THE BRETTON WOODS COMMITTEE

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Explainer: Securities Registration Exemption for IDA

The Administration budget proposal for FY 2022 proposes to exempt securities issued by IDA from Securities and Exchange Commission registration requirements by according IDA securities the same exemption that currently applies to the securities of IBRD, IFC and other MDBs in which the United States is a member. If granted, over the next five years, the exemption will permit IDA to provide countries nearly $700 million of additional resources on the existing pledge platform.

WHAT IS IDA, AND HOW DOES IT FIT INTO THE WORLD BANK GROUP

The World Bank Group (WBG) consists of five institutions: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID). While IBRD works with middle-income countries and IFC engages with the private sector, IDA provides financing, policy advice and technical assistance to developing countries. IDA is one of the largest sources of concessional assistance to the world's poorest countries and is the single largest source of donor funds for basic social services in these countries.

Background

The financing framework for IDA 18 (2017–2019) contemplated the introduction of market borrowing by IDA. IDA secured AAA ratings from Moody's and Standard and Poor's, and in April 2018, issued its first securities in the supra-sovereign bond market. In December 2020, IDA issued its first ten-year U.S. Dollar benchmark bond with a coupon of 1%. IDA has also placed short-term funding instruments in European markets at rates below one percent per annum, but without an exemption is unable to access similar U.S. markets for short-term securities without incurring excessive expense.

Securities Exemption for MDBs

From the early days of IBRD and IFC, Congress granted IBRD and IFC securities an exemption from the Securities Act of 1933 and the Securities Exchange Act of 1934. Congress did the same for the other MDBs in which the Unites States is a shareholder. The securities exemption for IBRD, IFC and the MDBs covers registration (section 3(a)(2)) of the Securities Act and reporting (section 3(a)12 of the Securities Act).

The following chart shows MDBs in which the U.S. is a member as well as a citation for the securities exemption and the year it was passed by Congress.

Multilateral Development Banks (MDB) in which the U.S. is a Member		Regulatory Relief (Year Passed Congress)
World Bank Group	**International Development Association (IDA)**	*None*
	International Bank for Reconstruction and Development (IBRD)	Bretton Woods Agreements Act 22 USC 286k-1 (1945)
	International Finance Corporation (IFC)	IFC Act 22 USC 282k(a) (1955)
Inter-American Development Bank (IADB)		IADB Act 22 USC 283h(a) (1959)
Asian Development Bank (ADB)		ADB Act 22 USC 285h(a) (1966)
European Bank for Reconstruction and Development (EBRD)		EBRD Act 22 USC 290l-7(a) (1990)
African Development Bank (AfDB)		AfDB Act 22 USC 290i-9(a) (1981)

Why Does IDA Not Have the Same Exemption Today?

Until IDA changed its financing model in 2018, it did not raise money in the securities market and therefore did not need an exemption. Although Congress discussed the possibility of IDA issuing bonds during Senate Committee deliberations in 1958, IDA was initially designed to receive funding from donor countries, not the capital markets. IDA operated on that funding model since its founding in 1960. In 2018, donor countries agreed to change the funding model to allow IDA to raise funds on the capital markets to supplement donor contributions.

Benefits of the Exemption

The exemption from U.S. securities laws generates substantial savings for IBRD, IFC and the MDBs by enabling the institutions to negotiate private placements directly with U.S. investors, make sales of public benchmark bonds to State and municipal treasury portfolios around the United States, and place short-term paper in the U.S. market at very low rates. It also reduces legal expenses. Currently, IDA issues securities to qualified institutional buyers (QIBs) in the costly, so-called Rule 144A/Regulation S market, but each issuance requires a substantial lead time and legal expense with the need to produce a full-fledged prospectus. With a securities exemption, IDA could take advantage of favorable market windows, issue a less expensive mix of short- and medium-term benchmarks and privately placed securities, and reduce its transaction costs.

IDA estimates that over the course of a five-year funding program, it could increase its funding for IDA countries by almost $700 million with the same level of IDA commitments. This represents additional support for the world's poorest countries.

The chart below shows IDA's Additional Costs Without the Exemption compared to IBRD over Five Years, showing savings for both short-term funding and medium-term funding.

SHORT-TERM FUNDING					
	Average Funding Volume ($M)	**Annual Cost (BPS)**	**Annual Cost ($M)**		**Total Expected Cost ($M)**
Commercial Paper	10,000	12	12		12
Total Expected One-Year Cost (Short-Term)					12
MEDIUM-TERM FUNDING					
	Average Funding Volume ($M)	**Annual Cost (BPS)**	**Annual Cost ($M)**	**Expected Average Duration (Years)**	**Total Expected Cost ($M) (Annual Cost x Duration)**
Syndicated Bonds	16,000	5	8	8.6	69
Non-Syndicated Bonds	9,000	14	12.6	4.6	58
Cost per annum					127
Total expected one-year cost (Short-Term + Medium-Term)					139
Total expected five-year cost (Short-Term + Medium-Term)					**$695 million**

Furthermore, IDA stands to obtain further interest savings because currently the investor base perceives IDA bonds as a substandard brand, despite their triple-A rating. The lack of equal treatment creates a differential treatment between IBRD, IFC and IDA, which all share the same investor base.

Benefits of the Exemption for U.S. Markets and Investors

IDA bonds face a higher barrier to entry to U.S. markets than IBRD and IFC bonds. Many U.S. investors are not given the choice to invest in IDA securities. Although IDA securities are safe, liquid and triple-A rated, some U.S. investors miss the opportunity to diversify their portfolios with a high-grade liquid investment that supports positive ESG outcomes and, without taking project or credit risk, funds investment in impactful solutions to global development challenges. The lack of equal treatment from the SEC creates a differential treatment among IBRD, IFC and IDA bonds, which all share the same investor base.

In addition, there are a variety of U.S. broker-dealer firms that would welcome the opportunity to underwrite and trade IDA bonds. Given that IDA bonds cannot be marketed to the general public in the U.S., the regulatory treatment prevents companies from introducing IDA bonds to their clients.

Does Regualtory Relief Remove All Oversight by the SEC?

No. IDA will continue to be subject to anti-fraud liability under the securities laws and would be expected to meet the same disclosure obligations as other MDBs. As in the case of IBRD, actions may be brought against IDA in courts of competent jurisdiction in the territories of any member in which IDA has issued securities.

Would the exemption be permanent?

No. All MDBs with the same regulatory treatment may be suspended or terminated by the SEC. This ensures accountability and supports the three-part mission of the SEC to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Can a Securities Exemption Be Included in the FY 22 Legislation?

Yes, the Senate Banking Committee with jurisdiction over the SEC has drafted language that could be inserted in the FY 22 appropriations bill. It follows existing legislation creating an exemption for IBRD, IFC and the MDBs.

Why Does Congress Need to Act?

The SEC has the authority to exempt classes of securities from registration but has never done so for a significant asset class in its 92 years of its existence. A legislative exemption will also avoid making IDA securities an inferior class in the supra-sovereign bond market since they will benefit from the same exemption enjoyed by their peer institutions.

This paper was prepared by the Bretton Woods Committee's Legislative Working Group, which provides policy-makers in Congress and the Administration with non-partisan expertise on the International Financial Institutions. The Working Group is co-chaired by Whitney Debevoise and Meg Lundsager and includes Sara Aviel, Tony Fratto, Bill Frymoyer, Jim Kolbe, Clay Lowery, Scott Morris, and Mark Sobel.

THE BRETTON WOODS COMMITTEE
1701 K St NW #950, Washington, DC 20006
www.brettonwoods.org