United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

Fifty-ninth session (3-11 July 2012)

General Assembly

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

AfDB	African Development Bank
AFICS	Association of Former International Civil Servants
CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
CEB	United Nations System Chief Executives Board for Coordination
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organs of the Treadway Commission
EPPO	European and Mediterranean Plant Protection Organization
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
HLCM	High-level Committee on Management
IAEA	International Atomic Energy Agency
IAS	International Accounting Standards
ICAO	International Civil Aviation Organization
ICC	International Criminal Court
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICSC	International Civil Service Commission
ICT	Information and communications technology
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMO	International Maritime Organization
INTOSAI	International Organization of Supreme Audit Institutions
IOM	International Organization for Migration

IPAS	Integrated pension administration system
IPSAS	International Public Sector Accounting Standards
IPU	Inter-Parliamentary Union
ISA	International Seabed Authority
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
OIOS	Office of Internal Oversight Services
OPCW	Organization for the Prohibition of Chemical Weapons
STL	Special Tribunal for Lebanon
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
UNSAS	United Nations system accounting standards
UNTWO	World Tourism Organization
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Tourism Organization

Chapter I
Introduction

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. As an independent inter-agency entity, the Fund operates under its own Regulations as approved by the General Assembly and, in accordance with its governance structure, is administered by the United Nations Joint Staff Pension Board, which currently consists of 33 members, representing the 23 member organizations listed in annex I to the present report. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads of those organizations and one third by the participants in the Fund. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations and to the Fund's pension adjustment system, which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred in the administration of the Fund — principally, the cost of its central secretariat in New York and its office in Geneva, and the expenses of managing its investments — are met by the Fund.

3. The present report is submitted by the Board following its fifty-ninth session, held from 3 to 12 July 2012 at the headquarters of the United Nations Educational, Scientific and Cultural Organization, in Paris. The members, alternate members and representatives accredited to the session of the Board, the Chair and other officers elected by the Board, and those who actually attended, are listed in annex II.

4. The major items addressed by the Board were: (a) actuarial matters, including the results of the thirty-first actuarial valuation of the Fund, as at 31 December 2011 and the report of the Committee of Actuaries; (b) the management of the investments of the Fund, including reports by the Representative of the Secretary-General for the Investments of the Fund on (i) investment performance for the one-year period ending 31 December 2011, (ii) the status of compliance and risk management, (iii) the status of business application implementations and (iv) the results of a benchmarking study; (c) the status of the Fund's implementation of IPSAS; (d) application of article 26 of the pension adjustment system regarding suspension of local currency track benefits; (e) presentations on the Fund's (i) revised enterprise-wide risk management policy, (ii) revised accountability statement and (iii) the 2014-2015 strategic framework; (f) a report on the development of the integrated pension administration system; (g) an update on the Fund's business continuity measures; (h) a report on the monitoring of the impact of currency fluctuations on Fund pension benefits; (i) the selection of the Fund's next CEO; (j) an update of the study on the mandatory age of separation from member organizations; (k) possible changes in the Regulations and the Administrative Rules with respect to (i) technical changes necessary to coordinate provisions due to past changes in the Regulations, (ii) the recovery of pension entitlements in the case of fraud, (iii) a proposal to allow additional contributions by part-time staff,

(iv) recovery of amounts paid as death or disability benefits from third parties found liable for the death or injury and (v) clarification of the definition of spouse; (l) the report of the medical consultant and consideration of establishing a standard medical examination for the purposes of participation in the Fund; and (m) proposed new transfer agreements.

5. The Board examined and took note of the financial statements and schedules for the biennium 2010-2011 and considered the report of the Board of Auditors on the accounts and operations of the Fund (see annex X). It also considered a report of the Audit Committee of the Board and a report regarding the disclosure of investment advisory services provided by the Investment Management Division to the United Nations Library Endowment Fund and the United Nations University Endowment Fund.

6. Other items considered by the Board and included in the present report were: (a) the joint study with ICSC on pensionable remuneration; (b) the second self-evaluation by the Board; (c) possible funding of after-service health insurance; and (d) the possible creation of an ad hoc mechanism for arbitration between the Fund and ILO.

7. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is shown in annex VI.

8. The membership of the Investments Committee, established under article 20 of the Regulations, is shown in annex VII.

9. The membership of the Audit Committee, established under appendix 4 to the Rules of Procedure of the Fund, is shown in annex XVI.

10. Chapter II provides an overview of the decisions taken by the Board at its fifty-ninth session and chapter III a summary of the operations of the Fund for the biennium ended 31 December 2011. Chapters IV to X address issues on which action is required by the General Assembly, as well as matters on which the Board informs the Assembly. The salient observations, conclusions and recommendations set out in the present report are highlighted in bold print.

11. A draft resolution for the consideration of the General Assembly is contained in annex XVII.

Chapter II
Overview of decisions taken by the Board

A. Recommendations and decisions of the Board that require action by the General Assembly

12. The following recommendations and decisions taken by the Board at its fifty-ninth session require action by the General Assembly:

(a) The Board recommends the approval of an amendment to the Regulations of the Fund that would allow the use of pension entitlements as a possible source of reimbursement for financial losses caused by staff members who have defrauded participating employers. In order for the Fund to remit a portion of the pension benefit to the member organization, the participant must have been subject to a criminal conviction of fraud against that employing organization, as evidenced by a final and executable court order issued by a competent national court. The payment to the member organization would stop upon the death of the participant and the amount paid would not increase the total payments otherwise payable by the Fund. The relevant amendment to the Regulations of the Fund is contained in annex XI and the relevant amendment to the Administrative Rules is contained in annex XII;

(b) The Board acknowledges that both the Fund's consulting actuary and the Committee of Actuaries have determined that, given the serious impact that increased longevity has had on the actuarial situation of the Fund, raising the normal age of retirement to 65 would improve the actuarial situation of the Fund. Accordingly, the General Assembly is being asked to authorize the Board to decide to increase the normal retirement age to age 65 for new participants in the Fund with effect from no later than 1 January 2014;

(c) The General Assembly is asked to concur with the Board's approval of two new transfer agreements of the Fund with the Organization for the Prohibition of Chemical Weapons and the African Development Bank, as set out in annex XIV, which will become effective on 1 January 2013;

(d) The Board recommends the approval of technical changes in the Fund's Regulations and the pension adjustment system in accordance with past decisions and amendments adopted by the Pension Board and approved by the General Assembly, as set out in annexes XI and XIII.

B. Information provided to the General Assembly on other action taken by the Board

13. The General Assembly may wish to take note of the following information on items that were considered by the Board at its fifty-ninth session:

(a) The actuarial valuation of the Fund, performed as at 31 December 2011, revealed a deficit of -1.87 per cent of pensionable remuneration, which was the Fund's second deficit reported in the last eight actuarial valuations. An actuarial deficit of -0.38 per cent of pensionable remuneration was reported in the previous valuation. The Board noted that the increase in the actuarial deficit from 31 December 2009 was primarily the result of lower than expected investment return;

(b) In 2011, the Board was presented with the results of the Fund's second asset liability management study. The Board noted that the independent actuarial firm that had completed the study had been able to closely reproduce the Fund's actuarial valuation results as at 31 December 2009, and had considered the assumptions used in the valuation, in the aggregate, to be reasonable. The main recommendation resulting from the study was that small changes be made to the investment portfolio strategy (or asset allocation), with an increased allocation to real assets such as real estate and commodities. Under such a revised investment policy, the long-term investment return targets on the assets could remain at 7.5 per cent in nominal terms and 3.5 per cent in real terms, with a 4 per cent inflation assumption;

(c) At its 2012 session, the Board established a working group that, in consultation with the Fund's consulting actuary, the Committee of Actuaries, the Investment Committee, the Representative of the Secretary-General for the Investments of the Fund, and the Secretary/CEO, will consider possible measures to ensure the Fund's long-term sustainability. The Board directed its working group to focus on long-term sustainability, including governance, investment management and asset liability management;

(d) With respect to the Fund's liabilities on a plan-termination basis, as at 31 December 2011 the Fund was in a soundly funded position at 130 per cent, assuming future expected cost-of-living adjustments are not taken into account. Taking into account future expected cost-of-living increases, the funded ratio drops to 86 per cent. In reference to article 26 of the Regulations there is no requirement for deficiency payments by member organizations;

(e) The Board considered the membership of the Committee of Actuaries and agreed that 15-year term limits should be established for the Committee. The Board also recommended to the Secretary-General the reappointment of four members of the Committee;

(f) The Board noted that the periodic review of the costs/savings of modifications of the two-track feature of the pension adjustment system showed consistency with the past assessments and, therefore, decided that no changes in the related assumptions were needed at the current time; it also requested that consideration of the costs and/or savings of the modifications of the two-track system should continue to be taken up in conjunction with the actuarial valuations;

(g) At its 2011 session, following a competitive bidding process, the Board recommended that the Secretary-General appoint Buck Consultants, LLC as consulting actuary to the Board for the next four years;

(h) Also in 2011, the Board confirmed that the information currently provided on investments from the Investment Management Division should continue and that additional information should be added to the reporting on investments, including main holdings by asset category, performance by asset class, key ratios, risk information and investment income, and performance comparison with the Fund's return objectives, such as for actuarial funding purposes;

(i) The Board discussed the issue of standards for medical examinations required for employment in a member organization and the requirements pursuant to article 41 of the Fund's Regulations. The Secretary/CEO recommended that the Board adopt the "fitness for employment" standard, as the basis for employment for contracts of six months or longer with the United Nations. The Board requested additional information on the matter and deferred the item until its next session;

(j) The Board approved an amendment to administrative rule H.6 (b) to extend the review period from three to five years for disability awards where medical evidence indicates a permanent disability with an unfavourable prognosis of recovery. The Board further approved a similar change to administrative rule H.10 to extend the review period from 5 to 10 years for the determination of incapacity for children or secondary dependants. The relevant amendments to the administrative rules are contained in annex XII;

(k) The Board took note of the information provided regarding the investment-related advisory services provided by the Fund's Investment Management Division to the United Nations Library Endowment Fund and the United Nations University Endowment Fund at the request of the Representative of the Secretary-General for the Investments of the Pension Fund. The Board was informed that documentation to formalize the arrangements for the provision of those advisory services was being prepared. The Board requested that the arrangements be reported to it at its next session, in 2013;

(l) The Board acknowledged with appreciation the significant progress made in the implementation of IPSAS and welcomed the fact that increased transparency would be provided in future financial statements. The Board noted that the most significant change in the Fund's financial reporting under IPSAS would be increased volatility of the financial results, and the measurement of the Fund's investments;

(m) The Board took note of the status report on the Emergency Fund and the increased disbursements paid out since 2007, as encouraged by the Board;

(n) The Board supported the recommendation of the Secretary/CEO that decisions regarding the funding of after-service health insurance be guided by the approach that the United Nations might take;

(o) The Board reviewed the progress report on the integrated pension administration system and noted with appreciation the progress achieved towards its implementation;

(p) The Board took note with appreciation of the Fund's business continuity measures. The Board also noted that the business continuity and disaster recovery measures taken by the Fund over the past few years, together with other initiatives, represented further improvement in the Fund's management;

(q) The Board noted that the revised enterprise-wide risk management policy and the risk manual presented to it represented industry best practices and constituted a major achievement in the Fund's management over the past few years. The Board approved the revised enterprise-wide risk management policy;

(r) The Board was presented with the report of the Audit Committee, which summarized the major findings and conclusions of the Committee. The Board endorsed the report, including the recommendation of the Audit Committee that the Fund use the guidance provided in International Accounting Standard 26, in its entirety, for its reporting under IPSAS;

(s) The Board of Auditors presented its draft report on the financial statements of the Fund for the biennium ended 31 December 2011. The Pension Board took note of the Board of Auditors' unqualified opinion;

(t) The Board approved the Fund's strategic framework for the biennium 2014-2015;

(u) In the light of the forthcoming retirement of the Secretary/CEO, Bernard Cochemé, the Board decided by acclamation to recommend that the Secretary-General appoint Sergio Arvizú as the next CEO of the Fund and Secretary of the Board with effect from 1 January 2013, for a fixed term of five years;

(v) The Board took note of the revised accountability statement presented by the Secretary/CEO. The Board requested the Secretary/CEO to review the section on the role and responsibilities of the staff pension committees and their secretaries, following consultations with each member organization's staff pension committee, and to submit a revised accountability statement to the Board at its sixtieth session, in 2013;

(w) The Board took note of the report on small pensions and requested the Secretary/CEO to further study the issue of the overlap in benefit amounts between the small pension and minimum benefit provisions and all other provisions providing a minimum level of benefit with a view to developing draft provisions that would coordinate and simplify the minimum benefits payable from the Fund, following the modalities and principles identified in the report;

(x) The Board considered a note from the contact group established to review the issues associated with clarification of the guidance concerning verification of the marital status of participants under articles 34 and 35 of the Fund Regulations, and to come up with proposals to clarify earlier Board guidance, as well as to review those cases where the Fund secretariat had implementation difficulties. The Board did not reach consensus on the item and it requested the contact group to provide further clarification and administrative guidance, as appropriate;

(y) The Board considered that increasing the normal retirement age to 65 for new participants in the Fund with effect from no later than 1 January 2014 was the priority among various other actions that could be taken to ensure the Fund's long-term sustainability. In the light of the Board's readiness to decide to increase the Fund's normal retirement age, the Board urged ICSC and the member organizations of the Fund to immediately raise the mandatory age of separation to 65 for new staff;

(z) The Board could not reach consensus on resubmitting to the General Assembly the proposal to allow part-time staff to purchase years of contributory service;

(aa) The Board took note of the application of article 26 of the pension adjustment system regarding the suspension of local currency track benefits;

(bb) The Board recalled that the impact of currency fluctuations on pension benefits and the variations in amounts due as a result of different separation dates had been studied frequently throughout the history of the Fund's pension adjustment system. The Board was presented with the 2012 first quarter study of the effects of currency fluctuations on the benefits payable in countries covering 90 per cent of the benefits payable as local currency track benefits. The Board noted that the local currency track pension amounts continued to be maintained at or near the targeted levels for the countries under review;

(cc) The Board took note of the results of the ICSC and Pension Fund secretariats' review of pensionable remuneration;

(dd) The Board reviewed and took note of five judgements in cases where the Fund had been the respondent. In all but one, the Board's decisions had been upheld, which indicated that the Regulations and Rules were being properly administered;

(ee) The Board considered a proposal to allow recovery from a third party of amounts paid by the Fund as death or disability benefits, if the party was found liable by a court for the death or injury of a participant. The Board requested that the secretariat revise the proposal to make it more specific with regard to the scope and conditions to be applied in the implementation of the proposal, and deferred the matter to its next session, in 2013.

Chapter III
Summary of the operations of the Fund for the biennium ended 31 December 2011

14. During the biennium ended 31 December 2011, the number of participants in the Fund increased from 117,580 to 120,774, or by 2.7 per cent; the number of periodic benefits in award increased from 61,841 to 65,387, or by 5.7 per cent. On 31 December 2011, the breakdown of the periodic benefits in award was as follows: 23,147 retirement benefits, 14,405 early retirement benefits, 7,161 deferred retirement benefits, 10,996 widows' and widowers' benefits, 8,401 children's benefits, 1,238 disability benefits and 39 secondary dependants' benefits. In the course of the biennium, 14,332 lump-sum withdrawal and other settlements had been paid. A breakdown by member organization of participants and of benefits awarded is shown in tables 1 and 2 of the appendix to annex VIII.

15. During the same two-year period, the principal of the Fund increased from $33,114,592,668 to $35,206,870,113 (see annex VIII, statement II). The investment income of the Fund during the period amounted to $2.7 billion and contributions and other income amounted to $4.3 billion, for a total of $7.0 billion in income to the Fund. This compares to a total income of $6.4 billion for the prior two-year period.

16. Benefit payments and expenses for the two-year period ended 31 December 2011 amounted to $4.2 billion, while for the prior two-year period benefit payments and expenses amounted to $3.9 billion.

17. Contributions exceeded benefit payments for the two-year period ended 31 December 2011 by $68 million, whereas benefit payments had exceeded contributions by $42 million for the two-year period ended 31 December 2009.

18. The Fund's overall investment performance for the calendar year ended 31 December 2011 was -3.9 per cent and for the year ended 31 December 2010 it was 10.3 per cent, as compared to the Fund's performance benchmarks for the same periods of -1.4 per cent and 10.9 per cent, respectively.

19. A summary of the Fund's investments as at 31 December 2011 and a comparison of their cost and market values are given in annex VIII, statement II.

Chapter IV
Actuarial matters

A. Thirty-first actuarial valuation of the Fund, as at 31 December 2011

20. Article 12 (a) of the Regulations of the United Nations Joint Staff Pension Fund provides that the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

21. The consulting actuary submitted to the Board the report on the thirty-first actuarial valuation of the Fund, as at 31 December 2011; the previous valuation had been as at 31 December 2009 and its results had been reported to the General Assembly at its sixty-fifth session, in 2010. The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

22. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Board in 2011, and in accordance with the Regulations, Rules and pension adjustment system of the Fund in effect as at the valuation date.

23. As in the past 12 valuations, the actuarial value of the assets as at 31 December 2011 was determined using a five-year moving market value averaging method, subject to a limiting corridor of 15 per cent below and above the market value of the assets as at 31 December 2011. On that basis, the actuarial asset value was determined to be $40,815.0 million, or 102.45 per cent of the market value of the assets as at that date ($39,838.1 million, after cash-flow adjustments).

24. The actuarial assumptions included three sets of economic assumptions and three sets of participant growth assumptions that were used in various combinations.

25. Valuations were performed on the basis of three sets of real rate of investment return assumptions of 4.5 per cent, 3.5 per cent and 2.5 per cent. The inflation assumption of 4.0 per cent per annum used for the 31 December 2009 valuation was retained for the 3.5 per cent and 2.5 per cent real rate of return scenarios. But the inflation assumption for the 4.5 per cent real rate of return scenario was lowered to 2.5 per cent per annum.

26. Further, in line with the assumed inflation rates, the annual rates of static increases in pensionable remuneration were increased by 4.5 per cent for the 4.0 per cent inflation scenario and by 3.0 per cent for the 2.5 per cent inflation scenario.

27. In addition, three sets of assumptions were used to reflect changes in the projected growth of future active participants: (a) positive growth of 0.5 per cent per annum over the next 10 years, with zero growth thereafter; (b) positive growth of 1.0 per cent per annum over the next 10 years, with zero growth thereafter; and (c) negative growth of (1.0) per cent per annum over the next 10 years, with zero growth thereafter.

28. The sets of economic and participant growth assumptions used in the 2011 valuation are summarized in table 1.

Table 1

	Assumption (percentage)		
	I[a]	*II*	*III*
A. Economic factors			
Increases in pensionable remuneration (in addition to static increases)	4.5	3.0	4.5
Nominal rate of interest (investment return)	7.5	7.0	6.5
Price increases (reflected in increases in pensions to beneficiaries)	4.0	2.5	4.0
Real rate of interest (investment return after inflation)	3.5	4.5	2.5
Usual designation	4.5/7.5/4.0	3.0/7.0/2.5	4.5/6.5/4.0
Cost of the two-track adjustment system (1.9 per cent of pensionable remuneration)	Included	Included	Included
B. Future growth of the participant population			
For each of the first 10 years (zero growth thereafter):			
Professional staff	0.5	(1.0)	1.0
General Service staff	0.5	(1.0)	1.0

[a] Regular valuation basis.

29. The Committee of Actuaries recommended, and the Board agreed in 2011, that the 4.5/7.5/4.0 set of assumptions (i.e., a 4.5 per cent annual increase in pensionable remuneration in addition to the static scale, a 7.5 per cent nominal interest rate and a 4.0 per cent annual inflation rate with respect to increases in pensions after award) and the 10-year 0.5 per cent participant growth assumption should serve as the basis of the regular valuation for 2011.

30. The five specific combinations reflected in table 1 and included in the actuarial valuations as at 31 December 2011 were as follows:

(a) A.I with B.I (4.5/7.5/4.0 and 10-year 0.5 per cent growth in participants);

(b) A.II with B.I (3.0/7.0/2.5 and 10-year 0.5 per cent growth in participants);

(c) A.III with B.I (4.5/6.5/4.0 and 10-year 0.5 per cent growth in participants);

(d) A.I with B.II (4.5/7.5/4.0 and 10-year 1.0 per cent growth in participants);

(e) A.I with B.III (4.5/7.5/4.0 and 10-year (1.0) per cent growth in participants).

31. The demographic and other related assumptions used for the 31 December 2011 actuarial valuation reflected the following changes, as recommended by the Committee of Actuaries in 2011 and approved by the Board:

(a) Modification of the demographic assumptions (withdrawal, early and normal retirement) to better align them with actual experience;

(b) Modification of the assumptions regarding utilization of the commutation option and the marital status of retiree.

32. Upon the recommendation of the Committee of Actuaries, the Board agreed that the provision for administration costs to be included in the current valuation should be based on one half of the Fund's approved budget for the biennium 2012-2013, divided by the total pensionable remuneration as at 31 December 2011. Using that methodology, the provision for administration costs included in the 31 December 2011 actuarial valuation was 0.39 per cent of pensionable remuneration.

Analysis of the valuation results

33. Table 2 provides the results of the thirty-first actuarial valuation and compares them with the results of the regular valuation as at 31 December 2009.

Table 2

		Contribution rate required (as a percentage of pensionable remuneration) to attain actuarial balance of the Fund		
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference (surplus)/deficit*
31 December 2011	4.5/7.5/4.0 with 10-year 0.5 per cent participant growth (regular valuation)	25.57	23.70	1.87
	3.0/7.0/2.5 with 10-year 0.5 per cent participant growth	20.73	23.70	(2.97)
	4.5/6.5/4.0 with 10-year 0.5 per cent participant growth	30.89	23.70	7.19
	4.5/7.5/4.0 with 10-year 1.0 per cent participant growth	25.41	23.70	1.71
	4.5/7.5/4.0 with 10-year (1.0) per cent participant growth	26.11	23.70	2.41
31 December 2009	4.5/7.5/4.0 with 10-year 0.5 per cent participant growth (regular valuation)	24.08	23.70	0.38

34. Therefore, the regular valuation as at 31 December 2011 showed that the required contribution rate as at 31 December 2011 was 25.57 per cent, as compared to the current contribution rate of 23.70 per cent, resulting in an actuarial deficit of 1.87 per cent of pensionable remuneration. This represents an increase of 1.49 per cent in the required contribution rate from the rate disclosed as at 31 December 2009 (i.e., an increase from 24.08 per cent to 25.57 per cent), when the valuation had revealed a deficit of 0.38 per cent. As can be seen in table 2, under real rate of return assumptions of 4.5 per cent and 2.5 per cent, with 10-year 0.5 per cent participant growth, the results would be a surplus of 2.97 and a deficit of 7.19 per cent of pensionable remuneration, respectively, which demonstrates the major effect of the real rate of return assumption on the valuation results.

Current value of accrued benefits

35. The actuarial valuation contained another indicator of the funded position of the Fund, namely, a comparison of the current assets of the Fund with the value of the accrued benefits on the valuation date (i.e., the benefits for retired participants and beneficiaries and the benefits considered to have been earned by all current participants if their service were terminated on that date).

36. With respect to its liabilities on a plan-termination basis, the Fund was in a soundly funded position, as it had been for the past 11 valuations, if future adjustments of pensions were not taken into account. The funded ratios on that basis, which varied according to the rate of interest assumed, ranged from 121 to 130 per cent, with 130 per cent being applicable for the regular valuation. This meant that the Fund would have considerably more assets than needed to pay the benefits if no adjustments were made to pensions for changes in the cost of living. The funded position decreased considerably when account was taken of the current system of pension adjustments, including the cost of the two-track system (1.9 per cent of pensionable remuneration); the current valuation indicated funded ratios ranging from 76 to 96 per cent, with 86 per cent being applicable for the regular valuation. As shown in table 3, the funded ratios have improved substantially since 1990, both assuming and without assuming future adjustments of pensions for inflation.

Table 3
Funded ratios 1990-2011

	If future pension payments are made:	
	Without pension adjustments	*With pension adjustments*
Valuation as at 31 December	*(percentage)*	
1990	131	77
1993	136	81
1995	132	81
1997	141	89
1999	180	113
2001	161	106
2003	145	95
2005	140	92
2007	147	95
2009	140	91
2011	130	86

Results of the valuation in dollar terms and other disclosure statements

37. In its resolutions 47/203 and 48/225, the General Assembly had requested the Board to consider the form in which it presented the valuation results, taking into account, inter alia, the observations made by the Board of Auditors. The auditors had requested the Board to include in its reports to the Assembly disclosures and opinions with regard to the valuation results, namely, presentations of: (a) the valuation results in dollar terms; (b) a statement of sufficiency under article 26 of the Regulations of the Fund; and (c) a statement by the Committee of Actuaries and the consulting actuary on the actuarial position of the Fund, to which the Board of Auditors could refer in its observations on the accounts of the Fund.

38. Accordingly, table 4 summarizes the valuation results as at 31 December 2011, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions.

Table 4
Valuation results surplus/(deficit)

Economic assumptions	*As a percentage of pensionable remuneration*	*In dollar terms (millions)*
4.5/7.5/4.0 with 10-year 0.5 per cent participant growth (regular valuation)	(1.87)	(6 709.8)
3.0/7.0/2.5 with 10-year 0.5 per cent participant growth	2.97	7 891.8
4.5/6.5/4.0 with 10-year 0.5 per cent participant growth	(7.19)	(38 599.0)
4.5/7.5/4.0 with 10-year 1.0 per cent participant growth	(1.71)	(6 379.3)
4.5/7.5/4.0 with 10-year (1.0) per cent participant growth	(2.41)	(7 621.2)

Note: The regular valuation as at 31 December 2009 revealed a deficit of 0.38 per cent in pensionable remuneration.

39. Table 5 provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2011 and 31 December 2009, respectively.

Table 5

	31 December 2011	*31 December 2009*
	(Millions of United States dollars)	
Liabilities		
Present value of benefits		
Payable to or on behalf of retired and deceased participants	27 710.3	24 395.6
Expected to become payable on behalf of active and inactive participants, including future new entrants	103 467.1	89 614.7
Total liabilities	**131 177.4**	**114 010.3**
Assets		
Actuarial asset value	40 815.0	38 154.0
Present value of future contributions	83 652.6	74 634.0
Total assets	**124 467.6**	**112 788.0**
Surplus (deficit)	**(6 709.8)**	**(1 222.3)**

40. As they had in the past, the consulting actuary and the Committee of Actuaries stressed that care must be taken when considering the dollar amounts of the valuation results. The liabilities shown in table 5 include those for individuals who have yet to join the Fund; similarly, the assets include the contributions for future new participants. The surplus or deficit indicates only the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were highly dependent upon the actuarial assumptions used. As indicated in table 2 above, a deficit of 7.19 per cent of pensionable remuneration was indicated on the 4.5/6.5/4.0 valuation basis, i.e., a real rate of return of 2.5 per cent. A surplus of 2.97 per cent of

pensionable remuneration was indicated on the 3.0/7.0/2.5 valuation basis, i.e., a real rate of return of 4.5 per cent. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial surplus, when expressed in dollar terms, should only be considered in relation to the magnitude of the liabilities, not in absolute terms. The deficit of $1,222.3 million under the current regular valuation as at 31 December 2009 represented 1.1 per cent of the projected liabilities of the Fund. The deficit of $6,709.8 million under the current regular valuation represents 5.1 per cent of the Fund's projected liabilities.

Hypothetical projection models

41. Hypothetical models of the estimated progress of the Fund over the next 50 years were also prepared on the basis of the economic assumptions in the regular valuation, using the 10-year 0.5 per cent participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. The models showed that the Fund's assets would increase in real dollar terms for approximately 33 years and then begin to decrease. They also showed that assets as a multiple of annual benefit payments would decline from 17.7 to 10.8 by the end of the 50-year period. Additional models, in which the assumed real rate of return on investments ranged from 2 per cent to 5 per cent, were also prepared. The models showed that if the Fund were to earn less than the assumed 3.5 per cent real rate of return, the Fund's assets in real dollar terms would begin to decrease more rapidly (for example, after approximately 23 years under the 3 per cent real rate of investment return assumption).

International Accounting Standard 26

42. At its 2010 session, the Board had decided to adopt the International Public Sector Accounting Standards (IPSAS) as the accounting standards for the Fund with effect from 1 January 2012.

43. As agreed in 2010, the Fund's actuarial liabilities should be reported in accordance with International Accounting Standard 26 (IAS 26), "Accounting and reporting by retirement benefit plans", in the following manner:

- The actuarial present value of accrued benefits will be disclosed as a note to the Fund's financial statements
- The IAS 26 liabilities will be calculated every biennium, concurrently with the actuarial valuation schedule
- The IAS 26 actuarial information will be added to the valuation reports

44. Table 6 provides the IAS accounting and reporting information as at 31 December 2011.

Table 6
International Accounting Standard 26; plan accounting and reporting

Actuarial present value of accumulated (promised) retirement plan benefits, as at 31 December 2011[a]

	If future pension payments are made:	
	Under regulations without pension adjustments	*Under regulations with pension adjustments[a]*
	(millions of United States dollars)	
Actuarial value of vested benefits[b]		
Participants currently receiving benefits	18 440.4	27 397.0
Terminated vested participants	161.9	313.3
Active participants	10 097.3	15 629.6
Total vested benefits	**28 699.6**	**43 339.9**
Non-vested benefits[b]	1 092.4	1 631.3
Total actuarial present value of accumulated plan benefits	**29 792.0**	**44 971.2**
Market value of assets	39 838.1	39 838.1

[a] Results include loadings for the two-track adjustment system.
[b] At a nominal interest rate (investment return) of 7.5 per cent and an annual inflation rate of 4.0 per cent.

Regular valuation results based on the alternative actuarial value of assets methodology

45. At its 2011 session, the Board had noted that the Committee of Actuaries had decided to retain the current actuarial asset valuation methodology for the purposes of the 31 December 2011 actuarial valuation, but that it was the Committee's intention to study the technical merits of the alternative asset valuation methodology for the valuation to be completed as at 31 December 2013. Also, the Committee had agreed that the regular basis results of the current valuation, using the alternative asset methodology, should be shown in the 2011 valuation report, for information purposes.

46. The valuation, using the alternative asset methodology, prepared on the 4.5/7.5/4.0 basis with a 10-year 0.5 per cent participant growth assumption (regular valuation basis), resulted in a required contribution rate of 24.61 per cent of pensionable remuneration, which would result in an actuarial deficit of 0.91 per cent, as compared to the 1.87 per cent actuarial deficit using the current actuarial asset valuation methodology.

Views of the Committee of Actuaries

47. In its report to the Board, the Committee of Actuaries noted with concern that the current valuation revealed a deficit of 1.87 per cent of pensionable remuneration, continuing the downward trend in actuarial results of the past five actuarial valuations. The Committee recalled its previous recommendation that it would be

prudent to maintain an actuarial buffer of around 1 to 2 per cent of pensionable remuneration to offset the impact on the Fund's long-term solvency due to financial market volatility, as well as anticipate further maturing of the Fund. The Committee noted that the current valuation results were at the end of that 2 per cent buffer. While the Committee agreed that no immediate action regarding a possible increase in the current contribution rates was necessary, it was of the view that the Board should consider taking remedial action in order to avoid continued deterioration of the deficit.

48. The Committee noted that the market value of the Fund's investments showed considerable volatility and that the investment return objective in terms of both the market benchmarks and the 3.5 per cent real investment return assumption had not been met in recent years. Further, the Committee acknowledged that a future investment loss, compared with the investment return objective, of the magnitude of that experienced since the previous actuarial valuation, which had been largely responsible for the increase in the funding deficit of 149 basis points, would lead to results significantly outside the safety margin.

49. The Committee noted that, in view of the impact of investment results below the return objective in the previous two bienniums, a real rate of return of approximately 3.9 per cent per year was actually more reflective of the long-term needs of the Fund, taking into account the current actuarial deficit. The Committee also acknowledged that the return assumption would be reviewed again in 2013 in the context of the review of actuarial assumptions and in consultation with the Investment Committee.

50. The Committee further noted that demographic assumptions, particularly the observed lower than expected post-retirement mortality rates, were also driving up Fund liabilities. The Committee recalled that the mortality assumption had recently been modified for the Fund; that change reflected expected improvements in longevity until 2027. The Committee concluded that additional analysis and possible updates of longevity assumptions could be required in the future, thus potentially increasing the contribution rate required for actuarial balance. The Committee again stressed the need for the Board to consider increasing the normal retirement age to mitigate the effects of increasing longevity, as the Committee had recommended in past years.

51. The Committee reviewed the funded status of the Fund, which had decreased from 140 per cent at the previous valuation to 130 per cent at the current valuation, without application of the cost-of-living adjustments; and from 91 to 86 per cent when those adjustments were taken into consideration. The Committee noted that the cost-of-living adjustment assumed to apply annually to pension benefits had an impact of around 66 per cent on the funded status of the plan under the base scenario. The Committee will continue to monitor the funded status closely, in particular the impact on it of the cost-of-living adjustments.

52. Reviewing the long-term, year-by-year projections of cash flow completed by the consulting actuary, the Committee did not foresee liquidity constraints at the current time, although investment income will increasingly be used to cover benefit payments and expenses in the future. In terms of paying benefits in the medium and short term, the Fund could meet its pension payment commitments. However, the Committee will continue to monitor that issue closely, taking into account both

expected contributions and the continued expectation of a 3.5 per cent real rate of return on Fund assets.

Statements on the valuation results

53. The statement of actuarial sufficiency prepared by the consulting actuary and approved by the Committee of Actuaries is reproduced in annex IV. The statement indicates that:

> "the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as at 31 December 2011 is $39,838.1 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as at the valuation date."

54. The statement of the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex V. In that statement, the Committee of Actuaries indicated that it had:

> "reviewed the results of the actuarial valuation as at 31 December 2011, which was carried out by the consulting actuary. Based on the results of the regular valuation and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan."

55. The Committee of Actuaries also informed the Board that it would continue to review the evolving experience of the Fund. It will submit recommendations to the Board in 2013 on the assumptions to be used in the actuarial valuation of the Fund to be performed as at 31 December 2013.

Discussion in the Board

56. Clarifications were sought by the Board from the consulting actuary and from the rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results. **Overall, the Board noted that the current valuation revealed a deficit of 1.87 per cent of pensionable remuneration and that the increase in the deficit was primarily the result of lower than expected investment experience. The Board also noted the importance of having future long-term real investment returns at the 3.50 per cent target level in the results of future actuarial valuations.**

57. The Board requested the rapporteur of the Committee of Actuaries to indicate what the trigger point would be, in terms of an actuarial deficit, for the Committee to recommend immediate action to remedy the actuarial situation. The rapporteur pointed out that the Committee viewed the plus or minus 2 per cent actuarial deficit as a buffer zone rather than a trigger point. But a deficit outside the buffer zone should be seen as a warning that remedial action should be strongly considered. It would be especially important to consider corrective action if the actuarial imbalance were not purely cyclical, but reflected a more structural trend.

58. **The Board noted the inclusion of the IAS 26 liabilities in the valuation report, and that those liabilities would be calculated every biennium, concurrently with the actuarial valuation schedule.**

59. **In the light of the deficit revealed by the current and prior actuarial valuations, the Board stressed the need for caution and prudence regarding any changes to the United Nations pension system.**

Conclusion

60. **The Board determined that it should address the actuarial situation of the Fund as at 31 December 2011, which resulted in an actuarial deficit of 1.87 per cent of pensionable remuneration — a second actuarial deficit, following that of 0.38 per cent of pensionable remuneration as at 31 December 2009. The Board considers that addressing the Fund's actuarial deficit must be done prudently and must consider the long-term income and expenditure of the Fund.**

61. **Consequently, the Board established a working group that, in consultation with the Fund's consulting actuary, the Committee of Actuaries, the Investments Committee, the Representative of the Secretary-General for the Investments of the Fund, and the Secretary of the Board, will consider possible measures to ensure the Fund's long-term sustainability. The Board directed its working group not to focus on cost-cutting measures, but rather to focus on long-term sustainability, including governance, investment management and asset-liability management.**

62. The Secretary/CEO reported to the Board that the estimated cost of the working group was $174,000, based on two three-day meetings and including the cost of possible actuarial assistance. Those costs would be absorbed within the Fund's current appropriations and the expenditure would be reported in the context of the biennial performance report.

63. The members of the Working Group on Sustainability are:

Ms. V. González Posse (United Nations)	Governing bodies
Mr. D. Chumakov (United Nations)	Governing bodies
Mr. A. Hinton (IAEA)	Governing bodies
Mr. V. Yossifov (WIPO)	Governing bodies (alternate)
Mr. T. Repasch (United Nations)	Governing bodies (alternate)
Mr. A. Roy (United Nations)	Executive heads
Ms. T. Panuccío (FAO)	Executive heads
Mr. J. Lloberá-Serrá (ILO)	Executive heads (alternate)
Mr. A. Lakhanpal (United Nations)	Participants
Ms. K. Bruchmann (WHO)	Participants
Mr. D. Neal (IAEA)	Participants (alternate)
Mr. R. Eggleston	FAFICS
Mr. G. Schramek	FAFICS
Ms. P. Barrett-Reid	FAFICS (alternate)

B. Membership of the Committee of Actuaries

64. The Board noted that the three-year terms of two regular members of the Committee of Actuaries, Denis Latulippe (Canada, representing the Western Europe and Other States) and Bernard K. Y. S. Yen (Mauritius, representing the African States), would expire on 31 December 2012. They had both indicated that they would be prepared to continue to serve on the Committee should the Board decide to recommend their reappointment. The current membership of the Committee is set out in annex VI.

65. In addition, the one-year terms of the two ad hoc members, Klaus Heubeck (Germany, representing Western Europe and Other States) and Carlos L. Nathal (Mexico, representing Latin American and Caribbean States) would also expire on 31 December 2012 and they had both indicated their willingness to accept reappointment. The Board considered the current one-year terms of the ad hoc members and approved a change to two-year terms to coincide with the standard practice of reviewing the actuarial assumptions in odd-numbered years and the results of the actuarial valuation in even-numbered years.

66. The Board expressed its deep appreciation to the members of the Committee of Actuaries and **decided to recommend that the Secretary-General, in accordance with article 9 (a) of the Regulations of the Fund, reappoint Denis Latulippe and Bernard K. Y. S. Yen for three-year terms from 1 January 2013, to 31 December 2015 and Klaus Heubeck and Carlos L. Nathal for two-year terms from 1 January 2013 to 31 December 2014.**

67. In addition, the Board was informed that when the Secretary-General considered the Board's 2011 recommendations for the reappointment for three-year terms of two of the members, Jiří Král (Czech Republic, representing the Eastern European States) and Hernando Pérez Montás (Dominican Republic, representing the Latin American and Caribbean States), who had been serving on the Committee for over 10 years, he had only extended the terms of the two members for one year, until 31 December 2012, instead of the requested three years, as he was seeking the Board's view concerning the need for a standard period of service for members of the Committee, which should be reflected in the Committee's terms of reference.

68. **After discussion, the Board agreed with the Secretary-General's suggestion concerning term limits and further agreed to terms of 15 years for the members of the Committee of Actuaries and to update the terms of reference of the Committee accordingly. The Board also recommended that the Secretary-General extend the terms of Jiří Král by two years from 1 January 2013 and Pérez Montás by one year from 1 January 2013, thus maintaining full membership of the Committee. The Board requested that the CEO begin the search process for recommendations for a new candidate for the Committee, to begin a three-year term effective 1 January 2014, when the term of Mr. Montás would end, including contacting all member organizations and with an emphasis on filling the position, if possible, with a qualified female candidate.**

C. Monitoring of the actuarial costs of the two-track feature of the pension adjustment system

69. It was recalled that, in 1991 and 1994, the General Assembly, acting on the recommendation of the Board, had approved three changes to the pension adjustment system, which had entered into effect on 1 April 1992 and 1 July 1995. Those changes were: (a) the 1 April 1992 modification, which provided greater compensation for cost-of-living differences in deriving the initial local currency pension for participants in the Professional and higher categories who submitted proof of residence in a high-cost country; (b) the application of the 1 April 1992 modification to the General Service and related categories as at 1 July 1995; and (c) the reduction of the "120 per cent cap" provision to 110 per cent, also with effect from 1 July 1995. In 2004, on the recommendation of the Board, the General Assembly approved a new provision under the two-track feature of the adjustment system which provided for an adjustable minimum guarantee of 80 per cent of the United States dollar track amount. The Board and the Assembly requested that the costs/savings related to those measures be reviewed concurrently with the actuarial valuations of the Fund.

April 1992 modification

70. In the period from 1 April 1992 to 31 December 2011, 1,070 retirement or early retirement benefits had been affected by the 1 April 1992 modification. The beneficiaries were participants in the Professional and higher categories who had retired during that period and who had provided proof of residence in countries in which the criteria for the application of cost-of-living differential factors had been met. A summary of the benefits paid in the 17 countries concerned, together with the amounts which would have been paid under the previous arrangements, was provided to the Board.

71. On the basis of those data, the latest assessment by the consulting actuary of the emerging costs of the April 1992 modification amounted to 0.15 per cent of pensionable remuneration. That assessment was based on the same methodology as that used from 1994 to 2009, which takes into account the actual additional payments over the period reviewed, as well as changes in the geographic distribution of the recipients of benefits and the results of the actuarial valuation as at 31 December 2011. The Board took note of table 7, which indicates the evolution of the costs, by assessment period, of the 1992 modification to the pension adjustment system, as applicable to the Professional and higher categories.

Table 7
Costs of the 1992 modification to the pension adjustment system as applicable to Professional and higher categories

Period assessed	*Cost as a percentage of pensionable remuneration*	*Number of benefits concerned*	*Increase in the number of benefits affected over previous assessment*
Initial estimate of cost made in 1991	0.30	–	–
1 April 1992-31 March 1994	0.26	143	–
1 April 1992-31 March 1996	0.33	390	247
1 April 1992-31 March 1998	0.32	552	162
1 April 1992-31 March 2000	0.26	604	52
1 April 1992-31 December 2001	0.24	614	10
1 April 1992-31 December 2003	0.14	627	13
1 April 1992-31 December 2005	0.12	692	65
1 April 1992-31 December 2007	0.11	755	63
1 April 1992-31 December 2009	0.13	858	103
1 April 1992-31 December 2011	0.15	1 070	212

Extension of the 1 April 1992 modification to participants in the General Service and related categories separating on or after 1 July 1995

72. During the period from 1 July 1995 to 31 December 2011, 42 retirement benefits processed for participants in the General Service category involved proof of residence in a country where the cost-of-living differential factors applied under the revised Washington formula.

73. Owing to the consistently small number of benefits actually adjusted under that measure, it was not possible to make a meaningful assessment of the emerging cost of the modification to the pension adjustment system. It was noted that the actual experience was in line with the comments made by the Committee of Actuaries at the time the measure had been initially reviewed and approved.

Reduction of the 120 per cent cap provision to 110 per cent

74. As at 31 December 2011, there were 54,893 main benefits in award (excluding children's benefits and deferred retirement benefits still in the deferral period), of which 35,938, or 65.5 per cent, related to retirees and beneficiaries with only a dollar pension entitlement and 18,955, or 34.5 per cent, related to retirees and beneficiaries who were on the two-track pension adjustment system (i.e., had two pension records: a dollar track amount and a local currency track amount); the number of cases involving the application of the cap provision during the last quarter of 2011 was 86 out of 18,812 (0.5 per cent), as compared to 168 out of 17,845 (0.9 per cent) as at December 2009. The cases to which the cap provision applies (either 110 per cent for those who separated from service on or after 1 July 1995 or 120 per cent for those who separated earlier) have thus decreased in number and percentage since 2009.

75. The breakdown for retirees and beneficiaries separating from service since the introduction of the 110 per cent cap provision, i.e., during the period from 1 July 1995 to 31 December 2011, was as follows: of the 29,211 main benefits established, 19,057, or 65.2 per cent, involved retirees and beneficiaries with only a dollar pension entitlement and 10,154, or 34.8 per cent, related to retirees and beneficiaries who were on the two-track adjustment system. With respect to two-track cases, during the fourth quarter of 2011, seven retirees and beneficiaries were actually paid the amount corresponding to 110 per cent of the local track amount for that quarter and 407 were paid the dollar track amount (which was higher than the local currency amount by less than the 110 per cent capped amount). In the remaining two-track cases the amount paid was the local track amount (i.e., the local currency track was higher than the dollar track) or a minimum benefit of 80 per cent of the dollar track benefit (to 77 beneficiaries).

76. The Board further noted that, as part of the current actuarial valuation exercise, the consulting actuary had estimated the emerging long-term costs of the two-track system as a whole, based on data since 1990, to be 2.06 per cent of pensionable remuneration; the actuarial assumption used in the latest valuation was 1.90 per cent of pensionable remuneration. In order to make an assessment of the savings arising out of the 110 per cent cap provision of the two-track system, the consulting actuary had compared (a) the emerging long-term costs of the two-track system, assuming that the reduction in the cap from 120 per cent to 110 per cent as from 1 July 1995 did not apply, based on an evaluation and projection of the data since 1990, which amounted to 2.18 per cent of pensionable remuneration, with (b) the emerging long-term costs of the two-track system including the reduction, also based on the data since 1990, which amounted to 2.06 per cent of pensionable remuneration.

77. **The Board noted that the emerging long-term savings due to the introduction of the 110 per cent cap provision were estimated to be in the order of 0.12 per cent of pensionable remuneration; at the time the change in the cap had been proposed, the actuarial savings had been estimated at 0.20 per cent of pensionable remuneration. Since the current assessment of the emerging savings was based on limited data, the Board took note of the suggestion of the Committee of Actuaries that continued analysis, with more years of experience, would be required before any definitive estimate of the savings could be made.**

Adjustable minimum guarantee at 80 per cent of the United States dollar track amount

78. **The Board noted the information provided with respect to the introduction of the adjustable minimum guarantee at 80 per cent of the United States dollar track amount, which took effect from 1 April 2005.** The actual cases affected during the period under review were significantly fewer in number than the 420 cases which had been assumed for the costing exercise in 2004. It was recognized, however, that the number of cases in future periods, and resulting increases in the amounts of such pensions, would vary depending on the specific circumstances of the entire period under consideration. As part of its first review of the new measure, the Fund had examined the actual implications of the measure since its introduction on 1 April 2005 and had found that for the remaining nine-month period that year, the average number of cases eligible for the adjustable minimum guarantee was 196. Table 8 shows the average number of cases per year since then.

Table 8
Analysis of application of the 80 per cent minimum of the dollar track

As at	*Average number of cases*
31 December 2005[a]	196
31 December 2006	244
31 December 2007	128
31 December 2008	147
31 December 2009	138
31 December 2010	134
31 December 2011	77

[a] Reflecting the nine-month period from 1 April to 31 December 2005.

79. **The Board noted that the Committee of Actuaries had agreed, on the basis of the minimal actuarial implications and the very limited amount of data available, that any further action or adjustment in respect of the new measure would not appear to be warranted at present. The Board agreed with the Committee's suggestion that the implications of the new provision should continue to be monitored and assessed in conjunction with future actuarial valuations.**

Conclusions of the Board

80. **The Board took note of the assessments provided on the actual emerging costs/savings of the modifications to the two-track feature of the pension adjustment system. It noted that no changes needed to be made at present, either with regard to (a) the rate of contribution or (b) the current parameters of the revised Washington formula and of the cap provision. The Board agreed that the costs or savings resulting from the modifications to the two-track feature of the pension adjustment system since 1992 should continue to be monitored in conjunction with each actuarial valuation and that any definitive trends should continue to be identified and reported to the Board.**

Chapter V
Investments of the Fund

A. Management of the investments

81. The Representative of the Secretary-General for the Investments of the Fund introduced the report on the management of Fund investments summarizing the economic and financial environment during the period from 1 January 2011 to 31 December 2011, as well as the investment decisions taken and the performance of the Fund. The document also included historical statistical data.

82. The Representative of the Secretary-General reported that the Fund's market value as at 31 December 2011 was $39.7 billion, down from $41.4 billion the prior year, which represented a decrease of $1.7 billion, or 4.1 per cent. The Fund, having reached an all-time high of $44.5 billion in May 2011, reflected the wide swings experienced in 2011 in the financial markets. Amid deepening concern over the European debt crisis, deleveraging in the financial sector, soft patches in the developed markets and inflationary pressures in the emerging markets, global economic growth was subdued. The global emerging markets, which had been major growth drivers in past years, were not immune. Although the Fund had earlier been in favour of equities, the Investment Management Division began reducing the allocation aggressively after the Investments Committee meeting in July 2011. Despite historically attractive valuations, deteriorating conditions in Europe weakened equity prices at year end.

83. The year 2011 was challenging for the Fund's performance not only in absolute terms, but also in relative terms against the benchmarks. In 2011, the Fund was a net equity buyer for the first time since the first quarter of 2009 and had maintained an overweight equity position since the third quarter of 2009. The Fund benefited from the sharp recovery in the global equity markets during 2009 and 2010. However, the asset allocation effect was negative for the year 2011 owing to the sharp decline in the equity markets which started in July 2011. It was a year in which the preservation of capital and the avoidance of capital losses became more important than seeking high returns.

84. The Representative invited the Board to note that the impact of the financial crisis and low interest rates had rippled across the pension industry. The downward revisions in returns on equities could be seen as a bellwether for pension funds around the world, highlighting factors that challenged public pension plans' ability to meet their obligations to beneficiaries, including rising and unfunded liabilities, tighter finances and volatile capital markets. Low interest rates reduced the income from the fixed-income portfolio and were also significant since the liabilities were discounted at a lower rate in consequence.

85. In 2011, the Investment Management Division continued to monitor opportunities in private equity, infrastructure, agriculture and timberland, and other alternative assets. The Board was informed that the Division would continue to pursue further diversification, seeking the enhancement of returns and the lowering of risk, particularly through investments in private equity and real assets. Currently, the Division was incrementally and methodically building the private equity portfolio, following several discussions with the Investments Committee, as well as past presentations to the Board.

86. On 10-year annualized returns up to the end of December 2011, the Fund continued to outperform the 60/31 preliminary benchmark return on a risk-adjusted basis. However, for the individual calendar year 2011, the Fund's return of -3.92 per cent underperformed the policy benchmark's return of -1.37 per cent by 255 basis points.

87. The Representative of the Secretary-General pointed out that the most significant component of underperformance regarding the benchmark in 2011 was the decision to avoid excessive risks by reducing the holdings of sovereign debt issued by Greece, Ireland, Italy, Portugal and Spain — high-yielding but high-risk holdings. Since the beginning of the financial crisis, sovereign debt in that high-yielding but risky group was reduced from 6.92 per cent of the bond portfolio to 1.13 per cent in mid-2012. Equity holdings in the European equity portfolio were reduced for that group over the same period from 5.15 per cent to 0.5 per cent.

88. That risk avoidance strategy meant that while the Fund was shielded from capital loss, it did not earn returns in calendar year 2011 at the level reflected by the market benchmarks. The fixed-income portfolio also included a substantially underweight component in Japanese yen following a decision taken to underweight by three quarters that component in the light of the high ratio of Japanese debt to gross national product (GNP). That had meant that returns due to currency appreciation did not meet the benchmark.

89. The Representative showed the Board the Volatility Index chart, which was a reliable indicator of the volatility in the markets. It surged from mid-July 2011 and peaked in August 2011. Key factors contributing to the volatility included the earthquake and tsunami in Japan in March, the downgrading of United States debt from AAA to AA in July and the 50 per cent write-down of Greek bonds in September. The Fund had avoided holdings in Greek sovereign debt, thereby avoiding capital loss. Although the Fund had reached an all-time high of $44.5 billion in May 2011, it fell back by 31 December 2011 to $39.7 billion in the face of the high levels of volatility in capital markets. Over the past 10-year period, the Fund had outperformed the benchmark in the 5-, 7- and 10-year periods.

90. The Fund periodically rebalanced the weightings in the equity, fixed-income, real estate, and short-term asset classes to manage the risk appetite and the long-term objectives of the Fund. The Fund had moved away from equities in 2008 and followed with an upwards rebalancing in 2009. The proportion of assets in fixed-income bonds mirrors, inversely, movements in equities. The Fund continued to maintain an underweight equity position in the financial sector owing to the continuing high risk and volatility of the sector. Currency movements generally had a negative impact on the level of the Fund in 2011 as the United States dollar benefited from pressures in the Euro zone at year end.

91. With regard to the Fund's performance in real terms, after adjusting for inflation, the Fund was still exceeding the policy objective of a 3.5 per cent real rate of return (as adjusted by the United States consumer price index) for all 8-year and longer periods. The Representative of the Secretary-General noted that the actuarial valuation report showed that for the period from 1988 to the end of 2011 the investment experience as having a cumulative 0.03 per cent, i.e., negligible, effect on the actuarial balance, which was a confirmation that over the long term the actuarial investment objectives had been met.

92. The Fund's annualized 10-year nominal return of 6.5 per cent also outperformed the 60/31 policy benchmark return of 5.9 per cent, while achieving a lower standard deviation than the benchmark, i.e., lower risk.

93. Investment income received from the Fund's assets during the calendar year 2011 (interest earned, dividends, coupons, etc.) reached $1.22 billion. Total management expenses for the same period amounted to $32.5 million. Those expenses consisted of fees paid to the global investment adviser, the custodian and the independent master record keeper and the costs of the Investment Management Division.

94. The Representative highlighted that in the current environment, with equities earning negative returns and with fixed income returns historically low, total available earnings would be modest in the immediate future and could be below the long-term actuarial needs.

95. The Fund continued to increase its development-related investments during 2011. Direct and indirect investments in developing countries amounted to $5.9 billion as at 31 December 2011, an increase of 14.3 per cent from $5.2 billion (at cost) as at 31 December 2010. Details of the investments at book value were provided to the Board. The increases were in Africa (3.2 per cent), Asia (12.1 per cent), Europe (5.2 per cent), Latin America (28.2 per cent) and other international institutions (18.2 per cent). Development-related investments accounted for approximately 17 per cent of the Fund's assets at book value.

96. During the period ending 31 December 2011, the long-term strategic asset allocation remained as adopted in May 2005: 60 per cent in equities, 31 per cent in bonds, 6 per cent in real estate, and 3 per cent in cash and short-term investments. The tactical asset allocation range allowed for a divergence of plus or minus 10 percentage points from the Fund's strategic asset allocation for equities, plus or minus 7 percentage points for bonds, and plus or minus 3 percentage points for real estate and short-term investments. The respective portfolios were rebalanced on a tactical basis during the period under review, as necessary.

97. With respect to the Fund's advisory arrangements, since the last session of the Board, the Investment Management Division had hired TorreyCove Capital Partners as its non-discretionary adviser for alternative assets and the Argus Research Company as its non-discretionary adviser for North America.

98. The Representative of the Secretary-General mentioned that long-term returns had generally exceeded the benchmarks and successfully met long-term actuarial needs, but poor market performance, particularly in 2008 and 2011, had meant that in the shorter term of five years or less, returns had been disappointing and below long-term needs. However, care and prudence must be exercised in drawing conclusions for the long-term on the basis of short-term data.

99. On behalf of the Secretary-General, the Representative expressed deep appreciation to the Chair and the members of the Investments Committee for their dedicated service and guidance in the management of the Fund's investments. He also thanked the staff of the Investment Management Division, as well as the Fund's advisers, who had supported the Fund on a continuous basis especially during the current turbulent and uncertain times.

100. The representative of the executive heads expressed their appreciation for the work of the Investment Management Division and the Investments Committee during a period of heightened economic turbulence. The executive heads had no objection to the measured pace of diversification of the portfolio. However, they expressed regret at the lack of details regarding performance. They would like to have more information about the use of the newly implemented risk management capabilities. The executive heads also requested that more investment information be provided, including a list of the securities in the investment portfolio.

101. The representative of the participants' group thanked the Investment Management Division and the Investments Committee for their service during the past year. It was observed that the training sessions held before the Board meeting had been very helpful for gaining an understanding of the Division's activities, particularly in regard to private equity and the risk management of the investments. The participants' group wished to see more information made available regarding losses when they arose in the portfolio. Also, the group asked to hear what could be done in the future to achieve the real return target over the long term. It also requested that the Fund investments by country be broken down by investment and be provided to the Board each session, as had been done in the past.

102. The representative of the governing bodies also thanked the Division and the Committee for their hard work in difficult market environments. He expressed the group's concern that over the previous year the market value of the Fund had decreased and the Fund had underperformed compared with the benchmark. The governing bodies would like to see a proactive new strategy or a mechanism for the improvement of performance.

103. The Representative of the Secretary-General noted that the Investment Management Division had put a lot of effort into reducing and monitoring risk by implementing the RiskMetrics software. That software had become operational in October 2011, enabling the Division to monitor the portfolio risks in real time. However, analytic software could not eliminate market risks completely. Flexibility was required to cope with the uncertainties in the market resulting from the current unsettled economic environment. The Division had proactively reduced the exposure to Greece, Ireland, Italy, Portugal and Spain. To achieve the Fund's real rate of return target, further diversification was needed, since the fixed-income yields available in the markets were well below the overall real rate of return target of 3.5 per cent. At the same time, it was not advisable for the Fund to increase its exposure to very high risks. The target of 3.5 per cent was a long-term objective, rather than one to be met each and every year. The Fund, over time, should generate returns to meet the 3.5 per cent objective with a mixture of positive and negative relative returns over economic cycles.

104. Regarding a new strategy to increase returns, a steady and judicious increase in alternative assets was on the agenda. The Fund had recently hired an adviser for private equity. The Senior Investment Officer and the Fund were gradually implementing the strategy by conducting extensive due diligence. Private equity was expected to generate excess returns, and would also have a diversifying effect. Over the very long term, an estimated 10 to 15 per cent of the total Fund might be allocated in alternative assets, which was consistent with the approach taken by funds of similar scope. Based on guidance from the Investments Committee,

however, with the current limited staffing levels and monitoring capabilities, it was appropriate to keep new commitments to approximately 1 per cent per year.

105. Different assets had different risk characteristics, so diversification would help to reduce the overall risks of the Fund. For investors in the investment industry, a successful investor was one who made winning investments slightly above 50 per cent of the time. To face risks was to face opportunities. All market participants experienced some losses in the process of achieving net overall gains.

106. The Chair of the Investments Committee fully endorsed the responses of the Representative of the Secretary-General and the Investment Management Division. He also observed that investing in the current volatile markets demanded a combination of stamina, patience and courage. The Fund's diversification over countries and currencies was already extensive. The Committee met four times a year, including in Botswana in February 2012. The Chair of the Investments Committee indicated that he spoke frequently with the Director of the Investment Management Division and with the Committee members. The Committee was well balanced across the geographical regions in terms of its membership and was consistently available to support the Representative of the Secretary-General and the Division.

107. Several Board members requested that they be provided with a more detailed analysis of the Fund's underperformance against the benchmarks and of its losses. Also, they asked whether there was a need to review the benchmarks to determine if they were still suitable. The Representative of the Secretary-General commented that additional details were available in the financial statements and announced that regular monthly reports, with commentary, had been initiated on the Division's website (http://imd.unjspf.org).

108. The Director of the Investment Management Division mentioned, as an example of prudent risk management, that the Fund had reduced the high-yield portion of the fixed-income portfolio. As for the equity portfolio, the Fund could not invest in some top-performing markets as it had still not received confirmation that its tax exempt status would be honoured, in accordance with the Convention on the Privileges and Immunities of the United Nations. In a recent similar case, the Government of Brazil had confirmed its full recognition of the Convention, thereby clearing the way for new bond purchases by the Fund. The Representative of the Secretary-General expressed special thanks to Emilio Cárdenas, a member of the Investments Committee, for his successful efforts to clarify the Brazilian tax issues.

109. The Investment Management Division needed to have routine capacity to continue to monitor tax issues, especially in emerging markets, e.g., in Thailand and Indonesia. In that regard, the support of Member States was essential.

110. The Representative of the Secretary-General commented that a passive investments strategy would provide returns consistent with the indices, but would lose the opportunities for excess returns. In the long term, the Fund had outperformed the indices in 10 years out of 15. As discussed at the Board meeting in Nairobi in 2006, the Investment Management Division did not support a passive strategy because of the costs and the loss of control over asset allocation. The Director of the Investment Management Division also remarked that the benchmark that the Division was using was a simple off-the-shelf index and no customization had been applied to reflect the restrictions and limitations imposed on the Division

by credit rating limits or the restrictions on investing in the defence and tobacco industries.

111. The executive heads requested that the Representative of the Secretary-General report on movements in investments within a strategic context adjusted to take into account capital market volatility and incorporating cost and performance compared with the benchmark, as well as risk.

112. The executive heads also requested that, in the future, when reporting on the management of investments, the Representative of the Secretary-General be specific with respect to the Fund's disengagement from underperforming investment sub-classes and to the strengthening of the Fund's position in higher return sub-classes, in particular in respect to alternative investment.

113. The governing bodies stated that the issue of investments was paramount and that the Board should be vigilant on the issue of volatility and the Fund's ability to meet the benchmark. They suggested that there was a need for a full-time Representative of the Secretary-General instead of an investment adviser as proposed earlier by the participants' group.

114. The participants' representatives emphasized that they would like to see more specific reporting on investment performance, cost and risk, especially in uncertain economic times. They recalled that article 19 of the Regulations allowed the Board to provide advice and they further explained the need for an independent investment adviser for the Board. They stated that, given the complexity of the investments and the instruments that were being used by the Investment Management Division, they needed guidance to better understand the field. They acknowledged the willingness of the Representative of the Secretary-General to provide more training and access to demystify the investment process. They also approved of the idea of having a full-time Representative of the Secretary-General.

115. The executive heads' group considered that hiring an adviser was not the most efficient and cost-effective way to set about disseminating information. They felt that greater use of the resources already in place, such as more interaction between the Investments Committee and the Board, could help fulfil that need.

116. The Representative of the Secretary-General commented that the requests made by the participants' group highlighted the need for better communication and more transparency with regard to the growing complexity of investments. He recommended having more briefings with the Board and using the Investment Management Division website for posting training information, for blogging and for facilitating more interaction between the Board and the Investments Committee. He commented on the proposal for a full-time Representative of the Secretary-General and said that he had been in the role for six years and during that period the workload had multiplied not only owing to the complexity of the operational systems but also to market conditions.

117. The participants' group thanked the Representative for his understanding of the need for better communication.

118. The participants' group and the governing bodies requested that it be noted that they were in favour of the establishment of a full-time position of Representative of the Secretary-General to be allocated to the Investment Management Division.

119. The executive heads thanked the governing bodies for introducing the proposal and expressed their genuine interest in the proposal. However, there were budgetary implications associated with such a proposal and it would be premature to endorse it at the current stage. The executive heads' group suggested that the proposal be considered again at the sixtieth session of the Board.

120. **The Board took note of the report on the management of investments.**

B. Membership of the Investments Committee

121. The Board was informed that on 31 December 2012 the appointments of the following members of the Investments Committee would expire: Emilio Cárdenas (Argentina) and Linah Mohohlo (Botswana); as well as the ad hoc appointment of Ivan Pictet (Switzerland). The current membership of the Investments Committee is set out in annex VII.

122. The Board welcomed the intention of the Secretary-General to extend the appointments of: Mr. Cárdenas as a regular member for one year; Ms. Mohohlo as a regular member for an additional three-year term; and Mr. Pictet as an ad hoc member for an additional one-year term.

123. The Board noted the intention of the Secretary-General to appoint Gumersindo Oliveros (Spain) and Cecilia Reyes (Philippines), as new ad hoc members, each for a one-year term beginning on 1 January 2013.

124. The Board was informed that Mr. Oliveros was being asked to join the Committee because he had specialized pension experience, in addition to investment experience, and that Ms. Reyes would replace Hilda Ochoa-Brillembourg, who had resigned.

125. Members of the governing bodies fully endorsed the proposal to appoint the new members of the Committee and expressed their gratitude to the members of the Investments Committee for their service to the Fund.

126. **The Board took note of the intentions of the Secretary-General regarding the membership of the Investments Committee.**

C. Status of compliance; risk management (a) risk budgeting and (b) risk metrics

127. The Deputy Director of the Risk and Compliance Section provided an update on the status of implementation of risk and compliance initiatives of the Investment Management Division.

128. The Risk Analytics system had been in production since October 2011. The equity performance attribution system went into production in March 2012. The fixed-income performance attribution system was under development. Risk and performance analytics were now integrated into the regular investment process.

129. The Investment Management Division had established a risk tolerance for both absolute and relative risk based on value at risk and tracking risk. The Division monitored portfolio risk on a weekly basis to ensure that portfolio risks were within the expected margins.

130. The Division had conducted a comprehensive disaster recovery and business continuity test on 24 and 25 May 2012, designed to assess the Division's readiness in the event of it simultaneously losing access to both its primary office space and its primary data centre in New York. For the two days in which the test was conducted, all the investment staff worked remotely, connecting to a back-up data centre hosted by the International Computing Centre (ICC) in Geneva. The test was the result of the intense infrastructure modernization which the Investment Management Division had undergone over the prior three years under the guidance of the Representative of the Secretary-General and the Director of the Division. Had a similar event happened just a year previously, the Division would not have been able to perform its core functions. However, owing to the infrastructure modernization, the Division had been able to conduct core functions even when the staff had not had access to primary office space and the primary data centre. The Division would like to conduct such exercises twice a year to ensure readiness. The exercise in May 2012 had enabled the Division to identify some weaknesses and it was working to correct them.

131. The Investment Management Division had developed new reporting specifications with the independent master record keeper for improved timeliness.

132. The Deputy Director for Risk and Compliance said that the Investment Management Division had created a web page for the timely dissemination of information on investment performance and had developed a strategy for ensuring enhanced transparency. That web page could be accessed from the Fund's website (www.unjspf.org).

133. The Board was requested to take note of the progress report of the Investment Management Division on risk and compliance.

134. A member of the governing bodies, speaking on his own behalf, stated that considerable progress had been made over the previous three years; that had also been recognized by the Audit Committee in its report. It would not have been possible had there not been a strong commitment to utilizing best practices, which was essential. He recalled a time when the risk area was thinly staffed and he expressed appreciation for the accomplishments in spite of limited resources.

135. Members of the participants' group expressed their appreciation for the report.

136. **The Board took note of the report.**

D. Status of Investment Management Division business application implementation; master record keeper and custodian banks integration compliance

137. The Investment Management Division presented information on the modernization of its information technology infrastructure and business applications, which facilitated investment management activities and enabled it to remain competitive in the global market. The Division presented information on ICT support to: (i) its front office, dealing with managing portfolio investments and trade execution; (ii) its middle office, dealing with compliance and risk management; and (iii) its back office, dealing with secure settlements, record keeping and IPSAS accounting and management of financial data, including the Division's historical

financial data. The Division’s strategy was based on two principles: the use of proven investment industry standard tools and the use of well-established and secure practices.

138. The Investment Management Division presented several benefits of the ICT modernization. It emphasized four of those benefits: (a) remaining competitive in the market by providing the same tools as those used by competitors; (b) preserving institutional knowledge by keeping know-how within the Organization and ensuring training and knowledge transfer; (c) maintaining sound, robust and systematically enforced controls with robust audit trails; and (d) maintaining 24/7 uninterrupted operations with the same robust controls.

139. The Division was committed to enhancing its investment operations automation process with the objective of eliminating paper-based investment operations totally. The progress made thus far towards that automation was summarized as follows: (a) in 2009, SWIFT was introduced and replaced the fax machines that had connected the Division to its banks; (b) in 2010, the trade order management, compliance and financial information exchange (FIX) were implemented. FIX provided electronic and real time connectivity with brokers, and the compliance system enforced, for the first time, pre-execution compliance rules; (c) in 2011, the investment risk management system allowed the Division to monitor and budget for its investment risks; (d) in 2012, the Division was in the process of augmenting the operations systems so as to streamline settlement processing and maintain asset holding positions as well as reflecting profit and loss in real time; the IPSAS-compliant accounting system would maintain a reliable set of accounting records and the Omgeo system would provide electronic confirmation and affirmation with the brokers prior to settlement. In June 2012, the Division’s website was launched (http://imd.unjspf.org) and the independent master record keeper arrangements were implemented; (e) in 2013, the Division would work on strengthening systems such as the financial data management system, which would collect all the critical financial data assisting the Division’s investment decision process. In addition, it would support the Division’s reporting tools. The reconciliation system would allow it to reconcile its books daily with the custodian banks and the independent master record keeper.

140. The Investment Management Division also indicated that systems were currently available from its secondary data centre located at the International Computing Centre in Geneva. The secondary site had been tested several times. Moreover, the Division had executed a mock business continuity programme scenario, in which all staff had worked remotely using the secondary site. The operations conducted during the mock disaster scenario had been more secure than normal operations had been prior to 2008, when the modernization process had begun.

141. The Division informed the Board that its primary data centre had been consolidated with the Fund-wide data centre and relocated at the North America Data Center, managed by the International Computing Centre.

142. The Division intended to implement 24 systems to equip its four business areas covering all aspects of financial investment transactions. However, the current information technology staffing was not adequate to properly support all 24 systems. Therefore, in 2013, the Division intended to present a request to the Board to strengthen the information technology team.

143. **The Board took note of the systems implemented and expressed its appreciation for the progress and achievements made in enhancing the information technology that facilitated the management of the investment portfolios and the associated risks of the Fund.**

E. Results of the CEM benchmarking study

144. The results of the benchmarking study conducted by CEM International Inc. were presented to the Board by CEM Benchmarking Inc. CEM, a provider of benchmarking and comparative analysis services to investment firms globally, undertook a study to compare the cost-effectiveness of the Investment Management Division with that of similar public pension and global funds. The CEM study provides an independent, outside comparison of the Division's costs with those of other large public investment institutions, taking into consideration, among other factors, staffing, technology, governance and internal management style. The study was initiated to provide a better understanding of how peers of the Fund were organized, including with regard to investment strategy, organizational structure, budgeting, what was being done internally and externally with regard to staffing and costs, and how the Fund compared to those peers.

145. The cost analysis was provided for one year (2010). The key observations from the study were as follows:

- The Fund has low total investment costs.
- The Fund's low total costs were was due to a high use of internal management and a less costly asset mix. The planned addition of alternative asset classes would increase the total investment costs going forward, as more external managers would be required.
- The Fund's internal costs reflect its greater use of external advisers than its peers. Its internal staff numbers are not high and neither are the average salaries of those staff.
- The Fund appears to have a higher policy asset risk than the median peer group because of the Fund's very limited allocation to alternative assets.

146. With regard to performance, only returns for the 2010 data year were collected from the Fund and this was too short a period to judge relative returns.

147. CEM pointed out that each fund had to find the cost level which suited its needs. The Fund was less expensive because it was 92 per cent internally managed. CEM also pointed out that an appropriate risk/return analysis for the Fund needed to be completed in order to further analyse the results of the CEM study. In that context, historically, for every 10 per cent increase in total management cost, a 2.7 per cent increase in return had been achieved.

148. The executive heads' group noted that the CEM study presented was a follow-up to the budgetary meeting in 2011. The group also noted that in 2011 a request had been made for the provision of benchmark costs as well as a performance analysis. The group believed that the presentation did not provide all the requested information. It would like to see the three topics of cost, performance and risk linked together. The executive heads' group also pointed out that perhaps the cost was lower because the Fund was understaffed and had a different asset mix

and, therefore, had used fewer external managers. The executive heads would like to understand whether better performance could be achieved with the introduction of a different asset mix, including different risk expectations. The executive heads' group found the study very interesting, but emphasized that without putting cost, return and risk together, the key point of the study (analysing cost versus return) had not been made or might have been missed.

149. A member of the participants' group asked what conclusions could be drawn from the presentation. The member had found the presentation interesting and suggested that the Investment Management Division undertake such studies more frequently. The participants' group inquired whether the Board, too, thought that the CEM study was a good tool to use going forward.

150. The Director of the Investment Management Division recalled that CEM had been commissioned to produce the report following the Fund's budgetary discussions in 2011. She reported that the Division had limited resources and that the CEM study had provided it with an opportunity to see how the Fund's peers were being managed. She also noted that the internally managed model for equity was low-cost; however, over the previous five years, public equity investments alone had not provided the returns the Fund needed. She pointed out that the Fund's asset allocation was very different from those of the Fund's peers and that the Fund should turn its attention to alternative investments, which were more expensive and required more resources, but added that asset class would help the Fund achieve higher rates of return in the future.

151. The executive heads took note of the benchmark study, but felt that the cost performance and risk elements were insufficiently incorporated in the study. They had found the information useful and recommended that the Investment Management Division be more specific and make better arguments for increasing resources for the Division in the next budget cycle.

152. The participants' group requested that the Division update the whole office review document and forward it to the participants as soon as possible.

153. Members of the governing bodies' group pointed out that information had been provided on only one segment of the study. They thanked the Division for putting the entire study on the website, but also stated that they were disappointed that the entire study had not been presented to the Board. They mentioned that the Division's costs were lower than those of its peers, but that the Division had neglected to highlight the fact that its actual investment returns were 4 per cent lower, while its associated risks were higher. They also did not feel that the one-year period covered by the study was sufficient for that type of analysis.

154. The Director of the Investment Management Division responded to the interpretations given to the CEM study by the members of the governing bodies' group. She explained that the quoted policy benchmark returns were not actual performance data but rather comparisons of performance differences that would exist if the Fund and its peers passively managed their portfolios using their own different asset allocations. Those differences highlighted the negative effect on the Fund's portfolio arising from its negligible allocation of assets to the alternative asset class. It was not a reflection of lower effectiveness in the execution of investment strategy. The Director quoted from the CEM report as follows, "the primary reason for the difference in policy returns is differences in policy asset mix".

Similarly, the higher theoretical risk of the policy benchmark of the Fund compared with the peer group's benchmarks was a function of the limited allocation to alternative assets, with their beneficial diversification impact.

155. **The Chair noted that the report had been presented for information only and on that basis the item was closed.**

Chapter VI
Administrative matters of the Fund

A. Financial statements for the biennium 2010-2011

156. The Board considered the audited financial statements of the Fund for the biennium ended 31 December 2011 and the comparative data for the biennium ended 31 December 2009, including the notes to the financial statements, relevant statistics on the operations of the Fund and the income information for the biennium 2010-2011. The tables reflecting statistics on the operations of the Fund and the notes to the financial statements, as well as the actuarial situation of the Fund as at 31 December 2011 are contained in annex VIII. These are the Fund's last financial statements to be prepared in accordance with the United Nations system accounting standards. With effect from 1 January 2012 the Fund will prepare its financial reporting in accordance with the International Public Sector Accounting Standards (IPSAS).

157. The Board was informed that in the context of the United Nations system accounting standards, the Fund had changed its accounting policy for its investments in order to provide enhanced disclosure of investment information and, in particular, disclosure of unrealized gains and losses for the years ended 31 December 2009 and 31 December 2011. It had also included with the statements a more detailed note on financial risk management.

158. The Board noted that an adjustment to the cost basis of the investments had been introduced. Although adjustments to historical cost were not explicitly required under the United Nations system accounting standards, the overarching requirement of prudence codified therein meant that objective evidence of a reduction in the cost basis of an investment should be reflected in the financial statements. The significant or prolonged decline of the market value of certain positions held by the Fund is considered to be such objective evidence. The Fund decided to present that adjustment on the face of the financial statements rather than in the notes in order to reflect economic reality more fully. The Board was further informed that that policy affected only the accounting for investments under the United Nations system accounting standards. The policy did not affect performance reporting for the Fund's investments, which already reflected market values and incorporated all unrealized gains and losses. Nor did the change affect the actuarial value of the investments used for the actuarial valuation of the Fund. The policy was introduced to improve the transparency of the financial reporting for readers of the financial statements and to align the Fund's policies with accounting policies implemented by other entities. The more rigorous policy for financial instruments represents an improvement over the previous accounting policy and more closely reflects the upcoming measurement under IPSAS.

159. The new policy required the Fund to assess the historical cost data of its investments for any objective evidence that the cost basis of its investments needed to be adjusted (a move away from "simple" historical cost). Objective evidence includes, by implication, the impact of a significant or prolonged decline in the market value of an asset at the balance sheet date. The new policy led to the recognition of a significant portion of unrealized losses amounting to $1.0 billion ($0.4 billion in the current biennium, $0.6 billion as a prior-period adjustment). The

majority of the adjustments made reflect the recognition of unrealized losses incurred during the financial crisis of 2008. The Fund did not have a policy to reflect unrealized losses on the face of its financial statements for the previous biennium. However, organizations, which are comparable to the Fund to a material degree, to the extent that they are also institutional investors, had reflected such declines in the measurement of their investments in their financial statements at the time. The Board noted that, despite changes not having been made to the cost basis, the decline in value of the positions affected had been fully reported in the notes to the Fund's financial statements at the time.

160. The Board noted that, during the biennium 2010-2011, the principal of the Fund had increased from $33.1 billion to $35.2 billion. During the same period, the market value of the investments of the Fund, including cash, had increased from $37.5 billion to $39.7 billion, reflecting an increase of 6.0 per cent. The Board also noted that the total investment income of $2.7 billion had not changed. The amount for the biennium 2010-2011 had been adjusted under the new policy to reflect the recognition of unrealized losses of $0.4 billion. The Board also noted an increase in net profit from the sale of investments from $0.4 billion to $0.9 billion, an increase of $0.5 billion. Also during the biennium ended 31 December 2011, the contributions to the Fund had increased from $3.7 billion in the previous biennium to $4.2 billion, an increase of 12.2 per cent. Benefit payments made by the Fund increased from $3.8 billion in 2008-2009 to $4.1 billion, in the biennium 2010-2011, an increase of 9.1 per cent.

161. The Board noted that the number of active participants had increased from 117,580 to 120,774, or by 2.7 per cent, over the biennium ended 31 December 2011. Furthermore, the number of benefits in award had increased from 61,841 to 65,387, or by 5.7 per cent, during the year.

162. Total contributions of $4.2 billion for the biennium 2010-2011 exceeded total expenditure of $4.1 billion for the payment of benefits by some $0.1 billion.

Discussions in the Board

163. The Board welcomed the CFO and noted with appreciation the detailed information presented in the financial statements for the biennium ending 31 December 2012.

164. The Board took note of the changes in accounting policies implemented in the financial statements, specifically the change in the accounting policy for investments and the recognition on the face of the financial statements, of certain unrealized losses, amounting to $1.0 billion.

165. The Representative of the Secretary-General commented on the fact that the United Nations system accounting standards measurement for the investments of the Fund could not be used for monitoring investment performance. The current adjustments to the cost basis of investments only recognized unrealized losses of $1.0 billion and unrealized net gains of over $4.6 billion were not reflected. IPSAS would provide a better basis for the measurement of the Fund's investments and would be more aligned to performance reporting, as both used mark-to-market methodologies.

166. A question was raised with respect to the underspending of the revised appropriations on investment costs for 2010-2011. The Director of the Investment

Management Division explained that, owing to lengthy procurement exercises and contract negotiations, most of the advisory and custodial services, together with electronic data processing and other contractual services, had been delayed. The contracts for the independent master record keeper and global custodians for developed markets and emerging/frontier markets had been signed only in May and June 2012, coming into effect on 1 June and 2 July 2012, respectively. The private equity adviser was retained only in May 2012. The hedge fund adviser was still in the process of being recruited. The global tax advisory service provider had been identified and contract negotiations were under way. With regard to established posts and other staff costs, the Director indicated that the delay in the hiring of the investment officer for real estate and of incumbents for three Professional posts in the Information Systems Services was due to the long recruitment exercises and the difficulty in attracting qualified talent for those specialized posts, which had led to their being readvertised. The move to the 30th floor at 1 Dag Hammarskjöld Plaza in New York for three sections of the Division had taken place only in May 2012, which accounted for the underspending in rental and other operating expenses.

167. With regard to a request for clarification on the downgrading of certain securities under the disclosure note on credit risk, the Director of the Investment Management Division indicated that many countries had downgraded their debt securities. She explained that the Division had set procedures in place for reviewing those downgrades before the liquidation of securities to ensure that the securities were not being liquidated at bottom prices.

168. **After reviewing the financial statements and considering the draft report of the Board of Auditors on the financial statements, the Board approved the Fund's financial statements for the biennium ending 31 December 2011.**

Disclosure concerning the United Nations Library Endowment Fund and the United Nations University Endowment Fund

169. The CEO presented a report regarding investment-related advisory services provided by the Fund's Investment Management Division to the United Nations Library Endowment Fund and the United Nations University Endowment Fund and said that there were two issues before the Board. The first concerned disclosures. Given that the Investment Management Division had received fees from those entities and the Board of Auditors had requested their disclosure, the fees had been included in the financial statements for the biennium. The second issue concerned the legal basis, and arrangements, for the Division to manage fund entities external to the Fund. The CEO recalled that the matter had been discussed by the Board at its fifty-seventh session, in 2010, and clarification had been requested at that time concerning the mandates and the fees received in respect of both endowment funds. Moreover, both the external and internal auditors had recommended that the arrangements with those entities be formalized and agreed to by the Board.

170. The CEO recalled that, in accordance with the Fund's Regulations, the investment function was established for the sole purpose of managing the assets of the Fund and that the fiduciary responsibility entrusted to the United Nations Secretary-General by article 19 of the Regulations related exclusively to the investment of the assets of the Fund. Article 18 of the Regulations provides that the assets should be the property of the Fund and be held separately from the assets of the United Nations. He further referred to communications between the CEO/

Secretary of the Board and the Office of Legal Affairs of the United Nations on the matter.

171. A representative of the executive heads recalled that the Secretary-General had directly delegated his fiduciary responsibilities with respect to the investment of the assets of the Fund, the United Nations University Endowment Fund and the United Nations Library Endowment Fund to his Representative for Investments of the Fund, who in turn, was supported by the staff of the Investment Management Division. The representative also commented that the Secretary-General's authority derived from Article 97 of the Charter of the United Nations and other sources. He said that it was clearly appropriate for the Board, under article 15 of the Regulations, to consider whether resources allocated to the Fund were used in any way to subsidize the expenses of managing investments of the assets of the United Nations University Endowment Fund and the United Nations Library Endowment Fund. However, the segregation of the Fund's assets from those of the United Nations meant that there was no risk of the Fund's assets being exposed to potential losses incurred by the United Nations University Endowment Fund or the United Nations Library Endowment Fund as a result of the investment management services provided by the Investment Management Division.

172. Board members expressed concern that, in addition to the legal issues, there were also potential issues relating to reputational risk for the Fund, as well as operational issues with regard to cost recovery for the services provided. The Representative of the Secretary-General informed the Board that the cost of providing advisory services and technical assistance in the case of the endowment funds was minimal and that they were completely externally managed. The Division's role was limited to the proper selection of external managers, for which an amount of $50,000 had been received. Participants' representatives mentioned that, should a consolidated treasury function be established for the United Nations common system, consideration could be given in the future to moving the management of the assets of the United Nations Library Endowment Fund and the United Nations University Endowment Fund to that investment area.

173. **The Board took note of the information provided and stated that the way in which the endowment funds had come under the management of the Investment Management Division should not set any precedent for other funds to be managed by the Division in the future. The Board expressed its appreciation for the disclosures made in the financial statements and the fact that agreements were now being put in place to formalize the arrangements with the endowment funds, and requested that the arrangements be reported to the Board at its next session.**

B. Status report on implementation of the International Public Sector Accounting Standards

174. The Board was presented with a report on the status of implementation of IPSAS.

175. The Board noted that the Fund had started implementing IPSAS by establishing a comprehensive set of accounting policies, and adopting key systems and processes to generate IPSAS-compliant information. The IPSAS opening balance sheet as at 1 January 2012 was completed in June 2012. The Fund will

prepare for the first year-end closing, as at 31 December 2012, under IPSAS with a trial closing of the financial statements as at 30 June in the third quarter of 2012. The first IPSAS-compliant financial statements will be presented to the Board at its next session, in 2013.

176. The CFO informed the Board that, starting in 2012, the Fund would measure the fair value of its investments and recognize gains and losses immediately in the statement of changes in net assets available for benefits (income statement). The CFO expected that that would introduce more volatility into the annual results of the Fund, similar to the impact on the financial statements of other financial institutions when they had introduced the International Financial Reporting Standards or the United States Generally Accepted Accounting Principles. Readers of the financial statements would need to be prepared for that significant change in the financial reporting of the Fund, as all unrealized gains or losses would be recognized in the annual results.

177. The CFO requested the Board to approve a recommendation made by the Audit Committee in 2012 to clarify decisions made by the Board about the implementation of the guidance provided in International Accounting Standard (IAS) 26. While still undecided on the adoption of international accounting standards, at its fifty-sixth session in July 2009, the Board had decided that the Fund should follow IAS 26, "Accounting and reporting by retirement benefit plans" under the International Financial Reporting Standards for the preparation of the Fund's financial statements, subject to consultations with the external auditors as to whether the application of that standard on an interim basis would be appropriate. Following subsequent consultations with the external auditors and with the Audit Committee, the Fund requested the Board to approve the recommendation made by the Audit Committee in 2012 that the Fund develop its own accounting policy under IPSAS 3.12, incorporating the guidance provided in IAS 26 in its entirety for the adoption of IPSAS starting on 1 January 2012.

178. With respect to the status of expenditure related to the implementation of IPSAS, the Board was informed that $850,300 of the 2010-2011 budget appropriation of $889,200 had been spent or obligated to date for consultants and general temporary assistance. The Board noted that the related 2012-2013 budget appropriations amounted to an additional $890,400.

Discussion in the Board

179. **The Board acknowledged, with appreciation, the significant progress made in the implementation of IPSAS and welcomed the fact that increased transparency would be provided in future financial statements. It noted that the most significant changes in the Fund's financial reporting under IPSAS would be the increased volatility of the financial results and the measurement of the Fund's investments.**

180. **The IPSAS awareness training provided to Board members on 2 July 2012 was welcomed. Additional IPSAS training will be provided in advance of the Board's session in 2013.**

181. **The Board endorsed the recommendation made by the Audit Committee that the Fund develop its accounting policy under IPSAS 3.12, incorporating**

the guidance provided in IAS 26 in its entirety for the adoption of IPSAS starting on 1 January 2012.

C. Status report on the Emergency Fund

182. The Board initially established the Emergency Fund during its eighteenth session, held in 1973. The Emergency Fund was established on the basis of voluntary contributions from member organizations, staff associations and individual contributors, to alleviate the distress of recipients of small pensions caused by currency fluctuations and inflation. Since 1976 it has been used to provide relief in individual cases of proven hardship due to illness or infirmity, or in similar cases. The Emergency Fund, which is not an integral part of the Pension Fund's pension benefit system, is financed from the assets of the Pension Fund (and any voluntary contributions), through an appropriation of $200,000 each biennium, as approved by the General Assembly.

183. The Board recalled that following its decision in 2011, the period for reporting on the activities of the Emergency Fund had been changed from a one-year cycle, from 1 May to 30 April, to a two-year cycle that would coincide with the budgetary appropriation that was approved on a biennial basis. The Board noted that, from 1 January 2010 to 31 December 2011, 50 disbursements, amounting to $93,578.40, had been made. The largest single payment made had been to the widow of a former participant to cover medical expenses in the amount of $6,464.93. All disbursements during the current reporting period had been one-time payments to beneficiaries who had proven hardship owing to illness or infirmity or in similar cases, or funeral expenses. As at 31 December 2011, the cumulative total of expenditure from the Emergency Fund since its inception had reached $1,258,252.54.

184. The Board was informed that in the period from 1 January 2010 to 31 December 2011, 153 cases had been reviewed, of which 51 cases had been found not receivable owing to the failure of the pensioner concerned to submit appropriate documentation after several follow-up letters had been sent over a period of more than one year. It was recalled that those cases that had been closed owing to lack of appropriate documentation would be reopened should the required documentation be provided at a later date. In addition, 15 cases had been rejected as they were not covered under the Emergency Fund guidelines. The Board was also informed that 37 cases were still under consideration, most of them relating to the reimbursement of medical expenses or assistance to cover funeral expenses. As those cases generally lacked supporting documentation, such as the original bills or invoices, follow-up letters had been sent requesting the required documentation.

185. As part of the Fund's efforts to promote the Emergency Fund, as well as to publicize the application criteria and requirements to help pensioners file timely and complete requests for assistance from the Emergency Fund, an information booklet on the Emergency Fund was published in April 2008. The booklet is available in English, French, Spanish and Arabic, both in hard copy and on the Fund's website. Also, the CEO has been regularly highlighting the availability of the Emergency Fund in his annual letters. Based on the statistics reflected in the current reporting exercise, which are compared with the findings from previous reporting periods, it appears that the efforts to promote the Emergency Fund are having the desired effect. The increase in the number of disbursements and in the total amounts paid out since

the Fund began to better publicize the availability of the Emergency Fund is illustrated in table 9, which reflects two-year periods since 1 May 2007.

Table 9
Emergency Fund

Two-year period	*Total number of disbursements*	*Total amount disbursed (United States dollars)*
1 May 2007-30 April 2009	26	59 336
1 May 2009-30 April 2011	45	71 942
1 January 2010-31 December 2011	50	93 578

186. Following the discussion of the item in the Board in 2011, the Fund also (i) introduced a direct link to the Emergency Fund booklet on the first page of the Fund's website, which can be accessed through the "Beneficiary" portal; (ii) revised the text in the annual letter to further increase the focus on the availability of the Emergency Fund; (iii) revised the standard letters being sent to retirees and other beneficiaries in respect of the Emergency Fund to provide a more user-friendly approach; and (iv) increased its membership drives in respect of the retirees' associations, particularly in the developing regions, drawing increased attention to the Emergency Fund.

187. The status report highlighted improvements in the overall statistics relating to the Emergency Fund, while providing relevant data disaggregated by number of requests, by country and region, by former employing organization of the beneficiary requesting assistance and by benefit type. Additional statistics were provided regarding the breakdown of the amount paid by country and by region, as well as historical data on annual payments.

188. The Federation of Associations of Former International Civil Servants (FAFICS) expressed its appreciation for the Fund's proactive approach in providing assistance from the Emergency Fund in relation to the earthquake in Haiti and the flooding in Thailand, and for involving the local Association of Former International Civil offices in the provision of assistance. It also noted that there was a high proportion of Emergency Fund cases in North America and Europe. FAFICS recognized the efforts made to revise the Emergency Fund correspondence to reflect a more user-friendly approach and hoped that the Fund would continue to improve the relevant documentation along those lines. FAFICS also requested the Fund to make greater efforts to increase its outreach activities to areas away from the main duty stations.

189. **The Board took note of the status report on the Emergency Fund and, in particular, the increasing number of disbursements and the total amount paid out since 2007. The Board also noted the activities relating to the Emergency Fund during the period from 1 January 2010 to 31 December 2011, including the 50 disbursements made, amounting to $93,578.40.**

D. Funding of the Fund’s after-service health insurance liability

190. The Board noted that the Fund’s liability for after-service health insurance had increased from $31,499,000 as at 31 December 2009 to $44,868,000 as at 31 December 2011, based on a study undertaken by an actuarial consulting firm as part of an actuarial study initiated by the United Nations.

191. The Board was informed that the significant increase in the after-service health insurance liability had resulted from changes in certain demographic assumptions, such as the withdrawal and retirement rates, and in the discount rate and inflation assumptions. The study, carried out as at 31 December 2011, used a discount rate of 4.5 per cent and an inflation assumption of 2.5 per cent, which were lower than the 6.0 per cent discount rate and the 4.0 per cent inflation assumption used for the study carried out as at 31 December 2009. The Fund’s after-service health insurance expenses had been funded from its administrative budget on a “pay as you go” basis as no reserves had been constituted to cover the after-service health insurance liability. For the biennium 2010-2011 the Fund had incurred costs for the secretariat and the Investment Management Division of $937,917, which were included under “Other staff costs” in schedule 1 of the Fund’s financial statements.

Discussion in the Board

192. The Board noted the significant increase in the after-service health insurance liability as a result of the reduction of the discount rate and the inflation assumption as applied under IPSAS.

193. The Board also noted that, across the United Nations system, various funding mechanisms had been proposed, such as a loading factor on payroll costs, the use of surplus funds and special annual contributions by Member States. The Board further noted that the Secretary/CEO would present possible options for the funding of the after-service health insurance liability at its sixtieth session, in 2013.

194. **The Board supported the recommendation of the Secretary/CEO that the Board be guided by the approach that the United Nations might take to address the funding of the liabilities relating to after-service health insurance benefits.**

E. Status report on the development of the integrated pension administration system

195. The Board considered the status report on the development of the integrated pension administration system (IPAS). It was recalled that at its fifty-fifth session, in 2008, the Board had endorsed the high-level business case for IPAS. In 2009 and 2011, the Board and subsequently the General Assembly had approved requests for resources for the initiation of the project and for the acquisition and implementation of an integrated pension administration system solution, for new, more modern hardware and for a dedicated project team (of temporary project staff) to assist in the implementation of the new system.

196. At its current session, the Board was informed of the status of implementation of the IPAS project. The CEO noted that that complex enterprise-wide undertaking involved the replacement of all of the Fund’s legacy systems (including the pension entitlement, financial and accounting, and content manager systems) with a fully

integrated system solution capable of supporting the Fund's full range of operational, financial and management functions. The new system would be centred on re-engineered processes that were more consistent and standard, reduced the number of hand-offs and were better supported by technology. It was expected that IPAS would increase the Fund's processing capacity and better support a horizontal approach to transaction management, breaking down established silos in favour of a new process-driven operational paradigm.

197. The CEO reported that the Fund had already concluded the planning and design phase, as well as all the pre-implementation activities, including data clean-up, mapping of all re-engineered processes and the identification, cross-referencing and development of logic matrices for all of the Fund's calculations. The contract with Vitech Inc. for the provision of a dedicated pension administration system and its implementation services was signed in June 2012, mitigating one of the key risks identified for the project. The project has now entered the implementation and deployment phase. The current focus is on fit/gap analysis to map the processes to the system. Implementation coordinators assigned from the operations and financial services sections will be involved at early stages in testing the functionality of the systems that have been configured. The Board was informed that the project was on track in terms of both the timeline and the budget, and that go-live of the project was expected in 2014.

198. The Board appreciated the assurances that the project was well managed and on track. In response to a question from the Board regarding the interfaces, it was explained that the interface project was separate from the IPAS project, although coordination between the two projects was ensured. It was intended that the interface project take advantage of the enterprise resource planning projects undertaken by the member organizations, which covered 96 per cent of participants. Those enterprise resource planning projects are based on three main software applications (SAP, Oracle E-Business Suite or PeopleSoft systems). For the remaining 4 per cent of participants, a self-service option would be established as part of IPAS. The CEO added that an overview of the interface project had been presented to member organizations through their staff pension committee secretaries in March 2012.

199. The participants' group emphasized the need to ensure that participants, retirees and beneficiaries would not be adversely affected during project implementation. In response, the Board was assured that project implementation would not interfere with operations or the quality of services provided to participants, retirees and beneficiaries, since a separate implementation team had been set up for the project. Furthermore, all business areas would be involved, through implementation coordinators. In response to a question on the involvement of the Investment Management Division, the Board was informed that coordination was facilitated through the IPAS Steering Committee, which included representatives of the Division. Since the main link between the Division and the IPAS project was the Division's link to the general ledger, it was important to note that the CFO participates in both the project direction team and the IPAS Steering Committee, and that the feed to the general ledger is covered in the implementation phase of the project.

200. With regard to the project budget, the Board was informed that the budget was carefully monitored on a monthly basis. The Fund has adopted a staggered approach

to staffing, making sure that staff are only recruited when required. The CEO also noted that change management efforts were starting to bring results, and there was much interest on the part of the Fund's staff in participating in the project implementation.

201. **The Board took note with appreciation of the status report and the progress achieved towards the implementation of the IPAS project.**

F. Status of the Fund's business continuity measures

202. At the fifty-seventh session of the Board, in July 2010, the Secretary/CEO presented to the Board a note on the results and conclusions of the business impact analysis study and the business continuity and disaster recovery plans. At its current session, the Board was provided with an update on the measures and steps undertaken since July 2010.

203. The Fund considers business continuity and disaster recovery to be critical processes since it is imperative that benefit payments to retirees and other beneficiaries continue even during emergency situations. The Board was informed that the Fund has in place a number of contingency strategies and plans that could be implemented, should a significant business disruption occur. These plans include a comprehensive business continuity management strategy documented in the business continuity and disaster recovery plan, a back-up computing environment in the Geneva-based International Computing Centre data centre for all mission-critical systems and back-up for the Pension Fund Administration System (PENSYS) in Paris. It was emphasized that the Fund's business continuity strategy adopted in 2010, which established the Fund's Office in Geneva as the main recovery site, includes the ability to make benefit payments to all of the Fund's current retirees and beneficiaries.

204. Following the inclusion of the disaster recovery component in the business continuity plan, all key business continuity and disaster recovery documents and processes are now covered by one integrated framework and document. The business continuity and disaster recovery plans are regularly tested and continually updated to ensure that they remain current and effective. The Board was informed that the tests have proven the feasibility of the current business continuity and disaster recovery strategy and allowed for expanding the knowledge base of payroll-related processes to more staff members.

205. Since the business impact analysis study undertaken in 2010 identified key risks associated with the location of the Fund's data centre on the fourth floor of One Dag Hammarskjöld Plaza in New York, the relocation of the Fund's IT infrastructure to the International Computer Centre's North American Data Centre (NADC) was successfully completed in 2011. The relocation of the Division's primary data centre to NADC was completed in June 2012. NADC provides a robust infrastructure and guarantees 99.9 per cent uptime and availability.

206. The Board noted that the business continuity and disaster recovery measures taken by the Fund over the past few years, together with other initiatives, represented further improvement in the Fund's management. In response to a question from a Board member regarding situations where the Internet or electricity is unavailable, it was clarified that the data centres in Geneva and Paris and at

NADC in Piscataway, New Jersey, United States of America all have back-up generators. Furthermore, in the event that the Fund's New York headquarters is unable to process benefit payments, the Fund's Geneva office will take over.

207. **The Pension Board took note with appreciation of the status of the Fund's business continuity measures.**

G. Revised enterprise-wide risk management policy

208. The Fund faces a variety of risks, some of which represent significant challenges. The Fund has implemented a well-developed governance structure, and management processes and internal and external oversight mechanisms aimed at adequately identifying, assessing, managing, monitoring and reporting the risks inherent to its operations.

209. It was recalled that in 2006 the Fund adopted its first enterprise-wide risk management policy, defining the objectives, governance and principles for the implementation of an integrated and comprehensive enterprise risk management framework. At its fifty-seventh session, in July 2010, the Board approved an amendment to the policy to include core risk management principles and to specify risk management functional responsibilities in line with the Fund's accountability statement.

210. Following a wide consultative process involving all areas of the Fund and the Fund's internal auditors, the Fund's management submitted to the Board an updated enterprise-wide risk management policy. The main changes included in that update are: (a) consideration of the Fund's strategic framework (and long-term objectives) as part of the Fund's management and planning process; (b) inclusion of a risk catalogue for the Fund; and (c) further clarification of the risk management process, including delineation of certain roles and responsibilities. The Board was informed that the updated policy had been reviewed and endorsed by the Fund's enterprise-wide risk management working group, which is co-chaired by the CEO and the Representative of the Secretary-General. The updated policy had been welcomed by the Audit Committee.

211. In addition, the Secretary/CEO also prepared a detailed risk management manual for the Fund secretariat which specifies the different steps, tools and responsibilities applicable to the risk management process. The manual is consistent with standards issued by the Committee of Sponsoring Organizations of the Treadway Commission and adopted by the United Nations and other international organizations.

212. The Board noted that the revised enterprise-wide risk management policy and the Risk Management Manual represented industry best practices and constituted a major achievement in the Fund's management over the past few years. The Board also appreciated the policy's comprehensiveness. In response to a comment from a Board member regarding the need for mitigation strategies and ownership for all the risks, it was explained that, as the first step, the risk catalogue represented theoretical potential risks based on industry and United Nations system best practices. However, the risk treatment and response plans, which were previously presented to the Board, contain detailed analysis of high risks, including the category of risk, contributing factors, controls, owner and treatment strategy. These

plans are presented to the enterprise-wide risk management working group on a quarterly basis and forwarded to the Audit Committee. In response to another question from a Board member, it was clarified that the policy and the enterprise-wide risk management working group are fund-wide. However, the Investment Management Division has a separate risk manual specific to investments which uses a different format, describing the risks, ownership, and evidence to show that the risk is being addressed, and also considers reputational risk. The manual is based on best practices from the financial industry and the United Nations system, and is available on the Division's website.

213. **The Board approved the updated enterprise-wide risk management policy.**

H. Medical matters

1. Report of the medical consultant (Rules of Procedure, rule D.3)

214. The medical consultant to the Board presented a report with respect to the two-year period from 1 January 2010 to 31 December 2011. The report contained detailed information and analysis with regard to the new disability benefits awarded during that period, together with data on new disabled children's benefits and on the deaths of participants while in service. The report analysed the incidence rate (0.57 per thousand participants), which has remained the same as that reported for the biennium 2008-2009, the diagnostic categories by gender and the average age, as well as the average contributory service of Fund participants to whom new disability benefits were awarded.

215. The medical consultant noted that the leading cause of disability cases continues to be psychiatric (33 per cent); that and the following four diagnostic categories continued to account for over 75 per cent of all new disability cases: neurological (12 per cent), neoplasm (6 per cent), cardiovascular (9 per cent) and orthopaedic (15 per cent). With respect to deaths, the average annual mortality of approximately 0.97 per thousand remained the same as that reported for the previous biennium. The main causes of deaths in service identifiable in 92 cases out of the 338 cases reported were: trauma (45 per cent); neoplasm (20 per cent); cardiovascular diseases (14 per cent) and AIDS (5 per cent).

216. The medical consultant highlighted to the Board that the overall incidence of new disability cases and new death cases had been remarkably stable over time and, based on a review of the statistics over a long period, she concluded that the great expansion of United Nations peacekeeping operations since the mid-1980s appeared to have had no impact on benefits payable by the Fund. However, the large deployment of staff in hardship areas had rendered the exposure of United Nations staff to critical events and sustained psychological stress more common than in the past. Similarly, she noted that there had been only a small number of cases related to HIV/AIDS and that pandemic had also had little impact on benefits payable by the Fund, representing 2 per cent of new disability cases and 5 per cent of new death cases.

217. With respect to new disabled children's benefits, they were awarded in 31 new cases during the period under review, the main causes being psychiatric (65 per cent of cases) and neurological (26 per cent).

218. The Board discussed issues relating to psychiatric conditions as the leading cause of disability, and sought and received further clarifications in respect of some of the statistics provided. **The Board expressed appreciation for the information and analysis provided by the medical consultant.**

2. Report on the possibility of establishing a standard for medical examinations for the purposes of participation in the Fund

219. The Board reviewed a note by the Secretary/CEO prepared following its request at its fifty-seventh session, in 2010, for the Secretary/CEO to consult with the medical consultant to look into the possibility of establishing a standard for medical examinations for the purposes of participation in the Fund, pursuant to article 41 of the Regulations.

220. The issue had been considered by the Board at its fifty-first session, in 2002, when the Board had requested the Secretary/CEO, in coordination with the medical directors in the common system and the United Nations Medical Services Division, to conduct a survey of the practices in international organizations regarding medical examinations and related issues. The Secretary/CEO subsequently surveyed 20 international organizations, and the results showed that none of the organizations surveyed had established criteria for admission to the pension system other than the medical clearance required for the purpose of employment. It was noted that since the Fund had not established its own medical criteria for participation in the Fund, it had relied implicitly on the standard established by the United Nations system medical directors.

221. At a meeting on 22 June 2011, the United Nations Medical Directors' Working Group discussed the issue and noted that most United Nations system organizations provided for some form of pre-employment medical clearance evaluation or examination and that the objective of such medical clearance evaluations, when performed, was to ensure, as far as possible, that staff members were physically and mentally fit to perform the functions for which they had been selected, without undue risk to the health and safety of themselves or others, taking account of their job demands, medical condition and working environment. The Working Group therefore proposed that the medical standard for participation in the Pension Fund should be "fitness for employment".

222. In accordance with the information previously submitted to the Board in 2003 and the conclusion of the Medical Directors' Working Group at its meeting in June 2011, the Secretary/CEO, in consultation with the medical consultant, recommended that the Board adopt the standard of "fitness for employment" as the basis for participation in the Fund under article 41 of the Fund's Regulations. That would be justified by the fact that participation in the Fund is mandatory for employees of member organizations who hold a contract for six months or more, and employees holding a contract of six months or more are required to undergo a medical examination for the purpose of employment.

223. **The Board discussed the proposed standard of "fitness for employment" for certain occupations. In particular, it requested more details on how the standard is applied in medical examinations, and confirmation of the extent to which there is harmonization in the way in which medical examinations are carried out across member organizations of the Fund. The Board deferred the item for further consideration at its next session, in 2013.**

3. Proposal to increase the intervals for review of disability benefits

224. The Board reviewed a note by the United Nations Staff Pension Committee proposing changes to the Administrative Rules to increase the interval between reviews for disability awards and to establish intervals for the review of disabled child benefits and deadlines for the submission of requests for disabled child benefits and secondary dependants' benefits arising from disability.

(a) Amendment of administrative rules H.6 (b) and H.10

225. In 2010, in its resolution 65/249, the General Assembly approved a change to the Fund's Administrative Rules to increase the interval for review of adult disability benefits in exceptional circumstances from three to five years. In its report issued in October 2010 on the results of its audit of the Fund's disability benefits, OIOS recommended that the Fund should consider further extending the intervals for the review of disability benefits. This was due to the following factors noted by OIOS: the resources required for the review of disability benefits in payment on the part of the Fund secretariat, the United Nations Medical Services Division and the United Nations Staff Pension Committee, which handles the highest number of cases and meets twice per year, while other staff pension committees generally meet annually and review fewer cases; and the low number of cases where disability benefits are discontinued after review. OIOS found that awards are made in cases where a disability benefit is warranted and, therefore, there are few cases where the disability benefit is discontinued.

226. The view of the medical consultant was that a "default" review period of five years should be adopted, with either shorter (minimum one-year) or longer (maximum 10-year) periods possible, based on the specific circumstances of the case. That would allow maximum flexibility to deal with cases in a logical way, based on their own merits.

227. After consideration of the above and following consultation with the medical consultant, the Fund recommended that the intervals between reviews of all disability benefits should be increased from three to five years. Staff pension committees would retain the discretion to reduce or extend that period in cases where the medical condition warranted an earlier or later review date, to a maximum of 10 years in exceptional cases.

228. With respect to disabled child benefits, the intervals between reviews are not stipulated in administrative rule H.10. However, the United Nations Staff Pension Committee recommended that, in order to ensure consistency with respect to the practice of all staff pension committees, a period of five years be adopted for all cases except those involving a medical diagnosis of mental illness, such as mental retardation, which is unlikely to improve over time, in which case the review would be after 10 years.

229. **The Board approved the proposed amendments to administrative rules H.6 (b) and H.10 as follows:**

Administrative rule H.6 (b)

The date for each such review shall be set up by the committee, having regard to the opinion of the medical officer of the organization on the prospects for the participant's recovery, and in such manner that the

interval between reviews does not normally exceed *five* years *to a maximum of ten* years in exceptional circumstances as determined by the committee based on reasonably established medical criteria concerning which the medical officer has provided guidance to the committee; the committee may nevertheless set an earlier date for the review if there is reason to believe that the participant is no longer incapacitated.

Administrative rule H.10

A determination that a child or secondary dependant is incapacitated within the meaning of article 36 (b) or (c) shall be reviewed, *mutatis mutandis*, in accordance with the provisions applicable to disability benefits in rules H.6 and H.7 above, save that the intervals between reviews *for those cases involving a medical condition that is not likely to improve over time may be increased to ten years. The committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the beneficiary is no longer incapacitated within the meaning of article 36 (b).*

(b) Deadline for the submission of requests for disabled children’s benefits and secondary dependants’ benefits arising from disability

230. The United Nations Staff Pension Committee pointed out to the Board that administrative rule H.8 sets out the timelines for the determination by a staff pension committee of eligibility for disabled children’s benefits and secondary dependants’ benefits arising from disability in the case of a brother or sister of a participant.

231. Owing to the fact that the United Nations Staff Pension Committee has over the years received a number of requests for disabled child benefits from beneficiaries who claim to have only found out about the possibility of the benefit long after the child has turned 21 or long after the participant’s separation from the service of a member organization, the Committee recommended that the Board adopt a time limit of five years for requests in such circumstances, based on the provisions for forfeiture of benefits under article 46 (b) of the Fund’s Regulations.

232. In addition, with respect to cases where a request for a disabled children’s benefit is made more than two years after the date on which the participant becomes eligible to receive a periodic benefit from the Fund and the staff pension committee accepts the request and makes an award, payment of the benefit would commence on the day after the award and would not apply retroactively to the time when the participant became eligible to receive his or her periodic benefit from the Fund.

233. **The Board approved the proposed amendment to administrative rule H.8 to include the following provision setting deadlines for requests for disabled children’s benefits and benefits for secondary dependants arising from disability.**

New Administrative Rule H.8 (e)

(i) **A staff pension committee may accept a request for a disabled child’s benefit under article 36 (b) or a secondary dependant’s benefit under article 37 (c) (ii) that is made more than two years but less than five years after separation from service. In such case, if the benefit is awarded, regardless of the reasons for the delayed request**

or other circumstance of the case, payment of the benefit shall commence on the day after the date of the staff pension committee's decision, with no retroactive payment.

(ii) **A staff pension committee shall not consider a request for a disabled child's benefit under article 36 (b) or a secondary dependant's benefit under article 37 (c) (ii) that is made more than five years from (a) the date on which the participant became eligible to receive a retirement, early retirement or disability benefit from the Fund and no child or secondary dependant's benefit was previously in payment; or (b) the participant's death in service. Nevertheless, a staff pension committee may consider such a request where the medical consultant concludes that the medical condition was in existence at the time of the participant's separation from service but could not have been diagnosed prior to the time of the request.**

I. Changes to Regulations and Administrative Rules of the Fund

234. The Board was requested to approve several changes to the Regulations, Administrative Rules, Rules of Procedure and pension adjustment system of the Fund. The Board was advised that the changes were all technical in nature. Modifications were made to those Regulations and Administrative Rules that had either become redundant owing to earlier changes adopted by the General Assembly and the Board or that had required clarification for easier understanding. None of the amendments were substantive in nature: they did not alter or create new benefit entitlements, but rather refined and ensured uniformity in language, in accordance with the legislative intention of the Board and the General Assembly. The modifications also better aligned the Regulations and corresponding Administrative Rules, thereby facilitating a consistent interpretation of the provisions.

235. Additionally, for the purpose of establishing a more organized and easier to manage regulatory framework for the Fund, as well as to provide required flexibility and efficiency for the Secretary/CEO, the operational manager of the Fund, the Secretary/CEO renewed the proposal that in the future the Administrative Rules of the Fund could be amended by the Secretary/CEO, as is the practice in the United Nations and in many other organizations in the United Nations common system, where the chief administrative officer issues administrative instructions and bulletins. The Board was advised that the CEO would report the new and revised Administrative Rules to the Board and to the member organizations annually. Should there be any inconsistency between the Regulations and Administrative Rules, the Regulations would prevail. In addition, judicial control in respect of compliance with the Regulations would continue to be exercised by the Standing Committee and the United Nations Appeals Tribunal. Any changes to the Regulations or the pension adjustment system would continue to be made on the basis of recommendations by the Board and to be subject to approval by the General Assembly. Changes to the Rules of Procedure would continue to be decided upon by the Board and reported to the Assembly for information.

236. **The Board approved all the suggested changes to the Regulations, Administrative Rules, and pension adjustment system of the Fund, as set out in annexes XI, XII and XIII to the present report. However, the Board did not approve authority for the Secretary/CEO to amend the Administrative Rules of the Fund in the future.**

Chapter VII
Audit

A. Report of the Audit Committee

237. The Chair of the Audit Committee, Ms. S. Frahler, introduced the sixth report of the Committee and highlighted the two recommendations which the Committee was requesting the Board to approve: (a) to endorse the Fund's proposal that it develop its accounting policy under IPSAS 3.12 to incorporate the guidance provided in IAS 26 in its entirety for the adoption of IPSAS as at 1 January 2012; and (b) that the timing cycle of the financial statement preparation and of the audit be adjusted so that the Audit Committee would receive the external auditors' audit opinion and report prior to the preparation of the Committee's annual report to the Board.

238. The Chair explained that the Committee had held three meetings since its previous report to the Board. In accordance with established practice, during each meeting, the Committee had met with both the internal (OIOS) and external auditors (the Board of Auditors), as well as with the Fund's management: the CEO, the Representative of the Secretary-General, the Chief Financial Officer (CFO) and various members of their teams. The Committee was pleased to acknowledge the progress made in many areas within its purview, specifically with regard to the appointment of a CFO, the strengthening of the enterprise-wide risk management and internal control framework, improvements in the transparency of financial reporting, and the implementation of IPSAS.

239. The Chair reported that the Audit Committee had approved the internal audit workplan for 2012. At the same time, the Committee had had some concerns about the high number of audits and had asked for more realistic planning. The Committee had also asked for, and had received, assurances that there would be one common risk assessment for the Fund which would have the full support of the Fund's management. With regard to the external auditors, the Committee was concerned that the timing of the issuance of the report of the Board of Auditors did not allow the Committee, at its meeting prior to the session of the Board, to consider the Board of Auditors' opinion in the Committee's report to the Board and had requested the Board of Auditors to share its future draft reports with the Committee in early to mid-June, well in advance of the Pension Board's session.

240. The Committee welcomed improvements in the presentation of the Fund's financial statements. At the same time, the Committee looked forward to further improvements, given that IPSAS implementation required further detailed disclosures with regard to investment losses and gains. In addition, the Committee recommended that future IPSAS-compliant financial statements include a detailed statement on internal controls. The Committee reiterated its opinion that the Fund's financial statements needed to be submitted by the Fund to the external auditors by the 31 March deadline. That would require the cooperation of member organizations in submitting their contribution reports earlier. The Committee took note of the unqualified audit opinion on the Fund's 2010-2011 financial statements in the draft report of the external auditors submitted to the Pension Board, on the understanding

that the draft report would not be the subject of major changes by the Board of Auditors at their meeting to be held from 24 to 26 July 2012.[1]

241. With regard to IPSAS implementation, the Committee acknowledged the progress made by the Fund and felt assured that the Fund would be able to comply with IPSAS requirements in 2012. Recognizing that the Fund was essentially a benefits administration and investment entity, with operations similar to those of a financial institution, the Committee recommended that the Board endorse the Fund's proposal that it develop its accounting policy under IPSAS 3.12 to incorporate the guidance provided in IAS 26 in its entirety for the adoption of IPSAS as at 1 January 2012.

242. The Committee found that the Fund's risk policy and internal control framework were working well. At the same time, the Committee emphasized that risk assessment and management needed to be both management-owned and management-driven. The Committee highlighted its concerns regarding the risks associated with alternative asset classes and securities lending and urged the Investment Management Division to proceed with the greatest prudence and to ensure that it had carefully assessed and mitigated the risks which would be involved.

243. The Chair of the Committee informed the Board that the November 2011 meeting had been the last meeting for three of the Audit Committee members: Ms. K. Matsuura-Mueller (former Chair), Mr. T. Repasch and Mr. C. Santos Tejada. She noted that two other members, namely, Mr. P. Adhémar (expert member) and Mr. M. Said (FAFICS representative) would be replaced in July 2012 by new members of the Committee, to be approved at the current session of the Board.

244. **The Board expressed its appreciation for the quality of the Audit Committee's report and the strength of its recommendations, and echoed concern that appropriate mechanisms should be in place to support the functions of the new CFO, now that he had been appointed. With regard to the format of the report, the Board suggested that the Committee's recommendations be more clearly highlighted in future reports.** In response to a suggestion from the Board that the Committee's visibility be increased on the Fund's website to reflect the critical role played by the Committee in the Fund's governance structure, the Chair of the Committee noted that the proposal should be considered by the Fund secretariat.

245. The Board shared the Committee's concerns regarding the timing of the preparation of the financial statements and the finalization of the report of the external auditors. While noting the institutional constraints relating to the timing of the Board of Auditors' meeting on all the accounts of the United Nations at the end of July, the Board nevertheless emphasized the need for the finalized audit report to be submitted two weeks before the session of the Board, even if that meant reconsidering the timing of the Board's annual session. Responding to a question from the Board regarding the productivity of OIOS, the Chair noted that the Under-Secretary-General for Internal Oversight Services had informed the Committee that OIOS had identified a highly qualified candidate for the post of Chief, Pension Fund

[1] The final report of the Board of Auditors was received by the Fund on 27 July 2012. The text is similar to the draft version.

Audit Section, and intended to finalize 9 out of the 12 audit reports planned for 2012 by the time of the Committee's meeting in February 2013.

246. **The Board noted that the Audit Committee seemed to be working very effectively.** The Vice-Chair of the Committee responded by saying that having the CEO, the Representative of the Secretary-General and both the internal and external auditors in the room together at Committee meetings had contributed to transparency and had helped to address issues in a constructive manner. Furthermore, the Committee was increasingly focused on its key mandate, i.e., oversight of the Fund's audit function. **The Board thanked the outgoing members of the Committee for their professional service and dedication.**

247. **The Board endorsed the Committee's recommendations that the Fund develop its accounting policy under IPSAS 3.12 to incorporate the guidance provided in IAS 26 in its entirety for the adoption of IPSAS as at 1 January 2012 and that the timing cycle of the financial statement preparation and the audit be adjusted as much as possible so that the Audit Committee would receive the external auditors' opinion and report prior to the preparation of the Committee's annual report to the Pension Board.**

B. Membership of the Audit Committee

248. The Chair of the Audit Committee recalled that members of the Committee were appointed by the Board and served for four-year non-renewable terms. Since the terms of one of the expert members and of the FAFICS representative had expired in July 2012, the Board was requested to approve the appointments of replacement members. The Chair of the Audit Committee informed the Board that the Committee recommended Michael Schrenk as a new expert member and that FAFICS had nominated Paula Saddler as a new representative of Fund retirees. **The Board expressed its appreciation of the level of the qualifications of the nominees and approved the appointment of Michael Schrenk as an expert member and the appointment of Paula Saddler as a representative of Fund retirees, both to serve on the Audit Committee for the period July 2012-July 2016.** The new membership of the Audit Committee is set out in annex XVI.

C. External audit

249. The representatives of the Board of Auditors presented their draft report on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011, as contained in annex X.

250. The Board of Auditors noted that its audit exercise had been carried out through a review at the Fund's headquarters in New York of financial transactions and operations, covering both the Investment Management Division and the secretariat of the Fund.

251. An advance draft of the Board of Auditors' report had been circulated to the Pension Board. That version of the report was due to be considered by the Board of Auditors during its meeting from 24 to 26 July 2012. Until the conclusion of that meeting and approval by the Board of Auditors the report was not yet final. The

Board of Auditors indicated that at the current stage it was not aware of any substantive changes to the conclusions contained in the draft report.[1]

252. The Board of Auditors issued an unqualified audit opinion on the Fund's 2010-2011 financial statements (see annex IX). It was recalled that in its audit report on the financial statements for the biennium ending 31 December 2009 the Board of Auditors had issued a modified audit opinion drawing attention to the disclosures regarding realized and unrealized gains and losses on investments in the financial statements. In that regard, the Board of Auditors noted that the Fund had sufficiently addressed the disclosures of unrealized gains and losses in the financial statements for the biennium ending 31 December 2011 and had also introduced an accounting policy to reflect significant and prolonged unrealized losses on the face of the financial statements. While acknowledging the prudence of that accounting policy, the Board of Auditors emphasized the need to consider the implications of how investment managers manage their respective portfolios, to identify those unrealized losses as early as possible.

253. The Board of Auditors also highlighted the impact of the current financial environment on the Fund. The Board of Auditors noted that the biennium 2010-2011 was the second consecutive biennium in which the Fund's investment income had been approximately $3 billion (it had been approximately $10 billion for one year as at 31 December 2008). For the year ended 31 December 2011, the Fund investment portfolio had for the most part performed below the market benchmarks tracked by the Fund. As noted by the Committee of Actuaries, the level of investment income has a major impact on the actuarial valuation of the Fund.

254. The Board of Auditors highlighted that the actuarial valuation performed as at 31 December 2011 had indicated that the funding ratio was 130 per cent. The Committee of Actuaries, however, had also noted that the valuation indicated an actuarial deficit of 1.87 per cent in the required contribution rate, a level that was approaching the limits of the actuarial buffer of 1 to 2 per cent. The Board of Auditors recommended monitoring that trend closely.

255. The Board of Auditors noted that the Fund had made good progress towards its implementation of IPSAS as at 1 January 2012 and commented on areas that needed to be adequately managed to ensure the Fund's successful implementation of IPSAS, including (a) the finalization of data collection and the clean-up process of the fixed asset register, leave balances, leases and intangible assets; (b) preparations for dry-run financial statements; (c) enhancement of the Fund's financial management processes to accrue for contributions due from member organizations, and determination of liabilities; and (d) consideration of initiatives to ensure the Fund maintains adequate expertise to support the implementation of IPSAS.

256. On financial management, the Board of Auditors had also seen the appointment of the CFO as a positive step, but noted that there was a need to ensure that appropriate mechanisms were in place to support the work of the CFO, including clear reporting lines between the CFO and the Investment Management Division and secretariat. The Board of Auditors acknowledged that the current arrangements represented an interim solution to bridge existing gaps and recommended that financial management controls in the Fund should be strengthened, especially in the Fund's first year of implementation of IPSAS.

257. The Board of Auditors highlighted that, since it had first mentioned the issue during the biennium 2000-2001 audit, the reconciliation of contributions from member organizations had not been performed with sufficient detail and with adequate frequency. It was stressed that that was of significant importance in the IPSAS environment.

258. The Board of Auditors' report provided a progress report on the status of the 43 audit recommendations made during the biennium 2008-2009: 28 (65 per cent) were fully implemented; 13 (30 per cent) were under implementation; and 2 (5 per cent) were not implemented. Details of the status of implementation of those recommendations were included in the draft report.

259. The Board of Auditors noted that in reviewing the scope of its planned audit activities it had placed reliance on certain work performed by OIOS.

Discussion in the Board

260. **The Pension Board took note of the draft report of the Board of Auditors and welcomed the progress made in the presentation of the financial statements, the disclosure of information regarding investments and the implementation of IPSAS.**

261. The Board requested clarification as to whether the reduced scope of work of OIOS had negatively affected the completion of the external audit. The Board of Auditors responded that the reduced scope of work of OIOS had not negatively affected the external audit.

262. The Board asked to be informed if IPSAS required the funding of the Fund's after-service health insurance liability and was informed by the Board of Auditors that that was not the case. The Board of Auditors recommended the funding of the after-service health insurance liability as a best practice. The Board noted that the CEO/Secretary would present various options for the funding of the after-service health insurance liability at its sixtieth session, in 2013. It preferred to defer making a specific recommendation until those options had been presented.

263. The Board discussed the recommendation of the Board of Auditors that the reporting lines between the CFO and Investment Management Division and secretariat be clarified. The Board of Auditors and the Audit Committee explained that currently the CFO did not have any staff reporting to him. The Audit Committee also explained that the Fund currently lacked qualified staff with specific experience in accounting for investments on a fair value basis.

264. The Board requested that it should receive the report of the Board of Auditors at least two weeks in advance of its session and noted that that deadline had not been respected for the report on the biennium ending 31 December 2011. It was observed that, in order for the financial statements to be prepared earlier to enable the Board of Auditors to prepare its report on time, member organizations, in turn, would need to submit their contribution reports earlier to the Fund. Alternatively, the dates of the session of the Pension Board could be moved to late July or early August.

265. **After considering the additional information, the Board noted the draft report of the Board of Auditors and requested the CEO and Representative of the Secretary-General to fully implement the recommendations of the Board of Auditors.**

Chapter VIII
Governance matters

A. Strategic framework for the biennium 2014-2015

266. The Board had before it a document containing the Fund's strategic framework for the biennium 2014-2015. It was recalled that, following a request from the Board at its fifty-seventh session, the Fund's strategic framework for the biennium 2012-2013 was submitted together with the proposed programme budget to the Board at its fifty-eighth session, in July 2011. At its fifty-eighth session, the Board took note of the 2012-2013 strategic framework, and recommended the consolidation of objectives and the alignment of expected accomplishments and indicators of achievement of the 2014-2015 strategic framework with the SMART principles.

267. In line with the guidance of the Board, the 2014-2015 strategic framework presented to the Board at its current session follows the format and approach of the strategic plan documents used for United Nations budgeting. The Board was informed that the strategic framework identifies the main priorities and objectives of the Fund for the biennium 2014-2015 and serves as the basis for programme planning, budgeting, monitoring and evaluation. As requested by the Board, programme managers have striven to be more focused and succinct in the formulation of objectives, as well as streamlining the indicators of achievement. The Board was informed that the 2014-2015 strategic framework presents a Fund-wide perspective (including the Fund secretariat and the Investment Management Division) and was prepared with the broad participation of all the functional areas of the Fund. It builds on the findings and recommendations of various assessments and reports that have been submitted for the consideration of the Board at its past sessions.

Discussion in the Board

268. The Board welcomed the 2014-2015 strategic framework and expressed appreciation for its improved format and focused and streamlined approach. In response to a question regarding the modernization efforts expected to be undertaken following the implementation of IPAS, the Board was informed that the implementation of IPAS was expected to result in efficiency gains which would allow for the reallocation of staff freed from routine tasks. Inter alia, there will be increased focus on technical analysis, and risk management will be embedded in all functional areas. However, the Board was informed that that was still an evolving process and it would be premature to reflect all the details in the strategic framework.

269. The Board noted that there should be a strong emphasis on the Fund's core business, namely the payment of benefits and the servicing of its participants, retirees and other beneficiaries. While strengthening internal controls and investing in the Fund's future is important, in view of the growing number of individuals serviced by the Fund, a focus on operations is critical to ensure that benefits are paid and its clients are serviced in a timely manner and in compliance with the Fund's Regulations, Rules and pension adjustment system. The executive heads and the participants' group encouraged the secretariat and the Budget Working Group to be

mindful of the need to strengthen core operations. Furthermore, it was noted that consideration should be given to the distribution of resources between the Fund's New York and Geneva offices to ensure that the clients of both offices received the same level of service. The Board also pointed to the need to strengthen the CFO function. With regard to investments, the Board called for increased emphasis on transparent reporting. The participants emphasized the importance of the third expected accomplishment for the executive direction and management of the Investment Management Division (Enhanced substantive and technical support to the work of the Investments Committee).

270. The governing bodies noted that they were pleased with the way the indicators of achievement were formulated for the Fund secretariat. However, some of the Investment Management Division indicators required further consideration, although it was acknowledged that it could be difficult to formulate measurable indicators in some cases. The governing bodies also noted that the budget proposal was the appropriate document for the inclusion of resource requests and that such requests in the strategic framework would not prejudice the budget process and should be removed. The governing bodies requested that the first expected accomplishment for the Executive Office be changed to read "(1) Timely recruitment and placement of the best qualified candidates".

271. **The Board approved the 2014-2015 strategic framework and requested the CEO to report to the Board at its sixtieth session, in 2013, on the indicators of achievement contained in the 2012-2013 strategic framework.**

B. Appointment of the next Chief Executive Officer

272. The Board had before it the report of the Search Committee on the appointment of the next Secretary of the Board and CEO of the Fund.

273. The report documented the detailed process completed for advertising the position, including the use of all United Nations and Staff Pension Committee forums, and the placing of advertisements in periodicals around the world and on specific industry-related websites. The Search Committee had received 262 applications by the closing date of 16 December 2011. After considerable work on the Search Committee's part to review each application, the Committee had established a shortlist of six candidates for in-person interviews. Subsequently, one candidate withdrew his application as his personal circumstances had changed since he applied for the position. After interviewing each candidate and extensive discussions, the Committee unanimously agreed to submit to the Board a shortlist of three candidates: Sergio Arvizú, Mark Murphy and Henry Valiulis. In general, the Committee found all three of the selected candidates quite strong when assessed against the required competencies and managerial experience for the position of CEO. In particular, the Committee was impressed by the in-depth knowledge demonstrated by all three candidates of defined benefit plans and by their long experience in managing pension funds in senior executive positions.

274. The Board had before it the curricula vitae of the three candidates. Each of the three candidates was invited to make an approximately 30-minute presentation addressing previously provided questions. An additional 15 minutes was allotted for the Board to ask questions.

275. **The Board decided by acclamation to recommend that the Secretary-General, in accordance with article 7 (a) of the Regulations of the Fund, appoint Sergio Arvizú as CEO of the Fund and Secretary of the Board, with effect from 1 January 2013 for a fixed term of five years. The Board also thanked the Search Committee for its hard work and looked forward to its final report regarding the development of (a) the objectives of the CEO and related performance indicators, (b) the periodic evaluation process for the CEO and (c) mechanisms for correcting/enhancing performance.**

276. The Board acknowledged the fact that a new Deputy CEO would need to be appointed in the light of its decision to recommend the appointment of Mr. Arvizú as CEO. The Board requested the CEO to submit a shortlist of suitable candidates to the Board at its 2013 session. It was noted that the search would need to begin in the fall of 2012 and that the Search Committee established by the Board for the post of CEO, being still active, would be available to assist the CEO in the recruitment process, if necessary.

277. With respect to the forthcoming retirement of the CEO/Secretary, Bernard Cochemé, the Chair of the Board expressed, on behalf of the Board, deep gratitude and appreciation for his 12 years of dedication and impeccable service to the Fund. On behalf of the Board, the Chair presented the Secretary/CEO with a certificate of appreciation for his outstanding service.

C. Second self-evaluation by the Board

278. The Chair of the Board reported that the second survey of the Board was scheduled to be completed after the end of the session; the results would be presented at the Board's sixtieth session in 2013. The first survey was completed by the Board in 2010 following recommendations from the Fund's internal auditors as presented in the audit on governance, as well as suggestions from the Audit Committee. The survey covers the role of the Board; membership; practice and procedure; and collaboration and style.

279. The second survey includes the same questions as the previous survey. Those questions were approved by the Board and tracking the responses to the same questions over time allows the Board to monitor trends. **The Board welcomed the second survey and looked forward to a high participation rate from its members.**

D. Creation of an ad hoc arbitration mechanism to settle a legal dispute between the Fund and the International Labour Organization

280. The ILO Staff Pension Committee presented a document in which it called for the creation of an ad hoc arbitration mechanism, or any other appropriate procedure, to settle a specific legal dispute between the Fund and ILO. Such a mechanism was proposed in the absence of any mechanism for the adjudication of disputes between a Fund member organization and the Fund. Subsequently, ILO withdrew its document and the Board was advised that ILO and the Fund were continuing their

negotiations in the case in question. **The Board took note of the continued negotiations between the parties.**

E. Revised accountability statement

281. The Board had before it a document containing the revised accountability statement for the Fund. It was recalled that the Secretary/CEO had presented to the Board at its fifty-sixth session a comprehensive accountability statement for the Fund which included, as requested by the Board, the investment-related activities as provided by the Investment Management Division and the Representative of the Secretary-General for the Investments of the Fund. The comprehensive accountability statement was subsequently amended and a revised accountability statement was endorsed by the Board at its fifty-eighth session.

282. The Board noted that the accountability statement was to be updated from time to time to further clarify the roles and responsibilities of the various governing bodies and functions within the secretariat. The revised statement presented to the Board at its current session clarifies the roles of the staff pension committee secretaries as defined in the Regulations and Administrative Rules of the Fund and in its Rules of Procedure and Administration Manual. In response to a question from the Board, it was explained that the document did not specify any new roles; instead, it presented a clarification of the roles and responsibilities already defined in the Regulations and Administrative Rules of the Fund, and in its Rules of Procedure and Administration Manual.

283. The Board thanked the secretariat for the accountability statement, noting that it was an important document. However, the Board expressed reservations regarding the section on the roles and responsibilities of the staff pension committee secretaries and suggested that the section should be discussed with each staff pension committee. The governing bodies noted that they had difficulties with the concept of liability arising from the staff pension committee's secretaries' not taking action based on the "advice and guidance" received from the Fund, since "advice and guidance", unlike regulations or rules, left room for interpretation. In addition, the governing bodies noted that it was not clear how the Fund could apportion liability to a member organization, given that the resulting budgetary implications would fall under the purview of that member organization's governing body. The executive heads echoed the comments of the governing bodies and suggested that the role of the staff pension committees in relation to the Pension Board be reflected in the accountability statement

284. **The Board requested the Secretary/CEO to review the section in the revised accountability statement on the role and responsibilities of the staff pension committees and the staff pension committee's secretaries, following consultations with each member organization's staff pension committee, and to present to the Board at its sixtieth session, in 2013, a further revised accountability statement.**

Chapter IX
Benefit provisions of the Fund

A. Small pensions

285. The Secretary/CEO presented a note on the small pension adjustment provisions, which were added to the Fund's pension adjustment system in 1980 in conjunction with the cost-of-living differential factors. The small pension amount thresholds had been periodically increased by the Board in conjunction with increases in the cost-of-living differential factors, the last increase having been in 1995. It was recalled that, at the request of FAFICS, the Board had included the review of small pensions on its list of items to be considered by the International Civil Service Commission (ICSC) and the Fund in their joint review of pensionable remuneration.

286. In 2010, as part of its consideration of the study on pensionable remuneration, ICSC and the Pension Board agreed to a two-stage approach for dealing with the issue of small pensions. During the first stage, completed in 2011, ICSC examined the income replacement ratios in United States dollars at selected duty stations where the General Service pensionable remuneration rates were considered low. The second phase of the study, the results of which were presented to the Board in 2012, included a review of the criteria for small pensions.

287. As reported to the Board in 2011, the first phase of the study completed by the ICSC secretariat consisted of comparing the income replacement ratios in New York with those at 12 locations selected by FAFICS. The study reviewed the G-4 and G-7 levels with 15 and 35 years of service at separation, which were the same categories considered in the review of pensionable remuneration. The ICSC secretariat concluded in its report that the income replacement ratio was more or less consistent for the General Service category at those locations and that the general methodology for determining General Service pensionable remuneration remained appropriate and should continue to be applied worldwide. The ICSC secretariat went on to suggest that to the extent that special measures or provisions might be needed to deal with what were perceived as inadequately small pensions at some locations and at certain particular times, the issue could continue to be addressed best by specific provisions in the pension adjustment system. ICSC agreed with its secretariat subject to the Board's concurrence. The Board considered the matter at its fifty-eighth session, in 2011, and agreed with the ICSC recommendations.

288. The second phase of the study described the overlap between the benefits provided under the small pension provisions and the minimum benefit provisions under article 28 of the Regulations, with the minimum benefit currently $10,028.64 annually with a maximum of 10 years of contributory service, while the threshold for the small pension adjustment is $6,500 with 15 years of contributory service. The Secretary/CEO noted that the overlapping of the provisions occurred over time, as the minimum benefit increased with periodic cost-of-living adjustments. It was further noted that that overlap in the benefit provisions had not been anticipated by the Board, since the minimum benefit and small pension provisions had been designed and implemented independently of each other.

289. The Secretary/CEO summarized the results of the analysis, which reviewed the small pensions payable for the same sample of participants at the same locations as

used by ICSC in the first phase of the study. The Board was informed that approximately 1 to 3 per cent of current retirees were receiving a benefit increased by the small pension provisions, while about 7 to 9 per cent were receiving a benefit increased by the minimum benefit provisions. The results of the analysis for the individual sample cases showed that the minimum and small benefit provisions did not apply for the participants with 35 years of contributory service. For participants with 15 years of contributory service, there was an almost equal distribution of benefits affected by the small pension adjustment or by the minimum benefit provisions at the various locations studied, with one third not receiving any benefit increase from those provisions. When analysed in terms of income replacement ratios in local currency, the benefits provided by the Fund, taking into account both the small pension and the minimum benefit provisions, appeared to be generally reasonable.

290. The Secretary/CEO noted that neither the small pension adjustment nor the minimum benefit provisions provided a benefit for staff with longer service and, furthermore, the small pension adjustment was not taken into account when determining the local currency track benefit under the two-track provisions of the pension adjustment system.

291. The Secretary/CEO also noted that the Board might wish to request that a further study be completed on the issue of the overlap in benefit amounts between the small pension and minimum benefit provisions. Such a study could include all of the provisions providing a minimum level of benefit, with a view to the development of draft provisions that would coordinate and simplify the minimum benefits payable from the Fund. Such a study could consider the Board's guiding principles for the Fund, bearing in mind its view on long-term sustainability, including income replacement, long-term solvency, intra- and intergenerational equity, cost control and stability, simplicity of administration and risk control. More specifically, the study could:

(a) Develop specific goals for the provision of a minimum level of benefits from the Fund, taking into account local currency issues and length of service;

(b) Streamline the entire minimum benefit/small pension provisions in order to coordinate benefit amounts, eliminate the overlap of provisions and simplify communication and administration (transparency);

(c) Re-examine the cost-of-living differential factors, including the extent to which they may apply universally to all Fund retirees and their beneficiaries;

(d) Consider how the two-track feature of the pension adjustment system affects the provision of minimum benefits;

(e) Provide the actuarial implications of possible changes recommended to the Board.

292. The representatives of FAFICS, in considering the note and the results of the analysis, commented that they believed that the study only partially addressed their concerns, as it did not consider an adjustment to the threshold to which the small pension adjustment would apply by using the special measure provisions of the pension adjustment system. FAFICS noted that if the United States consumer price index movements from 1992 to 2012 had been applied to the small pension minimum benefit level of $6,500, the minimum threshold for a small pension

adjustment would have increased to $10,961. FAFICS suggested that, should a further study be carried out, it should include additional examples that might be more reflective of the individuals affected by the small pension provisions. It did not see the need to include an analysis of the cost-of-living differential factors in the additional study, since they were essentially unrelated to the minimum benefits. FAFICS also suggested using a shorter period of contributory service than the 35 years used in the current study, as being more reflective of the average length of service.

293. The participants group and the executive heads' group both agreed that the provisions on minimum benefits should be simplified. The participants group noted additionally that, in considering a modification of those provisions, the Fund should maintain its principle of solidarity in relation to gender, salary, service and posts. The participants group also noted that the logistics of managing small pensions in certain countries created undue hardship for some beneficiaries, given that they must travel long distances and at a cost that sometimes exceeded the benefit amount in order to collect their pension payments. The Secretary/CEO noted that payments of small amounts were usually paid quarterly in order to assist such retirees and beneficiaries and could be fully commuted into a lump sum, subject to certain limitations to avoid proportionately high bank fees. It was also suggested that the Fund secretariat work with local AFICS offices and FAFICS in order to ensure that any unreasonable situations with respect to small payments were mitigated.

294. **The Board took note of the report and requested the Secretary/CEO to further study the issue of the overlap in benefit amounts between the small pension and minimum benefit provisions and all other provisions providing a minimum level of benefit, with a view to developing draft provisions that would coordinate and simplify the minimum benefits payable from the Fund, following the modalities and principles identified in the note by the Secretary/CEO.**

B. Guidance of the Board on the status of participation under articles 34 and 35 of the Fund's Regulations

295. During its fifty-eighth session, in 2011, when discussing a document on clarification of the Board's guidance concerning verification of the marital status of participants under articles 34 and 35 of the Fund's Regulations, the Board could not reach consensus and decided to establish a contact group, consisting of two persons from each constituent group and FAFICS. The objective of the contact group was to review the issues and come up with proposals to clarify the Board's guidance, as well as to review those cases where the Fund secretariat had implementation difficulties. The composition and the terms of reference of the contact group were attached to the report presented to the Board at its current session, which also provided a summary of the deliberations and conclusions of the group.

296. When introducing the report of the contact group, the representative of the executive heads from ILO, acting as rapporteur for the group, mentioned the three major tasks the group had been mandated to review:

(a) To find legal certainty for Fund participants, who needed to know their potential pension benefits at the time of employment, given that those were considered an integral part of the conditions of employment of staff members;

(b) To ensure equal and consistent treatment of all Fund participants, irrespective of the human resources policies of their employing organizations;

(c) To ensure consistency and rigour in the processing of benefits, particularly in terms of the provision of documentation and their verification by member organizations.

297. To address the above-mentioned concerns, the group proposed a new definition of spouse, which was specific to the Fund, for the purpose of determining eligibility for pension benefits under articles 34, 35, 35 bis and 35 ter of the Regulations. The group also emphasized the need for the employing organizations to provide the Fund with supporting documentation and evidence of verification with regard to the determination of the personal status of their staff. In that regard, the contact group recommended that the accountability of the staff member and the member organizations should be clarified, pursuant to article 25 (e) of the Fund's Regulations, by adding a specific paragraph to administrative rule B.3. Moreover, the contact group recommended that the current wording of rule B.3 (a) be changed to clarify the meaning of the rule.

298. The executive heads and the participants' group, together with FAFICS, commended the work of the contact group and fully supported all the recommendations made in the report. They noted that the work of the contact group represented major progress. It was recalled that the proposals in the report were merely providing clarity to the decision made by the Board in 2006 and reaffirmed in 2007. However, the governing bodies felt that the issue was complex and required more information, inter alia statistical information, and that, consequently, some aspects of the proposal were not yet fully clear. It was noted that clarification was required with regard to the divergences of practice across the organizations since they were a cause of uncertainty for the Fund.

299. **The Board did not reach consensus on the item and it requested the contact group to provide further clarification and administrative guidance, as appropriate. Meanwhile, the CEO was to continue the practice of interpreting articles 34 and 35 on the basis of guidance given by the Board in 2006, as reaffirmed in 2007.**

C. Recovery of pension entitlements in cases of proven fraud

300. The Chair of the United Nations Staff Pension Committee introduced the proposal of the Committee, which had been approved by it in April 2012, to include in the Fund's Regulations a provision allowing the Fund, in very specific circumstances, to pay a portion of a retiree's benefit directly to the retiree's former employing organization towards restitution in cases where amounts had been embezzled by the retiree from the organization.

301. The Chair of the United Nations Staff Pension Committee informed the Board that there had been few cases in which Fund participants had been convicted for fraud against their employing organization. Currently, there were no provisions in the Regulations of the Fund to prevent the payment of benefits to participants or beneficiaries who had been convicted of fraud against their employing organization. In view of the financial loss suffered by member organizations in such cases, the issue had been raised of whether a revision of the Regulations should be considered

that would permit the Fund to partially withhold pension benefits from staff members in cases in which they had used their official functions to commit fraud and the member organization had been found by a competent national court to have been the victim of such fraud.

302. The Chair explained that the purpose of such a provision would not be to take punitive measures against the participant/beneficiary, but rather to allow the participant's Fund benefits to go towards restitution of the money embezzled to the former employing organization. The employing organization would submit a request to have a portion of the benefits paid to it after a final, executable court order had been issued clearly establishing the legal liability of the staff member to compensate the employing organization. The arrangement should be similar to that applied under article 45 of the Regulations and should include discretionary authority for the CEO to assist a member organization of the Fund in the implementation of a court decision.

303. The participants expressed their concern that, while they were ready to accept the proposal in principle, which they saw as the last step of the process, assurances were required that the preconditions for the possible deduction, as mentioned in the note before the Board, had all been met. The Board expected the CEO to refer to the established criteria, but also to use his discretion, when making any decisions on the matter. Article 45 bis was to be implemented only if all the following circumstances had been met:

(a) The participant is separated from the service of his/her employing organization and is entitled to a benefit, including a withdrawal settlement, from the Fund;

(b) The employing organization submits a request to have a portion of the benefit paid to it and provides a final and executable court order from a competent national court by which the (former) participant was convicted of fraud against his/her employing organization;

(c) The court order has been issued upon referral by the employing member organization and clearly establishes the legal liability of the staff member to compensate the employing organization for the financial loss;

(d) The employing organization submits evidence that the conviction has been obtained under the relevant local law and that all appeals under that legal system or any other recourse mechanism available have been exhausted;

(e) The employing organization submits evidence that it turned, in vain, directly to the participant to recover the amounts and that the participant refused to pay;

(f) Bearing in mind the particular circumstances of each case, the CEO is satisfied that the deduction does not bring hardship upon the beneficiary or his/her family.

304. Furthermore, for monitoring purposes, the provision and its use was to be included in the compendium of the Board's decisions kept by the Secretary/CEO.

D. Update on a possible increase of the mandatory age of separation

305. In 2010, during its fifty-seventh session, the Pension Board was informed of the working group established by the High-level Committee on Management to study the mandatory age of separation. The High-level Committee on Management reviewed and endorsed the report of its working group at its meeting held on 15 and 16 March 2012. The Board was presented with a summary of the conclusions of the working group, along with the ICSC secretariat's conclusions, contained in its cover note to the High-level Committee's report, which will be presented to ICSC at its 2012 summer session, immediately following the Board's session.

306. The Board recalled the conclusions it had reached after considering the report of the working group regarding increasing the normal retirement age. They were:

> "The Board noted that increasing the normal age of retirement to 65 would yield actuarial savings, partially offsetting the actuarial costs that have arisen from the increased longevity of participants, as reflected in the mortality tables recently incorporated in the actuarial valuation.
>
> "It further noted that an increase in the normal retirement age should be effected in coordination with the human resources policies of member organizations on the mandatory age of separation. The Board invited ICSC to consider the Pension Board's observations regarding those matters."

307. The conclusions of the ICSC secretariat, as presented to the Board, were:

- A flexible approach to retirement would be advantageous to both the organizations and staff members
- As life span increases, financial balance needs to be maintained by equalizing the duration that all staff members are expected to spend in retirement.

308. **The Board acknowledged that both the Fund's consulting actuary and the Committee of Actuaries have determined that, given the serious impact that increased longevity has had on the actuarial situation of the Fund, raising the Fund's normal age of retirement to 65 would improve the actuarial situation of the Fund. Accordingly, the Board is ready to decide to increase the normal age of retirement for new participants in the Fund with effect from no later than 1 January 2014. The Board considered that this is the priority action among various other actions that could be taken by the Board to ensure the Fund's long-term sustainability. In the light of the Board's readiness to decide to increase the normal age of retirement, the Board urges ICSC and the member organizations of the Fund to immediately raise the mandatory age of separation to 65 for new staff of the Fund's member organizations.**

E. Proposal to allow the purchase of years of contributory service by part-time staff

309. The ILO Staff Pension Committee resubmitted a proposal to change the Regulations of the Fund so as to provide for a participant to make voluntary contributions on a full-time basis during limited periods of part-time employment. The representative of the executive head of ILO and the governing bodies recalled the earlier submissions and the approval of the proposal by the Board, as well as the

negative responses received from the Advisory Committee on Administrative and Budgetary Questions and the General Assembly on the grounds that such a proposal would violate the principle of income replacement and out of concern that the proposal could set a precedent.

310. In addition to the arguments already put forward and to regard for the principles of social justice, the representative of ILO requested the Board to consider additional justifications for its proposal, namely:

(a) The level of protection against loss of earnings capacity, in the event of disability being incurred during a period of part-time work, is reduced in proportion to the working time, thus placing the staff member concerned at a considerable disadvantage that could be permanent. The possibility of making voluntary contributions would enable officials to maintain, at their own cost, a level of full protection and should therefore be considered a legitimate social request;

(b) There were no legal, financial or social reasons that could justify treating officials on leave without pay and officials temporarily under part-time work arrangements in a different manner with regard to their right to make pension contributions during periods of non-active service or partially active service;

(c) The High-level Committee on Management had supported the conclusion of its working group on the mandatory age of separation regarding the desirability of flexible retirement arrangements, such as part-time employment options in the years preceding retirement with the possibility of voluntary contributions on a full-time basis during such a period of phased retirement.

311. The Secretary/CEO recalled the earlier comments and considerations of the Committee of Actuaries, the Advisory Committee on Administrative and Budgetary Questions and the General Assembly on the prior proposals. He also mentioned that if the above-mentioned proposals, or any other amendments to benefit provisions, were contemplated by the Board during the current session, the implementation of such amendments should be postponed until the end of the implementation of the integrated pension administration system project.

312. The executive heads' and participants' group supported the ILO proposal and noted that it was not logical to allow participants to contribute to the Fund during periods of leave without pay, but not allow part-time staff to contribute on a full-time basis. However, during the discussion, it was pointed out that the cost to a participant would be so great that the utilization rate would likely be limited. The participants' group considered that that was not correct, as the cost to the participant was dependent on the varying percentages of time worked. It was noted that the Committee of Actuaries, in its 2012 report, had recalled the comments it had made on the issue during its 47th session, in 2008, to the effect that although the cost of the measure might be minimal, the proposed amendment would offer one selected group of participants in the Fund, i.e., part-time staff, a discretionary option to increase their pension benefits, an offer which other participants did not have. Through the option to purchase additional years of contributory service, part-time staff would have the ability to exercise adverse selection against the Fund. The participants' group specified, however, that it was not only a cost issue, because there were different part-time policies among the many organizations.

313. **The Board could not reach consensus on resubmitting the proposal to allow the purchase of years of contributory service by part-time staff.**

F. Report of the CEO on the application of paragraph 26 of the pension adjustment system

314. The Board recalled that the pension adjustment system of the Fund included specific provisions associated with the calculation and ongoing comparative feature of the pension benefits under the two-track option. The Board further recalled the authority of the CEO under paragraph 26 of the pension adjustment system, which provides for the discontinuance of the local currency track amount when "the application of the local currency track would lead to aberrant results, with wide fluctuations depending on the precise commencement date of the underlying benefit entitlement". In such cases, the CEO shall inform the Board of the action taken. In accordance with paragraph 26 of the pension adjustment system, the Board was informed of the decision of the CEO to discontinue the local currency track benefit in Kenya and Venezuela as at 31 October 2011, as well as the local currency track benefits already in payment there as at that date.

315. The Board was further informed that, in considering Kenya and Venezuela under paragraph 26 of the pension adjustment system, the Secretary/CEO had reviewed many factors. Those factors included both the current and 36-month average exchange rates, historical inflation rates, income replacement ratios and dates of retirement. A note presented to the Board contained detailed information regarding the foreign exchange and financial data of both countries and their effect on the benefits payable under the two-track feature of the pension adjustment system. The Secretary/CEO explained that the two-track feature was designed to operate in conjunction with the expectation that as inflation rates changed within a country, the exchange rate with the United States dollar change correspondingly as well, thus helping to control the cost of the two-track feature. However, he noted that changes in exchange rates typically lagged behind related movements in consumer price indices. Therefore, the CEO did not suspend local currency track benefits without in-depth analysis and review of many factors observed over the course of years.

316. The representatives of FAFICS and the participants' group took note of the decisions of the CEO regarding the suspension of the local currency track benefits in the two countries. However, they considered that decisions on suspension needed to be communicated to retirees and other beneficiaries with care and timeliness, and suggested that either FAFICS or the local AFICS be contacted first, before retirees and other beneficiaries were notified. The representatives of FAFICS and the participants group also suggested that amendments be made to the booklet on the two-track system when it was next reissued to make its explanation of paragraph 26 more explicit. It was also recommended that on-site visits be carried out whenever possible. FAFICS further noted that there was no indication in the pension adjustment system as to the circumstances in which the suspension of the local currency track would be reversed.

317. The Secretary/CEO informed the Board that an internal working group had been established to conduct a systematic analysis when a suspension of benefits under the two-track system was being considered.

318. **The Board took note of the decision to suspend the application of the local currency track benefits in Kenya and Venezuela.**

G. Measures presented in the 2010 report of the Working Group on Plan Design and at previous sessions of the Board

319. The Board was reminded that over the past decade it had considered and conditionally approved various changes to the Regulations and pension adjustment system. However, the implementation of a few of those changes had been delayed owing to the financial situation of the Fund. In addition, in 2008, the Working Group on Plan Design, as well as the Board, had analysed a number of additional potential changes to provisions. During the current session of the Board, the Secretary/CEO presented a compilation of the changes, which would be periodically updated should additional provisions be reviewed by the Board. It would provide the Board with a single reference document for all previously studied changes in provisions. Specifically, the note summarized those provisional changes already approved by the Board, those changes agreed to in principal by the Board and those changes analysed by the Working Group on Plan Design.

320. **The Board took note of the document and commented that it would be a useful tool in the future.**

H. Report on the monitoring of the impact of currency fluctuations on pension benefits of the Fund

321. At its fifty-seventh session, in 2010, the Board requested that the Secretary/CEO continue to monitor the impact of currency fluctuations on pension benefits of the Fund for Professionals and to report thereon to the Board on an annual basis. At its fifty-eighth session, in 2011, the Board requested that that information be provided quarterly, as from October 2011. The note presented at its current session provided an update on the income replacement ratio analysis up to 31 March 2012 in order to assist the Board in monitoring the effects of currency fluctuations on retirees whose country of residence is not the United States and who have elected to receive benefits under the two-track feature of the pension adjustment system.

322. For the month of December 2011, the distribution of benefit payments by currency for those retirees and beneficiaries receiving benefits in currencies other than the United States dollar is shown in table 10.

Table 10

Currency	*Amount of monthly payment, December 2011 (millions of United States dollars)*	*Percentage*
Euro	45.7	54.0
Swiss franc	25.6	30.2
Pound sterling	3.7	4.3
Other	10.7	11.5
Total	**84.7**	**100.0**

Of the countries using the euro, the top four countries by benefit payment amount as at 31 December 2011 were France (43 per cent), Italy (21 per cent), Austria (20 per cent) and Spain (6 per cent).

323. The income replacement ratios for a sample Professional employee retiring at the top step of the P-4 level with 25 years of service, were presented for the local track benefit compared to the target United States income replacement ratio. Also presented were the income replacement ratios for the dollar track benefit, as converted to the local currency. The countries reflected in the monitoring exercise are Austria, France, Italy, Switzerland and the United Kingdom of Great Britain and Northern Ireland, which account for almost 90 per cent of the Fund's two-track cases.

324. The results for Austria, France and Italy, where no cost-of-living differential factor applied during the period reviewed, showed that the local currency track amounts have been yielding local currency track income replacement ratios either above or equal to the targeted rate for all separations reviewed since January 2008. During the same period, given the changing value of the United States dollar compared to the euro, the dollar track benefit has been both above and below the local track benefit.

325. With respect to the local currency track income replacement ratios for Switzerland, it was noted that the cost-of-living differential factor had begun to apply to participants retiring since 1 January 2011. The local currency track appears to be within a reasonable range of the targeted rate. It dropped a few percentage points between January 2009 and December 2010, but has been close to the targeted rate since January 2011, when the cost-of-living differential factor became applicable again. The United States dollar track income replacement ratio has been significantly below the targeted rate throughout the period reviewed and the difference became more pronounced with the application of the cost-of-living differential factor in 2011. When compared to the local currency track benefit, this illustrates the financial protection being provided under the two-track feature.

326. The local currency track for residents of the United Kingdom appears to have been within a reasonable range of the targeted rate throughout the period reviewed. However, the United States dollar track entitlement from October 2008 to December 2010 was notably higher than the local currency track entitlement, following the United States dollar's strength against the pound sterling during that period. The dollar track slipped below the local track early in 2011 and has been in line with the local track since the end of 2011.

327. **The Board took note of the fact that the local currency track pension amounts continue to be maintained at or near the targeted levels for the countries under review.**

Chapter X
Other matters

A. Report of the 193rd meeting of the Standing Committee

328. The Board approved the minutes of the 193rd meeting of the Standing Committee, held in July 2011 during the fifty-eighth session of the Board.

B. Proposed new transfer agreements

329. The Board was advised that negotiations with the Organization for the Prohibition of Chemical Weapons and the African Development Bank to conclude transfer agreements pursuant to article 13 of the Fund's Regulations, had been completed successfully. The draft texts of the bilateral agreements were based on the model transfer agreement which had been reviewed by the Committee of Actuaries at its fiftieth session, in 2011.

330. **The Board approved, subject to the concurrence of the General Assembly, the United Nations Joint Staff Pension Fund-Organization for the Prohibition of Chemical Weapons and the United Nations Joint Staff Pension Fund-African Development Bank transfer agreements as set out in annex XIV to the present report.**

C. Status report on the review of pensionable remuneration

331. The Board invited the Chair of ICSC to provide an update on the joint study completed by ICSC and the Fund on pensionable remuneration. The Board reviewed the note presented, which summarized the background to the study. It was recalled that, in 2011, the ICSC secretariat had presented a report to the Commission on its initial study of pensionable remuneration, as completed jointly with the Pension Fund secretariat. That study considered the common scale of staff assessment, the review and development of pensionable remuneration scales for Professional and General Service staff, income replacement ratios, costs comparison between the retirement programme for United States Government employees and the Fund, the non-pensionable component and service differential, double taxation, the impact of steep devaluation of a local currency and/or high inflation, and small pensions.

332. Following its consideration of the initial report on pensionable remuneration, ICSC suggested further analysis of the pensionable remuneration scales, including the methodology used to establish such scales and the methodology used to compare the Fund with the United States retirement scheme. ICSC also proposed that the Fund secretariat continue to work with the Commission's secretariat, as well as seeking input from the United States Office of Personnel Management, in order to complete the study, which the Board had agreed to at its fifty-eighth session, in 2011. A working group had been formed to undertake the analysis. The Chair of ICSC informed the Board that that second study had been completed and the report of the working group was scheduled to be considered by ICSC at its 2012 summer session, which was being held concurrently with the session of the Board. A copy of that report was included in the note to the Board.

333. The Chair of ICSC summarized for the Board the results of the second study and the recommendations of the working group to the Commission, as follows:

- The common scale of staff assessment should continue to be reviewed at regular intervals (i.e., every five years) considering the distorting long-term effect of misalignment of the scale rates with outside taxes.
- The pensionable remuneration scale for the Professional category should be recalculated every time the common scale of staff assessment is reviewed, even if no change in the assessment rates is proposed.
- The present comparison of the income replacement ratios after 20, 25, 30, 33 and 35 years of contributory service, irrespective of the assumption scenario, showed that retirement benefits provided to current employees of the comparator (the United States) were consistently above the benefits of the Fund.
- Future consideration could be given to reviewing the grossing-up factor used under the income replacement approach for the Professional and higher categories (currently, 46.25 per cent, corresponding to 25 years of service).
- In the case of the General Service and locally recruited categories, no change in the grossing-up factor is proposed, as it appears to be at a reasonable level.
- In cooperation with the Pension Fund, the possibility could be explored in the future, with the aim of improving the income replacement ratio, of introducing a voluntary savings plan similar to that used by the comparator (the United States) or by other international organizations, such as the World Bank.
- The issue of the non-pensionable component will be discussed under the review of the methodologies for surveys of the best prevailing conditions of employment of the General Service and other locally recruited categories.
- The Rome-based organizations should immediately modify their staff rules in order to bring them into conformity with article 54 of the Regulations and Rules of the Fund and treat the service differential as non-pensionable.
- The Commission is being asked to confirm that the concept of double taxation is a misconception as measures have been taken to ensure that retirees are not doubly taxed. Any attempt to adjust the practice on a selective basis would undermine the universality of the system.
- While the study on the impact of the steep devaluation of local currency and/or high inflation has shown no impact on the pensionable remuneration scale, and the Pension Board submitted its report on this subject to the General Assembly during its sixty-fifth session, the Commission is being asked to take note of the Board's recommendation to the General Assembly, as well as the fact that the Assembly took note of the Board's intention to continue monitoring currency fluctuation and to reassess its options following the valuation of the Fund as at 31 December 2011.

334. As the report of the Working Group on Pensionable Remuneration will be presented to ICSC subsequent to the Board's 2012 session, consideration by the Board of any conclusions or actions proposed by the Commission were deferred until the Board's sixtieth session, in 2013.

335. **The Pension Board took note of the results of the study and thanked the Chair of ICSC for his presentation.**

D. United Nations Appeals Tribunal judgements of interest to the Board

336. The Secretary/CEO provided information on five judgements issued by the United Nations Appeals Tribunal in cases where the Board was the respondent. The judgements covered issues pertaining to: the restoration of prior contributory service; eligibility for a widow's benefit; the payment date for a divorced surviving spouse's benefit; a request for the award of a disability benefit; and three separate appeals addressed in one judgement in respect of the exercise of the discretion of the CEO in the apportionment of a retiree's monthly pension benefit under article 45 of the Fund's Regulations. The Tribunal upheld the decisions of the Board in four judgements. However, in the fifth judgement, the Tribunal reversed the Board's decision to terminate the payment of a widow's benefit to the appellant.

337. In its judgement No. 2011-UNAT-136, *Ardisson v. UNJSPB*, the Tribunal upheld the decision of the Standing Committee to deny the appellant's request that his period of service with the International Organization for Migration (IOM) between 1987 and 1992 be considered contributory service with the Fund since IOM was not a member organization of the Fund, and the appellant was not a staff member of IOM at the time that the organization joined the Fund on 1 January 2007. The Tribunal held that the right to restoration under article 24 of the Fund's Regulations applies only to former participants who again become participants in the Fund. The Tribunal further held that there was no inordinate delay on the part of the Fund in disposing of the appeal as the Standing Committee had waited until its meeting during the session of the Board in July 2010 to consider his case, received after the Committee's meeting in July 2009.

338. In its judgement No. 2011-UNAT-156, *Taylor v. UNJSPB*, the Tribunal upheld the decision of the Standing Committee in determining that the 1 January 2009 amendment to article 35 bis (e) of the Fund's Regulations did not apply in the case of the appellant. The appellant had requested payment of a divorced surviving spouse's benefit retroactive to her former spouse's death in 1981 on the basis of the 2009 amendment to the Regulations according to which a divorced surviving spouse's benefit under article 35 bis (e) would be payable as from the date of the retiree's death, irrespective of when the request was received. However, since payment of a divorced surviving spouse's benefit only came into effect as at 1 April 1999, the amendment to article 35 bis (e) could not create an entitlement to the benefit retroactive to a date prior to 1 April 1999.

339. The appellant had also raised the issue of differences in the benefits paid to surviving spouses and divorced surviving spouses and the Tribunal held that differences in treatment and the effective date on which the respective benefits are payable were established by the General Assembly for reasons and goals different from those upon which the appellant had based her appeal, and that the Fund had correctly applied the Fund's Regulations.

340. In the case of *Laeijendecker v. UNJSPB* concerning a request by a former participant for a disability benefit under administrative rule H.5 (a) of the Fund, the Tribunal, in its judgement No. 2011-UNAT-158, upheld the decision of the Standing

Committee that the request for the disability benefit submitted by the appellant outside the four-month deadline under administrative rule H.5 (a) was time-barred as he had not provided any reasons that could be considered exceptional circumstances to justify a waiver of the time limit. The Tribunal recalled that it had upheld the strict enforcement of time limits and would continue to do so.

341. Another case considered by the Tribunal concerned the decision of the Secretary/CEO to apportion a retiree's monthly benefit from the Fund pursuant to court orders for maintenance and child support issued by courts in Canada in respect of a former spouse and in Egypt in respect of his current spouse and children. In its judgement No. 2012-UNAT-189, *Onogi, Sheryda and Elguindi v. UNJSPB*, the Tribunal upheld the decision of the Standing Committee, which had determined that the CEO had properly applied his discretion in the apportionment of the monthly pension benefit of the retiree, who, together with his current spouse and former spouse, appealed the decision in three separate appeals. The Tribunal found that the CEO, in applying article 45 of the Fund's Regulations, had correctly taken into consideration the needs of the retiree's former spouse, current spouse, his minor children and himself in apportioning his monthly pension benefit from the Fund among all parties concerned, pursuant to the court orders issued in Canada and Egypt.

342. In the last of the five cases reported by the Secretary/CEO, the Tribunal considered the eligibility of an appellant to receive a widow's benefit in its judgement No. 2011-UNAT-155, *Ansa-Emmim v. UNJSPB*. In that case, the Fund had terminated payment of a widow's benefit to the appellant after discovering that the appellant's marriage in 1986 to a Fund retiree, the late Michael Ansa-Emmim, had taken place before his divorce from his former spouse following the submission of a divorce decree issued in 1993 by a court in the United Kingdom that ended the marriage to the former spouse. The Tribunal reversed the decision of the Standing Committee, which had upheld the decision of the Secretary/CEO of the Fund to stop payment of the benefit.

343. In considering the "particular circumstances" of the appellant's case, the Tribunal determined that she was entitled to receive a widow's benefit as she had married the late Fund beneficiary in good faith and remained married to him until his death. Furthermore, it found that, based on the statement made by the late Fund beneficiary to his employing organization, as reflected in the status report in the Fund's file, he had divorced his second wife prior to his marriage to the appellant. The second wife had not produced a valid marriage certificate to prove otherwise and the Tribunal did not accept the divorce decree submitted as sufficient proof that the third marriage had been concluded before the second divorce, even though the date of the marriage was recorded therein. It held that the divorce decree could not be the sole basis for declaring the third marriage invalid, and concluded that the appellant was the legal wife of the late Fund beneficiary at the time of his separation from service until his death and consequently was entitled to receive a widow's benefit from the Fund.

344. The Tribunal distinguished this case from an earlier case, *El-Zaim* 2010-UNAT-007, holding that in *El-Zaim* there was no evidence that the first marriage had come to an end prior to the late retiree's death, or that the retiree had entered into a valid second marriage. However, in the present case the marital status of the appellant was clear on the date of separation.

345. **The Board took note of the above decisions of the United Nations Appeals Tribunal.**

E. Election of members of the Standing Committee (Rules of Procedure, rule B.1)

346. The members of the Standing Committee, as elected by the Board in 2012, are listed in annex III to the present report.

F. Recovery of amounts paid as death or disability benefits from third parties found liable by a court for the injury or death of a participant

347. The Board considered a note submitted by the Secretary/CEO following its determination at its fifty-seventh session, in 2010, that a provision allowing recovery from a third party found liable by a court for the injury or death of a participant of amounts paid by the Fund as death or disability benefits should be included in the Regulations and Administrative Rules of the Fund and that a draft provision to that effect should be submitted for its consideration at the current session. The note contained the proposed draft amendments to the Fund's Regulations and Administrative Rules for the Board's consideration.

348. **The Board reviewed the proposed amendments and requested that the secretariat revise them to incorporate further specificity with regard to the scope and conditions to be applied in the implementation of the amendments. It therefore deferred the matter to its next session, in 2013.**

G. Selection of the members of the Budget Working Group for the review of the 2014-2015 budget to be presented at the Board's 2013 session

349. The Board, in considering its next session, in 2013, agreed that the process utilized for its 2011 session with respect to the review of the proposed budget had been very successful. It then decided that the process should be continued for the consideration of the 2014-2015 budget, the only change being the appointment of alternates to maintain full membership in the absence of members. **To that end, the Board appointed the following members to the Budget Working Group for 2013, with an understanding that the participants' group would provide the names of its second member and alternate following the participant elections later in 2012:**

Mr. V. Yossifov (WIPO)	Governing bodies
Mr. G. Kuentzle (United Nations)	Governing bodies
Mr. H. Kozaki (United Nations)	Governing bodies (alternate)
Mr. D. Thatchaichawalit (United Nations)	Executive heads
Mr. A. Ba (ITU)	Executive heads

Ms. Y. Mortlock (IOM)	Executive heads (alternate)
Mr. B. Fitzgerald (WIPO)	Participants
*	Participants
*	Participants (alternate)
Mr. R. Eggleston	FAFICS
Mr. T. Teshome	FAFICS

* The participants' group will provide the names of the second member and alternate following the participant elections later in 2012.

350. **The Board also requested that the CEO and the Representative of the Secretary-General transmit the proposed budget to the Budget Working Group 60 days prior to the sixtieth session of the Board, in 2013, in order to ensure that the most up-to-date information is available to the Budget Working Group, and an updated performance report 45 days before the sixtieth session.**

H. Venue and dates of the sixtieth session of the Board

351. **The Board took note of the invitation received from the United Nations to host the Board's sixtieth session in New York in 2013. The Board accepted that invitation. The Board noted that, in accordance with established practice, the next session would be for five working days, with training to be held the day preceding the start of the session. The Board decided to hold its 2013 session from 15 to 19 July in New York, after confirmation by ICSC that its summer session would be held from 22 July to 2 August 2013.**

I. Other matters

1. Situation of former Fund participants from the former Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and the Byelorussian Soviet Socialist Republic

352. FAFICS submitted a note on the situation of former participants in the Fund from the former Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and the Byelorussian Soviet Socialist Republic. FAFICS noted that that unfortunate situation needed to continue to be addressed as the Board was the only channel for keeping abreast of events concerning their pension issues. FAFICS also noted that the Government of the Russian Federation had improved the situation of a number of the individuals concerned and expressed the hope that some new measures would further improve the situation. **The Board took note of the FAFICS note.**

2. Statement by FICSA

353. At the invitation of the Board, the representative of FICSA made a statement, which is included in the report as annex XV.

3. Miscellaneous

354. The Board welcomed Witold Zyss and unanimously agreed to recognize him as a lifetime emeritus member of the Board. He began his service on the Board in 1968 and served for 40 years as an active member.

355. As this was the last session to be attended by Marie-Odile Dorer, Carlos Santos Tejada and Andrés Castellanos del Corral, the Board expressed its deep appreciation for their service as Board members. Mr. Castellanos del Corral thanked the Board for its comments and said that it had been his honour and pleasure to have served both the Board and the staff of the United Nations and other Fund member organizations, as well as retirees and other beneficiaries of the Fund. He recalled how much FAFICS had progressed in its global representation of the beneficiaries of the Fund; it now had 52 member associations worldwide, all working in full partnership with the Fund on issues of common interest and concern.

Annex I

Member organizations of the United Nations Joint Staff Pension Fund

The member organizations of the United Nations Joint Staff Pension Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and the Restoration of Cultural Property

International Civil Aviation Organization

International Criminal Court

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Organization for Migration

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

Inter-Parliamentary Union

Special Tribunal for Lebanon

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

Annex II

Membership of the Board and attendance at the fifty-ninth session

1. The following members and alternate members were accredited by the staff pension committees of the organizations members of the United Nations Joint Staff Pension Fund, in accordance with the rules of procedure:

Representing	*Members*	*Alternates*
United Nations		
General Assembly	V. M. González Posse (Argentina)	D. Chumakov (Russian Federation)
General Assembly	G. Kuentzle (Germany)	H. Kozaki (Japan)[a]
General Assembly	P. R. O. Owade (Kenya)	L. Mazemo (Zimbabwe)
General Assembly	T. Repasch (United States of America)	M. A. Muhith (Bangladesh)
Secretary-General	Y. Takasu (Japan)	D. Thatchaichawalit (Thailand)
Secretary-General	M. E. Casar (Mexico)	A. Roy (India)
Secretary-General	C. Pollard (Guyana)	
Secretary-General	J. Pozenel (United States of America)	
Participants	A. Adeniyi (Nigeria)[b]	
Participants	C. Santos Tejada (Ecuador)	
Participants	A. K. Lakhanpal (India)	
Food and Agriculture Organization of the United Nations		
Governing body	Z. Malek (Armenia)	
Executive head	T. Panuccio (United States of America)	
Participants	A. Rovira (United States of America)	M. Saif (United States of America)

Representing	Members	Alternates
World Health Organization		
Governing body	A. J. Mohamed (Oman)[c]	R. Chacón (Guatemala)
Executive head	N. Jeffreys (United Kingdom of Great Britain and Northern Ireland)	X. Daney (France)
Participants	K. Bruchmann (Germany)	E. Mobio (Côte d'Ivoire)
United Nations Educational, Scientific and Cultural Organization		
Governing body	D. Boubekeur (Greece)	
Participants	L. Ruprecht (Canada)	P. Billault Leiva (Costa Rica)
International Labour Organization		
Executive head	J. Llobera-Serra (Spain)	C. Kunstler (United States of America)
Participants	P. Sayour (Switzerland)	F. Léger (France)
International Atomic Energy Agency		
Governing body	A. Hinton (Canada)	
Executive head	D. Northey (New Zealand)	
United Nations Industrial Development Organization		
Participants	M.-O. Dorer (Lebanon)	
World Intellectual Property Organization		
Governing body	V. Yossifov (Bulgaria)	
Executive head	T. Dayer (Switzerland)	C. Ruggerio (United States of America)
International Civil Aviation Organization		
Governing body	A. Mishra (India)	
Executive head	R. Bhalla (United States of America)	
International Telecommunication Union		
Participants	J. Sanou (Burkina Faso)	D. Plesse (Germany)

Representing	*Members*	*Alternates*
International Maritime Organization		
Executive head	J. Espinoza Ferrey[d]	C. Dahoui (France)[e]
International Fund for Agricultural Development		
Participants	A. Saitto (Italy)	F. Nobile (Italy)

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	*Organizations*	*Representing*
D. Notari	UNESCO	Executive head
D. Neal	IAEA	Participants
I. Adonis	UNIDO	Governing body
B. Fitzgerald	WIPO	Participants
P. Kantchev	ITU	Governing body
J. Watt (6-9 July)	ITU	Executive head
M. Wilson (9-11 July)	ITU	Executive head
F. Fernandez	IMO	Governing body
B. Moradi	IMO	Participants
M. Jürgens	IFAD	Governing body
A. Castellanos del Corral	FAFICS	Pensioners
R. Eggleston	FAFICS	Pensioners
M. Johnson	FAFICS	Pensioners
G. Schramek	FAFICS	Pensioners
A. M. Gudz Robak (alternate)	FAFICS	Pensioners
T. Teshome (alternate)	FAFICS	Pensioners

Observers	*Organization*
S. Hartmann	ITLOS
M. Pace (3-6 July)	FICSA
R. Grippay (9-11 July)	FICSA
B. Wak-Woya	CCISUA
K. Rhodes	ICSC
E. Phillip	ICSC
P. Guazo	HLCM

Secretaries	*Staff pension committees*
K. Guseynova	FAO
B. Sperandio de Llull	WHO
M. Ghelaw	UNESCO
C. McGarry	ILO
R. Sabat	IAEA
P. Nenonen (3-6 July)	UNIDO
R. Dotzauer (9-11 July)	UNIDO
M. Wilson (3-6 July)	ITU
P. Geddes	WMO
A. Nathoo	IMO
L. Orebi	IFAD
B. Pisani	ICCROM
F. Misiti	ICGEB
E. Gouws	ICC
Y. Mortlock	IOM
M. Kashou	STL
K. Gaba Kpayedo	ITLOS

3. The following attended all or part of the session of the Board:

Committee of Actuaries

D. Latulippe, Rapporteur

H. Pérez Montás, Chair

S. Inagaki

B. K. Y. S. Yen

C. Lozano Nathal

Consulting actuary

J. McGrath, Buck Consultants

Audit Committee

S. Frahler, Chairperson

I. Robertson, Vice-Chairman

Medical Consultant[f]

A. Pasquier-Castro

M. Rowell

Board of Auditors[f]

L. Ravhuhali

A. Nongogo

Y. Liu

Investments Committee (3 July)

W. McDonough, Chair

M. Arikawa

E. Cárdenas

M. Dhar

S. Jiang

L. Mohohlo

I. Pictet

D. Sénéquier

Representative of the Secretary-General for the Investments of the Fund

W. Sach

Investment Management Division

S. Bishopric, Director

S. Peerthum, Secretary, Investments Committee

A. Singh

T. Shindo

Z. Tangonan-Fourcade

K. Kessaci

T. Hesounova-Trivell

4. B. Cochemé, Chief Executive Officer, and S. Arvizú, Deputy Chief Executive Officer, served as Secretary and Deputy Secretary for the session, with the assistance of A. Blythe, F. DeTurris, P. Dooley, K.-L. Soll, P. Goddard, C. Kaiser, J. Sareva, D. Mapondera, K. Toomel and P. Snijders.

Notes

[a] Rapporteur

[b] Chair.

[c] First Vice-chair.

[d] Did not attend the session.

[e] Second Vice-Chair.

[f] By videoconference.

Annex III

Membership of the Standing Committee

Representing	*Members*	*Alternates*
United Nations (Group I)		
General Assembly	P. R. Owade	D. Chumakov
	V. M. González Posse	H. Kozaki
		L. Mazemo[a]
Secretary-General	C. Pollard	A. Roy
	J. Pozenel	D. Thatchaichawalit
Participants	C. Santos Tejada[b]	
	A. K. Lakhanpal	
Specialized agencies (Group II)		
Governing body	Z. Malek (FAO)	
Executive head	T. Panuccio (FAO)[c]	
Participants	E. Mobio (WHO)	
Specialized agencies (Group III)		
Governing body	Did not attend (ILO)	
Executive head	D. Notari (UNESCO)	
Participants	D. Neal (IAEA)	
Specialized agencies (Group IV)		
Executive head	C. Ruggerio (WIPO)	
Participants	J. Sanou (ITU)	
Specialized agencies (Group V)		
Governing body	M. Jürgens (IFAD)	

[a] First Vice-Chair.
[b] Chair.
[c] Second Vice-Chair.

Members	*Alternate Representatives*
Federation of Associations of Former International Civil Servants	
R. Eggleston	G. Schramek
M. Johnson	A. M. Gudz Robak

Annex IV

Statement of the actuarial sufficiency, as at 31 December 2011, of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations

1. In the report on the thirty-first actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary has assessed the actuarial sufficiency of the Fund for the purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 2011 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and other actuarial assumptions used, including a 7.5 per cent discount rate, were those adopted by the Pension Board at its fifty-eighth session, in 2011, except that future new participants were not taken into account and no future salary growth was assumed.

3. The liabilities were calculated on a plan termination methodology. Under that methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as at the valuation date. For the purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 2011.

4. All calculations were performed by the Consulting Actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set out in the table below.

Actuarial sufficiency of the Fund as at 31 December 2011

(Millions of United States dollars)

Item	*Amount*
Actuarial value of assets[a]	40 815.0
Actuarial value of accrued benefit entitlements	31 394.0
Surplus	**9 421.0**

[a] Five-year moving average market value methodology, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as at 31 December 2011 is $39,838.1 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as at the valuation date.

Annex V

Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2011

Introduction

1. The actuarial valuation as at 31 December 2011 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, three sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. The assumptions used in the valuation were those adopted by the Pension Board at its fifty-eighth session, in 2011, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2011

2. At its meetings in June 2012, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 2011, which was carried out by the consulting actuary. Based on the results of the regular valuation and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan, and would be reviewed at the time of the next actuarial valuation, as at 31 December 2013.

Annex VI

Membership of the Committee of Actuaries

Member	*Representing*
J. Král (Czech Republic)	Region III (Eastern European States)
D. Latulippe (Canada)	Region V (Western European and Other States)
S. Inagaki (Japan)	Region II (Asian States)
H. Pérez Montás (Dominican Republic)	Region IV (Latin American and Caribbean States)
B. K. Y. S. Yen (Mauritius)	Region I (African States)

Ad hoc member	*Representing*
C. L. Nathal (Mexico)	Region IV (Latin American and Caribbean States)
K. Heubeck (Germany)	Region V (Western Europe and Other States)

Annex VII

Membership of the Investments Committee

Members

M. Arikawa (Japan)

E. J. Cárdenas (Argentina)

M. Dhar (India)

S. Jiang (China)

A. Kassow (Germany)

N. A. Kirdar (Iraq)

L. K. Mohohlo (Botswana)

W. J. McDonough (United States of America)

Ad hoc members

I. Pictet (Switzerland)

D. Sénéquier (France)

Annex VIII

Financial statements of the United Nations Joint Staff Pension Fund for the biennium 2010-2011

Attached are the financial statements, related schedule and statistical tables of the United Nations Joint Staff Pension Fund for the biennium 2010-2011. The documentation consists of the following items:

A. Letter of transmittal to the United Nations Joint Staff Pension Board

The United Nations Joint Staff Pension Fund (UNJSPF) was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan governed by the United Nations Joint Staff Pension Board. The Chief Executive Officer of the Fund also serves as the Secretary of the Board. Further information about the governance of the Fund is provided in the notes to the financial statements (sect. C.A).

Risk management

The Fund has a well-developed governance structure, management process and internal and external oversight mechanisms to adequately identify, assess, manage, monitor and report the risks inherent to its operations. In 2006, the Fund adopted its first enterprise-wide risk management policy aimed at implementing a framework with a comprehensive and integrated approach to risk management. During its fifty-seventh session, in July 2010, the Pension Board updated the enterprise-wide risk management policy to include core risk management principles and to specify risk management functional responsibilities in line with the Fund's accountability statement. The approach to enterprise-wide risk management adopted by the Fund reflects the nature of its operations and development, as well as its specific requirements, and incorporates risk management best practices developed by the Committee of Sponsoring Organizations of the Treadway Commission and the International Organization of Supreme Audit Institutions.

The Fund's risk management framework includes the following components:

- A well-developed governance structure and management process that adequately review the performance and operational activities of the Fund;
- The Audit Committee of the Pension Board which includes independent experts and oversees the Fund's internal auditors and considers the scope and recommendations of the external auditors;
- Approved policies, guidelines, terms of reference and charter;
- An adequately funded ratio;
- Periodic actuarial reviews that assess the Fund's ability to meet its long-term financial obligations and test demographic, financial and other assumptions;
- Periodic comprehensive asset-liability management studies;
- Enterprise-risk assessment reports prepared by independent consulting firms;
- An effective enterprise-wide risk management working group;
- Established risk management functions.

In executing its risk management policy, UNJSPF develops and maintains systems of internal control and support procedures. The systems of internal control are designed to provide reasonable assurance: that assets are safeguarded; that transactions are properly recorded and authorized, and are in accordance with the Regulations and Rules of the Fund and the pension adjustment system of the Fund and its investment policies, and with the decisions of the Pension Board and the General Assembly; and that there are no material misstatements in the financial statements.

The internal controls established to provide oversight of financial reporting and disclosure controls and procedures are tested for both design and operational effectiveness. The internal control framework includes a multitiered corporate governance structure and financial, administrative and operational controls, such as segregation of duties, periodic reconcilement of accounts and controls embedded in the Fund's information systems.

Management's responsibility for financial reporting

The financial statements of the Fund are prepared by management and submitted for the approval of the Pension Board. The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the management and administration of the investments of the Fund are responsible for the integrity and reliability of the financial statements. The Chief Financial Officer reports to the Chief Executive Officer and to the Representative of the Secretary-General on their respective substantive responsibilities and certifies the financial statements in coordination with them. The financial statements have been prepared in accordance with the United Nations system accounting standards. They include certain amounts based on management's judgements and best estimates, where deemed appropriate. The significant accounting policies used are disclosed in the notes to the financial statements (note C, sect. C).

The Audit Committee assists the Pension Board in discharging its responsibility to approve the annual consolidated financial statements. The Committee, which is composed of two independent expert members and up to six members elected by the Pension Board, as well as a member representing retired staff members who are in receipt of pensions from the Fund, meets regularly with management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Committee reviews and discusses the financial statements with management and the external auditors and provides observations and recommendations to the Pension Board.

The United Nations Board of Auditors, the external auditors of UNJSPF, have conducted an independent examination of the consolidated financial statements, in accordance with the United Nations system accounting standards, performing such tests and other procedures as they consider necessary to express an opinion in their report. The external auditors have full and unrestricted access to management and to the Audit Committee to discuss any findings related to the integrity and reliability of the Fund's financial reporting and the adequacy of its internal control systems.

(*Signed*) Bernard **Cochemé**
Chief Executive Officer
United Nations Joint Staff Pension Fund

(*Signed*) Warren **Sach**
Representative of the Secretary-General for the Investments of the United Nations Joint Staff Pension Fund

(*Signed*) Karl-Ludwig **Soll**
Chief Financial Officer
United Nations Joint Staff Pension Fund

11 June 2012

B. Financial statements and schedule[a]

Statement I

Statement of income and expenditure and changes in principal of the Fund for the bienniums 2010-2011 and 2008-2009

(United States dollars)

	Reference	*2010-2011*		*2008-2009*	
Income					
Contributions	Note C.4				
Participants					
Regular contributions		1 381 484 828		1 229 336 569	
Contributions for validation		2 001 761		2 172 740	
Contributions for restoration		13 056 818		18 697 970	
Member organizations					
Regular contributions		2 762 969 656		2 458 673 138	
Contributions for validation		3 900 834		4 271 438	
Contributions for participants transferred in under agreements		6 338 878		3 625 090	
Receipts of excess actuarial value over regular contributions		340 813	**4 170 093 588**	1 247 879	**3 718 024 824**
Investment income	Note G				
Interest earned		924 749 574		1 034 136 807	
Dividends		1 234 915 695		1 158 293 514	
Real estate and related securities		140 286 977		97 917 839	
Alternative investments		1 832 892		–	
Recognized gains/(losses) on investments	Note H	426 637 625	**2 728 422 763**	411 660 646	**2 702 008 806**
Interest earned on contributions			**274 076**		**1 587 692**
Other income	Note C.8		**22 432 386**		**17 014 891**
Total income			**6 921 222 813**		**6 438 636 213**

[a] The accompanying schedule and notes are an integral part of the financial statements.

Statement I (continued)

	Reference	*2010-2011*		*2008-2009*	
Expenditure					
Payment of benefits	Note C.5				
Withdrawal settlements and full commutation of benefits		208 010 686		203 198 139	
Retirement benefits	Note A.6	2 040 938 273		1 812 007 074	
Early retirement benefits	Note A.6	1 141 907 704		1 089 840 152	
Deferred retirement benefits	Note A.6	164 713 026		157 210 934	
Disability benefits	Note A.7	102 644 399		94 115 517	
Death benefits	Note A.8	396 845 503		360 737 918	
Children's benefits	Note A.9	47 702 786		42 877 532	
Currency exchange adjustments		(3 342 968)		(3 752 743)	
Payments for participants transferred out under agreements		2 326 938	**4 101 746 347**	3 321 560	**3 759 556 083**
Administrative expenses	Schedule 1, Note B				
Administrative costs		77 549 429		71 075 800	
Investment costs chargeable to gross income from investments		56 731 642		45 471 400	
Audit costs		2 078 008		2 294 700	
Board expense		204 267	**136 563 346**	127 400	**118 969 300**
Emergency Fund	Note C.7		**91 636**		**69 333**
Change in after-service health insurance and end-of-service liabilities	Note M		**13 883 000**		**3 061 000**
Total expenditure			**4 252 284 329**		**3 881 655 716**
Excess of income over expenditure			**2 668 938 484**		**2 556 980 497**
Prior-period adjustments	Note J		(576 661 039)		5 562 341
Net excess of income over expenditure			**2 092 277 445**		**2 562 542 838**

Statement I (continued)

	Reference	*2010-2011*	*2008-2009*
Principal of the Fund			
Principal of the Fund, beginning of year		33 114 592 668	30 583 419 830
Beginning balance, after-service health insurance and end-of-service liabilities	Note M	–	(31 370 000)
Principal of the Fund, end of year		35 206 870 113	33 114 592 668
Change in principal of the Fund		**2 092 277 445**	**2 562 542 838**

Statement II

Statement of assets, liabilities and principal of the Fund as at 31 December 2011 and 2009

(United States dollars)

	Reference	*2011*		*2009*	
Assets					
Cash and term deposits	Note C.1		1 937 300 007		757 915 871
Investments	Notes C.2, K				
Temporary investments — at cost				115 377 384	
Bonds — at cost (market value: 12,185,082,061)		11 582 027 633		10 591 103 829	
Stocks and convertible bonds — at cost (market value: 23,461,570,065)	Note J	19 641 024 674		19 858 590 541	
Real estate and related securities — at cost (market value: 1,907,015,752)	Notes J, K.1	1 692 483 796		1 596 823 170	
Alternative investments (market value: 208,768,178)	Notes J, K.2	215 649 765	33 131 185 868	–	32 161 894 924
Accounts receivable					
Contributions receivable from member organizations	Note C.4	34 118 951		31 243 083	
Accrued income from investments	Note E	173 864 131		180 923 410	
Receivable for taxes withheld	Notes C.3, F	22 388 339		58 290 559	
(Less) Provision for receivable for taxes withheld	Note F	(14 514 023)		(9 736 301)	
Other		7 643 757		5 434 760	
(Less) Provision for doubtful accounts	Note C.10	(2 490 655)	221 010 500	–	266 155 511
Prepaid benefits	Note C.11		14 728 844		16 512 016
Total			**35 304 225 219**		**33 202 478 322**

Statement II (continued)

	Reference	*2011*		*2009*	
Liabilities					
Accounts payable					
Benefits payable	Note C.12	32 567 343		29 065 100	
Other	Note C.13	16 473 763	49 041 106	24 389 554	53 454 654
After-service health insurance and end-of-service liabilities	Note M		48 314 000		34 431 000
Total			**97 355 106**		**87 885 654**
Principal of the Fund	**Note C.6**		**35 206 870 113**		**33 114 592 668**
Total			**35 304 225 219**		**33 202 478 322**

Statement III

Statement of cash flows for the bienniums ended 31 December 2011 and 2009

(United States dollars)

	2010-2011	*2008-2009*
Cash flows from operation activities		
Net excess of income over expenditure	2 092 277 445	2 562 542 838
(Increase) decrease in contributions receivable	(2 875 868)	85 609 469
Decrease (increase) in other accounts receivable	281 658	(1 137 996)
Decrease in prepaid benefits	1 783 172	1 223 972
Increase in benefits payable	3 502 243	2 892 236
(Decrease) increase in other accounts payable	(7 915 791)	16 447 244
Increase in after-service and end-of-service liabilities	13 883 000	3 061 000
Net cash from operation activities	**2 100 935 859**	**2 670 638 763**
Cash flows from investment activities		
(Increase) in cost of investments	(969 290 944)	(2 103 646 440)
Decrease in investments receivable	47 739 221	111 915 014
(Decrease) in payable for securities purchased	–	(81 947 358)
Net cash (used in) from investment activities	**(921 551 723)**	**(2 073 678 784)**
Net cash from activities	**1 179 384 136**	**596 959 979**
Cash and term deposits, beginning of year	757 915 871	160 955 892
Cash and term deposits, end of year	1 937 300 007	757 915 871
Net increase in cash and term deposits	**1 179 384 136**	**596 959 979**

Schedule 1

Status of appropriations for the biennium ended 31 December 2011 in relation to administrative expenses for the bienniums ended 31 December 2011 and 2009

(Thousands of United States dollars)

	Revised appropriations 2010-2011			*Expenditure 2010-2011*			*Expenditure 2008-2009*		
	UNJSPF	*United Nations*	*Total*	*UNJSPF*	*United Nations*	*Total*	*UNJSPF*	*United Nations*	*Total*
A. Administrative costs									
Established posts	**25 721.3**	**11 569.7**	**37 291.0**	**26 279.9**	**11 541.5**	**37 821.4**	**23 558.1**	**10 966.7**	**34 524.8**
Other staff costs	**2 942.4**	**1 471.2**	**4 413.6**	**2 656.7**	**1 328.3**	**3 985.0**	**2 180.9**	**624.2**	**2 805.1**
Consultants	**338.5**	**–**	**338.5**	**449.2**	**–**	**449.2**	**106.4**	**–**	**106.4**
Travel of staff	792.1	–	792.1	774.8	–	774.8	471.6	–	471.6
Travel of representatives	505.0	–	505.0	388.4	–	388.4	526.1	–	526.1
Travel	**1 297.1**	**–**	**1 297.1**	**1 163.2**	**–**	**1 163.2**	**997.7**	**–**	**997.7**
Training	**276.9**	**–**	**276.9**	**126.6**	**–**	**126.6**	**228.7**	**–**	**228.7**
International Computing Centre services	10 958.1	3 002.5	13 960.6	10 458.1	2 899.8	13 357.9	8 320.8	2 535.6	10 856.4
Contractual services	3 838.4	682.6	4 521.0	3 602.6	536.7	4 139.3	5 224.5	609.9	5 834.4
Contractual services	**14 796.5**	**3 685.1**	**18 481.6**	**14 060.7**	**3 436.5**	**17 497.2**	**13 545.3**	**3 145.5**	**16 690.8**
Hospitality	**5.3**	**–**	**5.3**	**8.2**	**–**	**8.2**	**2.6**	**–**	**2.6**
Rental and maintenance of premises	7 262.4	3 631.2	10 893.6	7 550.9	3 775.4	11 326.3	5 429.8	2 714.9	8 144.7
Rental and maintenance of equipment	46.6	23.3	69.9	65.0	32.5	97.5	74.4	30.0	104.4
Communications services	941.7	183.4	1 125.1	524.6	68.9	593.5	630.8	72.9	703.7
Operating expenses	367.7	–	367.7	304.7	–	304.7	252.3	37.6	289.9
Bank charges	2 528.3	–	2 528.3	2 298.0	–	2 298.0	2 398.4	–	2 398.4
General operating expenses	**11 146.7**	**3 837.9**	**14 984.6**	**10 743.2**	**3 876.8**	**14 620.0**	**8 785.7**	**2 855.4**	**11 641.1**
Supplies and materials	307.3	82.6	389.9	291.7	70.6	362.3	190.4	72.9	263.3
Furniture and equipment	2 560.0	440.0	3 000.0	1 240.5	275.8	1 516.3	3 384.2	431.1	3 815.3
Supplies furniture and equipment	**2 867.3**	**522.6**	**3 389.9**	**1 532.2**	**346.4**	**1 878.6**	**3 574.6**	**504.0**	**4 078.6**
Total administrative costs	**59 392.0**	**21 086.5**	**80 478.5**	**57 019.9**	**20 529.5**	**77 549.4**	**52 980.0**	**18 095.8**	**71 075.8**
B. Investment costs									
Established posts	**14 390.6**	**–**	**14 390.6**	**13 291.3**	**–**	**13 291.3**	**10 617.0**	**–**	**10 617.0**
Other staff costs	**2 087.1**	**–**	**2 087.1**	**1 126.6**	**–**	**1 126.6**	**318.9**	**–**	**318.9**

	Revised appropriations 2010-2011			*Expenditure 2010-2011*			*Expenditure 2008-2009*		
	UNJSPF	*United Nations*	*Total*	*UNJSPF*	*United Nations*	*Total*	*UNJSPF*	*United Nations*	*Total*
Consultants	**2 328.8**	**–**	**2 328.8**	**896.1**	**–**	**896.1**	**299.5**	**–**	**299.5**
Travel of staff	1 047.1	–	1 047.1	813.9	–	813.9	630.4	–	630.4
Investment committee	663.9	–	663.9	457.3	–	457.3	387.6	–	387.6
Travel	**1 711.0**	**–**	**1 711.0**	**1 271.2**	**–**	**1 271.2**	**1 018.0**	**–**	**1 018.0**
Training	**405.0**	**–**	**405.0**	**122.5**	**–**	**122.5**	**215.1**	**–**	**215.1**
Electronic-data processing and other contractual services	7 834.0	–	7 834.0	3 747.5	–	3 747.5	1 198.9	–	1 198.9
External legal consultant	1 200.0	–	1 200.0	772.4	–	772.4	653.9	–	653.9
Investment reference services	2 409.5	–	2 409.5	2 633.3	–	2 633.3	2 175.5	–	2 175.5
Advisory and custodial fees	32 990.2	–	32 990.2	28 426.1	–	28 426.1	23 463.1	–	23 463.1
Contractual services	**44 433.7**	**–**	**44 433.7**	**35 579.3**	**–**	**35 579.3**	**27 491.4**	**–**	**27 491.4**
Hospitality	**23.4**	**–**	**23.4**	**33.5**	**–**	**33.5**	**16.4**	**–**	**16.4**
Rental and maintenance of premises	4 410.1	–	4 410.1	3 706.5	–	3 706.5	5 011.5	–	5 011.5
Rental and maintenance of equipment	16.4	–	16.4	12.0	–	12.0	12.4	–	12.4
Communications services	–	–	–	–	–	–	–	–	–
Operating expenses	644.4	–	644.4	66.6	–	66.6	133.6	–	133.6
General operating expenses	**5 070.9**	**–**	**5 070.9**	**3 785.1**	**–**	**3 785.1**	**5 157.5**	**–**	**5 157.5**
Supplies and materials	159.6	–	159.6	98.2	–	98.2	91.0	–	91.0
Furniture and equipment	678.9	–	678.9	527.8	–	527.8	246.6	–	246.6
Supplies, furniture and equipment	**838.5**	**–**	**838.5**	**626.0**	**–**	**626.0**	**337.6**	**–**	**337.6**
Total investment costs	**71 289.0**	**–**	**71 289.0**	**56 731.6**	**–**	**56 731.6**	**45 471.4**	**–**	**45 471.4**
C. Audit costs									
External audit	**551.0**	**110.2**	**661.2**	**551.0**	**110.2**	**661.2**	**568.4**	**113.7**	**682.1**
Internal audit	**1 559.7**	**312.0**	**1 871.7**	**1 180.7**	**236.1**	**1 416.8**	**1 343.8**	**268.8**	**1 612.6**
Total audit costs	**2 110.7**	**422.2**	**2 532.9**	**1 731.7**	**346.3**	**2 078.0**	**1 912.2**	**382.5**	**2 294.7**
D. Board expenses	**245.3**	**–**	**245.3**	**204.3**	**–**	**204.3**	**127.4**	**–**	**127.4**
Total administrative expenses	**133 037.0**	**21 508.7**	**154 545.7**	**115 687.5**	**20 875.8**	**136 563.3**	**100 491.0**	**18 478.3**	**118 969.3**
E. Income									
Income from operations banks	**–**	**–**	**–**	**274.1**	**–**	**274.1**	**1 587.7**	**–**	**1 587.7**

C. Notes to the financial statements for the biennium ended 31 December 2011

A. Description of the plan

The following is a brief description of the United Nations Joint Staff Pension Fund (UNJSPF). The Rules and Regulations of the Pension Fund are available at the Fund's website (www.unjspf.org).

1. General

The Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund based on pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers (see note C.4).

The Fund is governed by a Pension Board which is made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, four of whom are elected by the General Assembly, four from those appointed by the Secretary-General and four from those elected by the participants in service at the United Nations; and (b) 21 members appointed by the staff pension committees of the other member organizations in accordance with the Rules of Procedure of the Pension Fund, seven of whom are chosen by the bodies of the member organizations corresponding to the General Assembly, seven from those appointed by the chief administrative officers of the member organizations and seven from those chosen by the participants in service.

The management of the investments of the Fund is the fiduciary responsibility of the Secretary-General, in consultation with an Investments Committee and in light of observations and suggestions made from time to time by the Board on the investments policy. The Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board. The Assistant Secretary-General for Central Support Services has been designated as the Representative of the Secretary-General and has been delegated the responsibility for the management and accounting of the investments of the Fund. The Representative of the Secretary-General is assisted by the staff of the Investment Management Division. All investments must, at the time of initial review, meet the criteria of safety, profitability, liquidity and convertibility. The Fund's investment portfolio, excluding cash, totalled $37.8 billion in market value as at 31 December 2011.

2. Administration of the Fund

The Fund is administered by the United Nations Joint Staff Pension Board (the "Board"), a staff pension committee for each member organization, and a secretariat to the Board and to each such committee.

The Chief Executive Officer of the Fund, who also serves as Secretary of the Pension Board, is appointed by the Secretary-General on the recommendation of the Pension Board.

The Chief Executive Officer is responsible for the administration of the Pension Fund and for the observance, by all concerned, of the Regulations and Rules of the Fund and the pension adjustment system. This includes responsibility for: the establishment of policy; the administration of the Pension Fund's operations and the overall supervision of its staff; the organization, servicing and participation of the Pension Fund secretariat in the meetings of the Pension Board, its Standing Committee, the Audit Committee, the Committee of Actuaries and other related bodies; representing the Pension Board at meetings of the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and any other pertinent bodies; and serving as Secretary of the United Nations Staff Pension Committee. The Chief Executive Officer is also responsible for providing a range of administrative functions to ensure the smooth functioning of the Investment Management Division.

The Chief Financial Officer, who reports to the Chief Executive Officer and to the Representative of the Secretary-General in their respective substantive responsibilities, is responsible for formulating financial policy for the Fund, reviewing budgetary, financial and accounting operations of the Fund and ensuring that an adequate financial control environment is in place in order to protect the Fund's resources and to guarantee the quality and reliability of financial reporting. In addition, the Chief Financial Officer is responsible for setting the rules for the collection, from the different information systems and areas of the Fund, of the financial and accounting data necessary for the preparation of the Fund's financial statements, to which full access is provided. The Chief Financial Officer ensures that the financial statements are in compliance with the Fund's Regulations and Rules, the accounting standards adopted by the Fund and the decisions of the Pension Board and the General Assembly, and certifies, together with the Chief Executive Officer and the Representative of the Secretary-General, the Fund's financial statements.

3. Participation in the Fund

Full-time members of the staff of each member organization become participants in the Fund upon commencing employment under an appointment for six months or longer or upon completion of six months service without an interruption of more than 30 days. As of 31 December 2011, the Fund had over 120,000 active contributors (participants) belonging to 23 organizations and agencies (which include the United Nations Secretariat, UNICEF, UNDP, UNHCR as well as various specialized agencies, including such as WHO and ILO in Geneva, IAEA in Vienna, ICAO in Montreal and UNESCO in Paris (see appendix for a complete list of member organizations)). There are currently more than 65,000 retirees (beneficiaries) in some 190 countries. The annual pension payments, which total approximately $2.1 billion, are paid in 15 different currencies.

4. Operation of the Fund

Participant and beneficiary processing and queries are handled by the operations area of the Fund, at offices located in New York and Geneva. All of the accounting for operations is handled in New York by the centralized Financial Services Section, which also manages the banking and receipt of monthly contributions from member organizations and the funding of the monthly pension payroll.

The management of the investments of the Fund is the fiduciary responsibility of the Secretary-General, in consultation with the Investments Committee and in the light of observations and suggestions made from time to time by the Board regarding the investment policy. The Assistant Secretary-General for Central Support Services has been designated as the Representative of the Secretary-General for the management and administration of the investments of the Fund. The Representative is assisted by the staff of the Investment Management Division.

5. Actuarial valuation of the Fund

Article 12 of the Regulations of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14) provides that the Pension Board shall carry out an actuarial valuation of the Fund at least once every three years. Article 12 also provides that the actuarial report shall state the assumptions on which the calculations are based, describe the methods of valuation used and state the results and the recommendations, if any, for appropriate action (see sect. N for the summary of the actuarial situation of the Fund as of the most recent actuarial valuation (31 December 2009)).

6. Retirement benefit

Any participant who has five years of contributory service receives, upon separation at or after normal retirement age, a retirement benefit payable for the remainder of his or her life. "Normal retirement age" means age 60 for participants whose service commenced prior to 1 January 1990 and age 62 for participants whose service commenced or recommenced on or after 1 January 1990.

The standard annual rate of retirement benefit for a participant who enters the Fund on or after 1 January 1983 is the sum of:

(a) 1.5 per cent of final average remuneration multiplied by the first five years of contributory service;

(b) 1.75 per cent of final average remuneration multiplied by the next five years of contributory service;

(c) 2 per cent of final average remuneration multiplied by the years of contributory service in excess of 10, but not exceeding 25; and

(d) Years of contributory service in excess of 35 and performed as from 1 July 1995, by 1 per cent of the final average remuneration, subject to a maximum total accumulation rate of 70 per cent.

The standard annual rate of retirement benefit for a participant who entered the Fund prior to 1 January 1983, is 2 per cent of final average remuneration multiplied by contributory service not exceeding 30 years, plus 1 per cent of final average remuneration multiplied by such service in excess of 30 years, not exceeding 10 years.

The maximum benefit to participants at the equivalent level of Under-Secretary-General or Assistant Secretary-General is the greater of 60 per cent of pensionable remuneration at the date of separation or the maximum benefit that would be payable, at that date, to a participant at the D-2 level (who has been at the top step for the preceding five years).

The minimum annual rate of retirement benefit is the smaller of $180 or one thirtieth of final average remuneration, multiplied by contributory service not exceeding 10 years. The annual rate of the benefit is not less than the smaller of $300 or the final average remuneration of the participant.

"Final average remuneration" means the average annual pensionable remuneration of a participant during the 36 completed months of highest pensionable remuneration within the last 5 years of contributory service.

A participant may, except in the case where a minimum benefit is payable and he or she does not waive the rights thereto, elect to receive (a) if the retirement benefit is $300 per annum or more, a lump sum not greater than the larger of one third of the actuarial equivalent of the retirement benefit (not exceeding the maximum amount payable to a participant then retiring at normal retirement age, with final average remuneration equal to the pensionable remuneration for the top step of the P-5 level) or the amount of the participant's own contributions at retirement, and the participant's retirement benefit is then reduced accordingly; or (b) if the participant's retirement benefit is less than $300 per annum, the lump sum actuarial equivalent of the full retirement benefit, including the prospective spouse's benefit, if any, if the participant so elects.

Early retirement

An early retirement benefit is payable to a participant whose age on separation is at least 55 but less than the normal retirement age and who has 5 years or more of contributory service at separation.

The early retirement benefit is payable at the standard annual rate for a retirement benefit reduced by 6 per cent for each year between retirement date and normal retirement age, except that: (a) if the participant has completed 25 but less than 30 years of contributory service at the date of retirement, the part of the benefit for service before 1 January 1985 is reduced by 2 per cent a year, and the remaining part of the benefit is reduced by 3 per cent a year; or (b) if the participant has completed 30 or more years of contributory service at the date of retirement, the benefit is reduced by 1 per cent a year; provided however that the rate in (a) or (b) applies to no more than five years.

The early retiree may elect to receive a lump sum on the same terms as for a retirement benefit.

Termination prior to eligibility for early retirement

A deferred retirement benefit is payable to a participant whose age on separation is less than normal retirement age and who has 5 years or more of contributory service at separation. The deferred retirement benefit is payable at the standard rate for a retirement benefit and commences at normal retirement age. The participant may elect to have the benefit commence at or after age 55 on the same terms as for an early retirement benefit.

The participant may elect to receive a lump sum equal to the full actuarial value of the benefit if the benefit at normal retirement age is less than $300 per annum. Effective 1 April 2000, the option for a participant to elect to receive a lump sum equal to his or her contributions if the benefit at normal retirement is at least $300 per annum, was eliminated.

A withdrawal settlement is payable to a participant separating from service before normal retirement age or on or after normal retirement age if the participant is not entitled to a future retirement benefit. The participant receives his or her own contributions increased by 10 per cent for each year of contributory service in excess of 5 years, to a maximum increase of 100 per cent. If the participant's contributory service was at least 5 years and commenced prior to 1 April 1961, an alternative payment computed under the rules in effect on 31 December 1966 with respect to contributions up to that date may be received.

7. Disability benefit

A disability benefit is payable to a participant incapacitated for further service for a period likely to be permanent or of long duration.

The disability benefit is payable at the standard or minimum annual rate for a retirement benefit if the participant has reached at least normal retirement age at the time of disability. If the participant is under normal retirement age, it is payable at the rate of the retirement benefit to which the participant would have been entitled if he or she had remained in service until normal retirement age and his or her final average remuneration had remained unchanged.

The annual rate of the benefit shall, notwithstanding the above, not be less, when no other benefit is payable on the account of the participant, than the smaller of $500 or the final average remuneration of the participant.

8. Death benefit

If an active participant dies, a benefit is payable to a surviving spouse if the participant died in service or after becoming entitled to a disability benefit, or the participant was entitled to a retirement, early retirement, or deferred retirement benefit.

The spouse's benefit is payable at the standard annual rate of 50 per cent of the benefit to which the participant was entitled or which would have been payable at the time of his or her death; the benefit is not less than the smaller of $750 per annum or twice the standard annual rate. The annual rate of the benefit shall not be less, when no other benefit is payable on the account of the participant, than the smaller of $500, or the final average remuneration of the participant. A spouse's benefit ceases upon remarriage at which time a lump sum equal to twice the annual spouse's benefit is paid. If the spouse's benefit is paid to more than one spouse, upon the death or remarriage of one such spouse, that spouse's share is divided among the remainder (with no remarriage benefit then being payable). If a participant dies prior to commencement of a deferred retirement benefit, the spouse's benefit is based on the actuarial equivalent of the deferred benefit at the time of his or her death.

9. Child benefit

A child's benefit is payable to each unmarried child under the age of 21 of a participant who dies in service or who is in receipt of or eligible to receive a retirement, early retirement or disability benefit. The benefit is also payable or continued after 21 if the child is incapacitated for gainful employment.

The benefit is payable beginning upon the date of death or when periodic benefits begin, except in the case of early retirement, in which case the benefit is paid to the child at the participant's normal retirement age (or upon his or her death, if earlier), with the exception of a child under the age of 21, found by the Board to be disabled.

The child's benefit is equal to one third of the retirement or disability benefit payable but not less than $300 or more than $600 per annum per child, to a maximum for all children of $1,800, during the continuance of any other periodic benefit. If no other periodic benefit is payable and there is no surviving parent capable of supporting the child, or if a spouse's benefit is payable to one who is not a natural or adoptive parent who does not have custody of the child, the foregoing child's benefit is increased by the greater of: (a) $300 or one quarter of the periodic benefit from which it is derived, if one child's benefit is payable, and (b) $600 or one half of the periodic benefit from which it is derived divided by the number of eligible children if benefits are payable to more than one child. The total benefit payable to all children may not exceed, when added to any periodic benefit payable (retirement benefit at the standard rate), the participant's final average remuneration added to the children's allowances payable at the time of his or her separation.

10. Pension adjustment

The provisions of the Fund's pension adjustment system provide for periodic cost-of-living adjustments in benefits. In addition, for participants who retire in a country whose currency is not the United States dollar, the current pension adjustment system is intended to ensure that a periodic benefit never falls below the "real" value of its United States dollar amount, as determined under the Regulations and Rules of the Fund, and preserves its purchasing power as initially established in the currency of the recipient's country of residence. This is achieved by establishing a dollar base amount and a local currency base amount (the two-track system).

The "real" value of a United States dollar amount is that amount adjusted over time for movements of the United States consumer price index, while the purchasing power of a recipient's benefit, once established in local currency, is preserved by adjusting it to follow movements of the consumer price index in the recipient's country of residence.

B. Basis of the presentation

The accompanying financial statements have been prepared in accordance with the United Nations system accounting standards, which follow a modified cash basis of accounting.

The Fund compiles its own financial statements, which consist of data collected from three main areas. For operational activities (contributions and payment of benefits), the Fund maintains its own records and systems. For investment activities, the Fund collects source data provided by the Global Custodian of the Fund and master record keeper through the Investment Management Division. For its administrative expenses, the Fund utilizes United

Nations systems (the Integrated Management Information System (IMIS)) to record and compile its administrative expense activity. Some of the administrative expenses of the Fund, including costs associated with the administrative tasks of the United Nations Staff Pension Committee, are reimbursed by the United Nations under the terms of a cost-sharing arrangement. The Fund discloses the reimbursement by the United Nations as other income (see note C.8 below).

The accounts are presented in United States dollars with balances held in currencies other than United States dollars being converted to United States dollars at the United Nations operational rate of exchange as at December 2011. For investments, market spot rates of exchange have been employed, as explained in note C.2 below.

C. Summary of accounting policies

The following are the significant accounting policies adopted by the Fund, which take into account the common accounting standards for the United Nations system (except as noted below), and are in accordance with the Regulations and Rules of the Fund and its pension adjustment system, as adopted by the General Assembly.

1. Cash and term deposits

Cash and term deposits are held at nominal value and comprise cash at banks and money market and short-term deposits, which are subject to an insignificant risk of undergoing a change in value.

2. Investments

Investments of the Fund are recorded at cost using commercial historical exchange rates at the time of the transaction or current market rates as at 31 December 2011. United Nations operational rates of exchange are not used for reporting the investments of the Fund. Purchases and sales of securities are recorded on a "trade date basis". Realized gains and losses on sales are based on the average cost of the respective securities. Dividends are recognized on the ex-dividend date. Income from other investments is recorded on an accrual basis. Cash, accrued income from investments and foreign tax accounts receivables denominated in currencies other than United States dollars are translated monthly using the applicable commercial or spot exchange rates in effect as at the end of each month.

Investment income comprises interest earned, dividends, distributions from real estate, private equity and commodities and infrastructure funds and net realized gains/(losses) on the sale of investments.

Accrued income from investments and foreign tax accounts receivables month-end balances are automatically reversed on the first day of the following month whenever no cash is received and the amounts re-accrued each month. Funds on deposit in interest-bearing bank accounts and overnight facilities and/or call accounts are shown in the statements of assets, liabilities and principal of the Fund as cash.

No provision is made for the amortization of bond premiums or discounts, which are taken into account as part of the realized gain or loss when investments are sold. Provision is made for accretion of interest income on temporary investments such as commercial papers, treasury bills and discount notes.

Year-end private real estate funds, infrastructure and private equity market values are the values as of the end of the third quarter adjusted to reflect the cash flows during the fourth quarter. This is in accordance with industry standards as appraisals as of 31 December are not available on a consistent and timely basis for presentation in the year-end financial statements. Any information obtained after the cut-off and/or closing date of the master record keeper, except for the recording of cash flows, will be recorded in the following financial period.

The market value of each investment class, which is noted in parenthesis on the statement of assets, liabilities and principal of the Fund as at 31 December 2011, is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves provided by the master record keeper's pricing vendors.

At each financial statement date, the Fund assesses whether there is objective evidence that the cost basis of a financial asset needs to be adjusted. The assessment is performed for each security separately. A significant or prolonged decline in the market value of the security below its cost is considered in determining whether the cost basis of a financial asset needs to be adjusted. If evidence of a significant or prolonged decline in market value exists, the adjustment is recognized as a reduction of the asset cost basis to market value in the financial statements; investment income is reduced accordingly. Evidence of a significant decline is considered a market value of 50 per cent or lower of the cost basis of the investment measured in the trading currency of the security. Evidence of a prolonged decline is considered a market value of 90 per cent or lower of the cost basis of the investment for at least four consecutive years measured in the trading currency of the security. For real estate investment and alternative investment funds not quoted on a public market, liquidation of the fund is considered objective evidence for an adjustment of the cost basis. If the amount of the cost adjustment decreases in subsequent periods, the previously recognized adjustment is reversed directly to investment income.

3. Tax status

The Fund is exempt from taxation by Member States in accordance with Article 105 of the Charter of the United Nations and article II, section 7 (a), of the 1946 Convention on the Privileges and Immunities of the United Nations. While some Member States grant relief at source for the Fund's income from investments, others withhold taxes at the time dividends are paid. In such instances, the Fund's custodian bank files claims to the governmental taxing authorities for a refund on behalf of the Fund. Although these Member States have confirmed the Fund's tax-exempt status, some countries, including Brazil, China, Greece, Mexico and Turkey, have no formal tax reclamation mechanism in place. The Global Custodian and/or sub-custodian have thus far been unable to file and/or reclaim the taxes withheld. The Investment Management Division continues its efforts to inform the representatives of such jurisdictions about the Fund's tax-exempt status with the objective of accelerating the implementation of tax reclamation procedures.

In accordance with document JSPF/53/R.43, on 4 May 2006, the Investment Management Division informed the Pension Board, regarding the oldest taxes outstanding under two prior custodians, that one country claimed to have lost all records regarding the Fund's claims and the other had informed the Fund that all records had been destroyed because of their age. The custodians were therefore unable to pursue the outstanding claims with the respective governmental taxing authorities. The Fund will continue to work closely with the current Global Custodian and will also work independently, through the Representative of the Secretary-General, to contact the Permanent Missions of the Member States concerned with regard to the collection of the older tax receivables.

Provision for receivables from taxes withheld includes tax claims four years or older and receivables in countries where no tax reclamation procedures are in place.

4. Contributions

Contributions are recorded on an accrual basis. Participants and their employing member organizations are required to contribute, 7.9 per cent and 15.8 per cent, respectively, of their pensionable remuneration to the Fund (see note A.1). Each month the Fund accrues a receivable amount for contributions expected. When contributions are received, the receivable is offset. Contributions are due to be paid by member organizations by the second business day of the month following the month to which the contributions relate. The contribution income varies based on changes in the number of participants, in the distribution of participants, in pensionable remuneration rates as a result of cost-of-living increases determined by ICSC and in the yearly step-increase to the individual pensionable remuneration received by all participants.

5. Benefits

Payments of benefits, including withdrawal settlements, are recorded on an accrual basis. The right to a benefit is generally forfeited if, for two years (withdrawal settlement or residual settlement) or five years (retirement, early retirement, deferred retirement or disability benefit) after payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.

6. Principal of the Fund

The principal of the Fund represents the net assets at book value (cost) accumulated by the Fund to meet future entitlements.

7. Emergency Fund

Participants wishing to avail themselves of the Emergency Fund apply directly to the Fund. After review and authorization, approved amounts are paid to the participant. The appropriation is recorded when the authorization is approved by the General Assembly. Payments are charged directly against the appropriation account, and any unexpended balance reverts to the Fund at the end of the year. Current expenditure for the biennium is reported in statement 1.

8. Other income

The portion of the Fund's administrative expenses reimbursed by the United Nations under the cost-sharing arrangement makes up the majority of other income.

9. Other accounts receivable

A majority of other accounts receivable are receivables from the United Nations under the cost-sharing arrangement and overpayments of pension benefits. Also included under other accounts receivable is an annual fee of $405,624 receivable from member organizations for the cost of administering the after-service health insurance system.

10. Provision for doubtful accounts

A provision is established to properly reflect the accurate position of accounts receivable with regard to all overpayments of pension benefits that are two years or older as of the respective year-end date of the financial statements. The provision amounts to $2.5 million against total overpayments of pension benefits of $4.6 million as at 31 December 2011.

11. Prepaid benefits

Prepaid benefits represent monthly pension benefits paid at the current month-end to beneficiaries whose benefit payments are not due until the beginning of the following month.

12. Benefits payable

The Fund recognizes benefits payable when the recipient is entitled to the benefit and the benefit has not yet been paid by the Fund.

Benefits payable includes a provision for withdrawal settlements. The provision for withdrawal settlements was established in 2011 for the first time in order to reflect withdrawal settlements payable to beneficiaries who requested a payment or who had not requested a payment within 36 months after their separation from service.

13. Other accounts payable

The amount includes $11.4 million payable to the United Nations under the cost-sharing arrangement.

14. Adoption of the International Public Sector Accounting Standards

In 2006, the United Nations General Assembly supported the decision of the High-level Committee on Management of CEB that all United Nations organizations would adopt IPSAS. The Pension Board, at its fifty-seventh session in July 2010, decided to adopt IPSAS as the accounting standards for the Fund as of 1 January 2012 for the financial statement period ending 31 December 2012. This also included the adoption of international accounting standards, including the adoption of the International Financial Reporting Standards (IFRS) IAS 26, Accounting and reporting by retirement benefit plans. In addition, and also at the recommendation of the Pension Board, the Fund, in accordance with IPSAS reporting guidelines, is currently reporting certain employee benefits based on current actuarial valuations (see note M below), and has provided additional disclosure regarding the investment activities of the Fund.

D. Funds under management

1. United Nations Library Endowment Fund

The rules for the administration of the United Nations Library Endowment Fund were established in accordance with Secretary-General's bulletin SGB/76, dated 28 November 1947. The Investment Management Division provides oversight services for the investments of the Library Endowment Fund, which are currently outsourced to Fiduciary Trust Company International. The resulting funds are reflected in the accounts of the Endowment Fund. There is no commingling of the library investment funds with those of the Pension Fund, which are maintained separately with separate custodial arrangements.

2. United Nations University Endowment Fund

Pursuant to General Assembly resolution 2951 (XXVII) of 11 December 1972, establishing the United Nations University, Assembly resolution 3081 (XXVIII) and article IX of the Charter of the United Nations University (A/9149/Add.2), the Investment Management Division provides oversight services for the investments of the United Nations University Endowment Fund, which are currently outsourced to Nikko Asset Management Co., Ltd., with a separate custodian bank. The resulting funds are reflected in the accounts of the United Nations University. There is no commingling of the University's investment funds with those of the Pension Fund, which are maintained separately. The cost of the management advisory fees of the Investment Management Division, amounting to $50,000 per year, are reimbursed to the Division by the Endowment Fund and recorded under other income. In prior periods, this income has been included under interest earned.

E. Accrued income from investments

Accrued income from investments is income earned that has yet to be received from the Fund's investments during the financial period. Accrued income from temporary investments is mainly from interests earned on cash balances. As at 31 December 2011, accrued income from investments amounted to $173.9 million.

Summary statement of accrued income from investments as at 31 December 2011 with comparative figures as at 31 December 2009

(United States dollars)

	Accrued income from investments	
Investments	*31 December 2011*	*31 December 2009*
Temporary investments and cash		
United States dollars	–	–
Other currencies	298 272	66 730
Subtotal	**298 272**	**66 730**

Investments	Accrued income from investments	
	31 December 2011	*31 December 2009*
Bonds		
United States dollars	50 142 668	44 687 045
Other currencies	89 308 455	109 197 977
Subtotal	**139 451 123**	**153 885 022**
Stocks and convertible bonds		
United States	13 457 990	11 112 109
Other countries	20 205 583	15 591 237
Subtotal	**33 663 573**	**26 703 346**
Real estate and related securities		
United States and other countries	451 163	268 312
Total portfolio	**173 864 131**	**180 923 410**

F. Foreign tax account receivables

Procedures for the collection of the current tax reclaims are in place and the Investment Management Division continues to work with the custodian bank and the respective Member States to effect collection of outstanding claims. The reduction of these claims from $58,290,559 as at 31 December 2009 to $22,388,339 as at 31 December 2011 resulted mainly from tax refunds received in the biennium 2010-2011 from 2009 and prior tax receivables.

Summary of foreign tax account receivables as at 31 December 2011

		Local currency							
Country	*Currency*	*Prior to 2008*	*2008*	*2009*	*2010*	*2011*	*Total as of 31/12/11*	*Exchange rate in effect as at 31 Dec. 2010*	*Equivalent in United States dollars*
Belgium	EUR	11 305	–	–	–	–	11 305	0.770327	14 676
Brazil	BRL	917 845	–	412 199	835 867	142 523	2 308 434	1.865250	1 237 599
China	HKD	–	692 225	7 545 696	8 931 432	11 092 128	28 261 481	7.766600	3 638 848
Germany	EUR	–	–	–	–	3 518 568	3 518 568	0.770327	4 567 629
Greece	EUR	–	–	53 218	39 256	–	92 474	0.770327	120 045
Ireland	EUR	153 065	–	–	–	–	153 065	0.770327	198 701
Italy	EUR	1 392 625	–	–	–	–	1 392 625	0.770327	1 807 836
Kenya	KES	483 998	–	–	–	–	483 998	85.100000	5 687
Malaysia	MYR	3 879 013	–	1 157 658	831 728	308 398	6 176 797	3.170000	1 948 516
	SGD	748 129	–	–	–	–	748 129	1.296650	576 970
Mexico	MXN	341 399	–	–	–	–	341 399	13.955844	24 463
Netherlands	EUR	–	–	–	–	144 382	144 382	0.770327	187 430
Philippines	PHP	955 148	–	–	–	–	955 148	43.854957	21 780
Singapore	SGD	2 018 111	51 781	–	–	–	2 069 892	1.296650	1 596 339
	MYR	52 920	–	–	–	–	52 920	3.170000	16 694
Spain	EUR	2 506 006	–	–	–	–	2 506 006	0.770327	3 253 174
Switzerland	CHF	–	–	–	–	1 689 847	1 689 847	0.935100	1 807 130
Turkey	TRY	48 620	163 540	172 989	280 403	428 429	1 093 981	1.888600	579 255
United Kingdom of Great Britain and Northern Ireland	GBP	–	–	–	–	156 723	156 723	0.643459	243 563
	EUR	–	–	–	–	234 007	234 007	0.770327	303 777
United States of America	USD	238 227	–	–	–	–	238 227	1.000000	238 227
Total amount outstanding									**22 388 339**

Provision for receivable from taxes withheld

Since the success of the Fund in collecting older taxes is possible, but not certain, a provision has been established in the financial statements for any tax claims four years or older and in those countries where there are no current tax reclamation mechanisms in place. This provision amounts to $14.5 million for the period ending 31 December 2011.

Summary of provision for receivables from taxes withheld as at 31 December 2011

		Local currency								
Country	*Currency*	*1980-1991*	*1992-1995*	*1996-1999*	*2000-2003*	*2004-2007*	*Countries with no reclaim process 2008-2011*	*Total*	*Exchange rate in effect 31 Dec. 2011*	*Equivalent in United States dollars as at 31 Dec. 2011*
Belgium	EUR	–	11 305	–	–	–		11 305	0.7703270	14 676
Brazil	BRL	–	–	380 033	328 347	209 465	1 390 589	2 308 434	1.8652500	1 237 600
China	HKD						28 261 481	28 261 481	7.7666000	3 638 849
Greece	EUR						92 474	92 474	0.7703270	120 045
Ireland	EUR	–	21 808	131 257	–	–		153 065	0.7703270	198 701
Italy	EUR	660 240	–	732 385	–	–		1 392 625	0.7703270	1 807 836
Kenya	KES	–	–	483 998	–	–		483 998	85.1000000	5 687
Malaysia	MYR	–	1 577 802	2 301 211	–	–		3 879 013	3.1700000	1 223 663
	SGD	71 230	393 731	283 168	–	–		748 129	1.2966500	576 971
Mexico	MXN	40 332	–	22 379	278 688	–		341 399	13.9558440	24 463
Philippines	PHP	768 751	185 162	1 235	–	–		955 148	43.8549570	21 780
Singapore	SGD	–	995 888	1 022 223	–	–		2 018 111	1.2966500	1 556 404
	MYR	–	52 920	–	–	–		52 920	3.1700000	16 694
Spain	EUR	2 370 390	135 616	–	–	–		2 506 006	0.7703270	3 253 172
Turkey	TRY	–	–	–	–	48 620	1 045 361	1 093 981	1.8886000	579 255
United States of America	USD	–	–	238 227	–	–		238 227	1.0000000	238 227
Total amount outstanding										**14 514 023**

G. Investment income

Investment income includes: dividends and interests earned; income derived from real estate funds and alternative investments; and net realized gains/(losses), including those on foreign exchange. Investment income on temporary investments includes interest earned on cash balances.

During the biennium 2010-2011, investment income rose by $26.4 million, or 1.0 per cent, as compared to biennium 2008-2009 as follows:

Summary statement of investment income for the biennium ended 31 December 2011 with comparative figures as at 31 December 2009

(Thousands of United States dollars)

Investments	*Interest earned*	*Dividends*	*Real estate*	*Private equity*	*Infrastructure*	*Net realized gains/(losses)*	*2010-2011 Total investment income*	*2008-2009 Total investment income*
Temporary investments and cash								
United States dollars	1 841	–	–	–	–	–	1 841	39 664
Other currencies	5 253	–	–	–	–	(23 252)	(17 999)	(47 971)
Subtotal	**7 094**					**(23 252)**	**(16 158)**	**(8 307)**
Bonds								
United States dollars	348 240	–	–	–	–	(43 260)	304 980	445 453
Other currencies	569 415	–	–	–	–	325 930	895 345	1 025 881
Subtotal	**917 655**					**282 670**	**1 200 325**	**1 471 334**
Stocks and convertible bonds								
United States	–	394 428	–	–	–	303 736	698 164	505 633
Other countries	–	840 488	–	–	–	(108 865)	731 623	624 907
Subtotal		**1 234 916**				**194 871**	**1 429 787**	**1 130 540**
Real estate and related securities								
United States and other countries	–	–	140 287	–	–	(27 651)	112 636	108 442
Alternative investments								
United States and other countries	–	–	–	2 274	(441)	–	1 833	–
Total portfolio	**924 749**	**1 234 916**	**140 287**	**2 274**	**(441)**	**426 638**	**2 728 423**	**2 702 009**

H. Recognized gains/(losses) on investments

Recognized gains/(losses) on investments include realized gains/(losses) from the sale of investments as well as certain unrealized losses reflecting the principle of prudence. The policy for the anticipated recognition of certain unrealized losses was introduced in the biennium 2010-2011 through an assessment of objective evidence requiring the adjustment of the cost basis of investments (see note C.2 above).

During the biennium 2010-2011, the Fund's investments recognized a net gain of $426.6 million, an increase of 3.6 per cent as compared to the biennium 2008-2009.

Realized gains/(losses) on investments are the difference between the amounts received from the sale or disposal of investments and the carrying values. Realized gains/(losses) between market gain/(loss) and currency, exchange or translation gain/(loss) are recorded separately on the sale of non-United States dollar denominated securities. Realized gains/(losses) on temporary investments include realized exchange gains/(losses) from cash. In the biennium 2010-2011 the Fund realized a net gain of $884.6 million on the sale of investments.

The Fund recognized certain unrealized losses as an adjustment to the cost basis of investments due to a significant or prolonged decline in the market values below the cost of specific equity and real estate investments of $458,015,745. Of that amount, $419,807,397 is related to equities and $38,208,348 to real estate investments.

Details showing the gross and net amounts by asset class are shown in the following table.

Summary statement of realized gains/(losses) for biennium ended 31 December 2011 with comparative figures as at 31 December 2009

(Thousands of United States dollars)

Investments	*Market realized gains*	*Market realized losses*	*Net market realized gains/(losses)*	*Foreign currency exchange realized gains*	*Foreign currency exchange realized losses*	*Net foreign currency exchange realized gains/(losses)*	*Adjustment to cost basis*	*2010-2011 net realized gains/(losses)*	*2008-2009 net realized gains/(losses)*
Temporary investments and cash									
United States dollars	–	–	–	–	–	–	–	–	2 803
Other currencies	27	–	27	259 417	(282 696)	(23 279)	–	(23 252)	(57 278)
Subtotal	**27**	**–**	**27**	**259 417**	**(282 696)**	**(23 279)**	**–**	**(23 252)**	**(54 475)**
Bonds									
United States dollars	35 963	(79 223)	(43 260)	–	–	–	–	(43 260)	34 840
Other currencies	100 900	(43 511)	57 389	320 576	(52 035)	268 541	–	325 930	448 525
Subtotal	**136 863**	**(122 734)**	**14 129**	**320 576**	**(52 035)**	**268 541**	**–**	**282 670**	**483 365**
Stocks and convertible bonds									
United States	877 259	(549 020)	328 239	–	–	–	(24 503)	303 736	182 605
Other countries	1 197 092	(1 263 204)	(66 112)	593 540	(240 989)	352 551	(395 304)	(108 865)	(210 359)
Subtotal	**2 074 351**	**(1 812 224)**	**262 127**	**593 540**	**(240 989)**	**352 551**	**(419 807)**	**194 871**	**(27 754)**
Real estate and related securities									
United States and other countries	8 231	1 572	9 803	1 259	(505)	754	(38 208)	(27 651)	10 524
Alternative investments									
United States and other countries	–	–	–	–	–	–	–	–	–
Total portfolio	**2 219 472**	**(1 933 386)**	**286 086**	**1 174 792**	**(576 225)**	**598 567**	**(458 015)**	**426 638**	**411 660**

Additional unrealized losses of $593,472,729 were recognized as prior period adjustments (see note J below). Of that amount, $339,721,958 is related to equities and $253,750,771 to real estate investments.

I. Unrealized gains/(losses) on investments

Unrealized gains/(losses) on investments reflect changes in the value of investments that are still being held. They are currently not shown in the financial statements.

As at 31 December 2011, the Fund's unrealized gains had increased in value by $86.2 million, or 1.9 per cent, as compared to 2009.

Summary statement of investments and unrealized gains/(losses) as at 31 December 2011 with comparative figures as at 31 December 2009

(Thousands of United States dollars)

	Cost				*Market value*				*Unrealized gains/(losses)*			
Investments	*31 December 2011*	*Percentage of total cost*	*31 December 2009*	*Percentage of total cost*	*31 December 2011*	*Percentage of total market value*	*31 December 2009*	*Percentage of total market value*	*Gross unrealized gains 31 December 2011*	*Gross unrealized losses 31 December 2011*	*Net unrealized gains/(losses) 31 December 2011*	*Net unrealized gains/(losses) 31 December 2009*
Temporary investments and cash												
United States dollars	–	–	–	–	–	–	–	–	–	–	–	–
Other currencies	–	–	115 377	0.4	–	–	113 895	0.3	–	–	–	(1 482)
Subtotal	**–**	**–**	**115 377**	**0.4**	**–**	**–**	**113 895**	**0.3**	**–**	**–**	**–**	**(1 482)**
Bonds												
United States dollars	4 630 479	14.1	4 277 521	13.3	5 014 979	13.2	4 344 855	11.8	391 798	(7 298)	384 500	67 334
Other currencies	6 951 549	21.0	6 313 583	19.6	7 170 103	19.0	6 841 832	18.6	501 735	(283 181)	218 554	528 249
Subtotal	**11 582 028**	**35.1**	**10 591 104**	**32.9**	**12 185 082**	**32.2**	**11 186 687**	**30.4**	**893 533**	**(290 479)**	**603 054**	**595 583**
Stocks and convertible bonds												
United States	8 662 907	26.1	8 612 083	26.7	10 865 689	28.8	10 048 495	27.4	2 493 543	(373 337)	2 120 206	1 436 412
Other countries	10 978 118	33.1	11 246 508	35.0	12 595 881	33.3	14 007 045	38.2	2 516 368	(816 029)	1 700 339	2 760 537
Subtotal	**19 641 025**	**59.2**	**19 858 591**	**61.7**	**23 461 570**	**62.1**	**24 055 540**	**65.6**	**5 009 911**	**(1 189 366)**	**3 820 545**	**4 196 949**
Real estate and related securities												
United States and other countries	1 692 484	5.1	1 596 823	5.0	1 907 016	5.1	1 350 768	3.7	278 977	(64 445)	214 532	(246 055)
Alternative investments												
United States and other countries	215 650	0.7	–	–	208 768	0.6	–	–	5 445	(12 327)	(6 882)	–
Total portfolio	**33 131 187**	**100**	**32 161 895**	**100**	**37 762 436**	**100**	**36 706 890**	**100**	**6 187 866**	**(1 556 617)**	**4 631 249**	**4 544 995**

J. Prior-period adjustments

Prior-period adjustments comprise:

– Adjustments to the cost basis of equity investments	($339 721 958)
– Adjustments to the cost basis of real estate investments	($253 750 771)
– Adjustments to losses on the disposal of property under an infrastructure fund	($3 313 326)
– Adjustments to prior period real estate income	($2 432 436)
– Adjustments to prior period income for automatic reinvestments	$10 594 958
– Adjustments to pension benefit payments	$12 800 831
– Adjustments from the reconciliation of United Nations receivables/payables	$9 090 612
– Changes in the policy for the provision related to receivables	($1 528 947)
– Introduction of a provision for withdrawal settlement benefits	($8 400 000)
Total	**($576 661 039)**

Prior-period cost adjustments of ($593,472,729) reflect the significant or prolonged decline in market values below cost prior to 2010 of specific equity and real estate investments as a result of the global financial crisis during the previous biennium.

Adjustments to prior period income were necessary to record the automatic reinvestment of dividends from an emerging markets bond fund from 2006 to 2009. The transfer agent for the bond fund failed to notify Euroclear, an International Central Securities Depository (ICSD) and the Fund's sub-custodian for this bond fund, of the dividend reinvestment. Furthermore, owing to the unusual structure of the bond fund, the income was not reported through the standard market data sources used by Northern Trust, the Fund's Global Custodian and master record keeper, and Wilshire Abacus, the Fund's legacy performance measurement and investment accounting system. As a result, the Fund omitted to record income equivalent to $10,594,958 reinvested in the bond fund over this period.

Another adjustment is the allocation of the loss on the disposal of properties under an infrastructure fund in 2006 and 2007, which amounted to ($3,313,326). Since that fund is under liquidation, the book cost had to be adjusted for realized gains and losses that were inadvertently not recognized in previous years. It is expected that the final stage of liquidation will be completed in the second quarter of 2012.

The Fund is in the process of engaging a master record keeper independent from its custodians to provide an additional level of audit and a review of income. In addition, the Fund is modernizing its in-house reconciliation and accounting systems, which will provide the automation necessary to perform a further comprehensive reconciliation and review of holdings and income. The combination of those initiatives will help the Fund to ensure that this situation will not recur.

The adjustments resulting from the reconciliation of United Nations receivables/payables under the cost-sharing arrangement of $9,090,612 is a result of the reconciliation of the administrative expenses with the amount due to and from the United Nations for prior periods, starting in 2006.

In 2011, the Fund recognized, for the first time, a provision for benefit liabilities for withdrawal settlements for prior periods. Of the entire provision of $11.6 million, $8.4 million reflects liabilities incurred in prior periods.

The remaining balance includes credits related to adjustments of pension benefit payments in prior periods, including forfeiture of unclaimed amounts and the recovery of overpaid benefits.

K. Real estate and alternative investments

In the area of real estate, infrastructure and private equity partnership investments, funds are drawn down only under the terms and conditions of the specific agreements to which UNJSPF is party. Such agreements are unique to each individual investment. However, funds are drawn down to: (a) fund investments in assets that have been purchased or are being contracted for purchase; and (b) pay fees earned by the general partner or manager under the terms and conditions of the specific agreement. Investment commitments are drawn down and recorded by the Fund when the contractual terms of the respective agreements have been met.

1. Real estate funds

This asset class includes several funds that invest both in core real estate and in non-core type real estate, including debt, value-added and opportunistic equity investments. Most funds do not allow for redemptions. In lieu of redemptions, funds distribute returns through the liquidation of their underlying investments. As at 31 December 2011, there was no intention to sell any of the funds. The costs of the Fund's real estate investments amount to $1.7 billion with a market value of $1.9 billion as of 31 December 2011.

2. Alternative investments

(a) Private equity

This asset class includes several funds that invest in private equity covering the following subsectors: buyouts, growth capital, secondary transactions and special situations. Most funds do not allow for redemptions. The redemptions in this category take the form of distributions received through the expected liquidation of the underlying investments of the fund. As at 31 December 2011, there was no intention to sell any of the funds.

Investments in private equity partnerships are long term and illiquid in nature. As a result, the Fund is subject to redemption restrictions that generally limit distributions and restrict its ability to exit prior to the dissolution of such partnerships. The partnerships are valued at net asset value. The most significant input into the net asset value of the partnerships is the market value of investment holdings. Such holdings are valued by the general partner on a quarterly basis, in conjunction with management and valuation specialists. As at 31 December 2011, the Pension Fund held $101.6 million in private equity with a market value of $98 million.

(b) Commodities: real return strategy

This asset class includes two partnerships that make investments in United States dollar-denominated futures and forward contracts in tangible commodities traded on commodity exchanges in the United States and the United Kingdom. The Fund's commodity investments are valued based on the basis of market prices quoted on liquid, publicly regulated commodities exchanges. As of 31 December 2011, the Fund had invested $100 million in commodities funds with a market value of $100.3 million.

(c) Infrastructure funds

On 29 April 2011, the Fund committed $50 million to a new infrastructure fund. A further $50 million was committed to another infrastructure fund on 28 November 2011. Drawdowns were made in May, September, October and December 2011.

Infrastructure funds comprise funds that invest in major infrastructure facilities, including contracted energy facilities, both midstream and downstream; renewable and conventional power generation assets; electricity, gas and other transmission and distribution infrastructure; and transportation and environmental services in North America and Western Europe. The structure and investment strategies for infrastructure funds are similar to private equity partnerships. They are long-term and illiquid in nature, with limited scope for redemptions until the liquidation of the underlying investments, generally after a 15-year period at partnership dissolution. The partnerships are valued at net asset value with the investment holdings valued by the general partner on a quarterly basis in conjunction with management and valuation specialists. As at 31 December 2011, the Fund held $14 million in infrastructure funds with a market value of $10.5 million and had no intention to sell either of the funds.

The following table summarizes UNJSPF investments in various types of funds:

Summary of investments in various types of funds

(Thousands of United States dollars)

	Market value 2011	*Market value 2009*
Real estate funds		
Private investment portfolio	1 751 005	1 249 450
Public investments (real estate investment trusts)	156 011	101 318
	1 907 016	**1 350 768**
Private equity funds	98 002	–
Commodities funds	100 305	–
Infrastructure funds	10 461	–

L. Financial risk management

1. Governance structure

General Assembly

The General Assembly, at its first session in 1946, adopted a resolution whereby the fiduciary responsibility for the investment of the assets of the Fund was entrusted to the Secretary-General of the United Nations. This fiduciary responsibility was further confirmed in 1948 when the Assembly approved and adopted the Regulations and Rules of the United Nations Joint Staff Pension Fund.

The General Assembly may, from time to time, adopt resolutions on general investment policy as long as those resolutions do not conflict with the fiduciary responsibility of the Secretary-General. Those resolutions have established that the investments of the Fund should abide, inter alia, with the criteria of safety, profitability, liquidity and convertibility. All past resolutions of the Assembly have confirmed the Secretary-General's fiduciary responsibility, which requires that all investment decisions taken must be in the best interests of the Pension Fund.

In summary, the investment policy to be pursued by the Secretary-General with respect to the investments of the Pension Fund is established by the General Assembly of the United Nations.

United Nations Joint Staff Pension Board

Article 4 of the Rules and Regulations of the Fund states that "the Fund is administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each committee".

The United Nations Joint Staff Pension Board and the General Assembly may, from time to time, make observations and recommendations on broad investment policy.

Secretary-General

Article 19 of the Rules and Regulations of the Fund states that:

> "(a) The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an Investments Committee and in the light of observations and suggestions made from time to time by the Board on the investments policy;
>
> "(b) The Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board."

In exercising this fiduciary responsibility, the Secretary-General must ensure that all investment decisions are made in conformity with the Rules and Regulations of the Fund and in the best interest of the Fund.

Representative of the Secretary-General

The Secretary-General has delegated the fiduciary responsibility for the investments of the Fund to a senior United Nations official who acts as the Representative of the Secretary-General for the Investments of the Fund.

The Representative of the Secretary-General has the overall responsibility for the management of the investments of the assets of the Fund. On behalf of the Secretary-General, and after consultation with the Investments Committee, the Representative of the Secretary-General is responsible for the approval of the investment policy, the strategic and tactical asset allocation and the appropriate investment strategy. The Representative of the Secretary-General oversees the implementation of investments decisions and ensures that the approved investment policy and asset allocation are followed. He/she is responsible for the reporting to the Pension Board, the Advisory Committee on Administrative and Budgetary Questions and the General Assembly on the performance of the Fund's investments.

Investments Committee

In accordance with General Assembly resolution 155 (II) and article 19 (a) of the Rules and Regulations of the Fund, the Secretary-General in exercising his fiduciary duties consults with the Investments Committee.

The Investments Committee advises the Secretary-General on the following matters:

(a) Investment policy;

(b) Asset allocation and strategy: while the long-term guidelines provide the strategic asset allocation, which is expected to generate investment returns with a risk level appropriate for the Fund's pension liability characteristics, the short-term tactics reflect the direction in which each portfolio section should move in line with certain expectations;

(c) Diversification by type of investment, currency and economic sector;

(d) Other matters, which in the view of the Committee should be brought to the attention of the Secretary-General or on which the latter may deem the advice of the Committee desirable.

The Investments Committee reviews investment returns, the performance of small-capitalization managers, diversification and transactions of the Fund every quarter, using information provided by the Investment Management Division in its bluebook and by the institutional investment advisers.

In accordance with article 20 of the Regulations and Rules of the Fund, the Investments Committee consists of nine members appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly. In addition to regular members, the Secretary-General may appoint ad hoc members to serve in the Committee. The Investments Committee normally meets four to five times a year, including one meeting annually held in conjunction with the session of the Pension Board and biennially with the Committee of Actuaries.

Investment Management Division

The staff of the Investment Management Division assists the Secretary-General and the Representative of the Secretary-General in the management of the investments of the assets of the Fund. The staff of the Division is responsible for the day-to-day management of the Fund's assets. They implement the approved investment strategy and ensure that the portfolio conforms to the approved asset allocation. On a daily basis, the staff analyses the financial markets, makes sales and purchase recommendations of securities and evaluates the returns achieved. The Division formulates investment strategies for a long-term investment horizon and ensures that the investments of the Fund conform to approved policies and its Regulations and Rules. The Division ensures that performance and portfolio risk analyses reports are accurate and up-to-date and arranges for the maintenance of appropriate and accurate accounts on the Fund's investments.

2. Risks and uncertainties

The Fund invested in various asset classes during the biennium 2010-2011, including global equities and fixed income instruments, commodities funds, commitment to private equity funds, real estate funds and short-term cash instruments. Owing to geopolitical events and market forces, market values of various assets have been subject to some volatility. The Fund's investments follow the investment policy guidelines and meet the four criteria outlined in the investment policy; safety, profitability, convertibility and liquidity.

The Fund has adopted a comprehensive risk management manual, which outlines various controls to manage material risks to which the Fund is exposed. The risk management manual has controls to mitigate risks related to credit, counterparty, market, liquidity, operational, currency, legal and contracts, political and sovereign, reporting and reputational risks.

The Fund performs asset liability studies on a regular basis to measure the actuarial present value of the accumulated plan benefits under certain assumptions pertaining to interest rates, inflation, currencies and employee demographics, and stress tests the plan surplus by emphasizing various economic factors.

3. Credit risk

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms resulting in a loss. The risk of a trading partner not fulfilling its obligations in a timely manner is a risk that all obligors face. Ensuring adequate control over credit risk and effective credit risk management is critical to the long-term success of investment managers. The Fund manages credit risk by addressing the following important areas:

(a) Approving and maintaining appropriate credit exposure measurement standards;

(b) Establishing limits for amounts and concentrations of credit risk and monitoring and implementing a review process for credit exposure.

The Fund is primarily exposed to credit risk in its debt securities. The credit risk profile of the debt securities held by the Fund is presented in the following table in United States dollars.

	AAA-to A	BBB-BBB+	BB-to BB+	Non-rated	Total
Commercial mortgage-backed	137 538 825				137 538 825
Corporate bonds	1 575 858 366	98 789 590			1 674 647 957
Government agencies	2 317 776 327	21 937 500			2 339 713 827
Government bonds	6 005 249 726	275 217 146	27 300 000		6 307 766 872
Government mortgage-backed securities	425 866 304				425 866 304
Guaranteed fixed income	46 262 085				46 262 085
Index linked government bonds	684 247 716	163 118 563			847 366 279
Municipal/provincial bonds	367 376 605				367 376 605
Funds — corporate bond				38 543 307	38 543 307
Total	**11 560 175 954**	**559 062 799**	**27 300 000**	**38 543 307**	**12 185 082 061**

Note: Market values include accrued income.

4. Liquidity risk

Liquidity risk is the risk of not meeting cash requirements for the Fund obligations. Cash requirements can arise from benefit payment disbursements, capital calls from uncalled or unfunded commitments and settlement needs for various trades in various currencies. Most of the Fund investments are in liquid securities in line with the core risk objectives of safety, profitability, convertibility and liquidity.

For cash requirements on trade settlements, the Fund projects cash requirements for 30 days to ensure that enough currency is available for the expected trades.

As at 31 December 2011, the Fund held 4.6 per cent as cash and short-term holdings to meet the liquidity requirements, an overweight compared to the policy benchmark weight of 3.0 per cent. Approximately 60 per cent of the fixed income portfolio is invested in securities from government agencies, which are highly liquid.

5. Market risk

Market risk is the risk of change in the value of plan assets owing to various market factor movements, including interest rates, major market index movements, exchange rates, credit spreads and market volatility.

The Fund has implemented a risk analytics system, “RiskMetrics”, which quantifies the market risk based on historical data and simulation of market factors. As at 31 December 2011, the value at risk at 95 per cent confidence interval for the Fund was 24.5 per cent. It should be noted that all market risk models have some limitations and that prediction of risk is based on normal market conditions.

6. Operational risk

As is the case in other pension plans, the Investment Management Division is exposed to multiple types of operational risks. The Basel Committee on Banking Supervision has defined operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events”.

Within that definition there is a recognition that operational risk is a term that has a variety of meanings. Consequently, financial institutions are allowed to adopt their own definition of operational risk so long as the minimum elements are included. The Division has identified and mitigated operational risks by having well articulated and documented policy and procedures and risk management manuals, which, through a series of internal controls, are intended to keep risk at appropriate levels. In addition, the Division's business continuity and disaster recovery plans are key components of the Fund's risk-management strategy.

M. After-service health insurance and end-of-service liabilities

The Pension Fund provides its employees who have met certain eligibility requirements with the following after-service and end-of-service benefits:

- Health-care benefits after they retire. This benefit is referred to as after-service health insurance;
- Repatriation benefits to facilitate the relocation of expatriate staff members;
- Annual leave benefits provide staff members with periods of time off from work at full pay for personal reasons and for the purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days.

In the past, the Fund was not subject to financial disclosure or reporting standards regarding the above obligations. Expenditure for such benefits was reported annually as part of the administrative expenses of the Fund. With effect from 1 January 2009, liabilities for all future benefit costs to the Fund were recognized in the financial statements. The liabilities as at 1 January 2010 were:

(United States dollars)

Annual leave	1 723 000
Repatriation benefits	1 209 000
After-service health insurance	31 499 000
Total	**34 431 000**

During the biennium 2010-2011, the Fund recognized additional actuarial liabilities, net of present actual outlays, which reduced previously recognized liabilities, in the following amounts:

(United States dollars)

	After-service health insurance	Repatriation benefits	Annual leave	Total
2010: service cost	3 138 000	149 000	303 000	3 590 000
2010: benefits paid	(549 000)	(131 000)	(322 000)	(1 002 000)
2011: service cost	11 421 000	633 000	184 000	12 238 000
2011: benefits paid	(641 000)	(87 000)	(215 000)	(943 000)
Total	**13 369 000**	**564 000**	**(50 000)**	**13 883 000**

Following the recognition of the change in actuarial liabilities of after-service benefits during the biennium 2010-2011, the ending liability for each category of after-service benefit is as follows:

(United States dollars)

	After-service health insurance	Repatriation benefits	Annual leave	Total
Current retirees	16 506 000	–	–	16 506 000
Active employees: fully eligible	12 153 000	1 104 000	1 673 000	14 930 000
Active employees: not fully eligible	16 209 000	669 000	–	16 878 000
Total	**44 868 000**	**1 773 000**	**1 673 000**	**48 314 000**

The obligations, as at 31 December 2011, were calculated based on census data as at 31 December 2011, provided to the actuary by the Fund, and:

- Health insurance premium and contribution data provided by the Fund;
- Actual retiree claims experience under current health insurance plans;
- Estimated travel and shipment costs and annual leave balances reported by the Fund in the census data;
- Various economic, demographic and other actuarial assumptions;
- Generally accepted actuarial methods and procedures.

The key assumptions in the calculation of after-service liabilities are the discount rate and health-care trends. For all calculations during the 2010-2011 biennium, the discount rate used was 6.0 per cent. For amounts due at 31 December 2011 and thereafter, the discount rate used was 4.5 per cent. For comparison purposes, the table below shows the percentage change due to a 1 per cent change in the discount rate as at 31 December 2009.

	Impact on accrued obligations		
Discount rate	*After-service health insurance*	*Repatriation benefit*	*Annual leave*
5.5 per cent	18 per cent decrease	9 per cent decrease	6 per cent decrease
3.5 per cent	24 per cent increase	11 per cent increase	7 per cent increase

Other specific key assumptions used in the calculations as at 31 December 2011 were as set out below.

After-service health insurance

(a) One hundred eighty-nine active staff were included in the calculation: 159 United States-based and 30 non-United States-based. Fifty-seven retired staff were included in the calculation: 51 United States-based and 6 non-United States-based. In addition, six active staff and two retirees that only participate in dental plans were included. Males made up 47 per cent of the total population. For active staff, the average age was 45.2 years, with 10.4 years of service. The average age of retirees was 67.9 years;

(b) A major assumption in the calculation is the baseline health-care cost trend rate. For all medical plans, the rate trends from 8.0 per cent in 2012-2013 down to 4.5 per cent in 2027 and later years. In the short-term, the downward trend is at slightly different rates until 2020-2021, when the trend is the same for all plans. For United States dental plans, the rate trends down from 5.0 per cent to 4.5 per cent during the same time period;

(c) The primary purpose of the trend assumption is to determine the best estimate of the long-term costs of the Fund's after-service health insurance plans. Therefore, the focus is on establishing a reasonable pattern of trend rates over many years, with less concern about attempting to predict the short-term fluctuation in costs;

(d) Past experience with the cost of the various after-service health insurance plans in the United States was considered when determining the near-term trend rates. Also considered were recent changes in United States health-care laws, which are expected to come into effect over the next few years. Medical costs for United States Medicare plans are expected to rise at slower rates than non-Medicare plans as Medicare limits the amounts providers can charge to Medicare beneficiaries.

Repatriation benefits

(a) Staff members who are appointed as international staff are eligible for the payment of a repatriation grant after one year of active service outside his or her country of nationality as long as the reason for separation is not summary dismissal or abandonment of post;

(b) The amount ranges from 2 to 28 weeks of salary depending on the category of employment and years of service of the eligible staff. Travel and shipment of personal effects may also be authorized to the recognized country of home leave;

(c) For the current calculation, 52 eligible staff (58 per cent of whom were male), with an average salary of $90,918 were considered.

Annual leave

(a) Staff are entitled to accrue annual leave from the date of their appointment. Staff members who, upon separation from service, have accrued leave will be paid up to a maximum of 60 days if on a fixed-term appointment or up to 18 days on temporary appointment. The payment amount is calculated at 1/261 of applicable salary amounts for each unused day of annual leave;

(b) For the current calculation, 222 active staff (46 per cent male), with an average salary of $95,205, were considered.

N. Actuarial situation of the Fund as at 31 December 2011

(see also note A.5 above)

Following is the summary of the actuarial situation of the Fund as at 31 December 2011.

Participation

Comparison summary[a]

	Value as at 31 December	
	2009	*2011*
Active participants		
Number	117 580	120 774
Annual remuneration (in millions of United States dollars)	9 202	9 917
Average remuneration (in United States dollars)	78 269	82 113
Retired participants and beneficiaries		
Number	61 841	65 387
Annual benefit (in millions of United States dollars)	1 676	1 924
Average benefit (in United States dollars)	27 104	29 425

[a] See also note A.5.

The number of active participants as at the time of the 2011 valuation increased by 2.7 per cent, and the average pensionable remuneration for all staff increased by 4.9 per cent compared to the 2009 valuation. The number of Professional staff increased by 3.8 per cent while their average pensionable remuneration increased by 4.1 per cent during the inter-valuation period. The number of General Service staff increased by 2.1 per cent while their average pensionable remuneration increased by 4.9 per cent in United States-dollar terms.

The number of retired participants and beneficiaries increased by 5.7 per cent and the average periodic benefit increased by 8.6 per cent in United States-dollar term during the inter-valuation period.

Assets

Comparison summary

(In United States dollars)

	Value as at 31 December	
	2009	*2011*
Market value of assets (in millions of United States dollars)	37 670	39 838
Actuarial value (in millions of United States dollars)	38 154	40 815

The market value of assets increased by 6 per cent in comparison with the value as at 31 December 2009. The actuarial value (established on the basis of a five-year moving market average method), which is used for purposes of determining the rate of contribution required to attain actuarial balance of the Fund, increased by 7 per cent from the prior actuarial valuation.

Contribution rates

Comparison summary

(Percentage)

	Value as at 31 December	
	2009	*2011*
Required contribution rate to maintain		
Actuarial balance[a]	24.08	25.57
Fund's contribution rate[a]	23.70	23.70
Imbalance — (surplus)/deficit	0.38	1.87

[a] As a percentage of pensionable remuneration.

The required contribution rate as at 31 December 2009, based on the regular valuation assumptions, had been 24.08 per cent of pensionable remuneration. The increase in the required rate of contribution since the previous valuation amounted to 1.49 per cent of pensionable remuneration. The primary reasons for the increase in the deficit are: investment experience lower than expected, the effects of modifying the demographic assumptions (withdrawal, early and normal retirement) to better align with actual experience and assumptions regarding the utilization of the commutation option and the marital status of retired staff. Those losses were partially offset by gains resulting from lower than expected cost-of-living adjustments.

Funded ratios

The funded ratio is obtained by dividing the actuarial value of assets by the accrued liability.

Comparison summary

	Value as at 31 December	
	2009	*2011*
Accrued liability (in millions of United States dollars)		
Without future pension adjustment	27 323	31 394
With future pension adjustment	41 950	47 372
Funded ratio (percentage)		
Without future pension adjustment	140	130
With future pension adjustment	91	86

Actuarial assumptions

Comparison summary

	Value as at 31 December	
	2009	*2011*
Annual increase in pensionable remuneration	4.5 per cent	4.5 per cent
Nominal rate of interest	7.5 per cent	7.5 per cent
Price increases	4.0 per cent	4.0 per cent
Growth of future population	0.5 per cent for first 10 years	0.5 per cent for first 10 years
Mortality	2007 United Nations mortality table	2007 United Nations mortality table
Disability	1999 United Nations disability table	1999 United Nations disability table
Separation	United Nations separation table (as adjusted in 2005)	United Nations separation table (as adjusted in 2005)

O. Non-expendable property

In line with the practice of the United Nations, non-expendable property is not included in the fixed assets of the Fund but is charged against an appropriation for the year of purchase.

The status of non-expendable property as at 31 December 2011 for all New York assets is summarized and presented in the table below. An adjustment was made to the 2008-2009 opening balance following a reconciliation of physical inventory to the asset register in 2010-2011. In the main, adjustments were made to update the value of some assets that were reported in the 2008-2009 biennium with a zero value; and to account for assets received late in 2009 that were not yet reflected in the inventory list.

With regard to the Fund's assets at the United Nations Office at Geneva, a reconciliation of physical inventory to the asset register was completed in the last quarter of 2011, and the movement of non-expendable property for the assets of the Geneva Office will be reported from 1 January 2012.

Movement of non-expendable property during the biennium (New York)	*Number of items*	*Value of property (United States dollars)*
Opening balance (as at 1 January 2010)	3 769	6 564 426
Adjustments to opening balance following reconciliation exercise	38	875 013
Additions	329	1 804 565
Disposals	83	114 553
Closing balance (as at 31 December 2011)	4 053	9 129 451

Property composition as at 31 December 2011

Asset category	*Investment Management Division*	*Pension Fund secretariat, New York*	*Total New York*	*Pension Fund secretariat, Geneva*	*Total Fund*
Information technology equipment					
Asset	682	1 465	2 147	153	2 300
Value (United States dollars)	1 486 281	5 710 564	7 196 845	250 034	7 446 879
Furniture					
Asset	416	1 490	1 906	62	1 968
Value (United States dollars)	369 584	1 563 023	1 932 606	37 318	1 969 924
Total					
Asset	**1 098**	**2 955**	**4 053**	**215**	**4 268**
Value (United States dollars)	**1 855 865**	**7 273 586**	**9 129 451**	**287 352**	**9 416 803**

P. Status of appropriations (schedule 1)

In accordance with General Assembly resolutions 64/245, 65/249 and 66/247, the original and revised budgets for the biennium 2010-2011 are shown below in United States dollars.

	UNJSPF	*United Nations*	***Total***
Initial appropriation (resolution 64/245)	154 749 100	21 569 400	**176 318 500**
Revised appropriation (resolution 65/249)	154 749 100	21 569 400	**176 318 500**
Revised appropriation (resolution 66/247)	133 037 000	21 508 700	**154 545 700**

In addition, extrabudgetary resources for the after-service health insurance system, which will be reimbursed by a number of member organizations, were approved as shown below in United States dollars.

	UNJSPF	*United Nations*	***Total***
Initial appropriation (resolution 64/245)	158 200	–	**158 200**
Revised appropriation (resolution 65/249)	158 200	–	**158 200**
Revised appropriation (resolution 66/247)	144 300	–	**144 300**

The costs associated with the after-service health insurance system are not included in schedule 1, as the costs are apportioned among participating member organizations.

Appendix

Statistics on the operations of the Fund for the biennium 2010-2011

Table 1
Number of participants

Member organization	*Participants as at 31 Dec. 2009*	*New entrants*	*Transfer*		*Separations*	*Participants as at 31 Dec. 2011*	*Per cent increase/ (decrease)*
			In	*Out*			
United Nations[a]	82 576	17 070	418	580	14 195	85 289	3.3
ILO	3 642	893	57	60	835	3 697	1.5
FAO	6 011	1 013	110	97	794	6 243	3.9
UNESCO	2 602	407	34	33	359	2 651	1.9
WHO	11 029	1 596	274	161	1 964	10 774	-2.3
ICAO	784	122	14	5	138	777	-0.9
WMO	315	42	14	12	52	307	-2.5
IAEA	2 245	406	39	24	303	2 363	5.3
IMO	324	38	5	3	52	312	-3.7
ITU	831	94	12	9	106	822	-1.1
WIPO	1 154	93	16	6	96	1 161	0.6
IFAD	534	73	11	14	55	549	2.8
ICCROM	36	3	–	–	7	32	-11.1
EPPO	13	2	–	–	1	14	7.7
ICGEB	194	16	–	2	19	189	-2.6
UNWTO	95	13	–	2	8	98	3.2
ITLOS	34	4	2	2	1	37	8.8
ISA	31	1	1	–	2	31	0.0
UNIDO	825	109	9	12	156	775	-6.1
ICC	865	208	46	43	102	974	12.6
IPU	48	4	–	3	4	45	-6.3
IOM	3 134	853	22	38	708	3 263	4.1
STL	259	130	43	21	40	371	43.2
Total	**117 581**	**23 190**	**1 127**	**1 127**	**19 997**	**120 774**	**2.7**

[a] The United Nations Headquarters, regional offices and all funds and programmes.

Table 2
Benefits awarded to participants or their beneficiaries

Member organization	*Number of benefits awarded*											
	Retirement benefit	*Early retirement benefit*	*Deferred retirement benefit*	*Withdrawal settlement*		*Child's benefit*	*Widow's and widower's benefit*	*Other death benefit*	*Disability benefit*	*Secondary dependant's benefit*	*Transfer under agreements*	*Total*
				Under 5 years	*Over 5 years*							
United Nations[a]	1 639	638	343	8 556	2 154	1 678	210	38	82	5	29	15 372
ILO	133	43	22	540	73	70	7	1	12	–	–	901
FAO	237	89	37	338	53	126	8	1	7	–	6	902
UNESCO	155	44	8	126	14	71	4	–	5	–	–	427
WHO	371	140	73	1 096	212	339	25	7	11	–	5	2 279
ICAO	51	18	6	51	8	30	1	–	3	–	–	168
WMO	26	1	3	17	1	14	1	1	1	–	–	65
IAEA	119	45	21	87	16	54	5	–	8	–	1	356
IMO	22	4	6	15	3	6	–	–	2	–	–	58
ITU	58	7	6	26	4	13	–	–	4	–	–	118
WIPO	44	16	–	11	21	24	–	–	4	–	–	120
IFAD	14	15	4	16	3	4	–	–	1	–	1	58
ICCROM	4	–	1	1	1	–	–	–	–	–	–	7
EPPO	–	–	–	–	1	–	–	–	–	–	–	1
ICGEB	3	–	2	8	6	–	–	–	–	–	–	19
UNWTO	6	2	–	–	–	2	–	–	–	–	–	10
ITLOS	1	–	–	–	–	–	–	–	–	–	–	1
ISA	–	–	–	1	1	–	–	–	–	–	–	2
UNIDO	56	20	3	59	8	30	1	–	6	–	2	185
ICC	3	–	2	83	11	4	1	1	1	–	–	106
IPU	1	1	–	2	–	–	–	–	–	–	–	4
IOM	13	11	3	668	2	5	–	2	1	–	2	707
STL	–	–	–	32	7	–	–	–	–	–	–	39
Total	**2 956**	**1 094**	**540**	**11 733**	**2 599**	**2 470**	**263**	**51**	**148**	**5**	**46**	**21 905**

[a] The United Nations Headquarters, regional offices and all funds and programmes.

Table 3
Analysis of periodic benefits

Type of benefit	*Number of periodic benefits*						
	Total as at 31 December 2009	*New*	*Reinstatement*	*Benefits discontinued, resulting in award of survivor's benefit*	*Benefit type changes*	*All other benefits discontinued*	*Total as at 31 December 2011*
Retirement	21 292	2 956	1	(599)	(4)	(499)	23 147
Early retirement	13 881	1 093	–	(319)	–	(250)	14 405
Deferred retirement	6 926	540	1	(86)	(2)	(218)	7 161
Widow[a]	9 622	242	3	950	6	(611)	10 212
Widower	697	42	–	92	1	(48)	784
Disability	1 175	144	–	(37)	(1)	(43)	1 238
Child	8 208	2 470	7	(1)	–	(2 283)	8 401
Secondary dependant	40	5	–	–	–	(6)	39
Total	**61 841**	**7 492**	**12**	**–**	**–**	**(3 958)**	**65 387**

[a] New widow benefits include eight awards that resulted from previously discontinued main retirement benefits.

Annex IX

Audit opinion on the financial statements and schedules for the biennium 2010-2011

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Joint Staff Pension Fund for the biennium 2010-2011 (annex VIII), which comprise the statement of assets, liabilities and principal of the Fund as at 31 December 2011 and 2009 (statement II), the statement of income and expenditure and changes in principal of the Fund for the bienniums 2010-2011 and 2008-2009 (statement I), the statement of cash flows for the bienniums 2010-2011 and 2008-2009 (statement III), schedule 1 and the notes to the financial statements. The appendix accompanying the financial statements, which presents supplementary information (tables 1-3), has not been audited.

Management's responsibility for the financial statements

The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the Investments of the Fund and the Chief Financial Officer are responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Joint Staff Pension Fund as at 31 December 2011 and its financial performance and cash flows for the biennium then ended in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Joint Staff Pension Fund that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Regulations and Rules and the pension adjustment system of the United Nations Joint Staff Pension Fund and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex thereto, we have also issued a long-form report on our audit of the United Nations Joint Staff Pension Fund.

Terence **Nombembe**
Auditor-General of South Africa
(Lead auditor)

Liu Jiayi
Auditor-General of China
Chair of the United Nations Board of Auditors

Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Annex X

Report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011. The audit was carried out through a review of the financial transactions and operations at the Fund's headquarters in New York, covering both the Investment Management Division and the secretariat of the Fund. The annexes accompanying the financial statements, which present supplementary information, have not been audited.

The Pension Fund was established in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and other organizations admitted to the membership of the Fund. It is a multi-employer defined benefit plan.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2011 and the results of operations and cash flows for the biennium then ended and have been properly prepared in accordance with United Nations system accounting standards. The Board's opinion is reflected in section A.

In the biennium 2008-2009, the Board issued a modified audit opinion on the financial statements of the Fund, and drew attention to the management of investments of the Fund. Amidst the turmoil in the financial markets and the global recession during that biennium, key market indices and benchmarks declined and in some cases the Fund performed below benchmarks. As a result, the Fund's total investment portfolio incurred significant realized and unrealized losses. While unrealized losses are not recognized in the accounts, in accordance with United Nations system accounting standards, which follow a historical cost convention, the Board commented on the need for enhanced description and disclosure of the underlying realized gains and losses, and the unrealized positions in the financial statements. The Fund has enhanced its disclosures of realized and unrealized gains and losses in the financial statements for the current biennium in order to provide more information for the users of the financial statements.

Follow-up to previous recommendations

Of the 43 recommendations made for the biennium 2008-2009, 28 (65 per cent) were fully implemented; 13 (30 per cent) were under implementation; and two (5 per cent) were not implemented. The Board notes the improvement in the rate of implementation of its recommendations compared to the previous biennium, for which 37 per cent of its recommendations were fully implemented and 55 per cent were under implementation. The Board comments in the present report on the two unimplemented recommendations. Details of the status of these recommendations are shown in appendix 1 to the present annex.

Financial overview

For the period under review, total income (comprising contributions and investment income) was $6.9 billion, compared with $6.4 billion for the previous biennium, an increase of 7 per cent. Contributions increased by 14 per cent, to $4.2 billion (compared with $3.7 billion in the biennium 2008-2009). Investment income, marginally increased from $2.7 billion in 2009 to $2.73 billion as at 31 December 2011. The marginal increase was after a write-down or cost adjustment of $458 million that was applied against realized gains of $884.6 million. Under the United Nations system accounting standards, the Fund follows a historical cost convention in recognizing its investments in its accounting records. Following the modified report for the prior period, which emphasized significant unrealized losses that were not accounted for in accordance with the accounting standards, the Fund changed its accounting policy. The Fund prudently decided to write down or make adjustment to the historical costs of particular investments that incurred prolonged or significant decline. The total write-down or cost adjustment was $1.05 billion, of which $458 million relates to the current biennium, while $593 million represents prior-period adjustments.

Total expenditure (comprising benefit payments and administrative expenses) amounted to $4.3 billion, compared with $3.9 billion for the previous biennium, an increase of 10 per cent. The overall net result of the Fund for the period is an excess of income over expenditure of $2.1 billion, compared with an excess of $2.6 billion in the preceding biennium.

The market value of the investment portfolio of the Fund as at 31 December 2011 was $37.8 billion (an increase of $1.1 billion, or 3 per cent), compared to $36.7 billion at 31 December 2009 and $41.4 billion at 31 December 2007.

The Fund’s policy is to conduct an actuarial valuation every two years. The last valuation was conducted for the biennium ended 31 December 2011. The valuation determined that assets of the Fund adequately covered the actuarial value of accrued benefit entitlements, as more fully described in the financial statements.

Investment management

Unrealized gains and losses, which reflect an increase or decrease in the value of an investment since its acquisition, are realized on the sale or disposal of an investment. The Fund discloses the difference between the book and market values of investments in the notes to the financial statements.

In its previous report (A/65/9, annex X), the Board issued a modified audit opinion with one emphasis of matter to reflect that while the Fund’s presentation, which excluded the disclosure of unrealized gains and losses, was in accordance with the United Nations system accounting standards, it did not present a complete picture regarding the underlying realized gains and losses and the unrealized positions. The Board also recommended that the Fund implement a loss minimization strategy to limit the significant decline in its investment portfolio.

The Fund has improved the disclosure of realized and unrealized gains and losses in the financial statements for the biennium ended 31 December 2011. The Fund further analysed the unrealized losses in its investment portfolio and developed an accounting policy to account for investments that indicate significant or prolonged decline in values. The application of this accounting policy led to a write-down of

$1.05 billion in the book value of investments. The Board considers that the write-down of the book value of investments was not only an accounting matter, and reiterates its opinion on the need for a loss minimization strategy, as well as the need to consider how investment managers could identify such instances earlier so that a managerial decision could be made on whether or not to sell or hold investments to avoid significant losses.

The Fund has disclosed in its financial statements for the current biennium that it provides management advisory/oversight services to the United Nations University Endowment Fund and United Nations Library Endowment Fund. The Fund, however, is also in the process of updating and formalizing the arrangements between Investment Management Division and the two endowment funds. The Board considers that formal arrangements will help to clarify the Division's responsibilities and address any gap in expectations pertaining to the Division and the respective funds.

Financial statement preparation process

While the Board did not find material errors, it considers that the Fund's process to compile financial statements was not adequately supported by detailed closure instructions. Aspects not documented include: the overall financial reporting process; key personnel responsible for the preparation and review of financial statements; the cut-off dates of major activities; verification of financial information against supporting schedules; preparation of accounting policy footnotes that are relevant to the Fund; and monitoring of compliance with the accounting framework. Adequate supporting schedules and review procedures analysis will strengthen management's review and validation that the financial statements are fairly presented, accurately reflect accounting records and are compiled in line with stated accounting policies. The strengthening of the financial statement preparation process would help to eliminate some errors in disclosure errors that were subsequently corrected by management and would assist the Fund in meeting the 31 March deadline for the submission of its financial statements to the Board. That deadline, which was not met for the biennium 2010-2011, will be particularly important with the coming implementation of IPSAS, which would require quicker reporting.

Progress toward the implementation of International Public Sector Accounting Standards

The Fund has made steady progress in its preparations for the implementation of IPSAS. It has completed the development of all its IPSAS accounting policies; implemented key systems and processes to be used to generate IPSAS-based financial statements; appointed a Chief Financial Officer who leads the IPSAS working group; and developed a comprehensive methodology for the determination of opening balances of its investment portfolio.

There are remaining areas that need to be adequately managed, however, in order to ensure the successful implementation of IPSAS, including: (a) the finalization of data collection and the clean-up process of the asset register, leave balances, leases and intangible assets; (b) preparations for dry-run financial statements; (c) enhancement of the Fund's financial management processes to account for the accrual of contributions due from member organizations and to determine accrued liabilities; and (d) consideration of initiatives to ensure the Fund maintains adequate expertise to manage its processes and the production of financial statements under IPSAS.

Pension Fund Administration and payment of benefits

The timely collection of contributions is an important function of the Fund, ensuring that funds are available for investment in income-generating activities. The Board has noted, since the 2000-2001 biennium, that the Fund performed yearly contribution reconciliations only after the accounts for the biennium were closed. The Board is still of the view that the yearly contribution reconciliation performed by the Fund was not sufficiently detailed to ascertain whether contributions were accurate and complete. This matter is important because IPSAS requires that the Fund account for the accrual of any contributions due but not received.

The lack of accurate information regarding participants' details affects the ability of the Fund to quantify benefits due in time for payment to beneficiaries, and the recognition and disclosure in the financial statements of the provision liability for the participants who have retired at the end of the financial period.

Information technology

The Fund is a high profile entity in the United Nations system, managing sensitive information regarding the pension information of United Nations staff community. The Fund also manages almost $40 billion in investment funds on behalf of the common system. In the biennium 2008-2009, the Board performed a review of the Joint Staff Pension Fund Administration System (PENSYS) and the Lawson accounting system maintained by the Secretariat. The Board's current review, which included a review of the systems used by the Investment Management Division, noted there is an opportunity to further improve information security controls and user account management practices, including segregation of duties of programming and administration functions, which compromise data integrity and could lead to unauthorized and/or fraudulent transactions.

End-of-service liabilities

The Pension Fund's financial statements for the period under review reflected end-of-service and post-retirement liabilities amounting to $48.31 million (2009: $34.43 million). Of that amount, $44.87 million (2009: $31.50 million) represented after-service health insurance, $1.67 million (2009: $1.21 million) was related to unused vacation leave credits, and $1.77 million (2009: $1.72 million) represented repatriation benefits. The increase in the amount recorded under after-service health insurance was attributable to a decrease in the discount rate from 6 per cent to 4.5 per cent.

Following the integration of its human resources policies and procedures with those of the United Nations, the Fund will pursue whatever approach the Organization may adopt to address the funding of liabilities related to after-service health insurance benefits. The United Nations does not currently have a funding plan for such liabilities.

As in the previous biennium, the Board remains of the view that the valuation of accrued leave liabilities based on actuarial basis needs to be reviewed within the organizations of the United Nations common system.

Non-expendable property

The total non-expendable property under the control of the Fund amounted to $9.1 million (2009: $6.5 million). In the current biennium the Fund carried out a physical count of its inventory and maintained an Excel spreadsheet to record non-expendable property. The Board's current review indicates that the Fund still has no access to the ProcurePlus system to enable it to update its asset register.

Disclosures by management

The Fund did not report any ex gratia payments or cases of fraud or presumptive fraud to the Board. The Fund reported write-offs of accounts receivable and investments book values, which are included in the report.

Recommendations

The Board has made a number of recommendations based on its audit. The recommendations are that United Nations Joint Staff Pension Fund should:

(a) **Analyse trends that have resulted in investment losses to assess the effectiveness of investment managers in managing their portfolios; and make available to investment managers, as part of their routine investment review, the historical cost of investments when they make trade decisions so that they are able to assess the cost against market value and to make informed decisions on whether or not to hold or sell such instruments;**

(b) **Finalize arrangements with the United Nations University Endowment Fund and the United Nations Library Endowment Funds, and keep the Pension Board and General Assembly appraised of the process;**

(c) **Fully reconcile its financial statements with a trial balance drawn from the general ledger and ensure that this is supported by reconciliations or working papers for all major line items in the financial statements; supporting schedules should be prepared to support management's review of the accuracy of the statements;**

(d) **Develop comprehensive year-end closure instructions to support the preparation of accurate financial statements;**

(e) **Review the financial reporting structure to ensure that financial reporting responsibilities are clear and well-supported by adequate delegations;**

(f) **Review its criteria for determining the provision for taxes withheld, and enhance its follow-up or collection procedures for foreign taxes withheld;**

(g) **Issue guidance clarifying the identification and accounting treatment of taxes by the Fund;**

(h) **Implement adequate strategies to manage the areas identified as needing attention in its implementation of IPSAS, in particular the finalization of the data-cleansing exercise, the preparation of opening balances and dry-run financial statements;**

(i) **Consider training initiatives to develop the expertise required to support the implementation of IPSAS;**

(j) **Reconcile monthly contributions from member organizations and follow up on unreconciled items in a timely manner; establish systems to verify the accuracy of the information provided by member organizations prior to year-end closing; ensure that reconciliations are performed and verified before financial statements are issued; and work with member organizations to significantly reduce the number of participant reconciliation exceptions in a timely manner and increase the proportion that have been reconciled at year end;**

(k) **Implement improved controls and procedures to ensure that amounts outstanding are recovered in a timely manner;**

(l) **Apply article 46 of its Regulations and Rules by adjusting benefits payable related to all amounts that are due for forfeiture;**

(m) **Raise a provision for retirement benefits for participants who have submitted documents for retirement and whose entitlements have been established in terms of the rules of the Fund; and consider alternative means to expedite the calculation of the provision;**

(n) **Develop an ageing tool to analyse benefits payable;**

(o) **Perform information technology risk assessments, and develop an information technology risk register that includes action plans to mitigate identified risks;**

(p) **Review the system domain policy settings to ensure that they reflect best practices; monitor the audit trail reports on the system domain policy settings on a regular basis; and enable the Windows operating system security auditing features to allow the tracking and logging of security events;**

(q) **Enforce policy settings on the Windows operating system requiring all users to use passwords when logging on to the system, and to change passwords regularly; and allocate the responsibility for monitoring policy changes on the Windows operating system to a staff member;**

(r) **Implement a formal process, standards and procedures to ensure that alerts regarding the most recently discovered security vulnerabilities are received, and measures to address them implemented in a timely manner; and implement controls to ensure that the appropriate security updates, patches and hot fixes are installed on the Fund's Windows operating system;**

(s) **Develop, approve and implement user account management standards, procedures and processes for the Windows operating system, PENSYS, the Lawson accounting system and the Charles River system, and ensure compliance with and adherence to the approved user account management standards, procedures and processes;**

(t) **Implement procedures to regularly review the privileges of users and group memberships to ensure that no unnecessary privileges or rights have been granted;**

(u) **Review all users to ensure that each one has a unique username on the Windows operating system so as to allow accountability to be enforced at that level;**

(v) **Address the incompatible functions within both the Investment Management Division and the secretariat information technology environments;**

(w) **Develop a funding plan for end-of-service liabilities for consideration by its governing body;**

(x) **Consider revising its policy for the valuation of annual leave liability in its implementation of IPSAS;**

(y) **Regularly reconcile the results of its count procedures to the asset register in a timely manner;**

(z) **Resolve its current inability to access the ProcurePlus asset register system with the Central Support Services of the United Nations;**

(aa) **Consider wider post advertisement mechanisms to attract suitable qualified candidates, and expedite the filling of key management positions;**

(bb) **Reconcile balances or transactions in accordance with the OnTime system with the Integrated Management Information System.**

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund and has reviewed its operations for the biennium ended 31 December 2011 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article 14 (b) of the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations Joint Staff Pension Fund as at 31 December 2011 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of the United Nations Joint Staff Pension Fund operations under financial regulation 7.5. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the United Nations Joint Staff Pension Fund operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report on it accordingly. These matters are addressed in the relevant sections of the present report.

4. The Board continues to report the results of audits to the Fund in the form of management letters containing detailed observations and recommendations. This practice allows for ongoing dialogue with the Administration. In this regard, three management letters were issued covering the period under review.

5. The Board coordinates with the Office of Internal Oversight Services (OIOS) in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that could be placed on latter’s work.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, the Advisory Committee, in its report (A/65/498), requested the Board to:

(a) Report to the General Assembly on an annual basis on progress in implementation of IPSAS;

(b) Provide, when requested, advice and guidance on matters relating to the interpretation of IPSAS standards.

7. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

B. Findings and recommendations

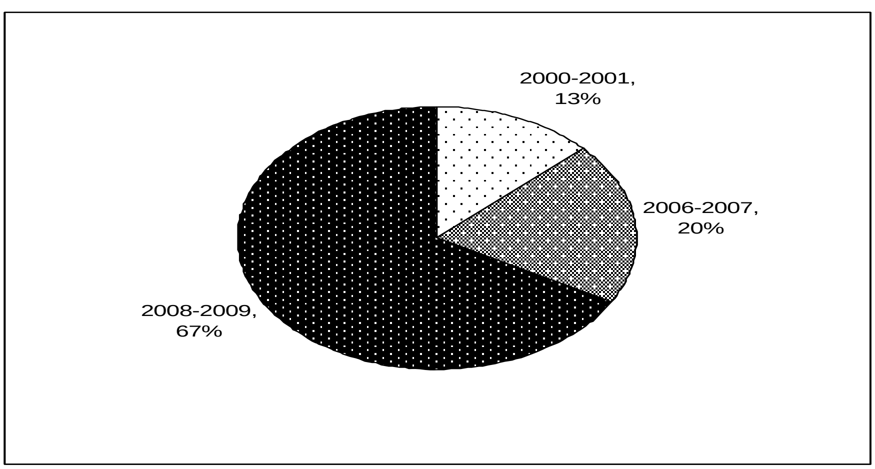
1. Follow-up to previous recommendations

8. Of the 43 recommendations made for the biennium 2008-2009, 28 (65 per cent) were fully implemented; 13 (30 per cent) were under implementation; and (5 per cent) were not implemented.

9. Of the two recommendations that were not implemented, one recommendation related to the submission of financial statements by 31 March as required by Financial Regulations and Rules of the United Nations. The Fund stated that it could not comply with the requirement because of reconciliation procedures for contributions from member organizations, which currently take a substantial amount of time. The other recommendation related to the development of a funding plan for after-service health liabilities. The Fund stated that it was waiting for the United Nations to develop a funding plan, because its human resource policies and procedures were integrated with those of the United Nations. The Board comments on these recommendations in the current report.

10. In response to the request of the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that of the 13 partially implemented and two unimplemented recommendations, two (13 per cent) related to the biennium 2000-2001, three (20 per cent) related to 2006-2007 and 10 (67 per cent) related to 2008-2009, as indicated in figure I. The two recommendations made since the biennium 2000-2001 relate to the reconciliation of contributions received, as discussed elsewhere in the report.

Figure I
Ageing of recommendations under implementation/not implemented for previous biennium
(Percentage)



2. Financial overview

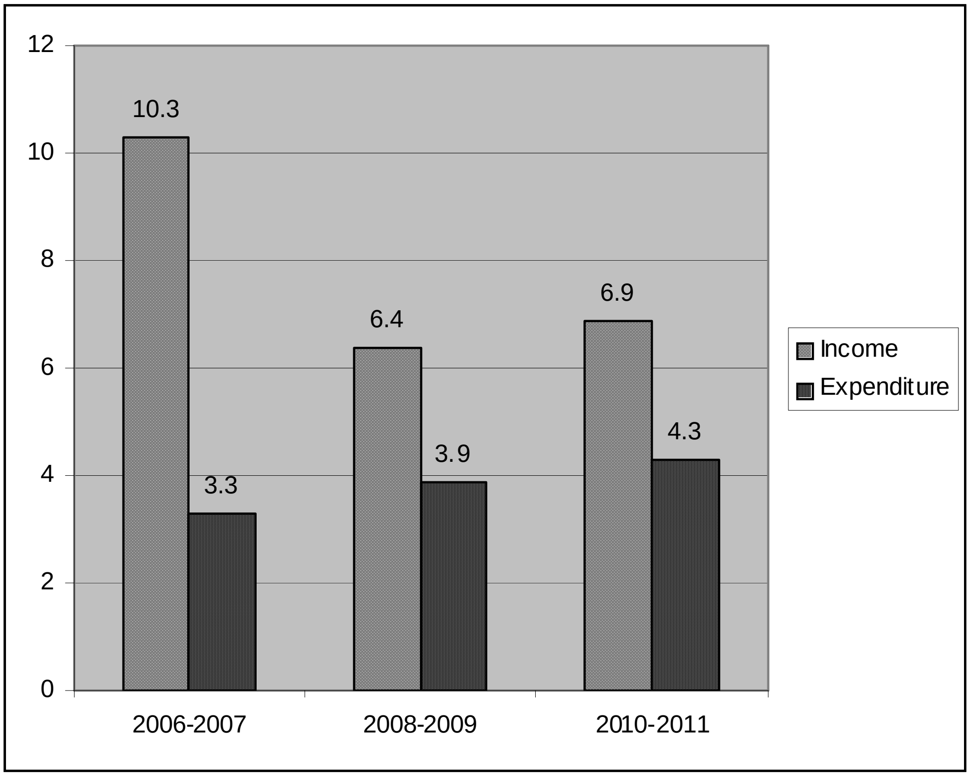
11. Total income for the period under review (comprising contributions and investment income, interest earned on contributions and other income) amounted to $6.9 billion, while total expenditure (comprising benefit payments and administrative expenses, the Emergency Fund and the change in after-service health insurance and end-of-service liabilities) amounted to $4.3 billion, giving an excess of income over expenditure of $2.6 billion. After considering prior-period adjustments of $576 million, the net excess of income over expenditure was $2.1 billion.

12. Total pension contributions increased by 14 per cent, to $4.2 billion (compared with $3.7 billion in the biennium 2008-2009). Investment income marginally increased from $2.7 billion in 2009 to $2.73 billion as at 31 December 2011. During the biennium, the Fund's investments, overall, performed below the benchmarks. However, the fixed income portfolio and the real estate portfolio outperformed the benchmark by larger margins compared to other portfolios. The investment performance was one of the main factors contributing to the deficit in the contribution rate as per the actuarial valuation.

13. Investment income for the biennium was affected by a write-down of the cost of investments, indicating a prolonged and significant decline of $1.05 billion during the biennium. The Board comments on this item in the present report. The level of returns, which reflects current market conditions, is well below the returns of $10.3 billion recorded in the biennium 2006-2007.

14. Total expenditure (comprising benefit payments and administrative expenses) amounted to $4.3 billion, compared with $3.9 billion for the previous biennium, an increase of 10 per cent. Payment of benefits represented 95 per cent of expenditure and increased by 8 per cent to $4.1 billion (compared with $3.8 billion in 2008-2009). The increasing payment of benefits expenditure reflects the fact that many participants in the Fund are reaching retirement age. Comparative income and expenditure for the financial periods 2006-2007, 2008-2009 and 2010-2011 are shown in figure II.

Figure II
Comparative income and expenditure
(Billions of United States dollars)



15. As at 31 December 2011, the Fund had 120,774 participants, compared with 117,580 in 2009, an increase of 2.7 per cent compared with 10 per cent during the biennium 2008-2009. The number of periodic benefits (beneficiaries) granted for the biennium 2010-2011 was 65,387 compared with 61,841 for the previous biennium (a 6 per cent increase).

16. The market value of the investment portfolio of the Fund as at 31 December 2011 was $37.8 billion (an increase of $1.1 billion or 3 per cent), compared to $36.7 billion as at 31 December 2009 and $41.4 billion as at 31 December 2007. The book value of the investment portfolio increased by 3 per cent, from $32.2 billion at the end of 2009 to $33.1 billion at 31 December 2011. It should be noted that the value of the Fund's portfolio increased despite the fact that, during the biennium, it established a cost adjustment policy to write down investment cost, recording a prolonged or significant decline amounting to $1.05 billion.

3. Investment management

17. Investment management is the core responsibility of the Investment Management Division. The total book value of the Fund's investments as at 31 December 2011 amounted to $33.1 billion (2009: $32.2 billion) while the market value was $37.8 billion (2009: $36.7 billion). The Fund has not recouped its historical high valuation of $41.4 billion at 31 December 2007.

18. The Fund applies the United Nations system accounting standards to account for its transactions. The standards allow for investments to be recorded and reported in the financial statements system at cost. The Fund also provides, in parentheses, the market values of its investments on the face of its financial statements.

Matters raised in prior biennium

19. Unrealized gains and losses reflect an increase or decrease in the value of an investment since its acquisition, which are realized on sale or disposal of an investment. The Fund discloses the difference between the book and market values of investments in the notes to the financial statements as it follows the historical cost convention in accordance with the United Nations system accounting standards and does not account for unrealized gains and losses. Only realized gains/losses are accounted for as part of investment income. The market value of the Fund's investments is disclosed in parentheses next to the cost of the respective investment instruments in the statement of assets and liabilities in the financial statements.

20. In the biennium 2008-2009, amid the turmoil with financial markets and the global recession, key market indices and benchmarks declined, and in some cases the Fund performed below benchmarks. The Fund also experienced a drop in its total investment portfolio, with significant realized and unrealized losses. There were a number of investments where a substantial portion of capital was lost, and investment positions with large unrealized losses remained at year end. The Fund did not include a full description of the effects of unrealized losses on its investment portfolio in the financial statements.

21. In its previous report (A/65/9, annex X), the Board included an emphasis of matter paragraph to reflect that while the Fund's presentation, which excluded unrealized gains and losses, was in accordance with the United Nations system accounting standards, it did not fully present a complete picture regarding the underlying realized gains and losses, or the unrealized positions. The Board also reflected in its analysis, a number of investments where a significant portion of capital was lost, and emphasized a need for a loss minimization strategy in cases where investment values show significant decline.

22. The Fund has improved the disclosure of realized and unrealized gains and losses in the financial statements for the biennium ended 31 December 2011, and has included disclosures aimed at addressing the concerns of the Board and providing greater transparency.

Change in accounting policy

23. Further to the disclosure described above, the Fund changed its accounting policy to include investments that indicated significant and prolonged unrealized losses. The United Nations system accounting standards is silent on the accounting treatment for unrealized gains or losses. The Fund considered best practices, its upcoming IPSAS accounting policies and the need for prudence, and on that basis, formulated an accounting policy to account for unrealized losses.

24. As a result of the implementation of the new accounting policy, the Fund's initially submitted financial statement included an impairment or cost write-down of investments of $493 million. However, the Board's review identified that the accounting methodology applied was not in accordance with guidance provided

under IPSAS and the International Financial Reporting Standards. The Fund addressed the Board's concerns and revised the cost adjustment by another $558 million, resulting in a total impairment or cost write-down of $1.051 billion. The Fund submitted revised financial statements to fully apply the policy as recommended by the Board. An amount of $458 million is reflected as a cost adjustment for the current period, while $593 million is accounted for as a cost adjustment relating to the previous period.

Implication on the management of investments

25. The Board considers that significant and prolonged unrealized losses cannot be addressed solely by accounting adjustments; however, this has implications on how investment managers manage their respective portfolios. The Board has called for a loss minimization strategy in cases where investment values reflect a significant decline. While fund managers manage their investment portfolios as a whole, there is a need to consider individual investments that have reached a point where it is unlikely to recover the capital lost. This need was also recognized by the Pension Board, which has indicated that there is room for improvement through in-depth analysis of transactions, lessons learned, notes of caution about exposure to additional risks and post-sales analysis (A/65/9, chap. V, para. 76).

26. **The Board recommends that the Investment Management Division: (a) analyse trends that have resulted in investment losses to assess the effectiveness of investment managers in managing their portfolios; and (b) make available to investment managers, as part of their routine investment review, the historical cost of investments when they make trade decisions so that they are able to assess the cost against market value and to make informed decisions on whether or not to hold or sell such instruments.**

27. The Investment Management Division informed the Board that it has taken action to enhance its risk control practices with the implementation of MSCI risk metrics and has a procedure to formally monitor holdings by the Investments Section when losses of 25 per cent or more over the historical costs are incurred.

Funds under management

28. In its previous report (A/65/9, annex X) the Board stated that the Fund had no document setting out the formal arrangements for the management of the investments of the endowment funds of the United Nations Library and the United Nations University, and that it had not disclosed those funds in its financial statements. The Board recommended that the Investment Management Division make a complete disclosure in its financial statements of the investments it manages and that it reconsider its formal arrangements for providing management advisory services to third parties.

29. In its financial statements for the current biennium the Fund has disclosed that it provides management advisory/oversight services to the United Nations University Endowment Fund and the United Nations Library Endowment Fund. The Fund, however, does not have formal agreements with the endowment funds.

30. The Investment Management Division stated that its role with regard to the United Nations Library Endowment Fund stems from its relationship with the Investments Committee. The Committee was appointed in connection with the staff

pension scheme, and was designated as the body the Secretary-General would consult on investment matters in accordance with SGB/76. With regard to the United Nations University, the Division's fiduciary duty was assigned to the Representative of the Secretary-General in 1992. The Board considers that formal arrangements will help clarify the Division's responsibilities and address any gap in expectations between the Division and the respective funds.

31. The Fund informed the Board that it was in the process of updating and formalizing the arrangements between the Investment Management Division and the United Nations Library Endowment Fund and the United Nations University Endowment Fund.

32. **The Board recommends that the Fund finalize arrangements with the United Nations University Endowment Fund and the United Nations Library Endowment Fund, and keep the Pension Board and the General Assembly appraised of the process.**

Investment performance for the biennium

33. The Fund benchmarks its performance against specific indices based on its investment portfolio, and has more than 10 benchmarks for this purpose. For the biennium ended 31 December 2011, the Fund underperformed compared to most of its benchmarks. The Board noted, however, that real estate and fixed income overperformed their respective benchmarks by significant margins, compensating, in part, for the non-performing portfolios. Overall, however, the Fund underperformed, and that this had an impact on the actuarial valuation referred to in other sections of the present report. This underscores the need for the Investment Management Division and the Investment Committee to continue to monitor the Fund's performance against the benchmarks.

4. Financial management and financial statement disclosures

Financial statements preparation and review process

34. The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the Investments of the Fund are responsible for producing accurate financial statements in accordance with the Financial Regulations and Rules of the United Nations and the accounting framework applicable to the Fund. United Nations entities need adequate processes to enable them to discharge this responsibility. These procedures generally include: the preparation of supporting schedules and analysis to allow for management review; validation that the financial statements have been fairly presented; and an accurate reflection of accounting records complied with the stated accounting policies.

35. In its previous report (A/65/9, annex X, para. 87) the Board noted that the Fund did not compile any reconciliations or working papers for major line items in the financial statements. The Board had recommended that the Fund compile reconciliations or working papers for major line items in the financial statements and prepare supporting schedules of calculations or adjustments that are in agreement with the book of entries.

36. The Board noted that the presentation of the financial statement had improved in the current biennium, although the Fund had still not compiled reconciliations or working papers for all information provided in the financial statements, and some

schedules had been prepared and presented only at the request of the Board. In addition, the Fund had not developed accounts closure instructions detailing the overall financial reporting process, key personnel responsible for the preparation and review of financial statements, cut-off dates on when the financial statements should be finalized, verification of the financial information against the supporting schedules and preparation of the accounting policy footnotes that are relevant to the Fund and monitoring of compliance with the accounting framework. These are basic financial controls and the absence of review by management is a serious failure in good practice financial management and accountability.

37. Because these procedures were not in place, the Board's review of the financial statements revealed some errors, and several new disclosures that were not adequately explained in the financial statements and their respective notes. The Fund subsequently adjusted these matters and submitted revised financial statements. The Board's review of bank reconciliations performed as at 31 December 2011 revealed minor items with regard to matters of reconciliation in five bank accounts (net of $16,607), which should have been recorded in the general ledger.

38. The Board is of the view that well-documented and executed accounts, supplemented by schedules reviewed by management, will enhance the preparation of the financial statements, and that such accounts are also an indicator of sound financial management. The IPSAS-compliant financial statements have extensive disclosure requirements that require careful consideration with regard to the allocation of responsibilities in order to ensure that all information is ready to support the preparation of IPSAS-compliant accounts.

39. **The Fund agreed with the Board's reiterated recommendation that it fully reconcile its financial statements with a trial balance drawn from the general ledger and ensure that this is supported by reconciliations or working papers for all major line items in the financial statements. Supporting schedules should be prepared to support management's review of the accuracy of the statements.**

40. The Fund informed the Board that it will improve the set of working papers for all line items in the financial statements.

41. **The Fund agreed with the Board's recommendation that it develop comprehensive year-end closure instructions to support the preparation of accurate financial statements.**

42. The Fund informed the Board that it had started to develop a procedures manual for the preparation and review of its financial statements for its first-time closing of the financial statements under IPSAS, as at 31 December 2012.

The role of the Chief Financial Officer

43. The Board noted that the Fund appointed a Chief Financial Officer in 2012. The Board welcomes this development as the Chief Financial Officer is now leading the IPSAS implementation project and consolidating the financial reporting processes of the two divisions (the Investment Management Division and the Fund secretariat). The Board notes, however, that there were no reporting lines established between the two accounting functions and the Chief Financial Officer. Furthermore, the Chief Financial Officer did not have staff to assist in the execution of his role. The Board acknowledges that the current state represents an interim solution to bridge existing gaps, but it is of the view that its findings in this report

indicate a need to strengthen financial management controls in the Fund, especially in the Fund's first year of implementation of IPSAS.

44. **The Board recommends that the Fund, in the context of the role of the Chief Financial Officer, review the financial reporting structure to ensure that financial reporting responsibilities are clear and well supported by adequate delegations.**

Management of foreign tax receivables

45. Taxes are incurred on investment income earned by the Fund, but are generally recoverable under the terms of Article 105 of the Charter of the United Nations and article II, section 7 (a), of the Convention on the Privileges and Immunities of the United Nations. As at 31 December 2011, the gross receivable for taxes withheld was $22.39 million (2009: $58.29 million) and the related provision for taxes withheld was $14.5 million (2009: $9.74 million).

46. In its previous report (A/65/9, annex X) the Board recommended that the Investment Management Division take urgent steps to recover amounts outstanding in foreign taxes. During the biennium the Fund raised a provision (allowance) for doubtful debts for taxes withheld that have been outstanding for four years and older. The Board noted that there were countries where the Fund did not have formal tax claim mechanisms and that in those countries the Fund was unable to reclaim taxes withheld, amounting to $5.6 million. In those cases, recovery is doubtful and prudence would require a specific provision for such amounts.

Classification of the tax withheld and overstatement of investment cost

47. The Board noted that the Fund had incorrectly included an amount of $545,704 relating to tax withheld for funds administered as part of the cost of investment instead of as a receivable. This overstated the cost of investment and understated the receivable for taxes withheld. The inclusion of the taxes withheld in the investment account does not facilitate the Fund's follow-up to recover the taxes withheld in a timely manner. While the Board's procedures did not reveal other instances, there is a need for the Fund to ensure that taxes are correctly identified by transaction managers and recorded accordingly in the accounts.

48. The Fund subsequently adjusted its financial statements to make full provision for taxes withheld in countries with no formal tax claim mechanism.

49. **The Fund agreed with the Board's recommendation that it: (a) review its criteria for determining the provision for taxes withheld; and (b) enhance its follow-up or collection procedures for foreign taxes withheld.**

50. The Investment Management Division informed the Board that it continued to make efforts to recover taxes withheld and had several meetings with some of the countries that did not have formal tax claim mechanisms. Furthermore, the Investment Management Division is procuring global tax advisory services to assist with global tax reclamation efforts.

51. **The Board also recommends that the Fund issue guidance clarifying the identification and accounting treatment of taxes by the Fund.**

5. Progress towards the implementation of International Public Sector Accounting Standards

52. The Advisory Committee on Administrative and Budgetary Questions, in its report of 8 October 2010, requested the Board to report to the General Assembly on an annual basis on progress in the implementation of IPSAS and to provide, when requested, advice and guidance on matters relating to the interpretation of IPSAS standards (A/65/498, paras. 19 and 20).

53. In its previous report on the status of implementation of IPSAS as at 31 March 2011 (A/65/9, annex X, paras. 22-27), the Board had several concerns regarding the progress achieved by the Fund at that stage, including that: (a) the Fund's draft plan for the implementation of IPSAS did not include the involvement of other stakeholders other than the Financial Services Section, the Investment Management Division and the Information Management Systems Service; and (b) the draft IPSAS implementation plan did not specifically detail which aspects of the Financial Regulations and Rules would need to be revised.

54. The Board continued to engage with the Fund during the biennium regarding IPSAS matters. In its review of May 2012, the Board noted progress in the following areas:

(a) The Fund had completed developing all its IPSAS accounting policies;

(b) The Fund had implemented key systems and processes to be used to generate financial information and consolidate the information in its general ledger system to generate IPSAS-based financial statements;

(c) The Fund had appointed the Chief Financial Officer, who leads the IPSAS working group;

(d) The Fund had identified the necessary changes required for IPSAS in relation to its arrangements with the master record-keeper system used for recording investments activities;

(e) The Fund has developed a comprehensive opening balance sheet methodology for its investment portfolio and established detailed tasks for the completion of each line item — the recording of IPSAS opening balances is targeted for completion in June 2012.

55. In its previous report on the progress of implementation of IPSAS (A/66/151), the Board was concerned about the lack of clarity regarding the Financial Regulations and Rules of the United Nations, which were not going to be changed in time to allow the Fund to implement IPSAS. The Fund has since obtained the approval of the Pension Board and the General Assembly to apply the current financial regulations "mutatis mutandis" to its accounting and financial reporting process in a manner that allows it to implement IPSAS.

56. While the Fund has made good progress on its plans to implement IPSAS, the Board considers that the following matters require the Fund's attention:

(a) The process of completing its data-collection and clean-up processes with regard to the fixed asset register, leave balances, leases, intangible assets and PENSYS reports for determination of the provision liability, as reported elsewhere in the present report;

(b) The preparation of opening balances, although at an advanced stage, will need to be managed to ensure that the Fund has adequate schedules and supporting documents for the opening balances;

(c) The dry-run financial statements present an opportunity to benchmark the Fund's procedures to prepare IPSAS-based financial statements; this is planned for September 2012;

(d) The Fund did not have a process to reconcile contributions received from member organizations on a monthly basis and recognizes cash contributions income based on submissions made by member organizations: IPSAS will require recognition of contributions on an accrual basis;

(e) The Fund's extensive use of consultants to support the implementation of IPSAS means that there will be a need for comprehensive training to ensure there is adequate capacity to support IPSAS. As noted by the Board in the present report, there are areas where basic financial controls were not adequate within the scope of the United Nations system accounting standards. IPSAS will have higher level requirements;

(f) The Fund currently maintains a $37 billion investment portfolio, which contains certain complex instruments in terms of day-to-day, monthly and year-end accounting under IPSAS. Qualified staff, with the required experience in accounting for financial instruments, will be needed in the Investment Management Division to carry out this work;

(g) Some of the Fund's accounting policies were completed after 1 January 2012. The Fund, therefore, will need to assess the effect on transactions that have already been processed during the year and effect adjustments accordingly.

57. **The Fund agreed with the Board's recommendation that it implement adequate strategies to manage the areas identified as needing attention in its implementation of IPSAS, in particular the finalization of the data-cleansing exercise, the preparation of opening balances and dry-run financial statements.**

58. **The Fund agreed with the Board's recommendation that it consider training initiatives to develop the expertise required to support the implementation of IPSAS.**

6. Pension Fund administration and payment of benefits

59. The core functions of the secretariat of the Pension Fund include the management of the contributions receiving process and the administration and payment of benefits to beneficiaries of the Fund. The secretariat therefore represents an important interface between the Fund and member organizations, participants and beneficiaries. The Board has reviewed the performance of the secretariat in the areas of the contributions receiving process and the administration and payment of benefits.

Management of the contributions receiving process

60. During the biennium 2010-2011, the Pension Fund secretariat received and accrued total contributions amounting to $4.2 billion (2009: $3.7 billion) from participants and member organizations. Of that amount, $34 million (2009: $31 million) was still due as at 31 December 2011.

61. By its nature, the Fund is an entity where the time value of money is an important factor in its business. Contributions need to be collected in a timely manner so that money is available for investment in income-generating activities. In cases where the Fund does not have accurate information regarding contributions due, this will affect both the timely collection and the application of funds in income-generating activities.

62. The Fund relies on monthly submissions from member organizations to determine the amount of contributions due on a monthly basis, rather than on data maintained by its systems. The Fund carries out an annual process to address the differences between its data and the submissions by member organizations (the "participant reconciliation exceptions process").

63. Over a number of bienniums, the Board has commented on the need for the Fund to prepare monthly and year-end contribution reconciliations to ensure that contributions due are determined and followed up for collection in a timely manner. In its previous report (A/65/9, annex X) the Board reiterated its recommendation that the Fund reconcile monthly contributions from member organizations and follow up on unreconciled items in a timely manner. The Board also reiterated its recommendation that the Fund: (a) establish systems to verify the accuracy of information provided by member organizations prior to year-end closing; (b) ensure that reconciliations are performed and verified before the financial statements are finalized; and (c) work with member organizations to significantly reduce the number of participant reconciliation exceptions in a timely manner and increase the proportion that have been reconciled at year end.

64. In the prior biennium, the Fund indicated that it initiated a project to improve its process of receiving participant data through a web-based system, which would allow member organizations to directly upload their contribution data into the Fund's PENSYS system. The Board noted that this project had not been completed and that, consequently, the Fund was still not performing monthly and year-end reconciliations. However, the Fund has continued to perform annual reconciliations in February each year, which normally result in participant reconciliation exceptions reports, which reflect discrepancies between the Fund's calculated contributions and the amount paid by member organizations.

65. The 2010 reports on participant reconciliation exceptions reflected an unreconciled amount of $17.39 million, indicating that the contributions income and receivables were misstated by the same amount. The amount is immaterial in the Fund's overall context. The participant reconciliation exceptions process for 2011 is not yet complete, however, the Board's analysis of the related balances since 2006 (table 1) indicates a gradual increase in the number of exceptions that require reconciliation.

Table 1
Participant reconciliation exceptions: movement from 2006 to 2010

Year	*No. of participant reconciliation exceptions*	*Annual change in No. of participant reconciliation exceptions (Percentage)*
2006	9 927	Not applicable
2007	11 744	18.31
2008	12 883	9.70
2009	14 560	13.02
2010	17 482	20.07
Overall movement of participant reconciliation exceptions (2006-2010)		**76.11**

66. The Fund considers that a more regular reconciliation of data submitted by the member organizations with the Fund's own data will ensure the availability of accurate information regarding contributions and other participants' data maintained by the Fund.

67. **The Fund secretariat agreed with the Board's reiterated recommendation that it: (a) reconcile monthly contributions from member organizations and follow up on unreconciled items in a timely manner; (b) establish systems to verify the accuracy of the information provided by member organizations prior to year-end closing; (c) ensure that reconciliations are performed and verified before financial statements are issued; and (d) work with member organizations to significantly reduce the number of participant reconciliation exceptions in a timely manner and increase the proportion that have been reconciled at year end.**

68. The Fund informed the Board that because of the high volume of data that is collected from the member organizations, only a system-based solution would be able to handle required reconciliations in an efficient and effective manner. That being the case, the Fund had launched two interrelated initiatives, the Integrated Pension Administration System project and the member organization information sharing initiative (interface programme), which are designed to allow for easier configuration with the new enterprise resource planning systems that are being installed at most of the Fund's member organizations (covering in total 96 per cent of all of the Fund's participants) to receive monthly financial and human resources data. This will allow the Fund to perform an automated verification of the required pension contributions.

Benefit payments

69. Overpayments represent the payment of benefits over and above the amounts beneficiaries were entitled to under the terms of the Fund's rules. Overpayments are a risk because funds already used by beneficiaries may not be recoverable.

70. In its previous report (A/65/9, annex X, paras. 40 and 41) the Board noted the Fund had uncollected overpayments for more than five years, and that the Fund had not considered recognizing a provision for doubtful debts for the long-outstanding

overpayments. While noting the need for improved control over the payment of benefits, the Board also recommended that the Fund establish a policy on the accounting treatment of long outstanding amounts that are not recoverable.

71. As at 31 December 2011 the total overpayments were $4.6 million (2009: $4.9 million). The Fund established a provision for doubtful debts of $2.5 million for overpayments that have been outstanding for five years or longer. The Board noted that the recovery rate of overpayments was only 22 per cent.

72. The Fund informed the Board that most of the overpayments related to beneficiaries who were deceased during the period when the annual certificate of entitlement was in force and in cases where the Fund had not been advised of such changes in a timely manner. The Fund stated that while it would not be feasible to carry out the certificate of entitlement process more than once a year as it requires significant time, effort and resources, it intended to develop a tool to measure the effectiveness of the process and to inform beneficiaries, on a continuing basis, of the need to advise the Fund of any change in status in a timely manner, both through its website and by informing the relevant brands of the Association of Former International Civil Servants.

73. **The Fund secretariat agreed with the Board's reiterated recommendation that it implement improved controls and procedures to ensure that amounts outstanding are recovered in a timely manner.**

Forfeiture and clearing of benefits payable

74. In its previous report (A/65/9, annex X, para. 73) the Board noted that the Fund had unclaimed benefits that had been outstanding for more than two years after they fell due, for which it had not applied the forfeiture clause detailed in article 46 of the Regulations and Rules of the Fund. The Board recommended that the Fund apply article 46 by adjusting benefits payable related to all amounts that are due for forfeiture.

75. As at 31 December 2011, the Board noted that benefits payable included a balance of $10.1 million relating to long outstanding cases that have since met the eligibility criteria for forfeiture. The Fund informed the Board that it was still performing a data-cleansing exercise for benefits payable that meet the criteria for forfeiture.

76. The Fund also informed the Board that it is currently undertaking an exercise to adjust the benefits payable related to all amounts that are due for forfeiture. Because the Fund plans to determine those amounts in 2012, such information will be reflected in the first IPSAS financial statements, as at 31 December 2012.

77. **The Fund agreed with the Board's reiterated recommendation to apply article 46 of its Regulations and Rules by adjusting benefits payable related to all amounts that are due for forfeiture.**

Benefits payable liability

78. The Board noted that the Fund did not raise a liability or provision for participants that had separated on or before 31 December 2011, although these participants had submitted the supporting documentation indicating the benefit options to be taken.

79. The Fund informed the Board that the provision was not calculated and raised at year end because the Fund had to analyse and process the individual cases in the system to determine an entitlement before or as of 31 December 2011.

80. The Board identified that cases are often not processed owing to the lack of the mandatory separation documents from the organization and/or payment instructions from the beneficiary. The Fund currently does not have the tools or resources to calculate estimated benefits to precisely determine liability in advance of actually processing an individual case.

81. The Fund informed the Board that in some instances, cases are delayed due to missing copies of birth and/or marriage certificates in the participant's file, which are required to validate the Fund's records. The Fund is not in a position to request and verify such documents until a retirement case file is opened for the beneficiary.

82. **The Fund agreed with the Board's recommendations that it: (a) raise a provision for retirement benefits for participants who have submitted documents for retirement and whose entitlements have been established in terms of the rules of the Fund; and (b) consider alternative means to expedite the calculation of the provision.**

83. The Fund informed the Board that it will review all retirement benefits payable for the purpose of raising a provision in the opening balance sheet of its IPSAS financial statements for 2012.

Benefits payable age analysis

84. In its previous report (A/65/9, annex X, para. 68), the Board noted that the Fund did not have tools to conduct an ageing analysis or analyse long overdue vendor accounts for benefits payable. While the Fund secretariat agreed with the Board's reiterated recommendation that it develop an ageing tool to analyse benefits payable, during the current period, the Board noted that, this had not been done.

85. The Fund informed the Board that it had concluded the initial phase of reviewing cases, which was performed on open payables, and that it was busy with a second review for the cases that have since met the eligibility rules for forfeiture.

86. **The Fund secretariat agreed with the Board's reiterated recommendation that it develop an ageing tool to analyse its benefits payable.**

87. The Fund informed the Board that it had reviewed and analysed its benefits payables as part of the implementation of IPSAS as at 1 January 2012.

Integrated pension administration system project

88. In 2008, the Secretary/Chief Executive Officer presented a comprehensive high-level business case for the implementation of the integrated pension administration system to the Pension Board, proposing the replacement of the PENSYS system, the Lawson accounting system and the content manager system. In 2009, during its fifty-sixth session, the Board, in the context of the budget review for 2010-2011, approved initial resources for the initiation of the project, including resources for hardware, software and contractual services. A current-state assessment was then performed, during which the Board agreed that a new system was the necessary and most viable option.

89. The overall objective of the integrated pension administration system is to improve the operational efficiency and effectiveness of the Fund in order to enable it to improve its benefits and services delivery capacity (considering the expected increase in the demand for services, the number of active participants and the number of retirees and beneficiaries) and its “self-service” capabilities.

90. The approved budget is $15.54 million with $11.54 million for the integrated pension administration system initiative, member organizations information-sharing initiatives of $2.56 million and an enterprise resource management system initiative of $1.5 million.

91. While the project for the implementation of the integrated pension administration system had only just begun, the Board will keep the development of the project under review as it may have an impact on some of the matters raised by the Board regarding the accuracy of contributions and the timely payment of benefits.

7. Information technology

92. The Fund is a high profile entity within the United Nations system and it manages sensitive information regarding the pension information of the United Nations staff community. The Fund also manages over $37 billion of investment funds on behalf of the pensions of the United Nations system. With this in mind, it is important that the Fund maintain best practices to ensure the information technology environment is well managed and that information is secure.

Information technology risk register at the Investment Management Division

93. The Board noted that the information technology risk assessments were not performed at the Investment Management Division and that a formal information technology risk register had not yet been developed for the Division to ensure that such risks are appropriately recorded and managed. An updated risk register will enable the Division to respond to information technology risks in an appropriate and timely manner.

94. **The Investment Management Division agreed with the Board’s recommendation that it: (a) perform information technology risk assessments; and (b) develop an information technology risk register that includes action plans to mitigate identified risks.**

95. The Investment Management Division informed the Board it is in the process of implementing critical business applications, as part of which it will conduct a business impact analysis study, including an information technology risk register.

Information security

96. To enhance information security, it is important that the information system is properly set up to handle the authentication and authorization of users. Users, on the other hand, are accountable for the passwords used to gain access to the system.

97. The Board, having reviewed the logical parameter settings on the security server at the Fund’s secretariat and the Investment Management Division, was concerned that the applied access rights security settings at both entities were inadequate and did not reflect best practices with regard to passwords and lock-outs

and that auditing features were not activated to track inappropriate activities relating to security. Weak domain account policy settings increase the risk of unauthorized access to the system and information resources.

98. **The Fund agreed with the Board's recommendation that it: (a) review the system domain policy settings to ensure that they reflect best practices; (b) monitor the audit trail reports on the system domain policy settings on a regular basis; and (c) enable the Windows operating system security auditing features to allow the tracking and logging of security events.**

99. The Fund subsequently informed the Board that it had implemented the above recommendation.

Password controls

100. At the Investment Management Division, the Board noted that 33 users were not required by the Windows operating system to use a password when logging on to the system while some users were not required to change their passwords. The weaknesses in password controls and the absence of individual authentication increased the risk of unauthorized access to information.

101. **The Investment Management Division agreed with the Board's recommendation to: (a) enforce policy settings on the Windows operating system, requiring all users to use passwords when logging on to the system, and to change passwords regularly; and (b) allocate the responsibility for monitoring policy changes on the Windows operating system to a staff member.**

102. The Investment Management Division subsequently informed the Board that it had implemented the recommendation.

Security updates, patches and hot fixes installed on the Windows system at the Secretariat and the Investment Management Division

103. A patch is a program that makes changes to software installed on a computer. Software companies issue patches to fix bugs in their programs, and to address security problems or add functionality. To keep Windows computers secure, the operating system needs to be kept up-to-date with the latest security patches and service packs. Security updates address vulnerabilities discovered in Microsoft security.

104. The Board noted that a formal process, standards and procedures had not been implemented to ensure that the Windows environment of the Fund's secretariat and the Investment Management Division would remain up-to-date with the most recently discovered security vulnerabilities. Furthermore, controls had not been implemented to ensure that appropriate security updates, patches and hot fixes would be installed on the Windows server. Updates, patches and hot fixes were consequently not regularly installed (the last update occurred on 6 January 2009 at the secretariat and on 11 April 2007 at the Division). The lack of a formal process, standards and procedures to ensure that the appropriate security updates, patches and hot fixes are promptly identified and installed increases the risk of the system being compromised, damaged or exploited by way, inter alia, of unauthorized remote access to the system, unauthorized execution of codes and denial-of-service attacks.

105. **The Fund agreed with the Board's recommendation that it: (a) implement a formal process, standards and procedures to ensure that alerts regarding the most recently discovered security vulnerabilities are received, and measures to address them implemented, in a timely manner; and (b) implement controls to ensure that the appropriate security updates, patches and hot fixes are installed on the Fund's Windows operating system.**

106. The Fund informed the Board that it will upgrade its Windows operating system, including the installation of domain controllers. Microsoft patch management will be enabled for all Microsoft Windows systems, including the desktop system. In addition, the secretariat has installed patches on all critical servers, including domain controllers, and has set up a manual process of weekly verification of patch deployment to all critical servers.

User account management standards and procedures

107. User account management is a process ensuring that valid and adequate access privileges are allocated only to authorized users of a particular system and that all users can be uniquely identified to ensure accountability for their actions performed on that system. In its previous report (A/65/9, annex X, para. 185) the Board noted that the Fund secretariat had informal user account management procedures. The Board recommended that the Fund secretariat develop and approve comprehensive user account management procedures and implement procedures to monitor the validity of user accounts on a regular basis.

108. The Board performed a follow-up of its recommendations and noted that the Fund secretariat had still not established formal documented and approved user account management standards. The Board noted that the Investment Management Division had draft user account management standards and procedures for the Windows operating system and the Charles River application system. In its review of the draft user account procedures, the Board noted that the Division followed an informal process to register, change, reset and terminate user accounts and that it was not applying best practices in this regard.

109. The lack of formal user account management standards, procedures and processes could result in user account management activities not being dealt with in a consistent manner, and might even lead to unauthorized access to the system or inappropriate rights being allocated to users.

110. **The Fund agreed with the Board's recommendation that it: (a) develop, approve and implement user account management standards, procedures and processes for the Windows operating system, PENSYS, the Lawson accounting system and the Charles River application system; and (b) ensure compliance with and adherence to the approved user account management standards, procedures and processes.**

111. The Fund secretariat informed the Board that it has been using the user access policy and the help desk application to track the user management procedures, but that, owing to legacy applications and budgetary constraints, it had not been able to consolidate the various directories or to implement a universal directory and identity management system. However, the secretariat has included those areas among the requirements for the integrated pension administration system, and it expects to

address the matter of identity management through the same system. In the interim, the Fund has implemented an account management procedure.

112. The Investment Management Division subsequently informed the Board that it had implemented the recommendation.

User accounts with administrator privileges

113. Administrator privileges are the most powerful privileges in the system as they enable users to perform all actions on the server or domain. The Board noted that an excessive number of user accounts had administrator privileges on the system, 23 in the Fund secretariat and one in the Investment Management Division. The system administrators of the Division all used the same usernames and the same passwords at the operating system level on Windows to perform all security functions and administration actions on the server or domain. Moreover, the staff members who shared the same username on the Windows operating system were not linked to a specific user identification, resulting in a lack of accountability at the level of the operating system.

114. When administrator privileges are not restricted, normal users may obtain rights enabling them to perform unauthorized administrator functions on the Windows system, compromising the proper segregation of duties.

115. **The Fund agreed with the Board's recommendation that it implement procedures to regularly review the privileges of users and group memberships to ensure that no unnecessary privileges or rights have been granted.**

116. The Fund subsequently informed the Board that it had implemented the recommendation.

117. **The Investment Management Division agreed with the Board's recommendation that it review all users to ensure that each one has a unique username on the Windows operating system so as to allow accountability to be enforced at that level.**

118. The Fund secretariat informed the Board that 13 of the accounts had been incorrectly configured as they were members of a group that was improperly embedded within the administrative group, and that it had subsequently removed those accounts Furthermore, on subsequent review, six accounts were found to be application accounts that required administrative rights on the domain and must be retained for proper operations, and four active domain administrators (two each in Geneva and New York) were identified, which constitute the remainder of the accounts.

119. The Investment Management Division subsequently informed the Board that it had implemented the recommendation.

Segregation of the programmer duties

120. Segregation of duties is a method of reducing the risk of a system being accidentally or deliberately misused by ensuring that no single person can perform programmer duties, operating system administration duties and application security administration duties. The lack of segregation of duties increases the risk of unauthorized activities.

121. The Board noted that the adequate segregation of duties was not maintained between the critical programming functions on the Lawson and PENSYS application systems, the Windows system administration functions and the application security administration functions of the Lawson and PENSYS systems, since the programmers for the latter two systems could perform system administration functions on all three systems at the secretariat.

122. The Board noted that the PENSYS and Lawson system programmers had access to the production environments of the systems for which they were responsible in order to provide support and upload changes. However, management did not monitor the activities of the programmers to ensure that only valid and approved changes were made to those application systems.

123. At the Investment Management Division, the Board noted that segregation of duties was not maintained between the functions of the administrator of the critical Charles River database, the Windows system administration and the application security administration of the Charles River system. The Board further noted that the database administrator for the Charles River system also performed system administration functions on the Windows system because of the lack of human resources.

124. **The Board recommends that the Fund address the incompatible functions within both the Investment Management Division and the secretariat information technology environments.**

125. The Fund secretariat informed the Board that it has streamlined the requirements of the quality assurance function by writing a segregation of duties policy that ensures that segregation of duties is maintained by assigning tasks associated with analysis/development and move-to-production to two different individuals. In addition, a system modification plan has been put in place to manage and monitor the process.

126. The Investment Management Division informed the Board that in October 2011, it started recruiting a database administrator.

8. Actuarial position of the Fund

127. The Fund's policy is to conduct an actuarial valuation at least every two years. The last actuarial valuation of the Fund, conducted as at 31 December 2011, determined that its actuarial assets adequately covered the actuarial value of accrued benefit entitlements by 130 per cent (actuarial assets $40.8 billion and actuarial value of accrued benefits of $31.39 billion).

128. While the regulations of the Fund do not provide for a cost-of-living adjustment in awarding pension benefits, such adjustments have been made regularly in the past, and there is a reasonable expectation by the Fund participants and beneficiaries that they would continue to be made in the future. Accordingly the Fund's liability, based on such reasonable expectations, was also made and this indicated that the Fund was 86.2 per cent funded. This actuarial valuation was tabled at the June 2012 meeting of the Committee of Actuaries and the current biennium financial statements reflect the results of this valuation. The Committee concluded that there was no requirement as of 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund.

129. The actuarial valuation indicated that there was an actuarial deficit of 1.87 per cent on the required rate to attain the actuarial balance of the Fund. The Board notes that the deficit is approaching the limits of the actuarial buffer recommended by the Committee of Actuaries. According to the Committee, this deficit does not indicate that there is a deficit in the ability of the Fund to meet current obligations, rather it is an indication of the effect that a continuation of the present contribution rate of 23.70 per cent of pensionable remuneration will have over the future life of the Fund, based on various assumptions. The Committee and the consulting actuary were of the opinion that the present rate of 23.70 per cent of pensionable remuneration is sufficient to meet the benefit requirements under the plan and would be reviewed at the time of the next actuarial valuations as of 31 December 2013.

130. The Board notes that over the last two bienniums, the global capital markets had been in turmoil and that, as a result, the Fund had generated low investment income. Actuarial valuations by their nature, take a longer term view, encompassing periods of possible low returns and high returns. The next actuarial review will be available at the same time as the IPSAS-based annual financial statements for the year ended 31 December 2013.

9. End-of-service liabilities (including after-service heath insurance)

131. In its resolution 64/241, the General Assembly requested the Secretary-General to continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board and to include this information and outcomes of the validation in his report to the Assembly.

132. The Pension Fund’s financial statements for the period under review reflected end-of-service and post-retirement liabilities amounting to \$48.31 million (2009: \$34.43 million). Of that amount, \$44.87 million (2009: \$31.50 million) represented after-service health insurance, \$1.67 million (2009: \$1.72 million) related to unused vacation leave credits, and \$1.77 million (2009: \$1.21 million) represented repatriation benefits. The increase in liabilities for after-service health insurance was attributable to a decrease in the discount rate from 6 per cent to 4.5 per cent.

Funding policy for end-of-service liabilities

133. The Board has previously expressed the view that the recording of end-of-service and post-retirement liabilities in the financial statements called for a comprehensive and effective funding plan. In its previous report (A/65/9, annex X, paras. 127-131), the Board noted that the Fund did not have a funding plan for end-of-service liabilities that was approved by its governing body. The Board recommended that the Fund develop a funding plan for end-of-service liabilities for consideration by its governing body. The Board noted that the Fund has not yet developed a funding plan for its end-of-service liabilities.

134. The Fund informed the Board that due to the integration of its human resources policies and procedures with those of the United Nations, the Fund decided to follow the approach that the United Nations will take to address the funding of the liabilities related to after-service health insurance benefits. At this stage the United Nations has no funding plan for its after-service health insurance liabilities.

135. **The Board reiterates its previous recommendation that the Fund develop a funding plan for end-of-service liabilities for consideration by its governing body.**

Annual leave and actuarial valuation of leave

136. In its previous report (A/65/9, annex X, para. 138), the Board was of the view that the annual leave liability calculated through the actuarial valuation was not compliant with IPSAS as it (a) included future days to be accumulated, and (b) it was discounted. The Fund agreed with the Board's recommendation to consider a revision of its policy for the valuation of annual leave liability in its implementation of IPSAS.

137. The Board noted that the Fund continued to calculate its annual leave liability based on an actuarial valuation. IPSAS 25 has since been revised to provide that the annual leave could have a long-term benefit. The Board is still of the view that the annual leave liability determined through an actuarial valuation understates the liability since it does not recognize the part of the liability that will be incurred through use, but emphasizes the part of the liability that will be paid out on retirement. This method therefore considers leave as a long-term benefit only. The panel of external auditors of the United Nations system has also considered the issue of leave and considers leave to have both short-term and long-term components.

138. The Board is aware that the computation of the leave liability using an actuarial method is a systematic issue at all United Nations entities, and it will seek to address this issue within the United Nations system. The Fund stated that its human resources management is integrated into the policies and procedures of the Office of Human Resources of the United Nations Secretariat and, as such, it harmonizes its accounting policies for human resources-related transactions with the policy applied by the Secretariat.

139. **The Board reiterates its previous recommendation that the Fund consider revision of its policy for the valuation of annual leave liability in its implementation of IPSAS.**

140. The Fund informed the Board that it will monitor the discussions between the United Nations IPSAS team and the Board on this matter and re-evaluate its policy accordingly.

10. Non-expendable property

141. The total non-expendable property for the Fund amounted to $9.4 million (2009: $6.5 million). The asset register of the Fund is maintained by the United Nations Property Management and Inventory Control Unit. In its previous report (A/65/9, annex X, para. 141), the Board noted that the results of the inventory count had not been received from the Control Unit and that, as a result, the asset register was not updated with the results of the count. The Board considers that good asset management controls are essential to ensure that assets of the Fund are put into good use. The Board reiterated its previous recommendation that the Fund regularly conduct physical inventory counts and reconcile the results of its count to the asset register in a timely manner. The Board further recommended the Fund obtain full administrative access to the ProcurePlus system from the United Nations Property

Management and Inventory Control Unit (the asset register system) in a manner that allows it to update its assets register and to keep it accurate.

142. While the Board's current review indicates that the Fund still has no access to the ProcurePlus system to enable it to update its asset register, in the current biennium the Fund did a physical count of its inventory and maintained an Excel spreadsheet to record its non-expendable property. The United Nations Property Management and Inventory Control Unit asset certification was carried out in May 2012, and at the time of the audit the results were not yet available.

143. In addition, the value of non-expendable assets disclosed in the initial financial statements submitted to the Board did not agree with the amount of non-expendable property according to the asset register (ProcurePlus), showing a difference of $875,013. The Fund subsequently adjusted its disclosure note to reflect the amounts recorded in the asset register.

144. While the amount of non-expendable property is immaterial in the context of the total assets of the Fund, the maintenance of an accurate fixed asset register and performance of asset counts are basic financial controls to enable the Fund better to account for assets acquired through participants' funds. The Board is concerned that the Fund has not prioritized this matter. With the implementation of IPSAS, other assets are likely to be tracked and maintained in the asset register, and IPSAS standards have a higher level of requirements compared to United Nations system accounting standards. The Fund needs to ensure that its procedures are adequate for those standards.

145. **The Board reiterates its previous recommendation that the Fund regularly reconcile the results of its count procedures to the asset register in a timely manner.**

146. **The Board further recommends that the Fund resolve its current inability to access the ProcurePlus asset register system with the Central Support Services of the United Nations.**

11. Human resources management

Vacancies

147. The Board noted that the vacancy rate at the Fund had a low overall vacancy rate of 7 per cent. Some posts, however, had been vacant for more than 12 months. Included in the vacant post were four key management posts (Senior Benefits Officer, Chief Information Technology Operations Unit, Information Systems Officer and Investment Officer (real estate)) that could have an adverse impact on the operations of the Fund if they are not filled in a timely manner.

148. The Fund informed the Board that the positions remained vacant because of lack of suitably qualified, knowledgeable or experienced candidates as most candidates fail the screening test, and the posts must be re-advertised. Furthermore, the approval of the candidates was determined by the Central Review Body, which, while ensuring that the recruitment is transparent, adds to the length of the recruitment process.

149. **The Fund agreed with the Board's recommendations to: (a) consider wider post advertisement mechanisms to attract suitable qualified candidates; and (b) expedite the filling of key management positions.**

150. The Fund stated that it advertises in accordance with the requirements of a particular post and that filling post expeditiously is secondary to recruiting suitable candidates.

Leave management

151. Leave transactions are captured on the OnTime system by each staff member and approved by their immediate supervisor. The human resources assistant manually captures each leave transaction on a monthly basis in IMIS. The Board noted that there were discrepancies between the leave transactions captured in the OnTime system and the leave balances in IMIS. The discrepancies could result in a misstatement of the leave accrual or an incorrect payout of leave upon separation.

152. **The Board recommends that the Fund regularly reconcile balances or transactions in accordance with the OnTime system with IMIS.**

12. Internal audit function

153. In order to improve audit coverage and avoid any duplication of audit efforts, the Board coordinated with OIOS to consider the extent of reliance that could be placed on the work of OIOS. In particular, the Board sought to enhance its coverage of risk areas by reviewing the results of the audits of investment management/compliance with internal policy and the financial reporting process. The Board's approach was based on a review of the methodology and working papers of OIOS.

Internal audit reports

154. Table 2 presents assignments performed by OIOS during the biennium 2010-2011. The number of assignments undertaken by OIOS were affected by the changes in staffing during the biennium, and processes were under way to address the staff resources provided by OIOS to the Fund.

Table 2
Assignments completed by the Office of Internal Oversight Services during the biennium 2010-2011

Subject of audit
2010
Audit of the financial reporting process (carried over from 2009)
Audit of the Investment Management Division's contract management
Audit of the implementation of the Charles River trade order management system
Audit of performance management
Audit of disability benefits
Audit of the Investment Management Division's Information Systems Section
Audit of the Investment Management Division's front office — fixed-income group

2011

Audit of cash management (carried over from 2010)

Audit of the operations of the United Nations Office at Geneva

Audit of governance and oversight over investments

Audit of the business continuity and disaster recovery

Audit of the member organization data collection project

C. Disclosures by management

1. Write-off of cash, receivables and property

155. The Fund informed the Board that, in accordance with rule 106.9 of the Financial Regulations and Rules of the United Nations, during the biennium, property of an historical cost of $114,553 had been disposed of after the completion of its useful life. In accordance with rule 106.8 of the Financial Regulations and Rules, receivables amounting to $103,409 had been written off.

2. Ex gratia payments

156. As required by regulation 5.11 of the Financial Regulations and Rules, the Fund reported no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

157. The Fund reported no significant cases of fraud or presumptive fraud during the biennium by its staff.

D. Acknowledgement

158. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Chief Executive Officer of the Fund and the Representative of the Secretary-General and members of their staff.

Terence **Nombembe**
Auditor-General of South Africa
(Lead auditor)

Liu Jiayi
Auditor-General of China
Chair of the United Nations Board of Auditors

Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland

30 June 2012

Appendix

Status of implementation of recommendations for the biennium ended 31 December 2009[a]

	Summary of recommendation	*Para. reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
1.	Finalize and approve the IPSAS implementation plan	27	2006-2007	X		
2.	Raise a receivable and income for amounts owed to the Fund	30	2008-2009	X		
3.	Reverse all prior-period unliquidated obligations as they are paid	33	2008-2009	X		
4.	Improved controls to recover overpayments	43	2006-2007		X	
5.	Raise a provision for doubtful debts	44	2008-2009	X		
6.	Revalue all balances denominated in foreign currencies	48	2008-2009	X		
7.	Recover outstanding amounts of foreign taxes	51	2006-2007		X	
8.	Record receivable and related theme from the United Nations for the reimbursement of administrative expenses in the correct accounting period	54	2008-2009	X		
9.	Reconcile the balance confirmed by the United Nations with that disclosed by the Fund	57	2006-2007	X		
10.	Upload correct accrual amounts from the accounts payable module	63	2006-2007	X		
11.	Perform regular reconciliations between the accounts payable module and the general ledger	64	2008-2009		X	
12.	Complete data-cleansing exercise and correctly classify amounts	67	2008-2009	X		
13.	Develop an agency tool to analyse benefits payable	70	2006-2007		X	
14.	Adjust benefits payable related to all amounts due for forfeiture	75	2008-2009		X	
15.	Submit financial statements by 31 March each year	79	2008-2009			X
16.	Develop and implement clear accounting policies for all significant items in the financial statements	84	2008-2009	X		
17.	Compile reconciliations or working papers for all line items in the financial statements	89	2008-2009		X	
18.	Disclose funds under management	92	2008-2009	X		
19.	Reconsider its arrangement for managing third party funds	93	2008-2009		X	
20.	Implement the newly developed risk management manual	111	2008-2009	X		
21.	Perform a case-by-case review of realized investment losses	112	2008-2009	X		
22.	Provide clear disclosure of all unrealized gains and losses	113	2008-2009	X		

[a] See A/65/9, annex X.

	Summary of recommendation	*Para. reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
23.	Address weaknesses identified in investment compliance	117	2008-2009	X		
24.	Enhance the disclosure of major actuarial assumptions regarding end-of-service liabilities	124	2008-2009	X		
25.	Develop a funding plan for end-of-service liabilities	131	2008-2009			X
26.	Revision of policy for the valuation of annual leave liability	139	2008-2009		X	
27.	Perform physical inventory counts and reconcile them to the asset register	144	2006-2007	X		
28.	Obtain access to the ProcurePlus system	145	2008-2009	X		
29.	Develop a human resources plan	149	2006-2007	X		
30.	Strengthen succession planning	153	2008-2009	X		
31.	Address significant shortcomings in human resources management	158	2008-2009	X		
32.	Reconcile monthly contributions	162	2000-2001		X	
33.	Perform year-end contribution reconciliations	167	2000-2001		X	
34.	Reduce the number of participant reconciliation exceptions	168	2006-2007		X	
35.	Improve the certificate of entitlement process	174	2008-2009	X		
36.	Improve benefits processing time	180	2008-2009	X		
37.	Reconcile PENSYS payroll with the general ledger	184	2008-2009		X	
38.	Develop and approve comprehensive user account management procedures	188	2008-2009	X		
39.	Review request for change and request for service procedures	193	2008-2009	X		
40.	Monitor adherence to change control procedures	195	2008-2009	X		
41.	Implement information security quality assurance functions	202	2008-2009	X		
42.	Review appropriateness of access rights	204	2008-2009	X		
43.	Ensure the existence of adequate segregation of responsibilities in the development and production environments	206	2008-2009	X		
	Total	**43**	**28**	**13**	**2**	
	Percentage	**100**	**65**	**30**	**5**	

Annex XI

Recommendations to the General Assembly for amendments to the Regulations of the United Nations Joint Staff Pension Fund

Existing text	*Proposed text*[a]	*Comments*
Article 14 **Annual report and audit**		
(a) The Board shall present to the General Assembly and to member the organizations, at least once every two years, a report, including a balance sheet, on the operation of the Fund, and shall inform each member organization of any action taken by the General Assembly upon the report.	(a) The Board shall present to the General Assembly and to member[**the**]organizations, at least once every [**two**] year[**s**], a report, including <u>financial statements</u> [**a balance sheet**], on the operation of the Fund, and shall inform each member organization of any action taken by the General Assembly upon the report.	The Fund has adopted the International Public Sector Accounting Standards (IPSAS) as of 1 January 2012. Consequently, the financial statements of the Fund shall be audited by the Board of Auditors annually, and article 14 requires an amendment.
(b) There shall be annual audits of the operations of the Fund, in a manner agreed between the United Nations Board of Auditors and the Board. An audit report on the accounts of the Fund shall be made every two years by the United Nations Board of Auditors; a copy of the audit report shall be included in the report under (a) above.	(b) There shall be annual audits of the operations of the Fund, in a manner agreed between the United Nations Board of Auditors and the Board. An audit report on the accounts of the Fund shall be made every [**two**] year[**s**] by the United Nations Board of Auditors; a copy of the audit report shall be included in the report under (a) above.	

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Existing text	*Proposed text*[a]	*Comments*
Article 24 **Restoration of prior contributory service**		
(a) A participant re-entering the Fund on or after 1 April 2007, who previously had not, or could not have, opted for a periodic retirement benefit following his or her separation from service, may, within one year of the recommencement of participation, elect to restore his or her most recent period of prior contributory service. Furthermore, and under the same terms and conditions, restoration of the most recent period of contributory service may also be elected if, before 1 April 2007, a participant had elected under article 30, or was deemed to have elected under article 32, a periodic deferred retirement benefit that was not yet in payment at the time of said election.	(a) In certain circumstances, a participant may elect, within one year of the recommencement of participation, to restore his or her most recent period of contributory service. A participant re-entering the Fund on or after 1 April 2007, who previously had not, or could not have, opted for a periodic retirement benefit following his or her separation from service, may, within one year of the recommencement of participation, elect to restore his or her most recent period of prior contributory service. Furthermore, and under the same terms and conditions, restoration of the most recent period of contributory service may also be elected if, before 1 April 2007, a participant had elected under article 30, or was deemed to have elected under article 32, a periodic deferred retirement benefit that was not yet in payment at the time of [**said**] election to restore;	After several changes to the article on restoration in 2006 and 2008, an explicit reference to a right to restore, similar to the one in article 23 for validation, appeared to have been eliminated.
(b), (c), (d)	No change	
Article 30 **Deferred retirement benefit**		
(a), (b)	No change	
(c) The benefit may be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than 1,000 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	(c) The benefit may only be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than 1,000 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	To clarify that there is no option to commute a portion of a deferred retirement benefit for payment in the form of a lump sum.

Existing text	*Proposed text*[a]	*Comments*
Article 32 **Deferment of payment or choice of benefit**		
(a)	No change	
(b) A participant who deferred a choice under (a) above shall, if the choice is not made within the period, be deemed to have chosen a deferred retirement benefit if his or her age on separation was less than the normal retirement age, and in any event a form of benefit not payable in a lump sum.	(b) A participant who deferred a choice under (a) above shall, if the choice is not made within the period by submitting applicable payment instructions, be deemed to have chosen a deferred retirement benefit if his or her age on separation was less than the normal retirement age [**, and in any event a form of benefit not payable in a lump sum**].	United Nations Joint Staff Pension Fund regulation 32(b) should be amended to reflect the recent change in administrative rule J.2 (a), approved by the Pension Board at its fifty-seventh session, in 2010. As there is no longer a lump-sum commutation option for the deferred retirement benefit under article 30, the reference in the wording of the article to lump sum is pointless. The addition concerning the payment instructions clarifies the administration of this article in cases where the Fund does not hear from the former participant within a set time limit.
Article 35 bis **Divorced surviving spouse's benefit**		
(a) to (d)	No change	
(e) The divorced spouse of a former participant who separated before 1 April 1999 and, in the opinion of the Chief Executive Officer, met all the other eligibility conditions in paragraphs (a) and (b) above shall be entitled as from 1 April 1999 to a benefit equal to twice the minimum surviving spouse's benefit under article 34(c), payable from the first day of the month succeeding the death of the former participant, subject to the proviso that the amount of such benefit cannot exceed the amount payable to a surviving spouse of the former participant.	(e) The divorced spouse of a former participant who separated before 1 April 1999 and, in the opinion of the Chief Executive Officer, met all the other eligibility conditions in paragraphs (a) and (b) above shall be entitled [**as from 1 April 1999**] to a benefit equal to twice the minimum surviving spouse's benefit under article 34(c), payable as of 1 April 1999 or from the first day of the month succeeding the death of the former participant, whichever is later, subject to the proviso that the amount of such benefit cannot exceed the amount payable to a surviving spouse of the former participant.	The effective date (payable from the date of death rather than from the date of request made as in 35 *bis* (b)) of this minimum, fixed-amount of survivor's benefit was amended by the Board at its fifty-fifth session, in 2008, with effect from 1 January 2009. However, the amendment is applicable on a prospective basis only, as confirmed by a recent United Nations Appeals Tribunal case.

Existing text	*Proposed text*[a]	*Comments*
Article 35 *ter* Spouses married after separation		
(a) A former participant receiving a periodic benefit may elect to provide a periodic benefit for life in a specified amount (subject to paragraph (b) below) to a spouse who was not married to him or her at the date of separation. Such election shall be made within one year of the date of marriage or of the entry into force of this provision, if later, and shall become effective 18 months after the date of marriage. The benefit shall be payable as of the first day of the month following the death of the former participant. […]	(a) A former participant receiving a periodic benefit may elect to provide a periodic benefit for life in a specified amount (subject to paragraph (b) below) to a spouse who was not married to him or her at the date of separation. Such election shall be made within one year of the date of marriage [**or of the entry into force of this provision, if later,**] and shall become effective 18 months after the date of marriage. The benefit shall be payable as of the first day of the month following the death of the former participant. […]	Article 35 *ter* has been in force for over 10 years, and there is no longer a need for the transitional measure for the effective date.
(b)	No change	
Article 36 Child's benefit		
(a) A child's benefit shall, subject to (b) and (c) below, be payable to each child of a participant who is entitled to a retirement, early retirement or disability benefit or who has died in service, while the child remains under the age of 21.	(a) A child's benefit shall, subject to (b) and (c) below, be payable [**to**] for each child of a participant who is entitled to a retirement, early retirement or disability benefit or who has died in service, while the child remains under the age of 21.	To clarify that the benefit is not, in principle, paid to the child, but on the child's behalf to the main beneficiary (as expressly stated in administrative rule J.2 (e)).
(b) to (g)	No change	
Article 37 Secondary dependant's benefit		
(a)	No change	
(b) A secondary dependant's benefit shall nevertheless not be payable:	(b) A secondary dependant's benefit shall nevertheless not be payable:	Explicit reference to a divorced spouse's benefit should be added in article 37(b).
(i) Where a benefit is or was payable to a child or to the surviving spouse of the participant; and	(i) Where a benefit is or was payable to a child or to the surviving spouse, including to a divorced spouse, of the participant; and	

Existing text	*Proposed text*[a]	*Comments*
(ii) In the case of a brother or sister, where the benefit payable to the participant was a deferred retirement benefit.	(ii) In the case of a brother or sister, where the benefit payable to the participant was a deferred retirement benefit.	
(c) The benefit shall be payable at the following rates:	(c) The benefit shall be payable at the following rates:	The reference to a marriage penalty in article 37 (c) (i) should be deleted, as all similar references were deleted in 2008 by the Board.
(i) In the case of a mother or father, at the rates and under the conditions applicable in article 34(b), (c), (d), (f) and (h) to a widow's or widower's benefit, save that the Board may, in the event of remarriage, decide in its discretion to continue the benefit;	(i) In the case of a mother or father, at the rates and under the conditions applicable in article 34(b), (c), (d), (f) and (h) to a widow's or widower's benefit [**, save that the Board may, in the event of remarriage, decide in its discretion to continue the benefit**];	
(ii) In the case of a brother or sister, at the rate applicable in article 36(d) to a child's benefit and shall be payable or shall continue to be payable beyond the age of 21 under the conditions of article 36(b).	(ii) In the case of a brother or sister, at the rate applicable in article 36(d) to a child's benefit and shall be payable or shall continue to be payable beyond the age of 21 under the conditions of article 36(b).	
(d) In the event that more than one person is eligible under this article, the benefit shall be payable to the person designated by the participant or, failing such designation or person, to the person designated by the Board.	(d) In the event that more than one person is eligible under this article, the benefit shall be payable [**to the person designated by the participant or, failing such designation or person,**] to the person designated by the Board.	The Fund does not request participants to designate a secondary dependant, and instead relies on the employing organization to provide information on the participant, including secondary dependants.
Article 40 **Effect of re-entry into participation**		
(a) to (d)	No change	
New paragraph (e)	(e) Article 40 shall apply mutatis mutandis to the ungraded officials who are appointed or elected, irrespective of whether they join the Fund again during their tenure as elected officials. There is no retroactive payment of suspended pension benefits that may have been accrued from previous participation in the Fund.	To reflect the current practice and to clarify that during the tenure of elected officials, irrespective of whether they become Fund participants or not, pension benefits accrued from previous participation, if any, will be suspended and the payment will only resume after the expiration of the term, without any retroactivity.

Existing text	*Proposed text*[a]	*Comments*
Article 45 **Non-assignability of rights**		
(a) A participant or beneficiary may not assign his or her rights under these Regulations. Notwithstanding the foregoing, the Fund may, to satisfy a legal obligation on the part of a participant or former participant arising from a marital or parental relationship and evidenced by an order of a court or by a settlement agreement incorporated into a divorce or other court order, remit a portion of a benefit payable by the Fund to such participant for life to one or more former spouses and/or a current spouse from whom the participant or former participant is living apart. Such payment shall not convey to any person a benefit entitlement from the Fund or (except as provided herein) provide any rights under the Regulations of the Fund to such person or increase the total benefits otherwise payable by the Fund	(a) A participant or beneficiary may not assign his or her rights under these Regulations. Notwithstanding the foregoing, the Fund may, to satisfy a legal obligation on the part of a participant or former participant arising from a marital or parental relationship and evidenced by a[**n**] final and executable order of a court or by a settlement agreement incorporated into a divorce or other court order, remit a portion of a benefit payable by the Fund to such participant for life to one or more former spouses and/or a current spouse from whom the participant or former participant is living apart. Such payment shall not convey to any person a benefit entitlement from the Fund or (except as provided herein) provide any rights under the Regulations of the Fund to such person or increase the total benefits otherwise payable by the Fund.	The Chief Executive Officer/ Secretary exercises his or her discretionary authority under article 45 only in cases where the court orders are final and executable.
(b)	No change	
Article 45 *bis* **Disposition of pension benefits in case of conviction for fraud against an employing organization**		
New	(a) Pursuant to article 45 as described above, a participant or beneficiary may not assign his or her rights under these Regulations. Notwithstanding the foregoing, upon the request of a member organization, the Fund may remit a portion of a benefit payable to such participant to his/her former employing member organization, provided the participant is the subject of a criminal conviction for fraud against that employing organization, evidenced by a final	To introduce a provision allowing the Fund, in very specific circumstances, to pay a portion of a retiree's benefit directly to the retiree's former employing organization towards restitution in cases where amounts had been embezzled by the staff member from the organization.

Existing text	*Proposed text*[a]	*Comments*
	and executable court order issued by a competent national court. Such payment shall not convey to the employing organization a benefit entitlement from the Fund or (except as provided herein) provide any rights to the organization under the Regulations of the Fund or increase the total benefits otherwise payable by the Fund. (b) The deduction may be applied to a benefit payable to a participant under these Regulations, including a withdrawal settlement or a lump-sum commutation. The assignment shall normally be irrevocable; however, such payments shall cease following the death of the participant. The assignment shall not apply to a survivor's benefit under articles 34, 35, 35 *bis* and 35 *ter* of the Regulations.	
Article 54 **Pensionable remuneration**		
(a), (c), (e)	No change	
(b) In the case of participants in the Professional and higher categories, the scale of pensionable remuneration effective 1 November 2001, shall be as set out in appendix B hereto. It shall be adjusted on the same date as the net remuneration amounts of officials in the Professional and higher categories in New York are adjusted. Such adjustment shall be by a uniform percentage equal to the weighted average percentage variation in the net remuneration amounts, as determined by the International Civil Service Commission.	(b) In the case of participants in the Professional and higher categories, the scale of pensionable remuneration [**effective 1 November 2001,**] shall be as set out on the website of the International Civil Service Commission (http://icsc.un.org/resources/sad/prs/pen0811.pdf) [**in appendix B hereto**]. It shall be adjusted on the same date as the net remuneration amounts of officials in the Professional and higher categories in New York are adjusted. Such adjustment shall be by a uniform percentage equal to the weighted average percentage variation in the net remuneration amounts, as determined by the International Civil Service Commission.	The references to the scale of pensionable remuneration (which changes periodically) should be made to the websites of the International Civil Service Commission and the Office of Human Resources Management, rather than annexing them to the Regulations.

Existing text	*Proposed text*[a]	*Comments*
(d) In the case of participants in the United Nations Field Service category, the scale of pensionable remuneration effective 1 November 2001 shall be as set out in appendix C hereto, and shall be subsequently adjusted in accordance with the procedure in (b) above.	(d) In the case of participants in the United Nations Field Service category, the scale of pensionable remuneration [**effective 1 November 2001**] shall be as set out on the website of the Office of Human Resources Management (http://www.un.org/Depts/OHRM/salaries_allowances/salary.htm#fs) [**in appendix C hereto**], and shall be subsequently adjusted in accordance with the procedure in (b) above.	
Flat rate benefits: articles 28 (e), (f), 33 (d), 34 (c) and (d), 35 and 36 (d) (article 28 provided as example)		
Article 28 **Retirement benefit**		
(a) to (d) and (f) to (h)	No change	
(e) The benefit shall, however, be payable at the minimum annual rate which is obtained by multiplying the years of the participant's contributory service, not exceeding 10, by the smaller of 180 dollars [increased to 799.73 dollars under the UNJSPF Pension Adjustment System, effective 1 April 2010] or 1/30 of the final average remuneration, if the benefit so calculated would be greater than the amount under (b) or (c) above.	(e) The benefit shall, however, be payable at the minimum annual rate which is obtained by multiplying the years of the participant's contributory service, not exceeding 10, by the smaller of 180 dollars [increased to 799.73 dollars [**under the UNJSPF Pension Adjustment System,**] effective 1 April 2010 and subsequently adjusted in accordance with the movement of the United States consumer price index under the Pension Adjustment System] or 1/30 of the final average remuneration, if the benefit so calculated would be greater than the amount under (b) or (c) above.	All amounts mentioned in the above articles that are flat-rate benefits (now published on the Fund's website) and change owing to the application of the movement of the United States consumer price index under the Pension Adjustment System should be replaced with the latest published amount and the words "adjusted in accordance with the movement of the United States consumer price index under the Pension Adjustment System". In addition, the footnote to the table of contents of the Regulations (JSPB/G.4/Rev.17) should be amended to read: "The text as well as amounts in this booklet of the Regulations, Administrative Rules, Pension Adjustment System and rules of procedure are as in force as of 1 January 2013 and are subject to change. The most updated text can always be found on the Fund's website: www.unjspf.org. In respect

Existing text	*Proposed text*[a]	*Comments*
		of flat rate benefits specified in articles 28 (e), (f), 33 (d), 34 (c) and (d)/35 and 36 (d), please refer to the latest memorandum on the website, which reflects the movement of the United States consumer price index under the Pension Adjustment System."

Annex XII

Amendments to the Administrative Rules of the United Nations Joint Staff Pension Fund

Existing text	*Amended text*[a]	*Comments*
Section B **Participation**		
B.1, B.2, B.3, B.4 and B.6	No change	
B.5 The participant shall, as soon as practicable after the commencement of participation, specify in writing, on a form provided for the purpose by the secretary of the committee, the secondary dependant, if any, or other person whom he or she designates as the beneficiary in the event of a benefit becoming payable under article 37 or 38 of the Regulations by reason of the participant's death in service without a surviving spouse or child entitled to a benefit; any changes thereafter in such designation shall similarly be specified by the participant in writing.	B.5 The participant shall, as soon as practicable after the commencement of participation, specify in writing, on a form provided for the purpose by the secretary of the committee, the [**secondary dependent, if any, or other**] person whom he or she designates as the beneficiary in the event of a benefit becoming payable under article [**37 or**] 38 of the Regulations by reason of the participant's death in service without a surviving spouse, including a divorced surviving spouse, [**or**] child, or secondary dependant, entitled to a benefit; any changes thereafter in such designation shall similarly be specified by the participant in writing. A new designation must be completed for each new participation in the Fund.	To reflect the change in article 37 of the Regulations, administrative rule B.5 needs to be amended. The last sentence is added to ensure that the residual settlement is paid to the designated beneficiary in cases where the participant has more than one participation.
Section H **Determinations of incapacity and inability to engage in gainful employment**		
General		
H.1 and H.2	No change	
Disability benefits		
H.3 to H.5 and H.6 (a), (c) and (d)	No change	

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldfaced type within square brackets.

Existing text	*Amended text[a]*	*Comments*
H.6 (b) The date for each such review shall be set up by the committee, having regard to the opinion of the medical officer of the organization on the prospects for the participant's recovery, and in such manner that the interval between reviews does not normally exceed three years or five years in exceptional circumstances as determined by the committee based on reasonably established medical criteria concerning which the medical officer has provided guidance to the committee; the committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the participant is no longer incapacitated.	The date for each such review shall be set up by the committee, having regard to the opinion of the medical officer of the organization on the prospects for the participant's recovery, and in such manner that the interval between reviews does not normally exceed [**three**] <u>five</u> years <u>to a maximum of</u> [**or five**] <u>ten</u> years in exceptional circumstances as determined by the committee based on reasonably established medical criteria concerning which the medical officer has provided guidance to the committee; the committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the participant is no longer incapacitated.	Extension of the intervals for review of disability benefits from three to five years (not exceeding 10 years in exceptional cases) following the recommendations made by the Office of Internal Oversight Services, as justified by the resources involved in the review process and the low number of cases discontinued. The recommendation was supported by the United Nations Staff Pension Committee after consultation with the Medical Consultant of the Fund.
H.7 Disabled children's (and brother's and sister's) benefits	No change	
H.8 (a) to (d)	No change	
New rule H.8 (e)	<u>(e) (i) A staff pension committee may accept a request for a disabled child's benefit under article 36 (b) or secondary dependant's benefit under article 37 (c) (ii) that is made more than two years but less than five years after separation from service. In such case, if the benefit is awarded, regardless of the reasons for the delayed request or other circumstance of the case, payment of the benefit shall commence on the day after the date of the staff pension committee's decision, with no retroactive payment.</u>	Adoption of a time limit of five years for late requests made concerning child disability benefits based on the provisions for forfeiture of benefits under article 46 (b) of the Regulations.
	<u>(ii) A staff pension committee shall not consider a request for a disabled child's benefit under article 36 (b) or a secondary dependant's benefit under article 37 (c) (ii) that is made more than five years from: (a) the</u>	To limit payment of children's disability benefits in cases of delayed requests from the date of award without retroactivity.

Existing text	*Amended text*[a]	*Comments*
	date that the participant became eligible to receive a retirement, early retirement or disability benefit from the Fund and if no child or secondary dependant's benefit was previously in payment; or (b) the participant's death in service. Nevertheless, a staff pension committee may consider such a request where the Medical Consultant concludes that the medical condition was in existence at the time of the participant's separation from service but could not have been diagnosed prior to the time of the request.	
H.9	No change	
H.10 A determination that a child or secondary dependant is incapacitated within the meaning of article 36 (b) or (c) shall be reviewed, mutatis mutandis, in accordance with the provisions applicable to disability benefits in rules H.6 and H.7 above, save that the intervals between reviews may exceed three years.	A determination that a child or secondary dependant is incapacitated within the meaning of article 36 (b) or (c) shall be reviewed, mutatis mutandis, in accordance with the provisions applicable to disability benefits in rules H.6 and H.7 above, save that the intervals between reviews [**may exceed three years**] for those cases involving a medical condition that is not likely to improve over time may be increased to ten years. The committee may nevertheless review a determination at an earlier date than that set for the review if there is reason to believe that the beneficiary is no longer incapacitated within the meaning of article 36 (b).	Adoption of the practice of the United Nations Staff Pension Committee, and to ensure consistency in all Pension Fund member organizations, to review child disability cases after 5 or 10 years and provide the required flexibility.
Section I **Entitlement to benefits**		
I.1, I.3 and I.4	No change	
I.2 Entitlement to a benefit under article 36 (a) of the Regulations shall continue to the end of the month in which the child or reaches the age of twenty-one.	I.2 Entitlement to a benefit under article 36 (a) of the Regulations shall continue to the end of the month in which the child [**or**] reaches the age of twenty-one.	To correct a typographical error.

Existing text	*Amended text*[a]	*Comments*
I.5 In no circumstances shall more than one child's benefit be payable in respect of any one child. Where entitlement to more than one child's benefit would otherwise exist in respect of a child, the child's benefit that is largest shall be payable.	I.5 In no circumstances shall more than one child's benefit <u>under article 36 of the Regulations</u> be payable in respect of any one child. Where entitlement to more than one child's benefit <u>under the Regulations</u> would otherwise exist in respect of a child, the child's benefit that is largest shall be payable.	An amendment to the administrative rule to avoid any misunderstanding with respect to child allowances paid by the employing organizations.
Section J Computation and payment of benefits		
J.1, J.2, J.4 to J.7 and J.9	No change	
J.3 The participant shall at the same time, where there is a prospect that a benefit may become payable under article 37 or 38 of the Regulations, specify similarly the secondary dependant or other person designated as the beneficiary, as the case may be; in the absence of such designation, payment shall be made in accordance with the designation of the participant under rule B.5 above.	J.3 The participant shall at the same time, where there is a prospect that a benefit may become payable under article [**37 or**] 38 of the Regulations, specify similarly the [**secondary dependant or other**] person designated as the beneficiary [**, as the case may be**]; in the absence of such designation, payment shall be made in accordance with the designation of the participant under rule B.5 above.	To reflect the change in article 37 of the Regulations, administrative rule J.3 needs to be amended.
J.8 The participant, and any person entitled through the participant to a periodic benefit from the Fund, shall be required from time to time to furnish, to the satisfaction of the Chief Executive Officer, proof that the participant, and any person on whose behalf a benefit is paid, remains alive and, as the case may be, unmarried; the Chief Executive Officer may, in his or her discretion, suspend payment of a benefit pending the receipt of such proof.	J.8 The participant, and any person entitled through the participant to a periodic benefit from the Fund, shall be required from time to time to furnish, to the satisfaction of the Chief Executive Officer, proof that the participant, and any person on whose behalf a benefit is paid, remains alive [**and, as the case may be, unmarried**]; the Chief Executive Officer may, in his or her discretion, suspend payment of a benefit pending the receipt of such proof.	Administrative rule J.8 still refers to the marriage penalty, which was previously removed from the relevant Regulations (e.g. articles 34 to 36).

Annex XIII

Recommendation to the General Assembly for a change in the pension adjustment system of the United Nations Joint Staff Pension Fund

Existing text	*Proposed text*[a]	*Comments*
E. Special adjustment for small pensions		
Paragraphs 7 to 9	No change	
10. No special adjustment shall be made in the case of early or deferred retirement benefits. In the case of widow's, widower's, child's (including orphan's) and secondary dependant's benefits, a special adjustment is applied only if those benefits are derived from benefits which themselves were (or would have been) subject to a special adjustment. In that case, the special adjustment factor shall be the same as the one which had (or would have) been applied to the retirement or disability pension from which the benefit is derived.	10. No special adjustment shall be made in the case of early or deferred retirement benefits. In the case of widow's, widower's, [**child's (including**] orphan's [)] and secondary dependant's benefits, a special adjustment is applied only if those benefits are derived from benefits which themselves were (or would have been) subject to a special adjustment. In that case, the special adjustment factor shall be the same as the one which had (or would have) been applied to the retirement or disability pension from which the benefit is derived.	To amend the language in the pension adjustment system to reflect the correct practice.

[a] Proposed deletions appear in boldfaced type within square brackets.

Annex XIV

Draft agreements on the transfer of pension rights of participants

A. Draft agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of officials in the Organization for the Prohibition of Chemical Weapons

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas the Regulations of the United Nations Joint Staff Pension Fund and the Rules of the Provident Fund[a] of the Organization for the Prohibition of Chemical Weapons authorize the conclusion of such agreements with other international organizations for the transfer and continuity of such rights;

Whereas the Advisory Body for Administrative and Financial Matters of the Organization for the Prohibition of Chemical Weapons, at its thirty-first session, held from 5 to 8 September 2011, and the Executive Council of the Organization, at its sixty-sixth session, held from 4 to 7 October 2011, were notified of the Director-General's intention to conclude an agreement between the Organization for the Prohibition of Chemical Weapons and the United Nations Joint Staff Pension Fund;

Whereas the United Nations Joint Staff Pension Board, at its fifty-ninth session, held from 3 to 11 July 2012, approved the agreement between OPCW and the Pension Fund, and the General Assembly, by its resolution ______ of [date] concurred;

It has been agreed as follows:

Article 1
Definitions

1.1 For the purposes of the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Pension Fund participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "OPCW" means the Organization for the Prohibition of Chemical Weapons;

(d) "Provident Fund of the Organization for the Prohibition of Chemical Weapons" means the Pension Scheme applicable to officials of the Organization for the Prohibition of Chemical Weapons;

[a] In the present agreement references to the Pension Scheme of the Organization for the Prohibition of Chemical Weapons (OPCW) mean the Provident Fund of OPCW. References to the Rules of the Pension Scheme/Provident Fund mean the Charter and Administrative Rules of the Provident Fund of OPCW.

(e) "Official" means a staff member of OPCW affiliated with the OPCW Pension Scheme/Provident Fund;

(f) "Parties" means collective reference to both parties of the present agreement, that is, the Pension Fund and OPCW and/or its Pension Scheme.

Article 2
Transfers from the United Nations Joint Staff Pension Fund to the Organization for the Prohibition of Chemical Weapons' Pension Scheme

2.1 A former Pension Fund participant who has not received a benefit under the Regulations of the Pension Fund and becomes affiliated with the OPCW Pension Scheme within one year after separation from service from a Pension Fund member organization and the cessation of participation in the Pension Fund, may within a further period of one year after the commencement of service and participation in the OPCW Pension Scheme elect to be covered by the provisions of the present agreement and to transfer the accrued entitlements from the Pension Fund to the OPCW Pension Scheme.

2.2 Upon a written and binding election by the former Pension Fund participant, the Pension Fund shall pay to the OPCW Pension Scheme, upon request by OPCW, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with the relevant articles of the Regulations of the Pension Fund, of the retirement benefit which the Pension Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Pension Fund participant would have been entitled under the Pension Fund Regulations, upon separation from the service of a Pension Fund member organization.

2.3 Based on the amount transmitted by the Pension Fund under article 2.2 of the present agreement, the former Pension Fund participant's account in the OPCW Pension Scheme/Provident Fund will be credited in full, in accordance with the relevant rules of the Provident Fund.

2.4 Upon such election, the former Pension Fund participant shall cease to be entitled to any benefit under the Pension Fund Regulations.

Article 3
Transfers from the Pension Scheme of the Organization for the Prohibition of Chemical Weapons to the United Nations Joint Staff Pension Fund

3.1 A former official of OPCW who has not received a benefit under the OPCW Provident Fund and becomes a Pension Fund participant within one year after separation from the service of OPCW, may within a further period of one year after the commencement of service with a Pension Fund member organization elect to be covered by the provisions of the present agreement and to transfer the accrued entitlements from the OPCW Pension Scheme to the Pension Fund.

3.2 Upon a written and binding election by the former OPCW official, the OPCW Pension Scheme shall pay to the Pension Fund, upon request from the Pension Fund, an amount equal to the larger of:

(a) The actuarial equivalent of the pension rights acquired by the former official in the OPCW Pension Scheme, established in accordance with the relevant Rules of the OPCW Pension Scheme; or

(b) The total amount of the entitlement under the relevant Rules of the OPCW Pension Scheme, at the date the official left the service of that organization.

3.3 On the basis of the amount determined under article 3.2, the former official shall be credited for purposes of the Pension Fund with contributory service equal to such period as determined in accordance with the actuarial assumptions applied by the Pension Fund as of the date of the election and the relevant articles of the Regulations of the Pension Fund to be equal in value to the amount paid to the Pension Fund by the OPCW Pension Scheme.

3.4 The maximum pensionable service credit granted in the Pension Fund by application of the present agreement cannot exceed the length of the actual past service that the concerned official of OPCW had performed in that organization. After calculating the actuarial value determining the amount required for the maximum available recognition of past service, only the amount required for recognition will be transferred by the OPCW Pension Scheme to the Pension Fund.

3.5 Upon such election, the former official of OPCW shall cease to be entitled to any benefit under the Rules of the OPCW Pension Scheme.

Article 4
Leave without pay

4.1 Transfer of pension rights cannot be completed until formal separation from service and cessation of participation in the original pension plan. Persons on secondment or loan are not considered separated and accordingly are not covered by the present agreement. Leave-without-pay status has to be terminated before pension rights are transferred. If a person is on a leave-without-pay status for more than three consecutive years, during which no concurrent pension contributions are made, no pension rights can be transferred, as stipulated below. Transfer of pension rights is not permitted if the person contributes concurrently both to the Pension Fund and to the OPCW Pension Scheme/Provident Fund during the period of leave without pay.

United Nations Joint Staff Pension Fund participant on leave without pay

4.2 If a Pension Fund participant becomes a participant in the OPCW Pension Scheme during a period of leave without pay from a Pension Fund member organization and, upon the termination of such period, ceases to be a participant in the OPCW Pension Scheme and resumes contributory service in the Pension Fund without any break in participation, the Pension Fund participant shall not be entitled to any benefit under the Rules of the OPCW Pension Scheme in respect of such period, but shall instead receive credits in the Pension Fund as provided in article 3 above. The OPCW Pension Scheme shall pay to the Pension Fund an amount determined in accordance with article 3.2 above. Such period shall not count for the Pension Fund participant as contributory service in the Pension Fund under article 22 (b) of the Pension Fund Regulations.

4.3 The provisions of articles 2.2 and 2.3 above shall apply if, upon the termination of the period of leave without pay, the Pension Fund participant ceases to be a Pension Fund participant and continues to be a participant of the OPCW Pension Scheme, and the former Pension Fund participant makes an election in writing to that effect within one year of the termination of the period of leave without pay. These provisions shall also apply to the former Pension Fund participant in the event of the death or disability retirement during leave without pay under the OPCW Pension Scheme, as long as no benefit election has been made under the Pension Fund Regulations.

Official of the Organization for the Prohibition of Chemical Weapons on leave without pay

4.4 If a participant of the OPCW Pension Scheme becomes a Pension Fund participant during a period of leave without pay from OPCW and, upon the termination of such period (not exceeding three consecutive years when no contributions are made), ceases to be a Pension Fund participant and resumes contributory service in the OPCW Pension Scheme, the participant shall not be entitled to any benefit under the Pension Fund Regulations in respect of the period of leave without pay, but shall instead receive credits in the OPCW Pension Scheme as provided in article 2 above. The Pension Fund shall pay to the OPCW Pension Scheme an amount determined in accordance with article 2.2 above.

4.5 The provisions of articles 3.2 and 3.3 above shall apply if, upon the termination of the period of leave without pay, the OPCW Pension Scheme participant ceases to be a participant in the Pension Scheme and continues to be a Pension Fund participant and the former participant in the OPCW Pension Scheme makes an election in writing to that effect within one year of the termination of the period of leave without pay. These provisions shall also apply to the OPCW Pension Scheme participant in the event of death or disability retirement during leave without pay under the Pension Fund Regulations, as long as no benefit election has been made under the Rules of the OPCW Pension Scheme.

Article 5
Transitional period

5.1 Officials who entered the service of OPCW and its Pension Scheme within one year preceding the effective date of the present agreement, and who have not received any payments from the Pension Fund, may elect to avail themselves of the provisions of the present agreement by so informing the Pension Fund, in writing, within one year of the effective date of the agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of the agreement apply.

5.2 Staff members who entered the service of a Pension Fund member organization and became Pension Fund participants within one year preceding the effective date of the present agreement, and who have not received any payments from the OPCW Pension Scheme, may elect to avail themselves of the provisions of the present agreement by so informing OPCW, in writing, within one year of the effective date of the agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of the agreement apply.

Article 6
Implementation of the agreement and administrative costs

6.1 The implementation of the present agreement shall be subject to the Regulations and Administrative Rules of the United Nations Joint Staff Pension Fund and to the Rules of the Pension Scheme of the Organization for the Prohibition of Chemical Weapons, as well as any internal implementation guidance and procedures established by either party.

6.2 In order to ensure consistent interpretation and implementation of the provisions of the present agreement, the Parties shall keep each other informed and consult on any changes in implementation practice or other applicable procedures.

6.3 Each party covers the relevant administrative and other costs incurred in dealing with individual cases arising out of the present agreement, including the determination of transfer values.

6.4 Payments pursuant to the present agreement are remitted promptly. However, no party shall impose or add interest on account of delays that may occur in transmitting amounts pursuant to the agreement.

6.5 All payments are made and recorded by the Pension Fund in United States dollars, and the Pension Fund is not responsible for fluctuations in exchange rates.

Article 7
Consultations and settlement of disputes

7.1 The parties shall consult on any matter arising out of the present agreement. The parties shall use their best efforts to amicably resolve any issue concerning the interpretation or implementation of the terms of the present agreement through negotiation.

7.2 Any individual participants in the Pension Fund or the OPCW Pension Scheme may bring administrative actions against their employing organization or pension scheme, in accordance with their respective dispute-settlement mechanisms.

Article 8
Termination

8.1 The present agreement shall continue in effect until modified or terminated by the mutual consent in writing of the parties hereto, or terminated unilaterally upon not less than one year’s prior notice given in writing by either party.

Article 9
Effective date of the agreement

9.1 The present agreement shall enter into force on signature with effect from [*date*]. It has been duly signed in duplicate originals, in English, on the dates and at the places given below:

For the Organization for the Prohibition of Chemical Weapons and/or its Pension Scheme	For the United Nations Joint Staff Pension Fund
______________________	______________________
Ahmet Üzümcü Director-General	Bernard Cochemé Chief Executive Officer
Date: The Hague, the Netherlands	Date: New York

B. Draft agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of officials in the African Development Bank

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas, the Regulations of the United Nations Joint Staff Pension Fund and the Staff Retirement Plan Regulations of the African Development Bank authorize the conclusion of such agreements with other international organizations for the transfer and continuity of such rights;

Whereas, at its ___ session held _________, the Board of Directors of the African Development Bank, upon the recommendation of the Steering Committee, authorized the President of the African Development Bank to enter into the present agreement between the African Development Bank and the United Nations Joint Staff Pension Fund;

Whereas, the United Nations Joint Staff Pension Board, at its fifty-ninth session, held from 3 to 11 July 2012, approved the agreement between the African Development Bank and the United Nations Joint Staff Pension Fund, and the General Assembly, by its resolution ______ of [*date*] concurred;

It has been agreed as follows:

Article 1
Definitions

1.1 For the purposes of the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "AfDB" means the African Development Bank;

(d) "Staff Retirement Plan" means the pension plan of AfDB;

(e) "SRP participant" means a participant in the Staff Retirement Plan;

(f) "Parties" means collective reference to both parties of the present agreement, and "party" refers to the Pension Fund or AfDB and/or its pension plan, as the case may be.

Article 2
Transfers from the United Nations Joint Staff Pension Fund to the Staff Retirement Plan

2.1 A former Fund participant who has not received a benefit under the Regulations of the Pension Fund and becomes a Staff Retirement Plan participant within one year after separation from service from a Pension Fund member organization and the cessation of participation in the Pension Fund, may within a further period of one year after the commencement of service and participation in the Staff Retirement Plan elect to be covered by the provisions of the present agreement and to transfer the accrued entitlements from the Pension Fund to the Staff Retirement Plan.

2.2 Upon a written and binding election by the former Fund participant, the Pension Fund shall pay to the Staff Retirement Plan, upon request by AfDB, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with the relevant articles of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Fund participant would have been entitled under the Pension Fund Regulations, upon separation from the service of a Pension Fund member organization.

2.3 Based on the amount transmitted by the Pension Fund under article 2.2 of the present agreement, the former Fund participant shall be credited with eligible contributory service in the Staff Retirement Plan in accordance with the applicable regulations of the Staff Retirement Plan, as of the date the relevant amount is received by AfDB for the Staff Retirement Plan.

2.4 Notwithstanding article 2.3 above, the maximum eligible contributory service recognized in the Staff Retirement Plan by application of the present agreement cannot exceed the length of the actual past service that the concerned former Fund participant had performed at a Pension Fund member organization.

2.5 The amount payable by the Pension Fund to AfDB under article 2.2 shall in no event exceed the actuarial value required for the maximum eligible contributory service recognized in the Staff Retirement Plan as calculated by AfDB under article 2.4 of the present agreement.

2.6 Upon such election, the former Fund participant shall cease to be entitled to any benefit under the Pension Fund Regulations.

Article 3
Transfers from the Staff Retirement Plan to the United Nations Joint Staff Pension Fund

3.1 A former participant in the Staff Retirement Plan who has not received a benefit under the Staff Retirement Plan and who becomes a Fund participant within one year after separation from the service of AfDB, may within a further period of one year after the commencement of service with a Pension Fund member organization elect to be covered by the provisions of the present agreement and to transfer the accrued entitlements from the Staff Retirement Plan to the Pension Fund.

3.2 Subject to article 3.4 of the present agreement, upon a written and binding election by the former participant in the Staff Retirement Plan, AfDB shall pay to the Pension Fund, upon request from the Pension Fund, an amount equal to the larger of:

(a) The actuarial equivalent of the pension rights (and resultant accrued retirement benefit) acquired in the Staff Retirement Plan, the amount being calculated in accordance with the relevant regulations of the Staff Retirement Plan up to the date participation in the Staff Retirement Plan ceased; or

(b) The withdrawal benefit, to which the former participant in the Staff Retirement Plan would have been entitled under the Staff Retirement Plan, upon separation from the service of AfDB.

3.3 On the basis of the amount determined under article 3.2 above, the former participant in the Staff Retirement Plan shall be credited for purposes of the Pension Fund with contributory service equal to such period as determined in accordance with the actuarial assumptions applied by the Pension Fund as of the date of the election and in accordance with the applicable regulations of the Pension Fund to be equal in value to the amount paid to the Pension Fund by the Staff Retirement Plan.

3.4 The maximum pensionable service credit granted in the Pension Fund by application of the present agreement cannot exceed the length of the actual past service that the concerned former participant in the Staff Retirement Plan had performed at AfDB. The amount payable by AfDB to the Pension Fund under article 3.2 shall in no event exceed the actuarial value required for the maximum available recognition of past service as calculated by the Pension Fund.

3.5 Following the election mentioned in article 3.2 above, the former participant in the Staff Retirement Plan may be required by AfDB to complete any formalities as necessary to ensure that the former participant shall cease to be entitled to any benefit under the Staff Retirement Plan.

Article 4
Leave without pay

4.1 Transfer of pension rights cannot be completed until formal separation from service and cessation of participation in the original pension scheme. Persons on secondment or loan are not considered separated and accordingly are not covered by the present agreement. Leave-without-pay status has to be terminated before pension rights are transferred. If a person is on a leave-without-pay status for more than three consecutive years, during which no concurrent pension contributions are made, no pension rights can be transferred, as stipulated below. Transfer of pension rights is not permitted under the present agreement if the person contributes concurrently to both pension schemes during the period of leave without pay.

United Nations Joint Staff Pension Fund participant on leave without pay

4.2 Subject to article 4.1, if a Fund participant becomes a participant in the Staff Retirement Plan during a period of leave without pay from a Pension Fund member organization and, upon the termination or expiration of such period, ceases to be a participant in the Staff Retirement Plan and resumes contributory service in the Pension Fund without any break in participation, no benefit becomes payable, but the provisions of article 3 above shall apply. The parties acknowledge, however, that the Fund participant's status, rights or obligations as a participant in either party's pension scheme shall be determined by each party in accordance with their respective pension scheme. Such period shall not count for the Fund participant as contributory service in the Pension Fund under article 22 (b) of the Pension Fund Regulations.

4.3 The provisions of article 2 above shall apply if, upon the termination of the period of leave without pay, the Fund participant ceases to be a Fund participant and continues to be a participant of the Staff Retirement Plan, and the former Fund participant makes an election in writing to that effect within one year of the termination of the period of leave without pay. These provisions shall also apply to the former Fund participant in the event of death or disability retirement during leave without pay under the Staff Retirement Plan, as long as no benefit election has been made under the Pension Fund Regulations.

Participant in the Staff Retirement Plan on leave without pay

4.4 Subject to article 4.1, if a participant in the Staff Retirement Plan becomes a Fund participant during a period of leave without pay from AfDB and, upon the termination or expiration of such period (not exceeding three consecutive years when no contributions are made), ceases to be a Fund participant and resumes contributory service in the Staff Retirement Plan, no benefit becomes payable, but the provisions of article 2 above shall apply. The parties acknowledge, however, that the status, rights or obligations of the participant in the Staff Retirement Plan as a participant in either party's pension scheme shall be determined by each party in accordance with their respective pension scheme.

4.5 The provisions of article 3 above shall apply if, upon the termination of the period of leave without pay, the participant in the Staff Retirement Plan ceases to be a participant in the Staff Retirement Plan and continues to be a Pension Fund participant and the former participant in the Staff Retirement Plan makes an election in writing to that effect within one year of the termination of the period of leave without pay. These provisions shall also apply to the participant in the Staff Retirement Plan in the event of death or disability retirement during leave without pay under the Pension Fund Regulations, as long as no benefit election has been made under the regulations of the Staff Retirement Plan.

Article 5
Transitional period

5.1 Officials who entered the service of AfDB within one year preceding the effective date of the present agreement, and who have not received any payments from the Pension Fund, may elect to avail themselves of the provisions of the present agreement by so informing the Pension Fund, in writing, within one year of the effective date of the agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of the present agreement apply.

5.2 Staff members who entered the service of a Pension Fund member organization and became Fund participants within one year preceding the effective date of the present agreement, and who have not received any payments from the Staff Retirement Plan, may elect to avail themselves of the provisions of the present agreement by so informing AfDB, in writing, within one year of the effective date of the agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of the present agreement apply.

Article 6
Implementation of the agreement and administrative costs

6.1 The implementation of the present agreement shall be subject to the Regulations and Administrative Rules of the United Nations Joint Staff Pension Fund and to the Regulations and Administrative Rules of the Staff Retirement Plan of the African Development Bank, as well as any respective internal implementation guidance and procedures established by either party.

6.2 In order to ensure consistent interpretation and implementation of the provisions of the present agreement, the parties shall keep each other informed and consult on any changes in implementation practice or other applicable procedures.

6.3 Each party covers the relevant administrative and other costs incurred in dealing with individual cases arising out of the present agreement, including the determination of transfer values.

6.4 Payments pursuant to the present agreement are remitted promptly. However, no party shall impose or add interest on account of delays that may occur in transmitting amounts pursuant to the agreement.

6.5 All payments are made and recorded by the Pension Fund in United States dollars, and the Pension Fund is not responsible for fluctuations in exchange rates.

6.6 All payments are made and recorded by AfDB in Units of Account, and AfDB shall not be responsible for fluctuations in exchange rates.

Article 7
Consultations and settlement of disputes

7.1 The parties shall consult on any matter arising out of the present agreement. The parties shall use their best efforts to amicably resolve any issue concerning the interpretation or implementation of the terms of the present agreement through negotiation.

7.2 Any individual participants in the Pension Fund or the Staff Retirement Plan may bring administrative actions against their employing organization or pension scheme, in accordance with their respective dispute-settlement mechanisms.

Article 8
Termination

8.1 The present agreement shall continue in effect until modified or terminated by the mutual consent in writing of the parties hereto, or terminated unilaterally upon not less than one year's prior notice given in writing by either party.

Article 9
Effective date of the agreement

9.1 The present agreement shall enter into force on signature with effect from [*date*]. It has been duly signed in duplicate originals, in English, on the dates and at the places given below:

For the African Development Bank	For the United Nations Joint Staff Pension Fund
____________________	____________________
[name] [title]	Bernard Cochemé Chief Executive Officer
Date: Place: Tunis	Date: Place: New York

Annex XV

Statement by the Federation of International Civil Servants' Associations

I wish to express FICSA's appreciation for the opportunity to address the Board on a few issues on your agenda, most notably on matters closely related to benefits and staff entitlements. As stated in the past, FICSA has a keen interest in following the work of the Board, which we consider to be an effective forum for consultation and decision-making on a tripartite basis.

For many years, FICSA has been an advocate for improved communication between the Pension Board and other United Nation common system bodies responsible for decisions that, directly or indirectly, impact on the status of the Fund. Over time, the need for communication and coordination of action by such bodies has increased, as the mutual influence of the human resources policies and the financial management of the Fund is becoming increasingly apparent.

We listened with interest to the report on investments and the results of the actuarial valuation. We learned that a major driving factor behind the reported -1.87 per cent, the second negative result in a row, is linked to high volatility in the financial markets and its effects on returns from investments. We also note that, as our fund is maturing, part of the benefits in future would be sourced from investments.

However, when and to what extent this will happen depends on multiple factors, not limited to the risks and opportunities associated with investments and currency fluctuations.

The report of actuaries has shown, inter alia, the importance of the contribution of future participants for the actuarial balance of the Fund. The role played by the demographic evolution of the participating organizations, as well as the progression of conditions of employment, contracts, salaries and pensionable remuneration is fundamental. Therefore, it doesn't come as a surprise to us that suggestions urging action, at least on the mandatory age of separation, are put forward by the Committee of Actuaries.

FICSA has been actively participating in the working group of the High-level Committee on Management on the subject, which concluded its work in March this year, and is well aware that a divergence of views among organizations still exists on this matter. The working group concluded that there was no compelling reason to change the current provisions, eventually leaving the issue for future consideration by individual organizations and further monitoring. The situation has been described as a "ping-pong match", or as showing "the flip side of the same coin". No matter which image is used, it is clear that coordination of action is fundamentally needed.

The message coming to the Board today, based on financial, actuarial and demographic considerations, is different from the conclusions reached by the working group, so we hope that you will take such information into due consideration.

Based on the results of a survey jointly conducted by the staff federations and the recommendation of our last Council, FICSA supports the increase in the mandatory age of separation, including the possibility for current staff to opt for continued service until the new age limit, without prejudice to the conditions applicable at the time of recruitment.

This approach was successfully adopted by some organizations when the mandatory age of separation and the normal retirement age were increased from 60 to 62 years. We are of the opinion that it should be applied in future adjustments. Obviously, FICSA will share its position with ICSC next week, as we pursue tangible advancement of this matter. We heard yesterday from the Chair of ICSC how important the views of the Pension Board are to the decisions of the Commission, and we look forward to receiving them.

We are also participating in the ICSC working group on the review of pensionable remuneration, another matter with obvious implications for the Fund. FICSA will more appropriately comment on this item at the Commission session; nevertheless, we wish to reiterate our support for the involvement of the Board's officers and the Fund's secretariat in the review process.

As you know, staff representatives are in close contact with the participants group and FAFICS. As far as possible, and within the appropriate forums, we normally find ourselves promoting the same principles and objectives. This is valid for this session as well.

We are supportive of measures aimed at addressing the adjustment in small pensions, by setting specific goals for the provision of minimum benefits. We associate ourselves with the FAFICS request for a methodological review which could take into account the real conditions in which these colleagues retire and that they have to cope with. As long as income replacement and equity remain among the guiding principles of our Fund, we feel that the rights of the weakest beneficiaries need to be addressed as a matter of priority. In this respect, we wish to add our appreciation for recent developments in the access of the emergency fund.

Let me add two last points closely related to the work/family agenda. FICSA wishes to express its support for a more coherent approach to the recognition of spousal benefits under articles 34 and 35 of the Pension Fund Regulations to take into account marriages or any other form of legally recognized union, as recommended by the contact group.

We are also supportive of the renewed proposal for the purchase of a limited number of years of contribution for part-time staff, which would particularly benefit those colleagues who may find themselves in a position to make use of these arrangements for urgent, temporary reasons.

Before concluding, let me spend a couple of words and say thank you, on behalf of the Federation, to Mr. Cochemé. During his tenure as Chief Executive Officer of the Fund, FICSA found in Mr. Cochemé a supportive interlocutor. If FICSA's action for capacity-building on pension issues has grown in recent years, if our colleagues attending our workshops, particularly in field duty stations, are increasingly aware of the mechanisms governing our pension scheme, this is also thanks to the fruitful exchange of information we have with the Fund and its senior management. We wish Mr. Cochemé all the best in his future endeavours and look forward to cooperating with his successor.

Annex XVI

Membership of the Audit Committee as at 31 July 2012

Member

Caroline Cliff (IAEA)	Governing bodies
Valerie M. González Posse (United Nations)	Governing bodies
Sharon G. Frahler (WHO) (Chair)	Executive heads
Jay Pozenel (United Nations)	Executive heads
Ajay Lakhanpal (United Nations)	Participants
Florian Léger (ILO)	Participants
Paula Saddler	FAFICS

Expert member

Michael Schrenk

Ian Robertson (Vice-Chairman)

Annex XVII

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters discussed in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report that the Assembly may wish to note in its resolution.]

The General Assembly,

Recalling its resolutions 63/252 of 24 December 2008, 65/249 of 24 December 2010 and section V of its resolution 66/247 of 24 December 2011,

Having considered the report of the United Nations Joint Staff Pension Board for 2012,[a] including the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011, the audit opinion and report of the Board of Auditors thereon, the information provided on the internal audits of the Fund and the observations of the Board and of the Audit Committee, the report of the Secretary-General on the investments of the Fund and the related report of the Advisory Committee on Administrative and Budgetary Questions,

1. *Takes note* of the report of the United Nations Joint Staff Pension Board for 2012,[a] in particular, the actions taken by the Board as set out in chapter II of the report;

2. *Endorses* the recommendations of the Advisory Committee on Administrative and Budgetary Questions, subject to the provisions of the present resolution;

I
Actuarial matters

3. *Takes note* of the results of the actuarial valuation of the United Nations Joint Staff Pension Fund, which revealed a deficit of -1.87 per cent of pensionable remuneration as at 31 December 2011, which was the Fund’s second actuarial deficit following that of -0.38 per cent of pensionable remuneration as at 31 December 2009;

4. *Also takes note* of the decision of the United Nations Joint Staff Pension Board to address the actuarial situation of the United Nations Joint Staff Pension Fund as at 31 December 2011 and to establish a working group to consider possible measures to ensure the long-term sustainability of the Fund;

II
Financial statements of the United Nations Joint Staff Pension Fund and report of the Board of Auditors

5. *Notes* that the Board of Auditors in their report on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2011 indicated that the financial statements presented fairly, in all material aspects, the

[a] *Official Records of the General Assembly, Sixty-seventh Session, Supplement No. 9* (A/67/9).

financial position of the Fund and its financial performance and cash flows for the biennium in accordance with the United Nations System Accounting Standards;

6. *Also notes* the progress made by the United Nations Joint Staff Pension Fund in the implementation of International Public Sector Accounting Standards;

7. *Further notes* that following the implementation of the International Public Sector Accounting Standards a higher degree of volatility would likely be reflected in the annual financial statements because of the use of "fair value" in reporting on the investments of the United Nations Joint Staff Pension Fund;

III
Benefit provisions and pension adjustment system

8. *Takes note* of the advice of the Consulting Actuary and Committee of Actuaries of the United Nations Joint Staff Pension Fund that, given the serious impact that increased longevity has had on the actuarial situation of the Fund, raising the Fund's normal retirement age to age 65 would help to improve the actuarial situation of the Fund;

9. *Authorizes* the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014;

10. *Notes* that the United Nations Joint Staff Pension Board urged the member organizations of the United Nations Joint Staff Pension Fund to raise immediately the mandatory age of separation to 65 for new staff members;

11. *Concurs*, in accordance with article 13 of the Regulations of the United Nations Joint Staff Pension Fund and with a view to securing continuity of pension rights, with the new transfer agreements of the Fund with the Organization for the Prohibition of Chemical Weapons and the African Development Bank, as approved by the United Nations Joint Staff Pension Board and set out in annex XIV to the report of the Board for 2012, which will become effective 1 January 2013;

12. *Approves* new article 45 bis, as set out in annex XI to the report of the United Nations Joint Staff Pension Board, which allows the Fund, in very specific circumstances, to pay a portion of a retiree's benefit directly to the retiree's former employing organization towards making restitution to the organization in cases where amounts had been embezzled by the staff member from the organization;

13. *Also approves* the technical changes in the Regulations of the United Nations Joint Staff Pension Fund and the pension adjustment system in accordance with past decisions and amendments adopted by the United Nations Joint Staff Pension Board and the General Assembly, as set out in annexes XI and XIII, respectively, to the report of the Board;

14. *Takes note* of the amendments to the Administrative Rules of the United Nations Joint Staff Pension Fund, as set out in annex XII to the report of the Board, to refine the Administrative Rule and align them with the Regulations of the Fund;

15. *Also takes notes* of the amendments approved by the United Nations Joint Staff Pension Board to its Administrative Rules concerning the increase in the length of the intervals for review of disability benefits and extension of the deadline

for submission of requests for a disabled child's benefit or secondary dependant's benefit;

IV
Investments of the United Nations Joint Staff Pension Fund

16. *Takes note* of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and the observations of the United Nations Joint Staff Pension Board, as set out in its report.

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