevant legislation is linked below. While some legislation provides the relevant Minister/Governor with “statutory” (i.e., legislative) authority to make payments in respect of paid-in capital, no legislation expressly provides the relevant Minister/Governor with the authority to make payments in respect of callable capital.
- As such, payments related to callable capital require “expenditure approval” through an appropriation act that is approved by Parliament, as discussed in response to questions 3 - 5.
- [International Development \(Financial Institutions\) Assistance Act \(justice.gc.ca\) \(GAC\)](#)
 - This above-mentioned legislation provides the relevant Minister with the authority to pay from the fiscal framework, in consultation with the Minister of Finance (i.e., subject to a funding decision). The amount would need to be approved by Parliament through an appropriation act.
- [Bretton Woods and Related Agreements Act \(justice.gc.ca\) \(FIN\)](#)
 - This above-mentioned legislation provides the relevant Minister with the authority to pay from the fiscal framework (subject to a funding decision) but requires that the amount be approved by Parliament through an appropriation act.
- [European Bank for Reconstruction and Development Agreement Act \(justice.gc.ca\) \(FIN\)](#)
 - This above-mentioned legislation provides the relevant Minister with the authority to respond to a call on callable capital and pay from the fiscal framework (subject to a funding decision). The amount would need to be approved by Parliament through an appropriation act.
- [Asian Infrastructure Investment Bank Agreement Act \(justice.gc.ca\) \(FIN\)](#)
 - The above-mentioned legislation provides the relevant Minister with the authority to respond to a call on callable capital and pay from the fiscal framework (subject to a funding decision). The amount would need to be approved by Parliament through an appropriation act.

(11) Cross-MDB Differences: Describe any differences in the way your government treats callable capital from an accounting, legal, or process for responding to a call perspective across the different MDBs.

There are no differences.

(12) Other Factors: Cite any other factors affecting your government’s ability to promptly respond to a call on callable capital.
 N/A

Callable Capital Exercise – Shareholder Information Template

(1) Shareholder

Germany

(2) Shareholding and Callable Capital Commitments

MDBs (and other DFIs, if applicable)	Shareholding (% of subscribed capital)	Callable Capital Commitments (billions)
IBRD (Link)	4.501%	USD 13.261
ADB (Link)	4.316%	USD 5.806
AfDB (Link)	4.099%	UA 5.674 = USD 7.554
IDB (Link)	1.896%	USD 3.126
CDB (Link)	5.579%	USD 0.073
AIIB (Link)	4.622%	USD 3.587
EBRD (Link)	8.591%	EUR 2.023 = USD 2.211
EIB (Link)	18.779%	EUR 42.555 = USD 46.504
CEB (Link)	16.414%	EUR 0.814 = USD 0.889

(3) Processes and Approvals: Describe the process your government would undertake and any approvals it would need to respond to a call on callable capital (or a call that is forthcoming). And, where legislative approval is required to respond to a call on callable capital (or a call that is forthcoming), describe the scope of opportunities for engagement with the legislature to seek this approval.

If a bank's board of directors was to issue a call, Germany would verify and assess the call. This would involve the Finance Ministry, as well as, for IBRD, ADB, AfDB, IDB and CDB, the Ministry for Development Cooperation. If the amount due exceeded the amount already allocated as expenses in the federal budget for surety obligations, guarantees or other warranties by at least €50 million, the German government would need to give a written notification to the Budget Committee of the German Bundestag (parliament) about its intention to mobilise the excess expenditures due.

If the excess expenditures were lower than €50 million, there would not be any obligation to inform the Budget Committee ex ante.

Only in the very unlikely event that the amount due leads to a breach of the ceiling on net borrowing set by the Bundestag for the relevant fiscal year would a supplementary budget have to be passed within the framework of the ordinary legislative procedure.

Finally, excess expenditure payments would technically be made via the Bundesbank, which routinely channels Germany's payments for MDBs' capital increases and their concessional windows' replenishments.

We would aim to get through the budgetary process as swiftly as possible to mobilise the means Germany has committed to.

(4) Timeframes: Describe the timeframes associated with these processes and approvals. If the timeframe is conditional upon specific factors, please describe those factors.

The timeframe depends on the amount due. If there is no obligation to inform the Budget Committee of the German Bundestag (see question 3), the time required is less than one month. Otherwise up to two months are required unless a supplementary budget needs to be passed.

(5) Responsibilities: Describe where the responsibilities for these processes and approval reside within your government.

Procedural Step	Timeframe	Responsible Entity
Verification and assessment	1 month	Ministry of Finance together with the divisions responsible for the respective MDB (either in the Ministry for Economic Cooperation and Development or in the Ministry of Finance)
[Notification of the Budget Committee of the Bundestag]	1 month	Ministry of Finance]
Payment	1 week	Ministry of Finance

(6) Size of Call Response: Describe your government's potential to make available an amount of callable capital above the size of a call that has been made (or is forthcoming), and the associated processes and approvals for the same (if different from the above).

If only a portion of callable capital is used to respond to a call, the remainder would be available for one or more subsequent calls.

(7) Accelerated Processes: Describe your government's potential to undertake accelerated domestic processes and approvals in response to a call on callable capital (or a call that is forthcoming), including what these processes and approval entail (including any conditions that must be met), their associated timeframes, and whether there are any limitations on the amount of callable capital available through them (recognizing that the existence of these accelerated processes has no effect on the circumstances under which callable capital may be called).

Depending on the circumstances, the process may be faster than described. For instance, if the case is straightforward, can be easily assessed and validated and if there is no need to inform the Budget Committee of the German Bundestag, the timeframe might be brought down to one week.

(8) Callable Capital Available for Immediate Disbursement and Process/Timeframe: Describe any amounts of callable capital that are currently available for immediate disbursement in response to a call on callable capital (including, where applicable, funds that have already been made available through existing or previously approved budgets), and the processes, approvals, and timeframes associated with disbursement of such amounts.

As mentioned above, amounts already allocated as expenses in the federal budget for surety obligations, guarantees or other warranties plus up to €50 million can be disbursed without ex-ante notification of the Bundestag.

(9) Accounting and Budgeting Procedures: Describe the accounting treatment your government employs when accounting for callable capital, and how callable capital is treated in your government's budget.

Callable capital is recorded as an off-balance sheet commitment and as a contingent, not a direct, liability. Essentially, the departmental budget for surety obligations, guarantees or other warranties (budget chapter 3208) includes and lists all guarantees provided by the German Federation. The current amounts are published every quarter in the Federal Ministry of Finance's monthly report (https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Monthly_Report/Key_Figures/2023/2023-11-federal-budget.html). The table includes the total amount of guarantees Germany has provided to international financial institutions (IFIs). The vast majority of all guarantees provided to IFIs are callable capital.

(10) Legal Status of Callable Capital Subscriptions: Describe the legal status of your government's callable capital subscriptions, including the legal basis upon which those subscriptions rest.

They are guarantees in accordance with the legal framework of the Multilateral Development Banks. The German government accepts guarantees on the legal basis of section 3 of the annual Budget Act (<https://www.bundeshaushalt.de/static/daten/2024/soll/E-HG%202024.pdf#page=4>).

(11) Cross-MDB Differences: Describe any differences in the way your government treats callable capital from an accounting, legal, or process for responding to a call perspective across the different MDBs.

There are no differences in the treatment of callable capital across different MDBs.

(12) Other Factors: Cite any other factors affecting your government's ability to promptly respond to a call on callable capital.

In rare cases there may be factors that affect the timeline of the process, for instance if notification of the Budget Committee or even a supplementary budget is necessary immediately before or after a federal election.

Callable Capital Exercise – Shareholder Information Template

(1) Shareholder

(2) Shareholding and Callable Capital Commitments

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)	Callable Capital Commitments (\$ billions)
IBRD*	2.61%	7.698 USD
IFC*	3.21%	N/A
MIGA*	2.80%	0.044 USD
AfDB**	2.38%	3.302 UA
AIIB**	2.65%	2.057 USD
AsDB**	1.80%	2.425 USD
CDB**	5.58%	0.0734 USD
EBRD**	8.52%	2.023 EUR
IADB**	1.97%	3.242 USD
IDB Invest**	2.95%	N/A
EIB**	18.78%	42.555 EUR
CEB**	16.72%	0.814 EUR

*As of June 30, 2023

**As of December 31, 2022

(3) Processes and Approvals: Describe the process your government would undertake and any approvals it would need to respond to a call on callable capital (or a call that is forthcoming). And, where legislative approval is required to respond to a call on callable capital (or a call that is forthcoming), describe the scope of opportunities for engagement with the legislature to seek this approval.

Ownership of Italy's shareholding in all MDBs falls solely within the purview of the Ministry of Economy and Finance. In the unlikely event of a call on callable capital by one or more institutions, the Governor responsible would need to consider the following procedure:

- Option 1: *Ordinary budget management and administrative procedures*. Use previously identified funds allocated in the "Statement of Estimates" (in Italian: *Stato di previsione*) of the Ministry of Economy and Finance, in the elementary unit (in Italian: *capitolo di bilancio*) dedicated to this specific purpose. In this case, payments are executed, within the limit of the resources allocated, in a very short time, without further acts, after the regularity controls are carried out by the State offices in charge (Central budget offices). If the above resources are insufficient, the budget appropriation related to the "Reserve fund for unforeseen expenses" (article 28 of the law n. 196, 31 December 2009 "Law on accounting and public finance"), within the limit of its resources, can be authorized to respond to the call: in this case a ministerial administrative decree must be signed and approved by the Minister of Economy and Finance. Other forms of flexibility between budget elementary units are allowed by law n.196, limited to specific cases, and can be applied after the enactment of ministerial administrative decrees authorizing the transfer of resources from other elementary units to the one dedicated to this specific purpose.

- Option 2: *Decree law*. If the available resources are insufficient, it is possible to activate the extraordinary legislative procedure of the decree-law, which is usually adopted for situations of necessity and urgency. This legislative act would increase the resources allocated to the specific unit of the budget concerning that capital call. As stated by the Italian Constitution (article

81), and detailed in the law n.196, the new expenditure must be compensated by correspondent reduction in other expenditure units or increase of revenues: in some cases resources that are deposited in the treasury accounts (accounts opened at the Bank of Italy where the ministry holds liquid assets) can be used if they fulfil the conditions of the aforementioned law. It is worth noting that the compensation must be effective in terms of three relevant public finance aggregates: the balance of the State budget, the cash borrowing requirement and the ESA general government net lending/borrowing. A decree law is delivered by presenting the Italian Council of Ministers with a legal instrument which is immediately effective after the publication in the Official Journal and that would be finally approved (“converted into law”) by the Parliament within a short time frame (within 60 days).

- Option 3: *Ordinary law or Budget law*. In case the requisite of necessity and urgency is not met, the ordinary legislative process must be followed: in this case a draft law (*disegno di legge*) is presented to the Parliament and becomes effective after its approval: the examination (and amendment) of a draft law by the Parliament may occur in a longer time frame, not being formally subject to limits (this case seems unlikely to be followed for calls of capital given their implicit urgency). Alternatively, the resources can be allocated in the State budget with the Budget law. In October the Government presents to the Parliament the draft budget law for the following three years (*disegno di legge di bilancio*) approved by the Council of Ministers. The final approval by the Parliament and the publication on the Official Journal occur by the end of the year. The measures included in the budget law, in this case the increase of resources dedicated to the calls of capital, must be consistent with the public finance objectives set in the Planning documents (so, differently from the other laws, it is not bound to a strict financial compensation of each measure, thus making room to the authorization of new expenditures, provided the attainment of the overall objectives).

(4) Timeframes: Describe the timeframes associated with these processes and approvals. If the timeframe is conditional upon specific factors, please describe those factors.

The options above mentioned will come with different timeframes associated with the process needed to approve and execute a payment on callable capital. The selected option would vary depending on several factors, including the urgency and the amount of the call and whether parliamentary approval is necessary.

Indicative timelines can be found below.

(5) Responsibilities: Describe where the responsibilities for these processes and approval reside within your government.

Procedural Step	Timeframe	Responsible Entity
<p>Legal Authority: The Authority for the Minister for Economy and Finance as shareholder to respond to a call and honour Italy’s commitments is grounded in the legislation.</p>	n/a	Ministry of Economy and Finance Italian Parliament
<p>Source of Funds: Callable Capital is, for budgetary purposes, considered to be an off-balance sheet commitment in the form of a contingent liability.</p> <p><i>Option 1: Ordinary budget management and administrative procedures</i> Resources already allocated in the specific elementary unit or administrative decree. The Minister of Economy and Finance could approve <i>the use of the reserve fund or the flexibility measures</i> to respond to the call with a ministerial administrative decree, signed and approved by the Minister themselves.</p> <p><i>Option 2: Decree law</i> The Minister of Economy and Finance would need to inform and present a proposal of an urgent decree law to the Council of Ministers.</p> <p><i>Option 3: Ordinary law or Budget law</i> The proposal could be stand-alone, with just the request for the appropriation of callable capital included or paired with other requests for appropriations. This process could be completed in line with the ordinary legislative process or as a budget appropriation as part of the Italian budget cycle or. It could require few months to be approved by the Parliament depending on when the call occurs.</p>	Depending on the urgency. It can be expedited to the greatest extent possible.	Ministry of Economy and Finance Council of Ministers Italian Parliament

<p>Approval of Funds</p> <p>Option 1: <i>Ordinary budget management and administrative procedures</i></p> <ul style="list-style-type: none"> The funds are available for disbursement after either regularity controls or the approval of a Ministerial decree. <p>Option 2: <i>Decree law</i></p> <ul style="list-style-type: none"> The Council of Ministers can be urgently convened to approve the decree-law. The decree-law is immediately effective and executable, but parliamentary approval will be needed to confirm and transform the decree-law into ordinary law within 60 days. 	<p>Option 1: n/a</p> <p>Option 2: immediately effective after the Council of Ministers approval. Up to 60 days for Parliamentary approval.</p>	<p>Ministry of Economy and Finance</p> <p>Council of Ministers</p> <p>Italian Parliament</p>
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<ul style="list-style-type: none"> • The Parliament can be urgently convened to schedule the approval within the shortest timeframe possible. The decree-law must be approved by both chambers of Parliament. <p>It should be noted that the Italian Executive branch and the Parliament have both moved swiftly in the past when unannounced expenditures came forth and we expect this to be the case for the unlikely event of a call on callable capital.</p> <p>Option 3: <i>Ordinary law or Budget law</i></p> <p>In case the requisite of necessity and urgency is not met, the ordinary legislative process must be followed: in this case a draft law (<i>disegno di legge</i>) is presented to the Parliament and becomes effective only after its approval.</p> <ul style="list-style-type: none"> • The Council of Ministers can approve an ordinary law (without any specific time constraints) or the budget law, in October, and submit it to the Parliament. • Following the approval of the instrument by the Council of Ministers, parliamentary approval of the Budget law occurs before the end of the year. It could require few months to be approved by the Parliament depending on when the call occurs. 	<p>Option 3: Up to 12 months</p> <p>These laws must follow standard parliamentary procedures.</p>	
<p>Payment: Once approved, the Ministry of Economy and Finance would proceed to deposit the funds to the relevant IFI and considering the urgency of the matter make payments accordingly in few days.</p>	<p>These steps could take only few days to execute.</p>	<p>Ministry of Economy and Finance</p>

(6) Size of Call Response: Describe your government's potential to make available an amount of callable capital above the size of a call that has been made (or is forthcoming), and the associated processes and approvals for the same (if different from the above).

The size of the request would be limited to the amount of the Italian share of callable capital that has been authorized at each MDB. If the initial call that is made is for less than the total amount of callable subscribed (we deem this likely), any further disbursement of capital would follow the same steps as the first call, with the added benefit that the procedure will have been tried and tested and therefore likely to be slightly quicker. The Italian Government is unable to provide funds above those subscribed in the form of callable capital without a separate legal instrument that would need to be ratified by the Parliament.

(7) Accelerated Processes: Describe your government's potential to undertake accelerated domestic processes and approvals in response to a call on callable capital (or a call that is forthcoming), including what these processes and approval entail (including any conditions that must be met), their associated timeframes, and whether there are any limitations on the amount of callable capital available through them (recognizing that the existence of these accelerated processes has no effect on the circumstances under which callable capital may be called).

In case there are previously identified sources of funds, the procedures for the budget appropriation to make them available for immediate use, and the bureaucratic steps internal to the MoF could take only a few days. Alternatively, for the accelerated legislative procedure (decree law), the Council of Ministers can be convened urgently to approve a decree-law which is immediately effective. The final and formal approval by the Parliament of the decree law must take place within 60 days to confirm the government's decision. The final and formal approval by the Parliament can be immediately scheduled depending on the urgency.

(8) Callable Capital Available for Immediate Disbursement and Process/Timeframe: Describe any amounts of callable capital that are currently available for immediate disbursement in response to a call on callable capital (including, where applicable, funds that have already been made available through existing or previously approved budgets), and the processes, approvals, and timeframes associated with disbursement of such amounts.

No amounts of callable capital have been appropriated for any institution.

(9) Accounting and Budgeting Procedures: Describe the accounting treatment your government employs when accounting for callable capital, and how callable capital is treated in your government’s budget.

According to the *Eurostat Manual on Government Deficit and Debt*, callable capital does not impact the budget in terms of debt or deficit until a call (and payment) occurs. As for the Manual, “A large part of an MDB capital increase is usually structured as callable capital, i.e., not actually paid-in. The statistical treatment in the case of MDBs providing mainly non-concessional loans is as follows: the callable part is to be considered a contingent transaction, which is not to be recorded in the national accounts system”⁸.

Accounting treatment: Italian callable capital subscriptions fall under the category of off-balance sheet commitments as a type of contingent liability.

Budgetary treatment: Callable capital subscriptions are not incorporated into the budget unless they are appropriated by the Parliament. When callable capital is appropriated, the Ministry of Economy and Finance receives budget authority to commit it and pay the funds to meet the obligation.

(10) Legal Status of Callable Capital Subscriptions: Describe the legal status of your government’s callable capital subscriptions, including the legal basis upon which those subscriptions rest.

All the callable capital subscriptions of Italy are grounded in the international agreements establishing the various IFIs and are approved by the Italian parliament and consequently express the consent of the state to be bound by each such treaty.

⁸ For further references see the *Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2022 edition*, Luxembourg: Publications Office of the European Union, 2023.

(11) Cross-MDB Differences: Describe any differences in the way your government treats callable capital from an accounting, legal, or process for responding to a call perspective across the different MDBs.

The callable capital subscriptions of Italy are all treated in the same way from an accounting, legal, and process for responding to a call perspective across all the MDBs in which Italy is a shareholder.

(12) Other Factors: Cite any other factors affecting your government's ability to promptly respond to a call on callable capital.

N/A