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ESTABLISHMENT OF INVESTMENT ADVISORY BODY

Note by the Director

1 Introduction

1.1 At its 16th session, the Assembly considered whether the IOPC Fund should set up a special body to advise the Director on investment matters. The Assembly took the view that it would be appropriate to set up such a body. The Director was instructed to examine the feasibility of establishing an Investment Advisory Body composed of external experts with special knowledge in investment matters, to assess the cost implications of setting up such a Body and to consider the precise mandate of the Body, and submit a report to the Assembly at its 17th session (document FUND/A.16/32, paragraph 20.3).

1.2 The present document contains the Director's examination of these issues.

2 Present Investment Procedures

2.1 The IOPC Fund's investments are governed by Internal Regulation 10.2 and Financial Regulation 7.1 which read:

Internal Regulation 10.2

With a view to securing the assets of the Fund, the Director may invest any funds which are not required for the short-term operation of the Fund. In making any investments all necessary steps shall be taken to ensure the maintenance of sufficient liquid funds for the operation of the Fund, to avoid undue currency risks and generally to obtain a reasonable return on the investments of the Fund.

Financial Regulation 7.1

The assets of the Fund shall be invested by the Director in accordance with Internal Regulation 10.2 and the following principles:

- (a) the Fund's assets shall be held in pounds sterling or, if the Director considers it appropriate, in the currencies required to meet claims arising out of a specific incident which have been settled or are likely to be settled in the near future. Subject to prior approval by the Assembly, investments may also be made in currencies other than pounds sterling to meet payments in respect of a particular incident which has given rise to significant claims against the Fund;
- (b) the assets shall be placed on term deposit with banks or building societies enjoying a high reputation and standing in the financial community, or they shall be invested with discount houses which are members of the London Discount Market Association by the purchase of bank bills; the term of these investments shall in neither case exceed one year;
- (c) the maximum investment in any bank, building society or discount house shall not normally exceed 25% of the Fund's total assets, subject to a maximum of £4 million;
- (d) any exceptions to the normal limit in paragraph (c) shall be reported to the Assembly at its next meeting.

These principles shall be reviewed from time to time.

2.2 The responsibility for the IOPC Fund investments is vested in the Director under Financial Regulation 7.2, which states:

Instructions relating to the Fund's investments shall be given by the Director. Such instructions shall be given or confirmed in writing by him. The Director may empower another officer or officers to act, if necessary, on his behalf.

2.3 When an investment is to be made, the Director decides the period of investment and gives the Finance Officer instructions as to the institutions to be approached for quotations. For determining the term of the investment, the Director takes into account the need to maintain liquid funds and the projected cash flow requirements. He also considers the desirability to spread the investments between several institutions and the IOPC Fund's interest in obtaining a reasonable return on its investments. The Finance Officer makes the investments within the parameters of the Director's instructions.

2.4 The investment procedures were described in some detail in document FUND/A.16/16, presented to the Assembly at its 16th session.

2.5 The Director submits to each session of the Assembly a "Report on Investments", detailing the investments made with the various institutions over the preceding twelve months, usually from 1 July to 30 June. This is conformity with Internal Regulation 10.3 which states:

The Director shall submit to each session of the Assembly particulars of the current investments of the Fund and of any changes which have taken place since his previous report.

3 Consideration at the Assembly's 16th Session

3.1 At its 16th session, the Assembly considered the issue of whether to set up an Investment Advisory Body on the basis of a document presented by the Director (document FUND/A.16/17).

3.2 The Assembly noted that the point had been made that, in view of the large amounts which were held by the IOPC Fund, it would be necessary to ensure that there were adequate procedures for investing the IOPC Fund's assets and for controlling the management of these assets. The Assembly took note of the fact that the IOPC Fund's investment portfolio would probably exceed £50 million in the near future. Whilst recognising that it would be impracticable to set up an internal

investment committee for an organisation of the size of the IOPC Fund, the Assembly nevertheless considered that it would be appropriate to set up a body which should advise the Director on investment matters. Some delegations took the view that the body should be composed of officials appointed by their respective Governments, whereas others favoured a body of independent experts. Having considered various options, the Assembly concluded that such a body should be composed of external experts with special knowledge in investment matters (document FUND/A.16/32, paragraph 20.2).

3.3 As mentioned above, the Director was instructed to examine the feasibility of establishing an Investment Advisory Body composed of such experts, to assess the cost implications of setting up such a Body and to consider the precise mandate of the Body, and submit a report to the Assembly at its 17th session (document FUND/A.16/32, paragraph 20.3).

4 Director's Proposal

4.1 The Director agrees that, in view of the large amounts held by the IOPC Fund (at present some £70 million), it would be appropriate to set up an Investment Advisory Body which should advise the Director in general terms on investment matters. As decided by the Assembly, the Body should be composed of external experts with special knowledge in investment matters. In the Director's view, it is important that the role of such a body be merely advisory and that it would remain the sole responsibility of the Director to take the necessary decisions on individual investments.

4.2 Having discussed the issues involved with a number of experts in the field of investments, the Director believes that the proposed Body should be composed of three persons, appointed by the Assembly for one year. The members may be reappointed for consecutive terms. The Body should meet at least three times a year. The members should also be available for consultation with the Director.

4.3 The Director takes the view that the mandate of this Body should, at least for the time being, be phrased in fairly broad terms, and that the mandate should be reviewed in the light of experience. A draft mandate for the Investment Advisory Body is set out in the Annex to the present document.

4.4 It is proposed that the remuneration of the members of the Investment Advisory Body should be determined by the Director. In the document presented to the Assembly at its 16th session, the Director estimated that a fee in the region of £1 500-£2 000 per person per annum for 1995 would cover the cost of a thrice yearly meeting of such a Body (document FUND/A.16/17, paragraph 5.7). Subsequent information suggests a fee of around £4 000 per person per year. Therefore, it is estimated that the annual cost of operating the proposed Body would be in the region of £12 000. An appropriation for this amount has been included in the 1995 draft budget (document FUND/A.17/16). Any costs incurred during 1994 would be met from the appropriation for consultants in the 1994 budget.

4.5 As stated above, the Director takes the view that the members of the Body should be appointed by the Assembly. The Director will submit, in an addendum to this document, a proposal for the persons to be elected.

5 Action to be Taken by the Assembly

The Assembly is invited to:

- (a) take note of the information contained in this document; and
- (b) take such decisions in respect of the setting up of an Investment Advisory Body as it deems appropriate, in particular as regards the mandate of such a Body and its composition.

ANNEX

DRAFT MANDATE FOR THE IOPC FUND'S INVESTMENT ADVISORY BODY

- 1 The Investment Advisory Body of the IOPC Fund is composed of three persons appointed by the Assembly.
 - 2 The mandate of the Investment Advisory Body is:
 - (a) to advise the Director in general terms on investment matters;
 - (b) in particular, to advise the Director on the tenor of the IOPC Fund'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 IOPC Fund's investment policy as laid down by the Assembly; and
 - (d) to advise the Director on any other matters relevant to the IOPC Fund's investments.
 - 3 The Body shall meet at least three times a year. The meetings shall be convened by the Director. Any member of the Body may request a meeting to be held. The Director and the Finance Officer shall be present at the meetings.
 - 4 The members of the Body shall be available for informal consultations with the Director in case of need.
 - 5 The Body shall submit, through the Director, to each ordinary session of the Assembly, a report on its activities since the previous session of the Assembly.
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