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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015.

Letters of transmittal

Letter dated 31 May 2016 from the Secretary-General addressed to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to transmit the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015, which I hereby approve. The financial statements have been certified by the Controller as correct in all material respects.

(*Signed*) **BAN** Ki-moon

Letter dated 19 September 2016 from the Chair of the Board of Auditors addressed to the President of the Security Council

I have the honour to transmit to you the report of the Board of Auditors on the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

Report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015

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I. Report of the Board of Auditors (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015, which comprise the statement of financial position as at 31 December 2015 (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III) and the statement of cash flows (statement IV), as well as the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) 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 to error.

Auditors' responsibility

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

An audit involves the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement in the financial statements, whether due to fraud or to 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 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 escrow account as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Emphasis of matter: going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in paragraph 11 of the notes to the financial statements concerning the United Nations escrow account's going concern. The financial statements have not been prepared on a going-concern basis. The Administration is not aware of any facts, conditions or events that would risk the continuation of the escrow account until its dissolution date of 31 December 2016. The disclosures also confirm that the Security Council provides no liquidation phase or liquidation activity other than the return of remaining funds by 31 December 2016, and that the balances presented on the face of the statement of financial position are representative of the fair value. The disclosures confirm that the escrow account has sufficient assets to discharge its liabilities.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the escrow account that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also examined the management issues and concluded that there are no material issues to draw to the attention of the Security Council. Therefore, we did not issue a long-form audit report.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Lead Auditor

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

19 September 2016

II. Certification of the financial statements

The financial statements for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2015 have been prepared in accordance with financial rule 106.1.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information on and clarification of the financial activities related to Security Council resolution 1958 (2010) undertaken by the Organization during the period covered by the statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), numbered I to IV, are correct in all material respects.

(*Signed*) Bettina Tucci **Bartsiotas**
Assistant Secretary-General
Controller

31 May 2016

III. Financial statements

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

I. Statement of financial position as at 31 December 2015

(Thousands of United States dollars)

	Reference	*31 December 2015*	*31 December 2014*
Assets			
Current assets			
Cash and cash equivalents	Note 5	24 694	32 721
Investments	Notes 5, 6	127 000	63 088
Accounts receivable	Note 5	243	239
Other assets		67	37
Total current assets		**152 004**	**96 085**
Non-current assets			
Investments		–	55 900
Total non-current assets		**–**	**55 900**
Total assets		**152 004**	**151 985**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 5	15	178
Employee benefits liabilities	Note 7	444	10
Total current liabilities		**459**	**188**
Non-current liabilities			
Employee benefits liabilities		–	247
Total non-current liabilities		**–**	**247**
Total liabilities		**459**	**435**
Net of total assets and total liabilities		**151 545**	**151 550**
Net assets			
Accumulated surpluses	Note 8	151 545	151 550
Total net assets		**151 545**	**151 550**

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

II. Statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*2015*	*2014*
Revenue			
Investment revenue	Note 5	766	791
Other revenue		–	16
Total revenue		**766**	**807**
Expenses			
Employee salaries, allowances and benefits		566	687
Other operating expenses		74	90
Total expenses	**Note 9**	**640**	**777**
Surplus for the year		**126**	**30**

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

III. Statement of changes in net assets for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*Net assets*
Net assets, 1 January 2014		**151 520**
Change in net assets		
Surplus for the year		30
Net assets as at 31 December 2014		**151 550**
Change in net assets		
Actuarial losses on employee benefits	Note 7	(131)
Surplus for the year		126
Net assets as at 31 December 2015		**151 545**

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

IV. Statement of cash flows for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*2015*	*2014*
Cash flows from operating activities			
Surplus for the year		126	30
Changes in assets:			
(Increase)/decrease in accounts receivable		(4)	23
(Increase)/decrease in other assets		(30)	(4)
Changes in liabilities:			
Increase/(decrease) in accounts payable and accrued liabilities		(163)	40
Increase/(decrease) in employee benefits liabilities		56	42
Investment revenue presented as investing activities		(766)	(791)
Net cash flows used in operating activities		**(781)**	**(660)**
Cash flows from investing activities			
(Investments in)/withdrawals from main cash pool (net)		(8 012)	801
Investment revenue		766	791
Net cash flows (used in)/from investing activities		**(7 246)**	**1 592**
Net increase/(decrease) in cash and cash equivalents		**(8 027)**	**932**
Cash and cash equivalents — beginning of year		**32 721**	**31 789**
Cash and cash equivalents — end of year	Note 5	**24 694**	**32 721**

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

Notes to the financial statements

Note 1
Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are:

(a) The maintenance of international peace and security;

(b) The promotion of international economic and social progress and development programmes;

(c) The universal observance of human rights;

(d) The administration of international justice and law.

2. These objectives are implemented through the major organs of the United Nations, as follows:

(a) The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations;

(b) The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs, and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Nairobi and Vienna. It has peacekeeping and political missions, regional economic commissions, tribunals, training institutes and other centres located throughout the world.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

4. These financial statements relate to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010).

5. In that resolution, the Security Council requested the Secretary-General to take all actions necessary to terminate all residual activities under the oil-for-food programme. It authorized the Secretary-General to establish an escrow account and to ensure that an amount of $20.0 million was retained in the escrow account until 31 December 2016, exclusively for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the office of the High-level Coordinator created pursuant to resolution 1284 (1999).

6. In the same resolution, the Security Council authorized the Secretary-General to ensure that an amount of up to $131.0 million was retained in the escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the oil-for-food programme since its inception.

7. Furthermore, the Security Council requested that all funds remaining in the escrow account be transferred to the Government of Iraq by 31 December 2016.

8. The escrow account is regarded as an autonomous financial reporting entity which neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and budgetary process of each of the United Nations reporting entities, the entities are not deemed to be subject to common control for the purposes of IPSAS-compliant reporting. The escrow account has no interests in associates or joint ventures.

9. The operations of the escrow account are administered by the Secretariat at United Nations Headquarters.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

10. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. The accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the escrow account, comprise the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

(c) Statement III: statement of changes in net assets;

(d) Statement IV: statement of cash flows using the indirect method;

(e) A summary of significant accounting policies and other explanatory notes.

As the budget of the escrow account is not made publicly available, a comparison of budget and actual amounts is not presented.

Going concern

11. The financial statements for the escrow account have not been prepared on a going-concern basis as the Security Council has provided for the continuation of the account only until 31 December 2016 (see paras. 5 and 6 above). The ability to finance the operations until the agreed termination date is ensured through the balance of the administration fund, which is more than sufficient. Notwithstanding the provision of the end date of the escrow account, the Council provides no liquidation phase or liquidation activity other than the return of remaining funds by 31 December 2016. The Administration is not aware of any facts, conditions or events that would risk the continuation of the escrow account until its dissolution date of 31 December 2016.

12. Accordingly, taking into account the termination of the escrow account within one year, by 31 December 2016, total investment in the main cash pool and the total amount of post-employment liabilities are classified as current assets and current liabilities, respectively. The balances presented on the face of the statement of financial position are representative of the fair value.

Authorization for issue

13. The financial statements are certified by the Controller and approved by the Secretary-General. In accordance with Security Council resolution 1958 (2010), the Secretary-General transmits the financial statements to the Board of Auditors. The reports of the Board of Auditors shall be transmitted to the Council together with the audited financial statements.

Measurement basis

14. The financial statements are prepared using the historical cost convention except for certain investments, as stated in note 3. The financial statements are prepared for the year from 1 January to 31 December.

Functional and presentation currency

15. The functional currency and the presentation currency of the escrow account is the United States dollar. The financial statements are expressed in thousands of United States dollars.

16. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange at the date of transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies (that is, currencies other than the functional currency) are translated at the United Nations year-end rates of exchange. Non-monetary foreign currency items measured at historical cost or fair value are translated at the United Nations operational rates of exchange prevailing at the date of transaction or when the fair value was determined.

17. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

18. Materiality is central to the preparation and presentation of the escrow account's financial statements; the escrow account's materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation and offsetting. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

19. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; classification of financial instruments; discount rates used in the calculation of the value of provisions; and classification of contingent assets and liabilities.

Future accounting pronouncements

20. The impact of the following significant future accounting pronouncements of the IPSAS Board on the financial statements of the escrow account is being monitored:

(a) Consequential amendments arising from chapters 1-4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: this project's objective is to make revisions to IPSAS standards that reflect concepts from those chapters, in particular the objectives of financial reporting and in terms of the qualitative characteristics and constraints on information;

(b) Employee benefits: the objective is to issue a revised IPSAS 25: Employee benefits, which will converge with the underlying International Accounting Standards IAS 19: Employee benefits;

(c) Public sector-specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of those covered by IPSAS 28, Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures;

(d) Social benefits: the project objective is to identify the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in financial statements;

(e) Public sector combinations: the project will prescribe the accounting treatment for public sector combinations and develop a new standard that sets out the classification and measurement of public sector combinations, namely, transactions or other events that bring two or more separate operations into a single public sector entity;

(f) Emissions trading schemes: this project will consider issues related to emissions trading schemes with the aim of developing a standard or standards that provide requirements to administrators and participants in such schemes;

(g) Heritage assets: the project objective is to develop accounting requirements for heritage assets;

(h) Revenue: the aim of the project is to develop one or more IPSAS standards covering revenue transactions (exchange and non-exchange). The scope is to develop new standard-level requirements and guidance on revenue to amend or supersede that currently covered in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(i) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.

Future requirements of IPSAS

21. On 30 January 2015, the IPSAS Board published five new standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. Those standards will become effective for periods commencing 1 January 2017. The escrow account has no activities that come under the scope of those standards.

Note 3
Significant accounting policies

Financial assets: classification

22. The escrow account classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date; the classification of financial assets depends primarily on the purpose for which the financial assets are acquired:

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in main cash pool
Loans and receivables	Cash and cash equivalents, receivables

23. All financial assets are initially measured at fair value. The escrow account initially recognizes financial assets classified as loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date on which the escrow account becomes party to the contractual provisions of the instrument.

24. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

25. Financial assets at fair value through surplus or deficit are those that have been either designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

26. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

27. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the escrow account has transferred substantially all risks and rewards of the financial asset.

28. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in main cash pool

29. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are comingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

30. The escrow account's investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on when they are expected to be realized.

Financial assets: cash and cash equivalents

31. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables

32. Receivables comprise amounts receivable for goods or services provided to other entities, and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Receivables are subject to specific review and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing.

Other assets

33. Other assets are prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities

34. Financial liabilities are classified as "other financial liabilities" and include accounts payable and accruals. Financial liabilities so classified are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The escrow account re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

35. Other accounts payable and accrued expenses arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoiced amounts, less payment discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, given that they are generally due within 12 months.

Employee benefits

36. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101 (1) of the Charter. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

37. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees based on services rendered. Material balances which are accrued but not paid are recognized as current liabilities in the statement of financial position.

Post-employment benefits

38. Post-employment benefits comprise after-service health insurance, end-of-service repatriation benefits and annual leave that are accounted for as defined benefit plans in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined benefit plans

39. Defined benefit plans are those where the escrow account's obligation is to provide agreed benefits and therefore the escrow account bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The escrow account has elected to recognize changes in the liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the reporting date, the escrow account did not hold any plan assets as defined by IPSAS 25: Employee benefits.

40. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

After-service health insurance

41. After-service health insurance provides worldwide coverage of necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they meet certain eligibility requirements, including 10 years of participation in a United Nations health plan for those recruited after 1 July 2007 and 5 years for those recruited prior to that date. The after-service health insurance liability represents the present value of the share of the escrow account's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is to consider the contributions of all plan participants in determining the escrow account's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the escrow account's residual liability in accordance with the cost-sharing ratios authorized by the General Assembly.

Repatriation benefits

42. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the escrow account and is measured as the present value of the estimated liability for settling such entitlements.

Annual leave

43. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled by a monetary payment to employees upon their separation from the Organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff), as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose, and overall there is an increase in the level in accumulated annual leave days, pointing to the commutation of accumulated annual leave into a cash settlement at end of service as the true liability of the Organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the Organization at end of service is therefore classified as "other long-term benefit", noting that the portion of the accumulated annual leave benefit that is expected to be settled via monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly as post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

44. The escrow account is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of its regulations, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

45. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The escrow account, in line with other participating organizations, is not in a position to identify its proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the escrow account has treated this plan as if it were a defined contribution plan, in line with the requirements of IPSAS 25: Employee benefits. The escrow account's contributions to the Pension Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

46. Termination benefits are recognized as an expense only when the escrow account is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. If they fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

47. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which the employee provides the related services.

Provisions

48. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the escrow account has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities and assets

49. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the escrow account; or current obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle them, or because the amount of the obligations cannot be reliably measured.

50. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the escrow account.

Commitments

51. Commitments are future expenses to be incurred on contracts entered into by the reporting date and that the escrow account has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include contracts for the supply of goods and services that will be delivered to the escrow account in future periods and other non-cancellable commitments.

Exchange revenue

52. Exchange transactions are those in which the escrow account provides goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met.

Investment revenue

53. Investment revenue includes the escrow account's share of net main cash pool income and other interest incomes. The net main cash pool income includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and the book value. Transaction costs that are directly attributable to the investment activities are netted against income and the net income is distributed proportionately to all main cash pool participants based on their daily balances. The main cash pool income also includes unrealized market gains and losses on securities, which is distributed proportionately to all participants based on their end-of-year balances.

Expenses

54. Expenses are decreases in economic benefits or service potential during the year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

55. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, namely, pension and insurance, assignment, repatriation, hardship and other allowances. Contractual services relate to consultancy services, and other operating expenses include any maintenance, security, rental, insurance and allowance for bad debt or write-off expenses.

Note 4
Segment reporting

56. The escrow account consists of two funds: the administration fund for the termination of residual activities of the oil-for-food programme and the indemnification reserve fund for the escrow account (see paras. 5 and 6 above).

Segment revenue, expenses, assets and liabilities

Segment statement of financial position for the year ended 31 December 2015

(Thousands of United States dollars)

	Administration	Indemnification reserve	Total
Assets			
Cash and cash equivalents	2 559	22 135	24 694
Investments	13 158	113 842	127 000
Accounts receivable	25	218	243
Other assets	67	–	67
Total assets	**15 809**	**136 195**	**152 004**
Liabilities			
Accounts payable — other	15	–	15
Employee benefits payable	444	–	444
Total liabilities	**459**	**–**	**459**
Net assets	**15 350**	**136 195**	**151 545**
Fund balances and reserves			
Accumulated surplus	15 350	136 195	151 545
Total fund balances and reserves	**15 350**	**136 195**	**151 545**

Segment statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	Administration	Indemnification reserve	Total
Revenue			
Interest revenue	82	684	766
Total revenue	**82**	**684**	**766**
Employee salaries, allowances and benefits	566	–	566
Other operating expenses	74	–	74
Total segment expense	**640**	**–**	**640**
Surplus/(deficit) for the year	**(558)**	**684**	**126**

Segment statement of financial position for the year ended 31 December 2014

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Assets			
Cash and cash equivalents	3 551	29 170	32 721
Investments	12 859	106 129	118 988
Accounts receivable	26	213	239
Other assets	37	–	37
Total assets	**16 473**	**135 512**	**151 985**
Liabilities			
Accounts payable — other	178	–	178
Employee benefits payable	257	–	257
Total liabilities	**435**	**–**	**435**
Net assets	**16 038**	**135 512**	**151 550**
Fund balances and reserves			
Accumulated surplus	16 038	135 512	151 550
Total fund balances and reserves	**16 038**	**135 512**	**151 550**

Segment statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total*
Revenue			
Interest revenue	87	704	791
Other revenue	–	16	16
Total revenue	**87**	**720**	**807**
Employee salaries, allowances and benefits	687	–	687
Other operating expenses	88	2	90
Total segment expense	**775**	**2**	**777**
Surplus/(deficit) for the year	**(688)**	**718**	**30**

Note 5
Financial instruments

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Financial assets		
Fair value through the surplus or deficit		
Investments — main cash pool (short-term)[a]	127 000	63 088
Investments — main cash pool (long-term)	–	55 900
Total fair value through the surplus or deficit	**127 000**	**118 988**
Loans and receivables		
Cash and cash equivalents — main cash pool	24 694	32 661
Cash and cash equivalents — other	–	60
Total cash and cash equivalents	**24 694**	**32 721**
Accounts receivable — main cash pool interest receivable	243	239
Total loans and receivables	**24 937**	**32 960**
Total carrying amount of financial assets	**151 937**	**151 948**
Amount of which relates to financial assets held in main cash pool	151 937	151 888
Financial liabilities		
Other accounts payable and accrued liabilities	15	178
Total carrying amount of financial liabilities	**15**	**178**
Summary investment revenue		
Share of main cash pool net income	766	791
Total investment revenue	**766**	**791**

[a] See note 1, para. 12.

Note 6
Financial risk management and the main cash pool

57. In addition to directly held cash and cash equivalents and investments, the escrow account participates in the United Nations main cash pool. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of main cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and income is based on the principal balance of each participating entity.

Financial risk management: overview

58. The escrow account has exposure to the following financial risks: credit risk, liquidity risk and market risk. The present note provides information on the escrow account's exposure to these risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

59. The escrow account's risk management practices are in accordance with the Financial Regulations and Rules and the United Nations Investment Management Guidelines. The United Nations Treasury is responsible for investment and risk management of the cash pools, including the conduct of investment activities in accordance with the Guidelines. The investment management objectives are to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

60. An Investment Committee periodically evaluates investment performance and assesses compliance with the Investment Management Guidelines and makes recommendations for updates thereto. Other than as disclosed, the escrow account has not identified any further risk concentrations arising from financial instruments.

61. The escrow account defines the capital that it manages as the aggregate of its fund balances and reserves, which is comprised of accumulated fund balances. Its objectives are to safeguard its ability to continue as a going concern and to fulfil its mandated objectives.

Financial risk management: credit risk

62. Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions, as well as credit exposures to outstanding receivables. The carrying value of financial assets less impairment is the maximum exposure to credit risk.

63. The Investment Management Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments such as asset-backed or mortgage-backed securities or equity products.

Credit risk: receivables

64. Excluding the main cash pool interest receivable (see below), there is no receivable balance that is subject to credit risk ($0.060 million in 2014).

Credit risk: cash and cash equivalents

65. The escrow account held cash and cash equivalents in the amount of $24.7 million (2014: $32.7 million) at year end, which is the maximum credit exposure for these assets.

Credit risk: main cash pool investments

66. The Investment Management Guidelines require that investments not be made in issuers whose credit ratings are below specifications; they also provide for maximum concentrations with given issuers. These requirements were met at the time of investment. The credit ratings used are those determined by major credit-rating agencies; the ratings of Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. Credit ratings at year-end are indicated in the table below.

Investments of the cash pools by credit ratings as at year-end

Main Pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (long-term ratings)							
	AAA	*AA+/AA/AA-*	*NR*	*AAA*	*AA+/AA/AA-*	*A+*	*NR*
S&P	37.7%	54.2%	8.1%	31.2%	59.8%	1.3%	7.7%
Fitch	61.9%	26.5%	11.6%	52.2%	21.4%	-	26.4%
	Aaa	*Aa1/Aa2/Aa3*		*Aaa*	*Aa1/Aa2/Aa3*		
Moody's	65.8%	34.2%	-	69.3%	30.7%	-	-
Commercial papers (short-term ratings)							
	A-1+			*A-1+*			*NR*
S&P	100.0%			100.0%			-
	F1+			*F1+*			
Fitch	100.0%			90.0%			10.0%
	P-1			*P-1*			
Moody's	100.0%			70.0%			30.0%
Reverse repurchase agreement (short-term ratings)							
	A-1+						
S&P	100.0%						
	F1+			No reverse repurchase agreements had been held as at 31 December 2014			
Fitch	100.0%						
	P-1						
Moody's	100.0%						
Term deposits (Fitch viability ratings)							
	aaa	*aa/aa-*	*a+/a*	*aaa*	*aa/aa-*	*a+/a*	
Fitch	-	53.6%	46.4%	-	64.1%	35.9%	

Abbreviation: NR, not rated.

67. The United Nations Treasury actively monitors credit ratings and given that the main cash pool has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

68. Liquidity risk is the risk that the escrow account might not have adequate funds to meet its obligations as they fall due. The escrow account's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The Financial Regulations and Rules require that expenses be incurred after the receipt of funds, thereby considerably reducing the liquidity risk to the escrow account. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to. As the escrow account's mandate nears its conclusion, further emphasis is being placed on ensuring that liquidity risks are mitigated.

Liquidity risk: main cash pool

69. The main cash pool is exposed to the liquidity risk associated with the requirement of participants to make withdrawals on short notice. Sufficient cash and marketable securities are maintained to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within one day's notice to support operational requirements. The main cash pool liquidity risk is therefore considered to be low.

Liquidity risk: financial liabilities

70. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to the receivables, cash and investments available to the entity and the internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

Maturities for financial liabilities as at 31 December 2015[a]

(Undiscounted thousands of United States dollars)

	Within 1 month	*1-12 months*	*1 to 2 years*	*≥ 2 years*	*Total*
Accounts payable and accruals: 31 December 2015	15	–	–	–	15
Accounts payable and accruals: 31 December 2014	178	–	–	–	178

[a] Based on the earliest date on which each financial liability is required to be settled.

Financial risk management: market risk

71. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the escrow account's income or the value of its financial assets and liabilities. The objective of

market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the escrow account's fiscal position.

Market risk: currency risk

72. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The escrow account has few transactions, assets and liabilities in currencies other than its functional currency and is therefore exposed to limited currency risk arising from fluctuations in currency exchange rates. Given that the main cash pool is predominantly denominated in United States dollars, it has limited currency risk and, in conjunction with the low risk for other financial instruments, the escrow account considers the currency risk to be low (2014/15: low).

Market risk: interest rate risk

73. Interest rate risk is the risk of variability in the fair value or future cash flows of a financial instrument owing to change in interest rates. In general, as an interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the duration of the fixed-rate security, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main cash pool fixed-rate cash, cash equivalents and investments are the escrow account's interest-bearing financial instruments. As at the reporting date, the main cash pool invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2014: five years). The average duration was 0.86 years (2014: 1.1 years), which is considered to be an indicator of low risk.

Interest rate risk sensitivity

74. As shown, the fair value of the main cash pool as at the reporting date will increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease of the surplus or deficit and net assets. The impact of a shift up or a shift down of up to 200 basis points in the yield curve is shown below (100 basis points equals 1 per cent). The basis point shifts should be considered to be illustrative.

Main cash pool interest rate risk sensitivity analysis as at year-end

Shift in yield curve (basis points)	-200	-150	-100	-50	0	+50	+100	+150	+200
Estimated share of increase/(decrease) in fair value (millions of United States dollars):									
31 December 2015 sensitivity	2.5	1.9	1.3	0.6	–	(0.6)	(1.3)	(1.9)	(2.5)
31 December 2014 sensitivity	3.3	2.5	1.6	0.8	–	(0.8)	(1.6)	(2.5)	(3.3)

Market risk: other

75. The main cash pool is not exposed to significant other price risk as it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value

76. The carrying value of investments carried at fair value through surplus or deficit is fair value. For cash and cash equivalents, receivables and payables, carrying value is a fair approximation of fair value.

Fair value hierarchy

77. The table below analyses financial instruments carried at fair value, by the fair value hierarchy levels. The levels are defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

78. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the main cash pool is the current bid price.

79. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

80. The following fair value hierarchy presents the main cash pool assets measured at fair value as at the reporting date. There were no level 3 financial assets or liabilities carried at fair value or significant transfers of financial assets between fair value hierarchy classifications.

Total main cash pool, by fair value hierarchy

(Thousands of United States dollars)

	31 December 2015			*31 December 2014*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporates	149 682	–	149 682	–	–	–
Bonds — non-United States agencies	2 190 965	–	2 190 965	2 154 956	–	2 154 956
Bonds — non-United States sovereigns	124 612	–	124 612	691 489	–	691 489
Bonds — supranational	139 828	–	139 828	440 169	–	440 169
Bonds — United States treasuries	1 092 139	–	1 092 139	1 297 290	–	1 297 290
Main pool — commercial papers	949 112	–	949 112	999 234	–	999 234
Main pool — term deposits	–	2 842 390	2 842 390	–	1 830 000	1 830 000
Reverse repurchase agreement — United States Federal Reserve	–	1 900	1 900	–	–	–
Main pool total	**4 646 338**	**2 844 290**	**7 490 628**	**5 583 138**	**1 830 000**	**7 413 138**

Note 7
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2015*
After-service health insurance	243	–	243
Annual leave	95	–	95
Repatriation benefits	101	–	101
Subtotal, defined benefit liabilities	**439**	**–**	**439**
Accrued home leave entitlements	5	–	5
Total employee benefits liabilities[a]	**444**	**–**	**444**

[a] See note 1, para. 12.

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2015*
After-service health insurance	–	149	149
Annual leave	3	29	32
Repatriation benefits	2	68	70
Death benefits	–	1	1
Subtotal, defined benefit liabilities	**5**	**247**	**252**
Accrued home leave entitlements	5	–	5
Total employee benefits liabilities	**10**	**247**	**257**

81. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Rules and Regulations of the United Nations. Full actuarial valuations are usually undertaken every two years. The most recent actuarial valuation was conducted as at 31 December 2015. The liabilities pertaining to employment benefits will be settled at the time of the termination of the escrow account on 31 December 2016, and hence are classified as current in the statement of financial position.

Actuarial valuation: assumptions

82. Management reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2015 are shown in the table below.

Actuarial assumptions

(Percentage)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2014 roll forward	4.47	4.23	4.47
Discount rates, 31 December 2015 valuation	3.49	3.67	3.73
Inflation, 31 December 2014 roll forward	4.50-6.80	2.50	–
Inflation, 31 December 2015 valuation	4.50-6.40	2.25	–

83. Discount rates are based on a weighted blend of three discount rate assumptions on the basis of the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro area government yield curve) and Swiss francs (Federation bonds yield curve). Consistent with the decrease observed since 31 December 2014 in the interest rates of all maturities in the three areas, lower discount rates were assumed for the 31 December 2015 valuation.

84. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan's cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2015 were: a flat health-care yearly escalation rate of 4.0 per cent (2014: 5.0 per cent) for non-United States of America medical plans, and health-care escalation rates of 6.4 per cent (2014: 6.8 per cent) for all other medical plans (except 5.9 per cent (2014: 6.1 per cent) for the United States Medicare plan and 4.9 per cent (2014: 5.0 per cent) for the United States dental plan), grading down to 4.5 per cent over nine years.

85. With regard to the valuation of repatriation benefits as at 31 December 2015, inflation in travel costs was assumed at 2.25 per cent (2014: 2.5 per cent), based on the projected United States inflation rate over the next 10 years.

86. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1-3 years, 10.9 days; 4 8 years, 1 day; and over 8 years, 0.5 days up to a maximum 60 days.

87. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	2015	*2014*
Net defined benefit liability as at 1 January	257	212
Current service cost	49	36
Interest cost	13	9
Benefits paid	(6)	–
Total costs recognized in the statement of financial performance	**56**	**45**
Actuarial losses	131	–
Net recognized liability as at 31 December	**444**	**257**

88. The cumulative amount of actuarial gains and losses recognized in the statement of changes in net assets is $131.0 million (2014: zero).

Medical costs sensitivity analysis

89. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability due to changes in medical cost rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefit obligations as shown in the table below.

(Thousands of United States dollars)

	Increase	*Decrease*
1 per cent movement in the assumed medical costs trend rates		
Effect on the defined-benefit obligation	90	(65)
Effect on the aggregate of the current service cost and interest cost	17	(12)
1 per cent movement in the assumed medical costs trend rates: 31 December 2014		
Effect on the defined-benefit obligation	58	(41)
Effect on the aggregate of the current service cost and interest cost	15	(11)

Discount rate sensitivity analysis

90. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate and government bonds. The bonds markets have been volatile over the reporting period, and the volatility has an impact on the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in the table below.

Discount rate sensitivity to end-of-year employee benefit liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
For the year ended 31 December 2015:			
Increase of discount rate by 1 per cent	(63)	(11)	(9)
as a percentage of end-of-year liability	(26%)	(11%)	(9%)
Decrease of discount rate by 1 per cent	90	12	11
as a percentage of end-of-year liability	37%	12%	12%
For the year ended 31 December 2014:			
Increase of discount rate by 1 per cent	(26)	(10)	(3)
as a percentage of end-of-year liability	(17%)	(15%)	(11%)
Decrease of discount rate by 1 per cent	34	11	4
as a percentage of end-of-year liability	23%	16%	13%

United Nations Joint Staff Pension Fund

91. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

92. The escrow account's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.90 per cent for participants and 15.80 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

93. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent of pensionable remuneration (compared with 1.87 per cent in the 2011 valuation), implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of

pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

94. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.50 per cent (compared with 130.00 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (compared with 86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

95. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement as at 31 December 2013 for deficiency payments under article 26 of the Regulations of the Fund given that the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly has not invoked the provision of article 26.

96. In December 2012 and April 2013, respectively, the General Assembly authorized an increase to 65 years in the normal retirement age and the mandatory age of separation for new participants in the Pension Fund, effective from 1 January 2014. The related change to the Regulations of the Fund was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013. The Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed on the Fund’s website.

Note 8
Net assets

97. Net assets, which amounted to $151.5 million as at 31 December 2015 (2014: $151.6 million), represent the residual interest in the assets of the escrow account after the deduction of all liabilities. The financial statements reflect aggregation of two funds, the administration fund and the indemnification reserve fund (see note 4).

Note 9
Expenses

98. Expenses of $0.6 million (2014: $0.7 million) represent those relating to the termination of residual activities of the oil-for-food programme. There was no expense relating to the Office of the Independent Inquiry Committee to support the investigations and proceedings of Member States (2014: $0.1 million).

Note 10
Related parties

Key management personnel

99. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions of the escrow account and comprise the Secretary-General, the Deputy Secretary-General and certain officials at the

Under-Secretary-General and Assistant Secretary-General levels in the Department of Management of the Secretariat. During the year, the escrow account paid no remuneration or other benefits to key management personnel or close family members. As at the reporting date, there were no advances or loans issued to key management personnel from the escrow account.

Note 11
Contingent liabilities and contingent assets

100. In the normal course of operations, the escrow account may be subject to claims which can be categorized as corporate and commercial; administrative law; and other (for example, guarantees). As at the reporting date, the escrow account had no such contingent liabilities and no contingent assets.

101. In accordance with Security Council resolution 1958 (2010), the Secretariat is negotiating an agreement with the Government of Iraq under which the Government would provide appropriate indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food programme since its inception. Under the agreement, the Government of Iraq would also agree to provide a waiver of any future claims that it may have against the United Nations, its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food programme since its inception.

Note 12
Events after the reporting date

102. No material events, favourable or unfavourable, have occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.