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ESTABLISHMENT OF INVESTMENT ADVISORY BODY

Note by the Director

1 Introduction

1.1 Following its review of the IOPC Fund's Investments Policy at its 15th session, the Assembly instructed the Director to examine, in consultation with the External Auditor, whether it would be appropriate for the IOPC Fund to set up a special body to advise the Director on investment matters and to consider the composition of such a body (document FUND/A.15/28, paragraph 15.7(b)).

1.2 The present document contains the Director's examination of this issue, carried out in consultation with the External Auditor.

2 Present Situation

2.1 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."

2.2 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.

2.3 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 Considerations at the Assembly's 15th Session

3.1 In document FUND/A.15/12, submitted to the 15th session of the Assembly, the Director mentioned that in many organisations within the United Nations system, investment committees were established to assist the Executive Head on investment matters. The Director expressed the view that the IOPC Fund was too small an organisation for such a body to be set up.

3.2 In his Report on the IOPC Fund's Investment Policy and Procedures presented to the Assembly at its 15th session, the External Auditor dealt with the subject of Investment Committees as follows (document FUND/A.15/12, Annex, paragraphs 43 to 45):

> "Several of the organisations we examined required their Director/Director-General to set up an investment committee; and to consider that committee's advice when making investments. Clearly this arrangement has the advantage of broadening the range of experience brought to bear on investment decisions, and subjecting the decision making process to a degree of independent review.
>
> The IOPC Fund consider that, while these additional benefits are desirable, it would not be practicable to adopt similar arrangements, essentially because of its small size; and the associated problems with ensuring that meetings of the committee coincide with investment timings.
>
> I accept the IOPC Fund's view that an investment committee would not be practicable, and welcome the contacts the Fund have established to secure independent advice in other ways. The Treasury and Civil Service Committee was critical of local authorities' reluctance to use the help of financial experts. Thus I would encourage the IOPC Fund to continue to seek independent advice where necessary from external sources (for example, to provide credit rating information). However, as the Committee pointed out, such advice should not come from brokers, who are not regarded as sufficiently independent and whose role should be confined to effecting transactions between borrower and lender."

4 Investment Bodies within the United Nations Bodies

4.1 In view of the Assembly's decision, the Director has asked the External Auditor for information on the investment procedures within the United Nations system. As a result of this request, the External Auditor has reviewed the investment policies and practices of United Nations organizations, with the view to highlighting those agencies where the Director, or equivalent, is required to seek the advice of an oversight committee when making short or long term investments. Details of this study are set out in the Annex to the present document.

4.2 The study has shown that most United Nations organizations have some kind of investment body. In most cases, however, this body is a formal but essentially <u>internal</u> management structure for reviewing investments. The Financial Regulations or Rules do <u>not</u> in the case of any of the organisations studied require the Executive Head to seek outside advice or to establish or consult a body of external advisors.

5 The Director's Analysis

5.1 In view of the small size of the IOPC Fund Secretariat, the Director considers that it would not be practical to set up a formal internal investment body. In the Director's opinion, the creation of such a body would only be a formal structure which would not in practise change the procedures applied at present. In fact, the present procedure under which the Director instructs the Finance Officer on investments and oversees the implementation of these instructions are not dissimilar to the internal management structure in the organisations studied.

5.2 Another question is whether the IOPC Fund should set up an external body with the task of advising the Director on investments. This question has become important, in view of the fact that, whereas the IOPC Fund's assets prior to 1 February 1992, when the first levy of £15 million to the HAVEN Major Claims Fund was due, were normally limited in amounts, the Fund is at present and will in the future be handling significant amounts of money.

5.3 With regard to the HAVEN Major Claims Fund, there will be a balance of around £26 million by December 1993. This balance will rise above £36 million in February 1994, if the Director's proposal for a third levy in the amount of £10 million payable by 1 February 1994 is approved. In view of the uncertainty of the outcome of the current legal proceedings regarding the HAVEN incident, it may take some years before any major payments of compensation are made from the HAVEN Major Claims Fund. In addition, the Director has proposed that the IOPC Fund should have a working capital within the General Fund of £20 million. The IOPC Fund investment portfolio may, therefore, exceed £50 million in the near future.

5.4 For this reason, it may be appropriate to consider whether there are practical ways of establishing structures to advise the Director on investment matters and supervise the implementation of the IOPC Fund's investment policy. There are, in the Director's view, two main options which could be considered.

5.5 One option would be to set up an Investment Advisory Committee composed of a limited number of delegates from member States, appointed by the Assembly. Alternatively, the Assembly could select a number of member States (say five) which each should nominate one member to this Committee. It should be emphasized that, in both cases, it would be important to ensure that the persons appointed have the necessary expertise in investment matters to fulfil this task. It would also be necessary to ensure that the persons appointed would be able to attend the meetings of the Committee, to be held in London two to four times a year.

5.6 Another option would be to set up an Investment Advisory Committee composed of external financial experts appointed in a manner to be decided by the Assembly. Such experts should have a thorough knowledge of investment matters and, in addition, not have such links to financial institutions which would cast doubt on their giving impartial advice. The Director believes that this option would give him access to valuable expert advice in investment matters.

5.7 The financial implications of setting up an Investment Advisory Committee would depend on the solution chosen. For example, if the Committee were to be composed of external experts, fees would have to be paid. Assuming that the Committee would meet three times a year, the Director estimates a fee in the region of £1 500 - £2 000 per person per annum. If the members of the Committee were resident outside London, there would be additional costs for travel and per diem.

5.8 The Assembly may wish to consider whether, in the light of the information contained in this document, the IOPC Fund should have some kind of body advising the Director on investments. If the Assembly were to consider that such a body should be created, it may wish to express an opinion on the composition and task of such a body and give the Director any instruction on this issue as it may deem appropriate.

6 Action to be Taken by the Assembly

The Assembly is invited to take note of the information contained in this document and to give the Director such instructions as it deems appropriate on setting up an Investment Advisory Body.

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ANNEX

SUMMARY OF THE INVESTMENT MANAGEMENT PRACTICES IN EIGHT INTERGOVERNMENTAL ORGANISATIONS

1 United Nations

1.1 The United Nations' Financial Regulations state that the Secretary-General may make long term investments, ie investments of over one year, only after consulting the Investment Committee. It appears that the Secretary-General is not obliged to seek any consultations in respect of short term investments. The relevant provisions read as follows:

> Article IX
>
> "9.1 The Secretary-General may make short term investments of moneys not needed for immediate requirements and shall inform the Advisory Committee [on Administrative and Budgetary Questions] of the investments which he has made.
>
> 9.2 The Secretary-General may, after consultation with the Investments Committee, make long-term investments of moneys standing to the credit of trust funds, reserve and special accounts, except as may be otherwise provided for by the appropriate authority in respect of each such fund or account and having regard to the particular requirements as to the liquidity of funds in each case."

1.2 The framework of Financial Regulations and Rules applied by the United Nations provides the basic model which the Specialized Agencies of the UN System tend to follow. However, within the Agencies, there are some substantive differences in investment practice and these differences are set out below.

2 World Health Organization (WHO)
Pan American Health Organization (PAHO)

2.1 As regards WHO, neither the Organization's Financial Regulations nor its Rules require the Director-General to seek the advice of an investment body before making an investment. The relevant provisions read:

> Regulation IX(9.1)
>
> "The Director-General may invest moneys not needed for immediate requirements. The investment of moneys standing to the credit of any trust fund, reserve or special account shall be subject to the directives of the appropriate authority"
>
> Rule 109.7
>
> "An advisory committee shall assist the Director-General in framing broad investment policy"

2.2 The purpose of the advisory committee is to assist the Director-General in framing broad investment policy guidelines. To support this body, the Organization established an internal investment review group headed by the Director, Budget and Finance, with a remit to ensure that investment practices follow the policy guidelines and that current investment matters are kept under continuous review.

2.3 The oversight procedures within PAHO are slightly different. Although PAHO on this matter has the same Financial Regulations as WHO, which allows the Director to invest monies not needed for immediate requirements, there is a difference in the Financial Rules, where the emphasis is on overall cash management rather than investment management. The relevant PAHO Rules state as follows:

> Rule 109.1
>
> "The Chief of Administration is responsible for the management, receipt and disbursement of all funds of the Organization."
>
> Rule 109.3
>
> "The Chief of Administration will manage all banking accounts operated by the Organization, including those opened for trust and other special purposes, maintaining a proper cash account in which all receipts and payments shall be recorded in chronological order. A separate cash account shall be kept for each bank account, as well as for sums deposited with other institutions."

2.4 The PAHO has established an internal investment committee, chaired by the Chief of Administration, which provides the Director with advice on general investment policy matters.

2.5 Under the Financial Regulations of both Organizations, the Director-General (WHO) and Director (PAHO) are required to provide their governing bodies with periodic statements of the investments held.

3 International Labour Organisation (ILO)

3.1 ILO's Financial Regulations establish similar investment conditions as are applied by WHO and PAHO. The relevant provision reads:

> Article 22(2)
>
> "The Director-General may invest moneys not needed for immediate requirements. The investment of moneys standing to the credit of any trust fund, reserve or special account shall be subject to any directives of the appropriate authority."

3.2 The Organisation's Financial Rules contain no statutory requirement for an investment or advisory committee to oversee investment policy. The responsibility for investment management is left to in-house managers, as follows:

> Article VIII
>
> "8.05 The Chief of the Treasury and Investments Branch shall be responsible to the Treasurer for the treasury management of all funds in the custody of the Director-General."
>
> 8.30(a) Funds under the regular budget and the Working Capital Fund may be invested in accordance with Article 22 of the Financial Regulations."

3.3 The Director-General of ILO is required, under the Financial Regulations, to report at least once a year to the governing body on the investments held.

4 Food and Agriculture Organization (FAO)
World Food Programme (WFP)

4.1 FAO does not have any internal investment/advisory committees. The Director-General has the authority to invest the organisation's assets but is required to consult the United Nations Investment Committee where practicable. The relevant provision reads:

> Regulation IX
>
> "9.1 The Director-General may invest moneys not needed for immediate requirements seeking, wherever practicable, the advice of the United Nations Investment Committee. The investment of moneys standing to the credit of any trust fund, reserve or special account shall be subject to any directives of the appropriate authority."

4.2 As in other United Nations organizations, the Director-General is required to report at least once a year to the governing body on the investments held.

4.3 With effect from 1 January 1993, the World Food Programme (WFP) acquired agency status, operating independently of the FAO. As a consequence, the Programme has adopted its own Financial Regulations and Rules. These Regulations do not provide oversight by an internal investment committee, but allow the Director to seek external advice. The relevant provisions read as follows:

> Regulation 8.2
>
> "Monies not required immediately may be invested by the Executive Director, bearing in mind the need for safety, liquidity and profitability. Any resulting income shall accrue to the Fund."
>
> Rule 108.5
>
> "For purposes of investment of Funds under Regulation 8.2, the Executive Director shall normally avail of the investment services established by the FAO under Financial Regulation IX. The Executive Director may also avail of appropriate outside expertise.

5 United Nations Industrial Development Organization (UNIDO)

5.1 UNIDO's Financial Rules provide that the Director-General may only make long-term investments after having considered the advice of an Investment Committee. The relevant provisions read as follows:

> Rule 108.1(b)
>
> "Long-term investments are those made for a term of more than 12 months. Before making a long term investment, the Director-General shall receive and consider the written advice thereon of an Investment Committee. The Investment Committee shall also review short-term investments made and provide advice on policies for short-term investments. The Investment Committee shall be chaired by the Director, Financial Services, and have as its members the Chief of the Budget Section, the Chief of the Accounts and Payments Section and the Treasurer."

5.2 Given the make up of the Investment Committee, the emphasis in UNIDO is on internal, rather than external investment advice. Nevertheless, the Director-General is required to consider such advice.

5.3 The Director-General is requested to report to the Governing Body at least once a year on the investments made.

6 International Atomic Energy Agency (IAEA)

6.1 The IAEA's Financial Regulations governing investment oversight are similar to those of other organizations in the United Nations System. The relevant provisions read:

Regulation 9.01

"The Director General may make short-term investment of moneys not needed for immediate requirements and shall inform the Board of Governors at its next meeting of any such investment which he has made

Regulation 9.02

The Director General may, with the approval of the Board of Governors, make long term investments of moneys standing to the credit of Trust Funds, Reserves and Special Accounts, except as may be otherwise provided by the appropriate authority, in respect of each such Fund or Account and having regard to the particular requirements as to liquidity of each such Fund."