



**INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUNDS 1971 AND
1992**

ASSEMBLY
20th session
Agenda item 6

71FUND/A.20/5

ASSEMBLY
2nd session
Agenda item 7

92FUND/A.2/5
2 September 1997
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REPORT OF THE INVESTMENT ADVISORY BODY

Note by the Director

- 1 At its 17th session held in October 1994, the Assembly of the 1971 Fund decided to set up an Investment Advisory Body (document FUND/A.17/35, paragraph 23 and Annex).
- 2 The Assembly of the 1992 Fund also decided, at its 1st extraordinary session, held in October 1996, to establish an Investment Advisory Body (document 92FUND/A/ES.1/22, paragraph 3 and Annex).
- 3 Pursuant to their mandates, these Bodies shall submit, through the Director, to each ordinary session of the respective Assembly, a report on their activities since the previous session.
- 4 In view of the fact that the mandate and composition of the two Investment Advisory Bodies are the same, it has been considered appropriate for these bodies to present a joint report to the Assemblies of the two Organisations.

Action to be taken by the Assembly

- 5 The Assembly is invited to consider the Report of the Investment Advisory Bodies.

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ANNEX

**REPORT OF THE INVESTMENT ADVISORY BODIES OF THE 1971 FUND AND 1992 FUND
FOR THE PERIOD OCTOBER 1996 TO SEPTEMBER 1997**

1 Introduction

1.1 The mandate of the Investment Advisory Bodies as laid down by the Assemblies of the 1971 Fund and 1992 Fund is:

- (a) to advise the Director in general terms on investment matters;
- (b) in particular, to advise the Director on the tenor of the respective Organisation's investments and the suitability of institutions used for investment purposes;
- (c) to draw the Director's attention to any developments which may justify a revision of the investment policy of the Organisations as laid down by the respective Assembly; and
- (d) to advise the Director on any other matters relevant to the IOPC Funds' investments.

1.2 At its 19th session, held in October 1996, the Assembly of the 1971 Fund re-appointed the following persons as members of the 1971 Fund Investment Advisory Body for one year:

- (a) Mrs Maria Estella Beaman Gordon, formerly a Director of Robert Fleming & Co Ltd
- (b) Mr David Jude, Director, Family Assurance Friendly Society Ltd, and formerly of Cater Allen Ltd
- (c) Mr Simon Whitney-Long, Director, The Bank Relationship Consultancy

1.3 At its 1st extraordinary session held in October 1996, the Assembly of the 1992 Fund appointed the persons mentioned in paragraph 1.2 above as members of the 1992 Fund's Investment Advisory Body for one year.

2 Meetings

2.1 The Investment Advisory Bodies have held four meetings during the period covered by this Report, namely on 28 November 1996 and 26 February, 28 May and 2 September 1997. The Director and the Finance Officers were present at these meetings.

2.2 The members of the Bodies have met informally on a number of occasions. There have also been frequent contacts between members of the Bodies and the Finance Officers on various issues.

3 Main issues considered

3.1 At its 19th session the Assembly of the 1971 Fund noted that the Investment Advisory Body of that Organisation intended to address the following issues for the following year:

- (a) to continue to consider the use of forward contracts and options to obtain the best results from the purchase of, or option to purchase, currencies other than pounds sterling to meet specific claims;
- (b) to continue its review of the internal procedures for investment and cash management controls;

- (c) to monitor credit ratings of financial institutions on a continuing basis;
- (d) to review regularly the investment and foreign exchange exposures of the 1971 Fund and the quotations for investments in order to ensure that reasonable investment returns are achieved without compromising the safety of the Fund's assets; and
- (e) to consider whether the co-existence of two Fund organisations should lead to an adjustment of the investment procedures applied so far.

As regards Objective (a) the Assembly stated that the policy followed so far in respect of forward contracts, the purchase of options and the purchase of currencies other than pounds sterling should be maintained.

3.2 The following main issues were considered by the Investment Advisory Bodies during the period covered by the Report:

- (a) In 1997, the Assemblies of the 1971 and 1992 Funds decided that instructions concerning investments should be given or confirmed in writing by two duly authorised persons. The Assemblies also adopted amendments to the Financial Regulations dealing with this issue. The Investment Advisory Bodies have considered the practical implications of these decisions.
- (b) The Investment Advisory Bodies submitted to the Director a proposal for 'Administrative Instruction concerning payments, and investment and cash management controls and procedures'. The Administrative Instruction was approved by the Director on 2 September 1997, and its text is appended to this Report.
- (c) At its meeting on 26 February 1997, the Investment Advisory Body of the 1971 Fund considered whether the 1971 Fund should purchase significant amounts of Japanese yen and recommended such purchase in view of the fact that the pound was very strong in the currency market and the yen was relatively weak. The Director was recommended to purchase £20 – 25 million in yen. The Investment Advisory Body also considered the procedure that should be used for payment of claims arising out of this incident.
- (d) At each meeting, the Investment Advisory Bodies monitored the credit ratings of financial institutions and, where necessary, have made recommendations to the Director to amend the list of financial institutions where deposits may be placed.
- (e) At each meeting, the Investment Advisory Bodies have reviewed the individual investments, maturities and overall exposure. The investment policy was discussed in the light of the market situation.

3.3 The use of forward contracts and options was not considered.

4 Revision of the IOPC Funds' investment policy

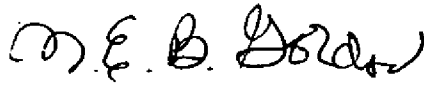
4.1 Under their mandate, the Investment Advisory Bodies are required to draw the Director's attention to any developments which may justify a revision of the Funds' investment policy, as laid down by the Assemblies.

4.2 The Investment Advisory Bodies have so far not found it necessary to propose any amendments to the Funds' investment policy.

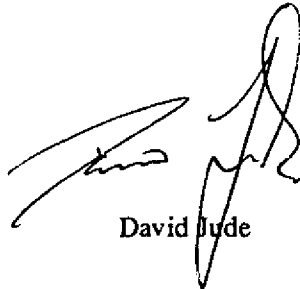
5 Objectives for the coming year

The Investment Advisory Bodies intend to address the following issues during the coming year:

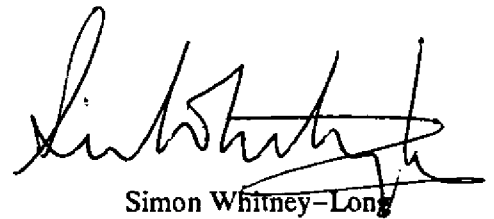
- (a) to continue to consider the extent of the use of spot purchases of currencies other than pounds sterling in anticipation of meeting specific claims at future dates;
- (b) to monitor the internal procedures for investment and cash management controls and recommend such amendments to these procedures, as may be required;
- (c) to monitor credit ratings of financial institutions on a continuing basis; and
- (d) to review regularly the investment and foreign exchange exposures of the 1971 and 1992 Funds and the quotations for investments in order to ensure that reasonable investment returns are achieved without compromising the safety of the Funds' assets.



Maria Estella Beaman Gordon



David Jude



Simon Whitney-Long

APPENDIX

Administrative instruction concerning payments, and investment and cash management controls and procedures

A Payments

1 Instructions regarding payments (including signing of cheques) should normally be given by the Director or the Finance Officer. In respect of payments between £5 000 and £30 000, one of the two required signatures should normally be that of the Director, or that of the Finance Officer. Instructions should be given by two other officers only when neither the Director nor the Finance Officer is available.

2 When payments are authorised (normally by the signing of cheques), the officer or officers giving the authorisation should, at the same time, initial the corresponding payment and/or obligation voucher. This is necessary in order to keep on record who did actually authorise the payment. This does not apply to foreign currency payments, since the actual cost to the Fund is not known at the time the payment instruction is given and the voucher will have to be prepared later.

3 The person or persons signing the payment instruction shall verify that there is adequate documentary basis for the payment and that the details on the cheque or transfer instruction are correct.

4 Payment of fees or expenses to lawyers, experts or other consultants should be made only after the officer who is supervising the work of the consultants, or the Director, has approved the payment.

B Investment and Cash Management Controls and Procedures

1 The Finance Officer is responsible for the preparation and updating of all investment and cash management reports for the respective Funds.

2 Investments may be made only with financial institutions approved by the Director. A list of approved institutions is kept by the Finance Officer.

3 The Finance Officer will identify the period or periods for which cash surpluses should be invested and check the list of approved institutions to establish where limits for investments are not fully utilised. He will contact money brokers and financial institutions to establish which rates are being offered and to complete the deal.

4 When deposits have been renewed with a given institution, funds should for control purposes be repaid at maturity to one of the IOPC Funds' house banks after the third 'rollover', provided that any given deposit should be repaid at maturity to one of these banks so as to preclude the amount in question from being held with the same institution for more than twelve months consecutively.

5 Instructions given by telephone to money brokers and financial institutions concerning investments should be confirmed in writing on the day when the instructions were given. The confirmation should be ready for signature sufficiently early in the day to make it possible to correct any mistakes before the closure of the office on that day.

6 Confirmation of instructions concerning investment of funds should be signed by the person who completed the deal (usually the Finance Officer) and one other authorised person. The latter signature should be that of the Director, if he is available.

7 Confirmation may be given by telefax followed by letter which should be sent to the relevant institution the same day.

8 The Officers confirming investment instructions should satisfy themselves that the funds are invested with or transferred to an approved institution.

9 The confirmation from the relevant institution should be received within three working days of the deal. The details of the incoming confirmation should be checked as soon as it is received against the copy of the Fund's confirmation by a person outside the finance section nominated by the Director. Any delay, discrepancies, ambiguities or mistakes should be reported immediately to the Director or, in his absence, to the Legal Officer, who will take the necessary steps to resolve the matter.

C Notification of staff members

All staff involved in payments, investment or cash management for the 1971 and 1992 Funds should sign for a copy of these instructions before commencement of dealing.

D Amendments to instructions

Amendments to these instructions will be issued by the Director as required. A copy of the amended instructions should be circulated to and signed by all staff involved in payments, investment or cash management who shall acknowledge receipt thereof.
