

Annex I: Draft Terms of Reference of the Permanent Trustee

I. Introduction

1. The GCF was established in December 2010 with the purpose of making a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change. In the context of sustainable development, the GCF will promote a paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change.
2. The GCF was designated as an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC). It is governed and supervised by a Board, which has 24 members composed of 12 members each from developing and developed countries, that has responsibility for policies and guidelines and funding decisions pursuant to the Governing Instrument for the GCF. It is supported by an independent Secretariat, which is accountable to the Board and located in Songdo, Incheon City, Republic of Korea.
3. In UNFCCC decision 1/CP.16, paragraphs 104–107, the Conference of the Parties to the UNFCCC decided that the GCF would have a Trustee with relevant competence to manage the financial assets of GCF and invited the World Bank to serve as the Interim Trustee for the GCF. As at the present, contributors had pledged approximately USD 10.3 billion for the Initial Resource Mobilization period from 2015 to 2018, and 44 contributors, including countries, regions and a city, had signed the contribution agreements and arrangements. Over USD 4 billion in the form of cash and promissory notes have been received to date.

II. Background

4. As set out in the Governing Instrument, paragraphs 24 and 25, the GCF is to have a permanent Trustee to manage its financial assets, maintain appropriate financial records and prepare the relevant financial statements and reports in accordance with the applicable decisions of the Board.
5. In decision B.08/22, the Board agreed that the process to appoint the Trustee should be concluded no later than the end of 2017 so that the Trustee can commence its services for the GCF no later than April 2018. The GCF now seeks to select a Trustee which will meet the requirements set out below.

III. Requirements

3.1 Financial rating

6. The trustee must have at a minimum a stable credit rating equivalent to AA in Standard & Poor's long-term scale (or AA in Fitch or Aa2 in Moody's long-term scales).

3.2 Experience

7. The Trustee must have a track record of providing trustee services for large multilateral funds. These services include transfer of funds, management of incoming and outgoing funds, foreign currency exchange, investment management, auditing of trust funds and accounting and reporting. In addition, it should have a proven track record of transacting with:

- (a) Governments of developed and developing country Parties to the UNFCCC;
 - (b) Regional, national and subnational accredited entities;
 - (c) International entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions;
 - (d) International organizations and civil society organizations, including non-profit philanthropic organizations; and
 - (e) Private sector entities.
8. In particular, the Trustee must be able to receive, in the form of grants, capital and loans (in the form of cash and/or promissory notes), the contributions from existing contributors and other public and/or private entities that may foreseeably contribute to the GCF.
9. The Trustee must meet the institutional requirements of the contributors, which originate from legal, institutional or any other domestic conditions.

3.3 Legal protection of GCF resources

10. The Trustee shall ensure that any GCF resources held in trust by the trustee shall:
- (a) Benefit from the same privileges and immunities as are applicable to the Trustee's own resources, and/or multilateral trust funds managed by it, which privileges and immunities shall be equivalent to those normally accorded to international organizations; and
 - (b) Be ring-fenced from the Trustee's own resources and any other resources held by the Trustee on behalf of third parties in order to ensure that GCF resources are not available to satisfy the claims of any of the creditors of the Trustee or such third parties.

Scope of services

3.4 Establishment of the GCF Trust Fund

11. The Trustee will establish the GCF Trust Fund to receive contributions from contributors and administer the contributed funds under instruction from the GCF and in accordance with the scope of the services listed below. The GCF Trust Fund must be able to maintain currencies, denominated in United States dollars, euros, Japanese yen and pounds sterling, as well as other convertible currencies (holding currencies). The Trustee will enter into a legally binding agreement with the GCF for the establishment of the GCF Trust Fund.

3.5 Administration of the GCF Trust Fund

12. The Trustee will perform investment management services of the GCF funds held in the GCF Trust Fund under the instruction of the GCF. For this purpose, the Trustee will have the capacity to present options to the Secretariat on asset allocation, such as asset class, and short-term investments based on simulation of different scenarios.
13. The Trustee shall invest in a variety of assets, with excellent environmental, social and corporate governance ratings, which meet the GCF strategic asset allocation, asset liability management and risk appetite requirements, in agreement with the GCF.

3.6 Contribution management

14. The Trustee will administer and manage the contributions to the GCF Trust Fund and manage the contribution agreements/arrangements in the following manner:

- (a) Enter into direct contribution agreements/arrangements with GCF contributors and the GCF;
- (b) Receive contributions in the form of grants, loans, capital or reserves (in the form of cash and promissory notes) to be set aside in support of loan contributions,¹ on an agreed schedule as specified in each contribution agreement/arrangement;
- (c) Have the ability to enter into contribution agreements/arrangements with sovereign contributors and other contributors as agreed between the Trustee and the GCF;
- (d) Have the ability to enter into agreements/arrangements to receive contributions originating from national, subnational and private sector contributors and any other contributors, as agreed between the Trustee and the GCF; and
- (e) Have the capacity to implement all the elements of the contribution agreements/arrangements.

3.7 Transfer of funds and reflows

15. Upon instruction from the Secretariat, the Trustee will transfer funds, in any one of the GCF holding currencies, to the GCF accredited entities, including international and direct access entities and other parties agreed between the GCF and the trustee for funding proposals and other activities approved by the GCF.

3.8 Reporting to the Board and the Secretariat

16. The Trustee will provide quarterly reports to the Board with respect to the status of resources of the GCF Trust Fund and any other reports as may be required by the Board.

17. The Trustee will also provide reports to the Secretariat with respect to records of payments made and received, the expected flows of contributions over the next 12 months and any other information with a frequency as determined by the Secretariat.

18. The Trustee will also provide to the Secretariat a detailed financial statement of transactions as well as specific information on the credit rating and duration of the financial instruments in which the GCF invests.

3.9 Legal services

19. The Trustee shall have the capacity to provide the legal services associated with the scope of services described above through an in-house legal team.

3.10 Integrity standards

¹ Certain loan contributions also include a reserve, or 'cushion', to be used as reserve in case the GCF own portfolio of loans were to be impaired. The cushion would increase the ability of the GCF to make repayments on those loan contributions.

20. The Trustee shall ensure that it has and applies fiduciary principles and standards relating to any 'know your customer' checks, anti-corruption, anti-money laundering / combating the financing of terrorism, fraud, financial sanctions and embargoes.

3.11 Auditing of the GCF Trust Fund

21. The Trustee will provide an annual audit encompassing all the portfolios and activities related to the trusteeship. The audit should be carried out by an external, internationally recognized auditing firm satisfactory to the GCF.

3.12 Other available services

22. If the Trustee has any other financial services to enhance the financial capacity and activities of the GCF, such as foreign exchange hedging products, liquidity facilities and derivatives, these services should be described in detail.

3.13 Institutional capacity

23. The Trustee must have the institutional capacity to provide all of the above-mentioned services.

3.14 Duration of the service

24. The term shall be for a period of four years, which term shall be renewable subject to a satisfactory review, as determined by the Board, by no later than the end of the third year of the term.