Agenda Item: A.3.5.3 | WORKING PAPER | WP No:18 IFATCA'25

Review the requirements for adjusting the subscription rate by a maximum of 2.5% set by the IAM when the inflation rate exceeds this value.

Presented by the Finance Committee (FIC)

The paper examines the requirement and impact of the maximum adjustable inflation rate requirement of 2.5%, as published in the IAM, and recommends a review of 5.0%.

1. INTRODUCTION

1.1 The federation's revenue is primarily derived from the annual subscriptions paid by member associations, industry partners, and professional members, as well as from services provided by the federation.

1.2 To fulfill its objectives to member associations, the annual subscription is adjusted annually by the average inflation rate for advanced economies (industrial countries), as published by the International Monetary Fund (IMF). The IAM mandates that regardless of the actual average inflation rate, the maximum inflation factor to be applied to annual subscriptions shall not exceed 2.5% (Buenos Aires 03.A.5).

1.3 The current inflation trend for advanced economies recorded by the IMF has recently significantly exceeded the stipulated maximum allowable value of 2.5%, stated by the IAM. A table of values can be found below.

1.4 The constitution also stipulates that the federation's revenue is used to finance its activities and provide adequate net income to cover its liabilities. In principle, the budget should provide for a credit balance.

1.5 In practice, the amount of work the Federation can do is adjusted based on what the income allows.

1.6 The FIC is tasked with investigating the impact of the by-law requirement of a maximum inflation factor of 2.5% on the subscription rate, vis a vis published by the IMF that exceeds this value.

2. Discussion

2.1 Applying the inflation rate to the subscriptions is a strategic measure to safeguard the federation's financial sustainability, ensure fairness, provide predictability of its activities, and maintain the quality of services offered to members. It reflects a proactive approach to managing the association's revenue in alignment with economic conditions.

2.2 Advanced Economies have set a long-term target inflation rate of 2% to provide price stability, anchor expectation (provide businesses with a consistent framework), and monetary policy flexibility. However, this base target has received shocks in recent times. There is a growing concern over whether it is the most appropriate target in the face of evolving economic conditions, thereby proposing to revisit the target or be more flexible depending on the economic conditions.

2.3 According to FIC research, the maximum allowable inflation rate of 2.5% set by IFATCA was informed by the 2% inflation target by Federal banks of Advanced economies in the late 1980s and early 1990s, for which the IMF says the FED and other Reserve banks are not transparent and precise on the subject.

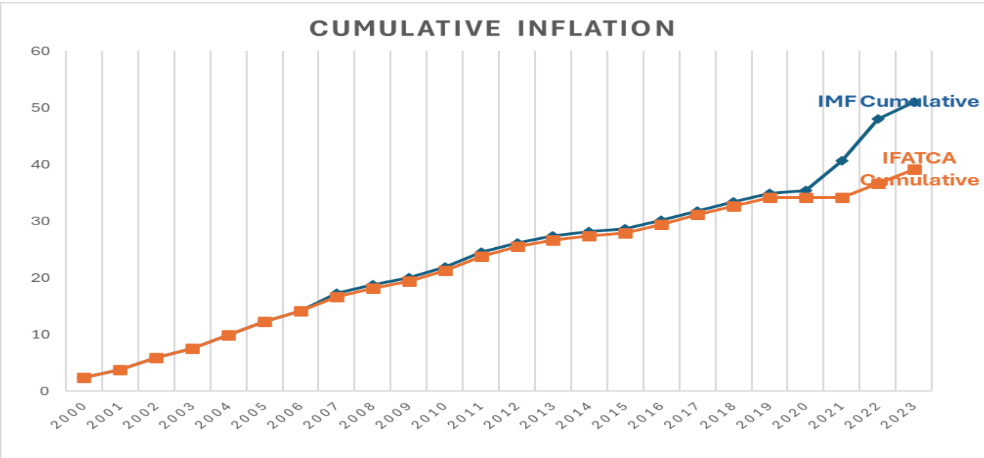
2.4 IFATCA's capital expenditures are in the service sector (accommodation, meals, rent, salaries, and transport) which is subject to real inflation irrespective of the location. Annual inflation translates directly or indirectly into the cost of doing business.

2.5 While inflation is targeted to decline due to falling energy and goods prices, persistently high services inflation poses challenges to mitigating price pressure. According to the IMF report, another factor is the potential risk of an escalating conflict in the Middle East, which could lead to energy price shocks and higher shipping costs.

2.6 This paper studied the projections for the inflation rate, as published by the IMF year on year for its cumulative effect from 2000 to 2023, and compared it with the compounding value of IFATCA annual subscription over the same period shown in Fig. 1 below.

2.7 This comparison reveals a cumulative shortfall of IFATCA's annual subscription by 11.9% for CAT1 and CAT2 member associations over the study period.

2.8



2.9 As an illustration, the 2022/2023 budget, based on an expected annual membership subscription of USD 446,900, suffers a loss of approximately 11.9%, which translates to approximately USD 49,000, with the assumption that all membership categories are adjusted annually.

2.10 It should also be considered that factors contributing to the cumulative shortfall include the suspension of the annual adjustments due to factors such as the COVID-19 pandemic and applying a subscription rate of 2.5% when inflation for Advanced countries exceeds this maximum permitted value by IFATCA.

2.11 According to the IMF, global inflation is forecast to decline steadily, from 6.8 percent in 2023 to 4.5 percent in 2025, with advanced economies it is projected to fall to 4.3% by 2025. Values that are significantly higher than 2.5%. However, core inflation is generally projected to decline more gradually.

3. **Conclusion**

3.1 FIC's investigation reveals a significant gap between the current 2.5% cap on annual subscription adjustments and the actual inflation rates for advanced economies, which frequently exceed this threshold. This misalignment has resulted in a cumulative shortfall of approximately 11.9% in subscription revenue over the years, affecting the federation's income.

3.2 The 2.5% cap was initially set based on historical inflation targets; however, recent economic conditions, particularly sustained inflation in the service sector, have underscored the limitations of this fixed rate. Maintaining such a cap amidst fluctuating inflation erodes the federation's income base.

3.3 Given the current inflation trend, it is prudent for the federation to consider revising the maximum allowable inflation rate to better reflect current economic realities. Adjusting the rate cap in alignment with IMF forecasts or adopting a more flexible approach could help safeguard the value of subscription revenue. This will reduce future revenue shortfalls and enhance the federation's ability to fulfill its mandate. While this alone may not fully recover lost revenue, it represents a necessary step toward protecting the federation's core revenue stream.

3.4 A subscription rate adjustment of a maximum allowable value of 5.0%, in line with economic conditions, is essential to maintaining the federation's financial health and ensuring continued support for its programmes.

4. Recommendation

4.1 ***Directors approve a review of the maximum applicable inflation rate of 2.5% to 5.0% regardless of the actual average rate of inflation published by the IMF.***

4.2 ***Part 2, Chapter 2, para 3.1.8. "The annual subscription rate for Member Associations in Category 1, Category 2, and Corporate Members shall be determined by applying each year an inflation factor to the relevant subscription rate; and for Member Associations in Category 3 by applying the inflation factor every second year for invoices produced in even-numbered years. This inflation factor shall be derived from the most recent full-year average rate of inflation for Industrial Countries as published in the International Monetary Fund's International Financial Statistics. Regardless of the actual average rate of inflation, the inflation factor to be applied shall not exceed 5.0%."*** (Buenos Aires 03.A.5)

5. References

5.1 International monetary fund – world economic outlook report 2024
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5.4 Projectsyndicate.org July 27, 2023
5.5 Theguardian.com March 6, 2025
5.6 IFATCA administrative Manual 2024
5.7 https://www.imf.org/external/datamapper/profile/ADVEC/WEO