Callable Capital Exercise – Shareholder Information Template

(1) Shareholder

United States

(2) Shareholding and Callable Capital Subscriptions

MDBs (and other DFIs, if applicable)	Shareholding (% of Subscribed Capital)[1]	Callable Capital Commitments ($ billions)[2]
IBRD	16.6%	$49.2
IDB	30.7%	$49.2
AsDB	15.6%	$18.7
AfDB	6.5%	$8.2
EBRD	10.1%	$3.1
NADBank	50.0%	$1.5
MIGA	18.4%	$0.3

(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.

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

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

[1] MDB annual financial statements from IBRD and MIGA fiscal year 2023, and AsDB, AfDB, EBRD, IDB, and NADBank calendar year 2022.
[2] See Treasury Department Agency Financial Report, 2023. In some cases, these numbers differ slightly from those included in MDB annual financial statements due primarily to use of different exchange rates by Treasury and various MDBs.

Background

Treasury works with the Office of Management and Budget (OMB) to request funding from the U.S. Congress for the MDBs as part of the President's annual budget request or as a part of supplemental appropriations requests.

For the United States to agree to an increased subscription to capital stock in a MDB, Congress must authorize subscription to the entire amount of the U.S. capital subscription. In practice, Congress authorizes Treasury, on behalf of the U.S. Government, to subscribe to additional shares of the capital stocks of the applicable MDB, usually with a qualifier that such subscriptions become effective only to the extent and in such amounts as are provided in advance in appropriations acts.

Congress' role with respect to the appropriations process comes from the U.S. Constitution. The U.S. Constitution grants Congress the "power of the purse" by providing that "no Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law."[3] In other words, "no money can be paid out of the Treasury unless it has been appropriated by an act of Congress."[4] The Constitution provides Congress with the power to enact statutes to protect and exercise this power. Congress has done this through, among other ways, the annual budget and appropriations process and the enactment of appropriations acts. An appropriation act is a statute that provides legal authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.[5]

Prior to 1981, Congress' practice was to both authorize and appropriate the funds for U.S. callable capital subscriptions even absent an express call from the relevant MDB to transfer cash to meet those callable capital subscriptions. Since 1981, Congress' practice has changed. Now, it is common for an appropriations act to specify the amount that is being authorized for the callable capital subscription, referred to as a "limitation on callable capital" or "program limitation," but to refrain from actually appropriating the

[3] U.S. Const., art. 1, § 9, cl. 7. See also GAO, Principles of Federal Appropriations Law, 4th ed., 2016 rev., ch. 1, § A, GAO-16-463SP (Washington, D.C.: Mar. 2016).

[4] *Cincinnati Soap Co. v. United States*, 301 U.S. 308, 321 (1937).

[5] GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: September 2005).

money at issue at that time.[6] In other words, program limitations, which take the form of language in appropriations acts authorizing subscriptions in particular amounts, address the requirement for "amounts as are provided in advance in appropriations Acts." Because a program limitation on callable capital does not involve appropriating actual funds, subsequent legislation would be needed to appropriate the funds to meet a call for that capital from the relevant institution.

Response

(3) Processes and Approvals	(4) Timeframes	(5) Responsibilities
Callable Capital that has been Authorized and Appropriated by Congress		
OMB would need to approve the use of these funds through an apportionment, which is an OMB-approved plan to use budgetary resources. For callable capital amounts that are already authorized and for which funds have been appropriated, apportionment is needed prior to making payments, with OMB approval being typically provided when Treasury communicates the intended use of the funds.	Apportionment can be done within a day or two	U.S. Treasury Department and OMB
Upon OMB's apportionment, Treasury usually promptly undertakes its routine mechanism for distributing payments to the MDBs. This includes going through internal processes and using Treasury's constituent relationship with the Federal Reserve to execute the transaction. Using these routine processes, Treasury has	As little as a few days to make the payment (if the necessary preparatory work is done in advance)	U.S. Treasury Department

[6] For example, in the Coronavirus Aid, Relief and Economic Security Act (2020), Congress authorized the United States Governor of the African Development Bank to subscribe to 532,023 additional shares of the capital stock of the African Development Bank (the "Seventh Capital Increase") with the limitation that any subscription "shall be effective only to such extent and in such amounts as are provided in advance in appropriation Acts." Pub. L. 116-136, § 21012(b)(3), 134 Stat. 281, 594 (2020). Congress also authorized to be appropriated $7,286,587,008 for payment by the Secretary of the Treasury and allocated $6,849,396,992 for callable shares of the Bank. Subsequent appropriations acts authorized subscription to instalments of the callable shares of the Seventh Capital Increase through program limitations, such as the Consolidated Appropriations Act, 2023, which provided for a limitation on callable capital subscriptions: "The United States Governor of the African Development Bank may subscribe without fiscal year limitation to the callable capital portion of the United States share of increases in capital stock in an amount not to exceed $856,174,624." Pub. L. 117-328, 136 Stat. 4459, 4996 (2022).

contributed over $7.2 billion to the MDBs over the last five years to meet commitments related to capital increases and pledges related to replenishments.		
Callable Capital that has been Authorized, but for which Funds are Not Yet Appropriated by Congress		
The process of an MDB reaching the point of making a call on callable capital to meet its obligations could be a lengthy one, with the forthcoming call being foreseen well in advance. To respond to a call on callable capital that has been made or is forthcoming, U.S. Treasury would need to work with OMB to request an appropriation of funds from Congress. This could take different forms depending on the expected timing of the call, and there are myriad opportunities for executive branch engagement with Congress as it seeks the requested appropriation. <u>Supplemental Request</u>: If the call is made or expected to be made outside of the U.S. annual budget cycle, U.S. Treasury could work quickly with OMB to prepare an emergency supplemental request to Congress for appropriation of funds in the amount that is, or that Treasury expects, to be called. This request 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 quickly. <u>President's Budget</u>: In the event that the timing of a forthcoming call aligns with the U.S. budget cycle, U.S. Treasury could work with OMB to include in the President's budget request the amount that Treasury expects to be called.	A supplemental request could be made in as little as a few days A request in the President's Budget would need to be timed with the release of that budget (often in early February)	U.S. Treasury Department and OMB
The U.S. Congress would need to appropriate the requested amount of callable capital that it has already authorized, but this would be subject to the legislative process, and the timeframe for it is not predictable. However, if there were indications in advance that a call is forthcoming, there could be ample time for the executive branch to work with Congress to garner support for any necessary appropriation, and for Congress to provide that appropriation before any call is actually made.	Dependent on the U.S. Congress	U.S. Congress

After Congress appropriates the funds, Treasury would need to issue a warrant to provide the fund balance to the Treasury account, and OMB would need to approve the use of those funds through an apportionment.	The warrant and apportionment can be processed concurrently, with these steps possibly taking two to three days to execute	U.S. Treasury Department and OMB
Treasury would need to go through its standard internal payment processes to execute the transaction.	As little as a few days to make the payment (if the necessary preparatory work is done in advance)	U.S. Treasury Department

(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 full amount of callable capital that has been authorized and appropriated for each MDB would be available for disbursement in response to one or more calls (e.g., if some portion of this amount is used to respond to a call, the remainder would be available for one or more subsequent calls).

Where callable capital has been authorized, but funds have not been appropriated, Treasury and OMB would need to pursue the above-described process to request from Congress the appropriation of an amount of callable capital at or above the amount of the call that has been made or is forthcoming. The size of the request for appropriations would be limited to the amount of U.S. callable capital that has been authorized, but not appropriated at each MDB.

(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).

The process for an emergency supplemental appropriations request is described in the response to questions 3, 4, and 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.

Before 1981, the U.S. Congress' practice was to authorize and appropriate the full amount of U.S. callable capital subscriptions even absent a call by the relevant MDB for the cash in question. This allows the United States to make payments on these callable capital subscriptions in the event that they are called without any additional act of Congress. The total amount of appropriated callable capital subscriptions through 1980 is over $12 billion. Since 1981, Congress' practice has changed. Under the current practice, Congress enacts so-called "program limitations" for U.S. subscriptions to callable capital. Enactment of a program limitation in an appropriations act enables the United States to make the relevant subscription. For the United States to respond to a call on capital, Congress would need to adopt additional legislation providing the necessary appropriation.

That more than $12 billion in callable capital that has been authorized and appropriated is distributed as follows:

IBRD: $7.66 billion (~4.9% of end-FY23 IBRD net debt[7])
IDB: $3.80 billion (~5.4% of end-2022 net debt)
AsDB: $748 million (~0.9% of end-2022 net debt)

No further appropriation or other Congressional action is necessary to enable the Secretary of the Treasury to pay these amounts if any part of them were to be called to meet obligations of the above MDBs. In the event of a call on callable capital, the U.S. Treasury would need to make a payment under its usual mechanism if the funds have been apportioned. If the funds have not been apportioned,

[7] Borrowings less liquid assets and cash due from banks in latest annual financial statements

Treasury would need to submit a request to OMB for apportionment and, once apportioned, make a payment under its usual mechanism.

(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.

Accounting Treatment

U.S. paid-in capital at the MDBs is considered to be a non-marketable equity investment valued at cost in the Treasury Department's Agency Financial Report. U.S. callable capital subscriptions at the MDBs fall under the category of "Other Commitments and Contingencies" in that same report, where they are referred to as commitments, but are functionally equivalent to contingent liabilities.

In accordance with the Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, Treasury recognizes material contingent liabilities meeting the following criteria:

- A past event or exchange transaction has occurred;
- A future cash outflow is probable; and
- A future cash outflow is measurable.

If one or more, but not all, of the above criteria for recognition are met, and there is a reasonable possibility of loss, Treasury will disclose, if material, the nature of the contingent liability, along with a range of possible loss, if estimable, and a description of the nature of the contingency.

As U.S. callable capital subscriptions at the MDBs do not meet all three criteria, they are not included as liabilities on the consolidated balance sheet in the Agency Financial Report, and are instead included in Note 27 – "Commitments and Contingencies" – along with the statement that these subscriptions are only callable under certain limited circumstances to meet the obligations of the respective MDB, and there has never been, nor is there anticipated to be a call on these subscriptions.

Budgetary Treatment

U.S. callable capital subscriptions are not incorporated into the U.S. budget unless they are appropriated by Congress. When callable capital is appropriated, Treasury receives budget authority to obligate it (i.e., incur the obligation) and pay the funds to meet that obligation (i.e., to outlay the funds). If these funds are not obligated and paid in the year they are appropriated, they remain as budgetary resources that are available for subsequent obligation and payment.

For U.S. callable capital subscriptions that were authorized and appropriated by Congress before 1981, Treasury has the budgetary resources to obligate and pay the amounts called to respond to capital calls up to the amount of those subscriptions. Post-1981 U.S. callable capital subscriptions have not been appropriated and are thus not part of the budget.

Past appropriations for callable capital have not been scored in past U.S. budgets (i.e., assigned a cost based on the expected outlay) nor resulted in budget outlays because a call has never been made, and it has been recognized that the likelihood of a call is remote. And, callable capital that has not been appropriated is not subject to budget scoring as it cannot result in an outlay until there is an appropriation.

(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.

U.S. callable capital subscriptions that are authorized by the U.S. Congress are binding commitments backed by the full faith and credit of the United States (unless the authorizing statute of such commitments specifically provides otherwise), notwithstanding that a future appropriation might be necessary in order to fund that commitment. To date, no authorizing statute has provided that such subscriptions are not backed by the full faith and credit of the United States.

The full faith and credit of the United States is the highest assurance of payment the U.S. Government can provide, and also backs U.S. Treasury securities.

(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.

U.S. callable capital subscriptions are treated the same from an accounting, legal, and process for responding to a call perspective across the MDBs in which the United States is a shareholder.

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