United Nations A/65/567

General Assembly

Distr.: General
10 November 2010

Original: English

Sixty-fifth session
Agenda item 137
United Nations pension system

United Nations pension system

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board, including the report of the Board of Auditors on the financial statements of the Fund for the biennium ended 31 December 2009 (A/65/9). The Committee has also considered the reports of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase diversification (A/C.5/65/2) and on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/65/3). In addition, the Committee had before it a note by the Secretary-General on the membership of the Investments Committee (A/C.5/65/6). During its consideration of those matters, the Committee met with the Chairman of the Pension Board, the Chief Executive Officer of the Pension Fund and the Representative of the Secretary-General for the Investments of the Fund.

2. Recommendations made and decisions taken by the Board at its fifty-seventh session that require action by the General Assembly are listed in chapter II, paragraph 12, of the report of the Pension Board. Annex XX to the report contains a draft resolution proposed for adoption by the Assembly. Information provided on other action taken by the Board is contained in chapter II, paragraph 13, of the report. In the present report, the Advisory Committee focuses its comments and recommendations primarily on areas requiring action by the Assembly.

3. The Board of Auditors issued a modified audit opinion on the financial statements of the Fund with one emphasis of matter on the management of investments of the Fund as a result of its audit of the financial statements and review of the operations of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009. Specifically, the audit opinion related to the non-disclosure of realized and unrealized losses on the investments of the Fund in

the financial statements during the period under review (see paras. 7-9 below). **The Advisory Committee concurs with the Board of Auditors opinion and also points to other audit findings that need to be addressed as soon as possible (see paras. 20-21 below). In this regard, the Committee draws attention to the proposed draft resolution for adoption by the General Assembly, in which the Pension Board proposes that the Assembly "note" the modified audit opinion of the Board of Auditors (see A/65/9, annex XX, para. 2). However, given the serious implications of such an audit opinion, the Committee is of the view that it would be more appropriate for the Assembly to express concern that the Pension Fund had received a modified audit opinion with one emphasis of matter on the management of investments and to state its expectation that the recommendations of the Board of Auditors are implemented without further delay.**

II. Summary of the operations of the Fund

4. In paragraphs 14 to 16 of its report (A/65/9), the Pension Board provides a summary of the operations of the Fund for the biennium ended 31 December 2009, which shows an increase in the number of participants in the Fund from 106,566 to 117,580, an increase in the number of periodic benefits in award from 58,084 to 61,841 and an increase in the principal of the Fund from $30.6 billion to $33.1 billion, or 8.3 per cent. The net investment income of the Fund during the period amounted to approximately $2.7 billion.

III. Actuarial matters

5. Paragraphs 17 to 65 of the report deal with actuarial matters, including the results of the thirtieth actuarial valuation of the Fund, which showed an actuarial deficit of 0.38 per cent of pensionable remuneration as at 31 December 2009, or $1.2 billion, which is the first negative actuarial result after six consecutive positive actuarial results over the past 14 years. The Committee of Actuaries noted that the Fund's investments had shown considerable volatility and that the change resulted primarily from investment losses; these losses were partially offset by gains as a result of cost-of-living adjustments provided to retirees and beneficiaries that were lower than expected. The Advisory Committee notes that both the Fund's consulting actuary and the Committee of Actuaries were of the opinion that the present contribution rate continues to be sufficient to meet long-term liabilities under the Pension Fund and that, as at 31 December 2009, there was no requirement for deficiency payments under article 26 of the Regulations of the Fund. In this connection, the Advisory Committee points out that the Committee of Actuaries has recommended an actuarial surplus of approximately 1 to 2 per cent of pensionable remuneration as a minimum safety margin (ibid., para. 42). **The Advisory Committee recommends that the newly identified deficit be closely monitored with the aim of redressing the situation.**

IV. Investments of the United Nations Joint Staff Pension Fund

6. The Advisory Committee was informed that the total market value of the Fund's assets had increased by 32.2 per cent, from approximately $26.7 billion as at 31 March 2009 to $38.3 billion as at 31 March 2010. As at 22 October 2010, the Fund's market value amounted to $40.4 billion. For the biennium 2008-2009, total realized investment gains amounted to $3.1 billion and total realized investment losses amounted to $2.7 billion, resulting in a net realized gain of $411 million. However, as indicated in the report of the Secretary-General, during the biennium the Fund encountered the most volatile markets in its history (A/C.5/65/2, para. 61). The Advisory Committee was informed that, following the rebalancing of the portfolio in the first half of 2009, the Fund earned 32.2 per cent for the 12 months ending 31 March 2010. The Committee was further informed that equities represented 51.9 per cent and 65.6 per cent of the total Fund in 2009 and 2010, respectively.

7. The Board of Auditors observed that the net profit for the biennium 2008-2009 on the sale of investments of $412 million included realized losses of $2.7 billion. In addition, unrealized losses of $1.9 billion were included in the $4 billion of unrealized profit as at 31 December 2009. The Advisory Committee was informed by the Board that, for investments still on hand since the inception of the Fund, cumulative unrealized gains amounted to $5.9 billion and cumulative unrealized losses to $1.9 billion, resulting in a net unrealized gain in the amount of $4 billion. In this connection, the Board observed in its audit report that unrealized profit and positions are not separately disclosed or discernible in the financial statements and recommended that the Pension Fund's Investment Management Division provide a clear description and disclosure of investments in the financial statements (see A/65/9, annex X, para. 95). The Board was also of the view that some of the realized and unrealized losses were excessive and that on some investments, reversal of the losses may occur only after a long time, or the full reversal of such losses may never occur; this indicated that the Fund had not set a suitable tolerance level for losses to avoid excessive losses. In response, the Investment Management Division is currently implementing a risk management manual and developing a risk management software tool to strengthen its risk controls (see also para. 16 below). The Advisory Committee notes that the Pension Board has fully endorsed the recommendations of the Board of Auditors. **The Advisory Committee welcomes the initiatives currently being implemented by the Investment Management Division. It also concurs with the Board's recommendations regarding the revised risk management policy and that the Division continue to implement its newly developed risk management manual.**

8. The Board stated that the United Nations system accounting standards carried investments at the price paid, not at the current market values, whereas the International Public Sector Accounting Standards (IPSAS) will show unrealized gains and losses in a transparent manner. The Board of Auditors therefore stressed the need for the timely implementation of IPSAS (see also paras. 12-15 below).

9. **The Advisory Committee concurs with the recommendations of the Board of Auditors. The Committee is concerned at the fact that the Pension Fund received an unqualified audit opinion with one emphasis of matter on the realized and unrealized losses on the investments of the Fund on the financial statements for the biennium ended 31 December 2009. The Advisory Committee**

urges the Pension Fund to implement the Board's recommendations. The Committee is cognizant of the volatility of international financial markets and the impact on the Pension Fund's annual rate of return, as evident from the fluctuations of the Fund's historical returns since 1961 (see A/C.5/65/2, table 4). The Advisory Committee expects that, as recommended by the Board of Auditors, the Fund will identify lessons learned with respect to the realized losses for the biennium 2008-2009 and its current unrealized loss positions to ensure that the criteria established by the General Assembly in its resolution 32/73, namely, safety, profitability, liquidity and convertibility, remain the paramount investment guidelines (A/65/9, annex X, para. 112, and A/63/556, para. 6).

10. The Advisory Committee notes that the Fund continues to invest in developing countries. The Committee was informed that, as at 31 March 2010, the Fund had investments in 19 developing countries, 11 currencies and seven supranational and regional institutions. The Fund had made direct and indirect investments in developing countries in the amount of $4.8 billion as at 31 March 2010, representing an increase of 25 per cent from $3.8 billion at cost compared with 31 March 2008. As at the same date, the Fund's development-related market value was dispersed as follows: (a) approximately $575 million in Africa; (b) $3.3 billion in Asia; (c) $110 million in Europe; (d) $1.4 billion in Latin America; and (e) $728 million in international and emerging market development funds. The Committee also notes that investment visits were undertaken to Africa, Asia, Latin America and Eastern Europe during the period under review. **The Advisory Committee reiterates its recommendation that the Board continue to explore opportunities for investment in developing countries and countries with economies in transition.**

V. Membership of the Investments Committee

11. Article 20 of the Regulations of the Fund provides that the members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee, subject to confirmation by the General Assembly. The Secretary-General conveyed to the Pension Board and the Advisory Committee the names of four regular members and two ad hoc members of the Investments Committee whom he intended to propose to the Assembly for appointment or reappointment. The Advisory Committee communicated its concurrence with those proposals to the Secretary-General on 29 October 2010.

VI. Administrative matters of the Fund

12. Detailed information concerning the Fund's operations and financial position during the biennium 2008-2009 is provided in paragraphs 103 to 108 of the report. The Advisory Committee notes that the Pension Board has decided to implement the IPSAS accounting standards as from 1 January 2012. In this connection, the Committee was informed that the Pension Fund was confident that the new Chief Financial Officer would be on board in time to lead the timely implementation of the new accounting standards. The Board of Auditors observed, however, that the

Pension Fund's IPSAS implementation plan stated that no dedicated staff had been designated to the IPSAS project other than an outside consultant and a yet-to-be appointed Chief Finance Officer. The Board also found that the draft of the IPSAS implementation plan, which was developed by an outside consultant without the involvement of all stakeholders, did not specify which aspects of the Financial Regulations and Rules needed to be revised.

13. **The Advisory Committee concurs with the Board of Auditors that the Pension Fund should finalize and approve its IPSAS implementation plan in a timely manner. The Committee expects that the new Chief Financial Officer will be hired as soon as possible and that, in the interim, preparation for IPSAS will proceed to ensure its implementation on 1 January 2012. Furthermore, the Committee encourages the Board of Auditors to closely monitor the Pension Fund's IPSAS implementation progress and reiterates its recommendation that the Board report to the General Assembly on an annual basis on progress made (see A/65/498, para. 19).**

14. The report of the Pension Board highlights the lack of guidance on IPSAS 25 provided by the external auditors to the member organizations of the Fund; IPSAS 25 prescribes the accounting and disclosure for employee benefits. **In this connection, the Advisory Committee continues to encourage the Board of Auditors to provide, when requested, advice and guidance (ibid., para. 20).**

15. As detailed in paragraph 131 of the report of the Pension Board, the Board reviewed a proposed revision presented by the Fund's secretariat to increase the Fund's budget for the biennium 2010-2011 by $301,600 (0.2 per cent). The Pension Board decided not to approve any additional resources, deciding that the total appropriation in the amount of $176,318,500 shall remain unchanged. The Pension Board decided, inter alia, that IPSAS-related requirements should be met through the redeployment of funds and that any additional staff requirements should be met using general temporary assistance. It also decided not to approve the reclassification of the post of Chief Legal Officer from P-5 to D-1. **In this connection, the Advisory Committee emphasizes that sufficient support, drawn from existing resources, should be made available to ensure the timely and well-managed implementation of IPSAS.**

16. The Advisory Committee notes that the Pension Fund has implemented a revised enterprise-wide risk management policy, which includes an accountability dimension, aimed at allowing management to monitor and mitigate risk. The Investment Management Division has also implemented a code of ethics and a policy on personal trading activities prohibiting staff members from engaging in personal securities trading based on their knowledge of the Fund's activities. In addition, a risk management manual was approved, which, inter alia, identifies the major risks to which the Fund is exposed.

17. The Advisory Committee notes other measures introduced by the Investment Management Division aimed at reducing costs and enhancing the security of fund transfers. For example, the Division has successfully implemented the Charles River trade order management system to replace its fax-based order placement procedure and to enhance the security and execution capability of its trading activities. According to the report of the Secretary-General (A/C.5/65/2), since 8 January 2010 security transactions for equity, fixed income, foreign exchange and cash have been gradually shifted to the new system; also, between 30 May and 31 August 2010,

trades with a value of over $3.74 billion have been executed through the Charles River system. The Division has also implemented a system for documenting the logic behind each investment purchase and key risk factors to be monitored, which will be electronically linked with each investment in the Charles River system. Also in January 2010, the Division integrated the Charles River system with the secure Society for Worldwide Interbank Financial Telecommunication (SWIFT) financial telecommunications system. **The Advisory Committee welcomes these and other initiatives of the Investment Management Division.**

18. The medical consultant to the Pension Board presented a report covering the period from 1 January 2008 to 31 December 2009, containing information and analysis on new disability benefits awarded during that period, and data on new disabled children's benefits and on deaths of participants while in service (see A/65/9, paras. 174-179). The medical consultant advised that the incidence rate of disability benefits remained low and that the current medical examination focused only on fitness to work. The Board also discussed the standards for medical examinations required for taking up employment in a member organization. The Advisory Committee was informed during the hearings that the medical consultant would compare the United Nations medical standards with the standards used by other member organizations and, if possible, develop a uniform standard for medical examinations for purposes of participation in the Fund. **The Advisory Committee concurs with the Pension Board's request that the medical consultant look into the possibility of establishing a standard for medical examinations for purposes of participation in the Fund pursuant to article 41 of the Fund Regulations.**

VII. Audit

19. The Pension Board considered the report of the Board of Auditors and agreed with the findings and recommendations included in the audit report (A/65/9, annexes IX and X). However, the Board of Auditors issued a modified opinion on the financial statements for the biennium 2008-2009 with one emphasis of matter on the management of investments. **In the paragraphs above, the Advisory Committee has provided its comments and expressed its concern with respect to the audit opinion received.**

20. In its report, the Board of Auditors observed that the financial statements by the United Nations University (UNU) for the biennium ended 31 December 2009 indicated that its Endowment Fund had a market value of $279 million and had suffered a loss of $54.9 million. The Board indicated further that it considered the investment of the assets of the UNU Endowment Fund to be funds under management by the Investment Management Division, recommending that the Division make a complete disclosure in its financial statements of these investments. In this connection, the Advisory Committee recalls that the investments of the UNU Endowment Fund are managed by a financial advisory firm, but overseen by the Investment Management Division and the Representative of the Secretary-General for Investments of the Pension Fund (see A/65/498). Upon enquiry, the Committee was informed that the funds of the UNU Endowment Fund are not co-mingled with those of the Pension Fund. **The Advisory Committee concurs with the Board of Auditors on the need for transparent disclosure of the investments of the UNU Endowment Fund and notes that the Pension Board has agreed that such disclosure would be provided in future.**

21. The Advisory Committee highlights below some of the other findings presented by the Board of Auditors:

(a) The Pension Fund submitted its certified financial statements eight weeks late, which is in contravention of financial regulation 6.5. During the hearings with the Advisory Committee, the Board indicated its concern, in particular since the Fund, as a financial institution, was expected to be current with its financial information;

(b) While the Pension Fund recognized its end-of-service liabilities and after-service health insurance for the first time in the financial statements, amounting to $34.4 million, the Board observed that $31.5 million was not funded;

(c) The results of the Fund's non-expendable property verification exercise had not been received from the Property Management and Inventory Control Unit of the United Nations and the Fund's asset register had not been updated as a result;

(d) The Pension Fund did not maintain an ageing schedule for its accounts payable or for its benefits payable;

(e) Payroll summaries received from member organizations were not properly reconciled and monthly differences were not resolved.

22. **The Advisory Committee concurs with the Board of Auditors with respect to its findings.**

VIII. Governance matters

23. The Advisory Committee notes that, with regard to the term of appointment of the Deputy Chief Executive Officer/Deputy Secretary, the Pension Board had decided at its fifty-fifth session, in 2008, to recommend to the Secretary-General of the United Nations the reappointment of the incumbent Deputy Chief Executive Officer for a second five-year term commencing on 1 January 2009. The report of the Pension Board indicates that the Secretary-General decided to reappoint the Deputy Chief Executive Officer for a three-year term, which commenced on 1 January 2009, with the possibility of a further two-year extension. **The Advisory Committee notes that the Secretary-General did not accept the recommendation of the Pension Board with regard to the length of appointment of the Deputy Chief Executive Officer. In view of the responsibility of the Pension Board as a legislative body of the Fund and its decision to establish in the Rules of Procedure of the Fund a five-year term for the appointment of the Chief Executive Officer and the Deputy Chief Executive Officer with one additional reappointment, the Advisory Committee believes that the Secretary-General should be guided by the decision of the Pension Board.**

IX. Benefit provisions of the Fund

24. The Advisory Committee notes that the Pension Board discussed an amendment to the Regulations and Rules to allow contributions for part-time staff to enable such staff to "buy" time in order to receive a pension that is equivalent to a pension based on full-time employment status while a participant. The Pension Board decided that the measure should be adopted for reasons of fairness and

flexibility, as well as to demonstrate the Fund's sensitivity to gender issues, given that the majority of part-time staff in the member organizations were female. Further, the Board indicated that the amendment had been reformulated to meet the concerns of the Advisory Committee by ensuring parity for part-time staff who had been hired on full-time employment status and later converted to part-time status, and providing that the amendments are to be formulated to include the same constraints that apply to periods of leave without pay for full-time staff (see A/65/9, paras. 262-265).

25. **The Advisory Committee recalls its position in its previous report (see A/63/556, para. 19) and therefore does not support the proposed amendments to the Fund's Regulations and Administrative Rules.**

X. Conclusion

26. A summary of the matters requiring the attention of and decisions by the General Assembly is provided in the proposed draft resolution contained in annex XX to the Board's report (A/65/9). **The Advisory Committee recommends approval of the Pension Board's proposals (A/65/9, chap. II, para. 12), subject to the observations and recommendations in paragraphs 3, 24 and 25 above.**