General Assembly
Official Records
Fifty-ninth Session
Supplement No. 9 (A/59/9)

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

Fifty-second session (13-23 July 2004)

United Nations • New York, 2004

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.

ISSN 0252-1202

Contents

Abbreviations

CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
CEO	Chief Executive Officer
CPI	consumer price index
EPPO	European and Mediterranean Plant Protection Organization
Eurocontrol	European Organization for the Safety of Air Navigation
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
GATT	General Agreement on Tariffs and Trade
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ICCAT	International Commission for the Conservation of Atlantic Tunas
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
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMIS	Integrated Management Information System
IMO	International Maritime Organization
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
OSCE	Organization for Security and Cooperation in Europe

PENSYS	United Nations Joint Staff Pension Fund Administration System
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade 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. The Fund is administered through the United Nations Joint Staff Pension Board, which currently consists of 33 members, representing the 20 member organizations that are 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 United Nations Joint Staff Pension 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 at United Nations Headquarters 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-second session, held from 13 to 23 July 2004 at the headquarters of the International Civil Aviation Organization (ICAO) in Montreal, Canada. The members, alternate members and representatives accredited to the session of the Board, the Chairman and other officers elected by the Board are listed in annex II.

4. The major items dealt with by the Board were (a) actuarial matters, including in particular the results of the twenty-seventh actuarial valuation of the Fund, as at 31 December 2003; (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 the investment strategy and performance for the two-year period ending 31 March 2004; (c) the report of the Working Group that was established to undertake a fundamental review of the size and composition of the Pension Board and its Standing Committee; (d) the progress report on the management charter of the Fund; (e) revised budget estimates for the biennium 2004-2005; (f) consideration by the General Assembly at its fifty-seventh session of the 2002 Pension Board recommendations; and (g) the Fund's Pension Adjustment System, including a proposal for the introduction of an adjustable minimum guarantee for benefits paid under the two-track system of adjustment.

5. The Board examined and approved the financial statements and schedules for the biennium ended 31 December 2003 and considered the report of the Board of Auditors on the accounts and operations of the Fund. It also considered a report on the internal auditing of the Fund.

6. Other matters considered by the Board and included in the present report are related to (a) proposed transfer agreements between the Fund and (i) the Provident

Fund of the Organization for Security and Cooperation in Europe (OSCE) and (ii) the World Trade Organization (WTO) Pension Plan; (b) arrangements for the comprehensive review of pensionable remuneration, to be carried out by the International Civil Service Commission (ICSC), in close cooperation with the Board; (c) the methodology for the determination of final average remuneration; (d) possible applications for membership in the Fund by the Inter-Parliamentary Union (IPU), the International Organization for Migration (IOM) and the International Commission for the Conservation of Atlantic Tunas (ICCAT); and (e) the Global Compact and the Fund.

7. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session, is shown in annex III to the present report.

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

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

10. Chapter II below provides an overview of the decisions taken by the Board at its fifty-second session, and chapter III provides a summary of the operations of the Fund for the biennium ended 31 December 2003. Chapters IV to IX address issues on which action is required by the General Assembly, as well as matters on which the Board is obliged to report to the Assembly. **The salient observations, conclusions and recommendations of the present report are highlighted in bold print.**

Chapter II
Overview of decisions taken by the Board

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

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

(a) The Board considered the resolution on pension issues that had been adopted by the General Assembly on 20 December 2002 (resolution 57/286). It decided to recommend to the Assembly a phased approach in the elimination of the 1.5 per cent reduction in the first consumer price index adjustments due after retirement. It recommends, as a first step, that the reduction rate under paragraph 20 of the Pension Adjustment System be reduced from 1.5 per cent to 1 per cent, with effect from 1 April 2005. The Board also recommends, with effect from 1 April 2005, that a 0.5 per cent increase be applied to the next adjustment of benefits being paid to existing retirees and beneficiaries who have already had the 1.5 per cent reduction applied to their benefits (see annex XII);

(b) The Board also recommends that paragraph 23 of the Pension Adjustment System be amended to provide for an adjustable minimum guarantee at 80 per cent of the United States dollar-track amount, with effect from 1 April 2005, on a prospective basis only (see annex XII);

(c) The Board recommends the approval of three proposals for additional resources required in the 2004-2005 biennium, in the amount of $5,340,700. The revised estimates would amount to a total appropriation of $41,011,800 for administrative costs. The increase, for the most part, is related to the $5,100,000 authorized but not spent in the biennium 2002-2003 for renovation work and the purchase of furniture and equipment for the Fund's new office accommodation, since the necessary obligations could not be made during that biennium without a signed lease for office space;

(d) The Board recommends that the General Assembly concur with the revised transfer agreement between the United Nations Joint Staff Pension Fund and the Provident Fund of OSCE, which would supersede, effective 1 January 2005, the current one-way transfer agreement between the two pension plans;

(e) The Board recommends that the General Assembly concur with the proposed new transfer agreement with the WTO Pension Plan, to supersede the existing agreement, with effect from 1 January 2005;

(f) The Board also recommends to the General Assembly that IPU be admitted as a member of the Fund, effective 1 January 2005, subject to the Fund's Secretary/Chief Executive Officer (CEO) confirming to the Assembly, in fall 2004, that IPU has fully satisfied all conditions for Fund membership.

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

12. Information on the following items is provided by the Board to the General Assembly:

(a) The Board noted the rebound in the market value of the Fund's assets and the positive returns achieved during the biennium. The total annualized real rate of return for the two-year period ended 31 March 2004 was 8.7 per cent; the cumulative annualized real rate of return over the 44-year period ending 31 March 2004 was 4.1 per cent, after adjustment by the United States consumer price index;

(b) The Board approved terms of reference for the Investments Committee, which would take effect on 1 January 2005;

(c) The actuarial valuation of the Fund, performed as at 31 December 2003, revealed a surplus of 1.14 per cent of pensionable remuneration, which was the Fund's fourth consecutive actuarial surplus;

(d) The Board approved terms of reference for the Committee of Actuaries; it also agreed that in 2005 the Standing Committee would consider a proposal for an amendment to the Fund's Administrative Rules in order to provide for the possible appointment of ad hoc members to the Committee of Actuaries;

(e) The Board noted that the periodic review of the cost/savings of recent modifications of the two-track feature of the Pension Adjustment System showed consistency with the past assessments and therefore decided no changes were needed at this time;

(f) The Board requested the Fund secretariat to prepare for the Board in 2006 a study that would consider increasing the amount payable as residual settlement under the provisions of article 38 of the Fund's Regulations;

(g) The Board requested the Secretary/CEO to report to the Standing Committee in 2005 on a possible provision to allow for the purchase by Fund participants of additional years of contributory service;

(h) The United Nations Medical Director, who is the Medical Consultant to the Pension Board, provided a detailed report and analysis on disability and death benefits, including a comparative analysis of trends in and reasons for the payment of such benefits over the two-year period from 1 January 2002 to 31 December 2003; the Board requested the Secretary/CEO, in coordination with the medical directors of the common system, to prepare a study on disability issues for the consideration of the Board in 2006;

(i) With respect to internal audit arrangements, the Board approved an internal audit charter, which incorporates policy changes for the Office of Internal Oversight Services. The Office of Internal Oversight Services will be carrying out a comprehensive risk assessment of the procedures and operating methods of the entire Fund, including the investments area. The Board requested the Secretary/CEO to prepare a report for the Standing Committee in 2005 on the desirability of, and possible terms of reference for, an audit committee of the Pension Board;

(j) The Board recommended the Fund secretariat to review an International Labour Organization Staff Pension Committee proposal to enlarge the scope of coverage of the Emergency Fund and to present its findings to the Board in 2006;

(k) After considering the report of the Board of Auditors, the Pension Board accepted the main recommendations included therein, with the exception of the recommendations to implement monthly reconciliation of contributions, to introduce full accrual accounting and to establish an audit committee of the Board;

(l) The Board was informed that a 16-year lease agreement for office space at 1 Dag Hammarskjöld Plaza (New York) had been signed on 11 June 2004. The new space will accommodate the Fund secretariat, including the Investment Management Service. It is expected that the Fund will relocate to the new premises by December 2004;

(m) The Board expressed its appreciation to the management of the Fund for the progress report on the management charter, which introduced specific goals and objectives, a detailed action plan for achieving such goals and a point-by-point status report on the implementation of each goal;

(n) The Board also agreed that in 2005 that the secretariat of the Fund would propose to the Standing Committee UNJSPF financial regulations and rules, using the Financial Regulations and Rules of the United Nations as a model;

(o) After giving consideration to issues relating to divorced spouses, the Board requested the Fund secretariat to prepare for the Board's consideration, in 2006, a study on all benefit provisions relating to family or former family members;

(p) The Board reviewed again the methodology used in establishing final average remuneration. It requested the Secretary/CEO to prepare for the Standing Committee, in 2005, a study containing actuarial cost assessments of a proposed early retirement protection measure, together with information on both the positive features and the anomalies that may arise as a consequence of the proposed measure;

(q) With respect to the comprehensive review of pensionable remuneration, to be carried out by ICSC in close cooperation with the Pension Board, the Board requested that a number of items be added to the list of issues that ICSC had already marked for analysis and study during the comprehensive review, and that specific modalities and a complete detailed timetable be proposed for collaboration in carrying out its work in 2005 and 2006;

(r) The Board also considered the report of a Working Group established to review the size and composition of the Board and its Standing Committee. It requested that the Working Group study further the issues involved, together with additional information that emerged during the Board's discussions, and provide a progress report to the Standing Committee in 2005 and a full report to the Board in 2006;

(s) The Board noted that expenses in respect of the various groups doing work on behalf of the Board (i.e., the working groups, search group and contact group cited in the report of the Board) would be shared proportionately as Board expenses by the Fund's member organizations. The Secretary/CEO was requested to provide the relevant cost estimates to the staff pension committees and the Standing Committee in 2005;

(t) Pending final agreement on the size and composition of the Board and the Standing Committee, the Board agreed to modify the current composition of the Standing Committee by the addition of one alternate member, drawn from the members of the United Nations Staff Pension Committee elected by the General Assembly. The total number of alternate members of the Standing Committee, drawn from the representatives of the General Assembly on the Staff Pension Committee, was therefore increased from two to three (see annex XIII);

(u) The Board authorized the Secretary/CEO to finalize transfer agreements currently under negotiation with the Universal Postal Union, the Coordinated Organizations and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization and possibly one or two other organizations, for submission to the General Assembly in fall 2004. The Secretary/CEO will report to the Standing Committee in 2005 on the status of these agreements. The Board also requested that the Fund secretariat report on a regular basis on the functioning of the Fund's transfer agreements in order for the Board to monitor their application in practice;

(v) The Board approved an approach aimed at integrating the goals of sustainable development and the principles of the Global Compact into the Fund's operating processes and investment policies and requested that periodic reports on the status of implementation be provided;

(w) The Board authorized the Standing Committee to consider in 2005 applications for membership in the Fund that may be received from IOM and ICCAT.

Chapter III
Summary of the operations of the Fund for the biennium ended 31 December 2003

13. During the biennium ended 31 December 2003, the number of participants in the United Nations Joint Staff Pension Fund increased from 80,082 to 85,245, or by 6.4 per cent, and the number of periodic benefits in award increased from 49,416 to 52,496, or by 6.2 per cent. On 31 December 2003, the breakdown of the periodic benefits in award was as follows: 16,713 retirement benefits, 11,730 early retirement benefits, 6,575 deferred retirement benefits, 8,294 widows' and widowers' benefits, 8,221 children's benefits, 921 disability benefits and 42 secondary dependants' benefits. In the course of the biennium, 12,978 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded is given in annex VI to the present report.

14. During the same two-year period, the principal of the Fund increased from $17,631,678,812 to $19,391,948,903, or by 10 per cent (see annex X, statement II).

15. The investment income of the Fund during the period amounted to $2,037,780,923, comprising $1,581,104,547 in interest, dividends, real estate and related securities and $456,676,376 in net profit on sales of investments. After deduction of investment management costs amounting to $41,717,862, net investment income was $1,996,063,061. A summary of the investments as at 31 December 2003, and a comparison of their cost and market values, is given in annex X, schedules 2 and 3.

Chapter IV
Actuarial matters

A. Twenty-seventh actuarial valuation of the Fund, as at 31 December 2003

16. 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.

17. The consulting actuary submitted to the Board the report on the twenty-seventh actuarial valuation of the Fund, as at 31 December 2003; the previous valuation had been as at 31 December 2001, and its results had been reported to the General Assembly at its fifty-seventh session, in 2002. 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

18. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Standing Committee in 2003, and in accordance with the Regulations and Administrative Rules of the Fund in effect as at the valuation date. As in past years, the valuation was performed on a fully dynamic basis.

19. As was done in the last eight valuations, the actuarial value of the assets as at 31 December 2003 was determined on the basis of 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 2003. The five-year moving market value average, before application of the limiting corridor of 15 per cent, was determined to be $25,237.4 million. Since this value was within the limiting corridor, it constituted the actuarial asset value used for the current valuation; that amount, i.e., $25,237.4 million, was approximately 4 per cent less than the market value of the assets as at 31 December 2003 ($26,368.6 million, after cash-flow adjustments).

20. In projecting future developments, three sets of economic and participant growth assumptions were used in various combinations. The economic assumptions take into account a decrease in the inflation assumption, from the 5 per cent per annum rate assumed for the prior valuation to 4 per cent per annum for the purposes of the 31 December 2003 actuarial valuation. This change in the inflation assumption is reflected in both the assumed nominal (real plus inflation) increases in pensionable remuneration and the assumed increases in pensions to retirees and beneficiaries. No changes were made in the assumptions on real rate of return on investments or real age-to-age salary increase. In summary, the inflation assumption, the assumed rate of inflation in addition to static salary increases and the assumed nominal investment return were changed from 5 per cent, 5.5 per cent and 8.5 per cent to 4 per cent, 4.5 per cent and 7.5 per cent, respectively. The participant growth assumptions were the same as those used in the previous two

valuations, namely, modest growth for 20 years, zero growth and modest decline for 20 years. These economic and participant growth assumptions are set out in table 1:

Table 1

	Assumption (percentage)		
	I	*II*[a]	*III*
A. Economic assumptions			
Increase in pensionable remuneration (in addition to static increases)	4.5	**4.5**	4.5
Nominal rate of interest (investment return)	7.0	**7.5**	8.0
Price increases (reflected in increases of pensions to beneficiaries	4.0	**4.0**	4.0
Real rate of interest (investment return after inflation)	3.0	**3.5**	4.0
Usual designation	4.5/7/4	**4.5/7.5/4**	4.5/8/4
Cost of two-track adjustment system (percentage of pensionable remuneration)	1.9	**1.9**	1.9
B. Participant growth assumptions			
For each of the first 20 years:			
Professional staff	0.5	**0**	-0.5
General Service staff	0.5	**0**	-0.5
After 20 years:			
Professional staff	0	**0**	0
General Service staff	0	**0**	0

[a] These assumptions were used in the regular valuation, as at 31 December 2003.

Regular valuation

21. The Committee of Actuaries recommended, and the Standing Committee agreed in 2003, that the 4.5/7.5/4 set of assumptions (i.e., 4.5 per cent annual increase in pensionable remuneration in addition to the static scale, 7.5 per cent nominal interest rate and 4 per cent annual inflation rate with respect to increases in pensions after award) and the zero participant growth assumption should serve as the basis of the regular valuation for 2003.

22. The specific combinations reflected in table 1 and included in the actuarial valuations as at 31 December 2003 were as follows: A.II with B.II (4.5/7.5/4 and zero growth in participants); A.I with B.II (4.5/7/4 and zero growth in participants); A.III with B.II (4.5/8/4 and zero growth in participants); A.II with B.I (4.5/7.5/4 and modest growth in participants); and A.II with B.III (4.5/7.5/4 and modest decline in participants).

23. With regard to demographic assumptions, the following changes were approved by the Standing Committee in 2003, acting on the recommendation of the Committee of Actuaries: (a) a reduction in the tabular rates of mortality by 10 per cent for Professional staff in active service and (b) a reduction in the tabular rates of mortality by 10 per cent for retirees from the Professional category who are receiving disability benefits.

24. Regarding administrative expenses, the Committee of Actuaries approved a new methodology in 2002, whereby non-recurrent costs would be amortized over the average life of the particular capital expenditure. Only the amortized share of the capital expenditure pertaining to the current biennium would then be included in the calculation of the administrative costs. Using that methodology, the ratio of administrative costs to the total pensionable remuneration of participants as at 31 December 2003 would be 0.32 per cent, very close to the 0.33 per cent provision actually applied. Accordingly, the new methodology would be used, as from the next valuation, to include the administrative costs as a percentage of pensionable remuneration.

Analysis of the valuation results

25. Table 2 provides the results of the twenty-seventh actuarial valuation and compares them with the results of the regular valuation as at 31 December 2001.

Table 2

		Contribution rate (as a percentage of pensionable remuneration) to attain actuarial balance of Fund		
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference (surplus)/deficit*
31 December 2003	**4.5/7.5/4 with zero participant growth (regular valuation)**	**22.56**	**23.7**	**(1.14)**
	4.5/7.0/4 with zero participant growth	24.94	23.7	1.24
	4.5/8/4 with zero participant growth	20.15	23.7	(3.55)
	4.5/7.5/4 with 20-year participant growth	22.36	23.7	(1.34)
	4.5/7.5/4 with 20-year participant decline	22.77	23.7	(0.93)
31 December 2001	**5.5/8.5/5 with zero participant growth (regular valuation)**	**20.78**	**23.7**	**(2.92)**

26. **The regular valuation as at 31 December 2003 showed that the required contribution rate as at 31 December 2003 was 22.56 per cent, as compared with the current contribution rate of 23.7 per cent, resulting in an actuarial surplus of 1.14 per cent of pensionable remuneration.** This represents an increase of 1.78 per cent in the required contribution rate from the rate disclosed as at 31 December 2001 (i.e., from 20.78 per cent to 22.56 per cent), while the valuation had revealed a surplus of 2.92 per cent. As can be seen in table 2, under real rate of return assumptions of 3 per cent and 4 per cent, with zero participant growth, the results would be, respectively, a deficit of 1.24 and a surplus of 3.55 per cent of pensionable remuneration, which demonstrates the major impact of the real rate of return assumption on the valuation results.

27. The elements contributing to the increase in the required contribution rate are set out in table 3.

Table 3

Element		Increase/(decrease) in required contribution rate (as a percentage of pensionable remuneration)
(a)	Contributions at 23.7 per cent rather than at the required rate	(0.20)
(b)	Investment experience	1.58
(c)	Net effect of changes in the value of the United States dollar and cost-of-living adjustments for pensioners and other gains affecting pensioners	0.22
(d)	Net effect of changes in the value of the United States dollar and actual inflation on pensionable remuneration	0.27
(e)	Effect of greater-than-expected number of new entrants	(0.01)
(f)	Effect of change in administrative expenses assumed in valuation	(0.01)
(g)	Effect of changes in demographic assumptions	0.01
(h)	Effect of change in economic assumptions	(0.03)
(i)	Miscellaneous	(0.05)
	Total change in required contribution rate	**1.78**

Current value of accrued benefits

28. As in previous reports, 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).

29. With respect to its liabilities on a plan termination basis, the Fund was in a strongly funded position, as it had been for the past seven 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 139 to 149 per cent, with 145 per cent being applicable for the regular valuation. This meant that the Fund would have considerably more assets than needed to pay the pensions if no cost-of-living adjustments were made in pensions 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 90 to 101 per cent, with 95 per cent being applicable for the regular valuation. As shown in table 4, the funded ratios have improved substantially since 1984, both with and without the assumption of future adjustments of pensions for inflation, although the funded ratios have decreased in comparison with those indicated by the prior valuation.

Table 4
Funded ratios, 1984-2003

Valuation as at 31 December	*If future pension payments are made (percentage):* without pension adjustments	*with pension adjustments*
1984	100	56
1986	118	67
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88
1999	180	113
2001	161	106
2003	145	95

Results of valuation in dollar terms and other disclosure statements

30. The General Assembly had requested the Board, in its resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993, to consider the form in which it presented the valuation results, taking into account the observations made by the Panel of External Auditors. The Auditors had requested the Board to include in its reports to the General Assembly disclosures and opinions as regards 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 may refer in its observations on the accounts of the Fund.

31. Accordingly, table 5 summarizes the valuation results as at 31 December 2003, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions. **It should be noted that the regular valuation as at 31 December 2003 revealed a surplus of 1.14 per cent of pensionable remuneration.**

Table 5
Evaluation results (surplus/(deficit))

Economic assumption	*As a percentage of pensionable remuneration*	*In millions of United States dollars*
4.5/7.5/4 with zero participant growth (regular valuation)	**1.14**	**1 949.6**
4.5/7/4 with zero participant growth	(1.24)	(2 537.5)
4.5/8/4 with zero participant growth	3.55	5 222.2
4.5/7.5/4 with 20-year participant growth	1.34	2 459.8
4.5/7.5/4 with 20-year participant decline	0.93	1 476.9

32. Table 6 provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2003 and 31 December 2001, respectively.

Table 6
(Millions of United States dollars)

	31 December 2003	*31 December 2001*
Liabilities		
Present value of benefits		
Payable to or on behalf of retired and deceased participants	15 099.4	13 229.3
Expected to become payable on behalf of active and inactive participants, including future new entrants	48 137.1	40 425.1
Total liabilities	**63 236.5**	**53 654.4**
Assets		
Actuarial asset value	25 237.4	23 630.0
Present value of future contributions	39 948.7	34 308.8
Total assets	**65 186.1**	**57 938.8**
Surplus	**1 949.6**	**4 284.4**

33. As they have 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 6 include those for individuals who have yet to join the Fund; similarly, the assets include the contributions for future new participants. The surplus 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 5, a deficit of 1.24 per cent of pensionable remuneration was indicated on the 4.5/7/4 valuation basis, i.e., a 3 per cent real rate of return. A surplus of 3.55 per cent of pensionable remuneration was indicated on the 4.5/8/4 valuation basis, i.e., a 4 per cent real rate of return. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial surplus, when expressed in dollar terms, should be considered only in relation to the magnitude of the liabilities and not in absolute terms. The surplus of $4,284.4 million under the regular valuation as at 31 December 2001 represented approximately 8 per cent of the projected liabilities of the Fund. The surplus of $1,949.6 million under the current regular valuation represented approximately 3 per cent of the projected liabilities.

Hypothetical projection models

34. As in past valuations, hypothetical models of the estimated progress of the Fund over the next 30 years were also prepared on the basis of the economic assumptions in the regular valuation, using the zero participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. These models showed that the Fund balance at the end of the 30-year period would still be

increasing, in both nominal and inflation-adjusted dollar terms. Additional models, in which the assumed nominal rate of return on investments ranged from 2 to 5 per cent above the assumed 4 per cent rate of inflation, were also prepared. These models showed that the Fund balance continued to increase at the end of 30 years in nominal dollars in all cases, with the balances ranging from $58 billion to $220 billion.

View of the Committee of Actuaries

35. In its report to the Board, the Committee of Actuaries noted that this was the fourth consecutive valuation that had resulted in a surplus. The three previous valuations, as at 31 December of 1997, 1999 and 2001, had resulted in surpluses of 0.36, 4.25 and 2.92 per cent of pensionable remuneration, respectively. The Committee noted further that reductions in the actuarial surplus revealed by the current valuation were attributable to investment returns that were lower than foreseen in the actuarial assumptions and to a weakening of the United States dollar against certain key currencies, affecting pensionable remuneration for many General Service staff and pensions in equivalent dollar terms for certain retirees on the local-currency track.

36. The Committee noted that the funded ratios showed decreases from those of the prior valuation, which marked a break in the trend of continued improvements in the funded ratios since 1980. However, the ratios, for the third time since 31 December 1999, equalled or exceeded 90 per cent under each of the three sets of assumptions, with and without the assumptions for adjustments of pensions in award being taken into account.

37. The Committee of Actuaries concluded that it should not be assumed that the positive elements that had contributed to the improved financial position of the Fund since 1990 would continue to be achieved to the same extent in the future, and that caution and prudence should be used in deciding how to manage the actuarial surplus of 1.14 per cent of pensionable remuneration. In particular, the Committee noted that the recent decrease in the value of the United States dollar against other key currencies may not yet be fully reflected in the current valuation results. **After considering all relevant data, the Committee agreed that prudence dictated that most of the surplus should be retained.**

Statements on the valuation results

38. The statement of actuarial sufficiency prepared by the consulting actuary and approved by the Committee of Actuaries is reproduced in annex VII to the present report. The statement indicates, in paragraph 6, 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 2003, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as at 31 December 2003 is $26,368.6 million, or $1,131.2 million greater than the actuarial value of assets as at that date. Therefore, the surplus shown in the table would be larger if based on a comparison with the market value of assets."

39. The statement of the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex VIII. In paragraph 2 of that statement, the Committee of Actuaries indicates that it

> "reviewed the results of the actuarial valuation as at 31 December 2003, which was carried out by the consulting actuary. On the basis of 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".

40. 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 Standing Committee in 2005 on the assumptions to be used in the actuarial valuation of the Fund as at 31 December 2005.

Discussions in the Board

41. Clarifications were sought from the consulting actuary and from the Rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results and on the probable evolution of future valuation results.

42. Several members of the Board noted that the valuation results indicated a decline in the actuarial status of the Fund and requested information as to the extent to which the current actuarial results would vary should there be significant changes in the market value of the assets of the Fund and in other key economic factors. The Board therefore requested a sensitivity analysis showing the extent to which future valuation results might change under different assumptions in the key parameters. The consulting actuary prepared an analysis of the impact of three key parameters — sudden change in the market value of assets, in currency exchange rates and in inflation rates — which was reviewed by the Rapporteur of the Committee of Actuaries.

43. In presenting the sensitivity analysis, the consulting actuary noted that, assuming all actuarial assumptions in the regular valuation model were met, the required contribution rate would be expected to decrease moderately over the next several valuations, because of asset gains that were not yet fully reflected in the actuarial asset value used in the current valuation. Assuming no other sources of gain or loss, the required contribution rate would be projected to decrease to 21.9 per cent over the next five years. It was further noted that it would take a decline of about 10 per cent in the market value of assets to eliminate the surplus in the Fund on the regular valuation basis, assuming all other actuarial assumptions were met. The consulting actuary also noted that the analysis indicated that relatively small changes in the assets could have relatively large effects on the results of future actuarial valuations, meaning that increased volatility in the results of future actuarial valuations is very likely.

44. With regard to the second variable, changes in the value of the United States dollar relative to other key currencies, the analysis showed that the contribution rate is sensitive to such changes. However, it was noted that the effect would be moderated if allowance were made for offsetting increases in the United States dollar equivalent value of the assets held in other currencies. The consulting actuary noted that the formal gain and loss analysis presented in the valuation report

considered separately the effect of deviations in currency exchange rates on the liabilities and on the assets. (The effect of deviations in currency exchange rates on assets is treated as part of the asset gain and loss analysis in the actuarial report.)

45. For the third variable, inflation, the analysis indicated that actuarial gains or losses would be expected to occur if the actual inflation rate in a single year during the two-year period (2004-2005) until the next actuarial valuation were different from the assumed rate of 4 per cent per annum. For example, it was noted that if inflation during 2004 or 2005 were at the rate of 7 per cent per annum, with no other sources of actuarial gain or loss, the resulting loss indicated in the next valuation would be approximately 0.41 per cent of pensionable remuneration.

46. The consulting actuary and the Rapporteur of the Committee of Actuaries noted that, while it is appropriate to examine sensitivity to adverse developments in the three key variables, the possibility of beneficial deviations from the regular valuation assumptions should also be borne in mind. If the assets of the Fund were to grow at a nominal rate in excess of that assumed in the valuation (i.e., 7.5 per cent per annum) with inflation continuing to be moderate, the required contribution rate would tend to decline.

47. The consulting actuary stressed that while the sensitivity analysis assumed that the three key variables were independent, in practice they are interrelated. Thus, an adverse deviation in one variable would most likely give rise to adverse changes in the others as well.

48. Several members of the Board noted the high degree of sensitivity in the valuation results to the assumed, and to the actual, return on the Fund's assets. Some members further stated that the bands used for some key variables in actuarial assumptions (e.g., for real rates of return on investment, variations at intervals of 0.5 percentage point trigger a 2.5 per cent change in the required contribution rate) showed that actuarial costs attached to minor adjustments in benefits should not be held to significantly affect the overall balance of the Fund. Many members of the Board indicated their satisfaction with the fact that this was the fourth consecutive valuation showing a surplus and were hopeful that this could be the basis for implementing improvements in the pension benefits.

49. **However, overall, the Board stressed the need for caution and prudence regarding any changes to the United Nations pension system, particularly in the light of the current economic climate and the continued relative weakness of the United States dollar. Most members agreed with the Committee of Actuaries that prudence dictates that most of the surplus should be retained.**

Conclusion

50. **The Board took note of the actuarial condition of the Fund, as reflected in the valuation as at 31 December 2003.**

B. Committee of Actuaries: terms of reference

51. At its 186th meeting, in 2003, the Standing Committee requested the Secretary/CEO to prepare a proposal for the consideration of the Board in 2004, which would provide the basis for increasing the size of the Committee of Actuaries to include ad hoc members. During its initial consideration of the issue, the Standing

Committee noted that in the event that an actuary serving on the Committee decided to retire or to no longer serve, a successor would need to be selected and appointed with minimum delay. This is considered important due to the increasing complexity of the Fund, the relatively small size of the Committee and the significant impact that the absence of one or two actuaries from any meeting would have on its deliberations. It was further noted that even an exceptional actuary, with wide-ranging experience, would need time to fully understand the complexities of the Fund. The Standing Committee also requested the Secretary/CEO to provide to the Board in 2004 draft terms of reference for the Committee of Actuaries, prepared in consultation with the member organizations and the Committee of Actuaries; the process would take into account the desire to maintain appropriate geographical distribution on the Committee.

Discussions in the Board

52. The Board considered draft terms of reference presented by the Secretary/ CEO, which took into account the specific criteria that had been requested by the Standing Committee.

53. The Board also reviewed curricula vitae in respect of candidates whose names had been recommended as possible ad hoc members.

54. The Board agreed that terms of reference would be useful in defining the roles and responsibilities of the Committee of Actuaries. It agreed, however, that the terms of reference and the question of ad hoc members should be kept separate; therefore, there should not be any reference to ad hoc members within the terms of reference. The Fund's Administrative Rules would need to be amended, by the Board or the Standing Committee, in order to provide a formal legal basis for the possible appointment of ad hoc members to the committees established under the Fund's Regulations. The terms of reference would also be mentioned in the Administrative Rules, but the text would be contained in an annex to those Rules.

55. **In concluding its discussion, the Board approved the proposed terms of reference for the Committee of Actuaries, but without any reference to ad hoc members. It also agreed that the Fund secretariat should proceed with the process of proposing an amendment to the Fund's Administrative Rules, in order to incorporate specific provision in the Fund's Regulations for the appointment of ad hoc members to the committees of experts. This proposal would be considered by the Standing Committee in 2005.**

C. Monitoring the cost of the two-track adjustment system

Background

56. In 1991 and 1994, the General Assembly, acting on the recommendation of the Board, approved three changes in the Pension Adjustment System, which then entered into effect on 1 April 1992 and 1 July 1995: (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 staff in the General Service and related categories as from 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. The Board and the Assembly requested that the costs and savings related to these measures be monitored when the actuarial valuations of the Fund were performed.

1 April 1992 modification

57. Over the period from 1 April 1992 to 31 December 2003 there were 627 retirement or early retirement benefits whose amounts had been affected by the 1 April 1992 modification. This involved participants in the Professional and higher categories who had retired during that period and had provided proof of their residence in countries where the criteria for application of cost-of-living differential factors to determine the initial local-currency track pension had been met. A summary of the benefits actually paid in the 14 countries concerned, together with the amounts that would have been paid under the previous arrangements, was provided to the Board.

58. On the basis of those data, the sixth and latest assessment of the emerging cost of the April 1992 modification by the consulting actuary was 0.14 per cent of pensionable remuneration, based on (a) the methodology used in 1994, 1996, 1998, 2000 and 2002, 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 (b) the results of the actuarial valuation as at 31 December 2003.

59. The number of additional benefits covered during the successive assessment periods has been declining, mainly due to the appreciation in value of the United States dollar for most of the period under review, which reduced the extent to which cost-of-living differential factors became applicable. Table 7 indicates the evolution of the costs, by assessment period, of the 1992 modification of the Pension Adjustment System, as applicable to the Professional and higher categories.

Table 7

Costs of the 1992 modification of the Pension Adjustment System as applicable to the Professional and higher categories

Period assessed	*Cost as a percentage of pensionable remuneration*	*Number of benefits applicable*	*Increase in number of benefits applicable over last assessment*
1991 estimate	0.30	-	-
1 April 1992 to 31 March 1994	0.26	143	-
1 April 1992 to 31 March 1996	0.33	390	247
1 April 1992 to 31 March 1998	0.32	552	162
1 April 1992 to 31 March 2000	0.26	604	52
1 April 1992 to 31 December 2001	0.24	614	10
1 April 1992 to 31 December 2003	0.14	627	13

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

60. During the period from 1 July 1995 to 31 December 2003, there were only 10 retirement benefits processed in respect of General Service staff involving proof of

residence in a country where the cost-of-living differential factors applied under the revised Washington formula.

61. Because of the very limited number of applicable cases, no meaningful assessment could be made as to the emerging cost of the extension of the April 1992 modification of the Pension Adjustment System to General Service staff separating on or after 1 July 1995.

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

62. As of December 2003, there were 44,276 main benefits in award (excluding children's benefits), of which 32,098, or 72.5 per cent, related to retirees and beneficiaries with only a dollar pension entitlement and 12,178, or 27.5 per cent, related to retirees and beneficiaries on the two-track pension adjustment system (i.e., with two pension records, both a dollar-track amount and a local-currency-track amount). The number of cases involving the application of the cap provision as of December 2003 was 1,022, out of 12,178 (8.4 per cent), as compared with 4,231 out of 11,454 (36.9 per cent) as of December 2001.

63. The breakdown for retirees and beneficiaries separating since the date of introduction of the 110 per cent cap provision, i.e., from 1 July 1995 through 31 December 2003, was as follows: of the 15,352 main benefits established, 13,086, or 85.2 per cent, related to retirees and beneficiaries with only a dollar pension entitlement, and 2,266, or 14.8 per cent, related to retirees and beneficiaries who were on the two-track adjustment system. With respect to the 2,266 two-track cases, 410 retirees and beneficiaries (18.1 per cent) were actually paid, during the last quarter of 2003, the amount corresponding to 110 per cent of the local-track amount for that quarter. The data for the review period, covering 8 years and 6 months, reflected a steady reduction in the overall utilization rate of the two-track option from the 35.6 per cent level as of March 1996 to 33.7 per cent as of March 1998, 31.1 per cent as of March 2000, 27.8 per cent as at 31 December 2001 and 27.5 per cent as at 31 December 2003. It was noted that the 14.8 per cent utilization rate since the introduction of the 110 per cent cap (i.e., from 1 July 1995 to 31 December 2003) had been substantially lower than the overall utilization rate. It was also noted, however, that there was a significant increase in the number of benefits being paid under the two-track system over the last two-year period.

64. As part of the current actuarial valuation exercise, the consulting actuary estimated the emerging long-term costs of the two-track system as a whole, based on data since 1990, to be 1.75 per cent of pensionable remuneration; the actuarial assumption used in the latest valuation was 1.9 per cent of pensionable remuneration. In order to make an assessment of the savings arising from the new 110 per cent cap provision of the two-track system, the consulting actuary undertook to compare (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 were 1.96 per cent of pensionable remuneration, with (b) the emerging long-term costs of the two-track system as a whole, also based on the data since 1990, which were 1.75 per cent of pensionable remuneration.

65. On this basis, as a preliminary estimate, the emerging long-term savings due to the introduction of the 110 per cent cap provision were estimated to be in the order of 0.21 per cent of pensionable remuneration; at the time the change in the cap was

proposed, the actuarial savings had been estimated at 0.2 per cent of pensionable remuneration.

66. Since the current assessment of the emerging savings was based on very limited data, the Committee of Actuaries agreed that more years of experience would be required, including an analysis of the evolution of the actual utilization of the two-track pension adjustment option with the lower cap provision, before a more definitive estimate of the savings could be made.

Conclusions of the Board

67. **The Board took note of the assessments provided on the actual emerging costs and/or savings resulting from the recent modifications of the two-track features of the Pension Adjustment System and concluded that no changes needed to be made at this time, either as regards (a) the actuarial assumption for the cost of the two-track system or (b) the current parameters of the revised Washington formula and of the cap provision. Consideration of the costs and/or savings resulting from the modifications of the two-track system will continue to be taken up in conjunction with the actuarial valuations. It was noted that this issue should also be considered in the context of the Secretary/CEO's proposal for an adjustable minimum guarantee at 80 per cent of the United States dollar-track amount (see paras. 172-183 below).**

Chapter V
Investments of the Fund

A. Management of investments

68. The Board reviewed the investments of the Fund on the basis of a report and accompanying statistical data presented by the Representative of the Secretary-General for the Investments of the United Nations Joint Staff Pension Fund. The report provided information on the management of the investments of the Fund during the two-year period ended 31 March 2004 and described how the objectives and the investment strategy were applied against the background of the conditions prevailing in the economic, political and financial environment. The report showed the investment returns achieved over various periods and reviewed the financial accounts and administration of the investments. Information was also provided on realized and unrealized gains and losses covering the 2002 and 2003 calendar years.

69. The Representative of the Secretary-General introduced the report of the Secretary-General, gave a detailed summary of developments in the financial markets and provided additional statistical data on the performance of the Fund's investments. The Representative of the Secretary-General introduced Chieko Okuda, the new Director of the Investment Management Service, and noted that a new team had taken over the management of the Fund's investments and looked forward to good collaboration with the Board. The Chairman of the Investments Committee also made comments on the investments of the Fund. The Representative of the Secretary-General, the Chairman and members of the Investments Committee and the Director of the Investment Management Service responded to questions from the Board.

70. The Representative of the Secretary-General informed the Board that the contracts of the master record keeper and the custodians would expire in early 2005. The selection process for a new custodian had been initiated. As had been suggested by both the internal auditors and the Board of Auditors, the Fund was intending to change its custodial structure, from separate regional custodians and a master record keeper to one custodian, which would also provide master-record-keeping services.

71. The investment environment was changing very rapidly, and technological advancements had resulted in faster-moving markets. New geopolitical uncertainties created new concerns, the securities market was becoming truly global, and news, negative or positive, was immediately felt all over the world and reflected in the securities markets. There was a need for decisions and action to be taken faster.

72. The Fund was being managed well, as demonstrated by the good investment performance that had resulted in an actuarial surplus, but new vision, leadership skills and adequate resources were needed for the Investment Management Service to be able to respond to the changing circumstances. With a new team in charge, it was a good time to take a look at the way the Service operated.

73. A thorough review of the current policies, procedures and practices in the Investment Management Service was needed, but the process had to be undertaken carefully in order to assess thoroughly the potential impact of any changes that might be undertaken.

74. Efforts had already been initiated for a better-structured Investment Management Service that would be able to face the challenges of the future. The aim was to maintain what was good and functioning well, while ensuring that, after a prudent review and careful assessment, the Service would be appropriately structured and staffed to accommodate rapidly changing circumstances and to adjust to increasing pressures and demands resulting from future developments in the investment business. The goal was to ensure that the good performance continued and that the fiduciary responsibility that had been entrusted to the Secretary-General would not be compromised.

75. The following actions had already been initiated: a comprehensive review of the investment practices in the Investment Management Service would be undertaken; it would build on the findings and recommendations of all previous audits and reviews and would include a review of the Fund's asset/liability condition. The role, responsibility and functioning of the Investments Committee had been reviewed, as well as terms of reference that include criteria for membership. Investment Management Service procedures adhered to industry standards, and the staff complied with ethical standards set out in the United Nations Staff Regulations and Rules, as well as those of the Association for Investment Management and Research, now called the CFA Institute; the staff had also been requested to file United Nations financial disclosure statements. Joint sessions between the Investments Committee and the Committee of Actuaries had taken place, and that practice would continue.

76. The Representative of the Secretary-General also informed the Board of a new development in the management of investments. The Secretary-General had asked that the United Nations be a leading example of responsible corporate citizenship in its administrative practices. Following the Secretary-General's request and a subsequent study, the Representative of the Secretary-General had organized a specialized working group to cover the areas of procurement, facilities management, the Capital Master Plan, investment management, human resources management and organizational integrity.

77. The market value of the Fund's assets had increased to $26,589 million on 31 March 2004, from $21,789 million on 31 March 2002, an increase of $4,800 million, or 22 per cent. The total investment return for the year ending 31 March 2003 was negative 3.8 per cent, and positive 28.7 per cent for the year ending 31 March 2004. After adjustment by the United States consumer price index (CPI), these returns represented real rates of return of negative 6.6 per cent and positive 26.5 per cent, respectively. **The total annualized real rate of return for the biennium was therefore a positive 8.7 per cent. The Fund had reached a new all-time high of $27.1 billion during the first quarter of 2004.**

78. The Fund's March 2004 historical high in terms of value represented a recovery from negative returns in real terms for the period 2001 to 2003. During the biennium, all of the asset classes, i.e., equities, bonds, real estate and cash, contributed to the investment return. Bonds contributed most, with returns of 28.4 per cent in 2003 and 15.7 per cent in 2004, with bonds denominated in currencies other than the United States dollar having a greater impact, since the dollar depreciated against major currencies. Equities showed a negative return of 23.1 per cent in 2003, but sharply rebounded by 42.5 per cent in 2004. Real estate performance was 8.5 per cent in 2003 and 23.9 per cent in 2004.

Table 8
Total return based on market value for the years ending 31 March
(Percentage)

	2004	*2003*	*2002*	*2001*
Equities				
United States equities	29.3	-23.9	2.8	-17.2
Equities outside the United States	56.5	-21.7	-6.1	-30.3
Total equities	**42.5**	**-23.1**	**-1.3**	**-24.2**
Bonds				
United States dollar bonds	6.8	15.9	4.9	13.0
Non-United States dollar bonds	19.4	34.9	2.1	-4.2
Total bonds	**15.7**	**28.4**	**3.1**	**2.0**
Real estate	23.9	8.5	8.4	11.3
Short-term investments	8.1	11.1	3.5	4.2
Total Fund	**28.7**	**-3.8**	**0.7**	**-15.0**

79. The cumulative annualized total returns for the last 5, 10, 15, 20 and 25 years were approximately 4.6, 8.6, 9, 10.7 and 10.7 per cent, respectively. **The cumulative annualized total rate of return over the 44-year period for which data was available was 8.6 per cent, representing a yearly real rate of return of 4.1 per cent after adjustment by the United States CPI.**

80. During the year ended 31 March 2003, the Fund outperformed its benchmark, which is composed of 60 per cent Morgan Stanley Capital International World Index and 40 per cent Citigroup World Government Bond Index, with a return of negative 3.8 per cent, versus negative 6.5 per cent for the benchmark. (Citigroup World Government Bond Index is the new name for the former Salomon Brothers World Government Bond Index, following the acquisition of Salomon Brothers by Citigroup.) For the year ended 31 March 2004, the Fund underperformed the benchmark, with a return of 28.7 per cent versus 31.5 per cent. Over the last 20 years, the Fund achieved a cumulative return of 10.7 per cent, slightly outperforming the benchmark (10.6 per cent).

81. The equities exposure increased to 59.7 per cent during the biennium, from 57 per cent on 1 April 2002, as global economies recovered. Equities hit their lowest level of exposure during the biennium, 47.6 per cent, in September 2002. The bond portfolio was increased to 28.9 per cent on 31 March 2004, from 27.9 per cent on 1 April 2002. Bonds reached a high of 34.5 per cent of the total portfolio in September 2002. Exposure to real estate grew from 5.4 to 6.3 per cent during the biennium, and benefited from the historical lows in global interest rates. Short-term investments decreased from 9.7 to 5.1 per cent during the same period, as investments in equities were increased because of the improved outlook. Short-term investments reached their highest exposure, 12.7 per cent, in November 2002.

82. Changes were also made within asset classes to implement the Fund's investment strategy and to take advantage of new trends in economic cycles and financial markets, as well as movements in currencies and interest rates. Exposure to European currencies was increased, while exposure to the United States dollar was reduced, as the dollar declined. During the biennium, the proportion of investments in United States dollars was decreased from 56.6 to 48.9 per cent, the proportion of investments in major European currencies was increased from 27.8 to 35.3 per cent, and the proportion of investments in the Japanese yen was reduced from 5.3 to 4.4 per cent.

83. The proportion of the Fund invested in North America declined to 43.3 per cent in March 2004, from 49.4 per cent in March 2002. Investments in Europe were increased from 34 to 37.1 per cent, while the proportion of investments in Asia and the Pacific increased by 0.7 per cent during the same period.

84. In paragraph 2 of its resolution 36/119 C of 10 December 1981, on the investments of the United Nations Joint Staff Pension Fund, the General Assembly endorsed the policy of diversification of the investments of the Fund in developing countries, "subject to observance of the criteria of safety, profitability, liquidity and convertibility, and in conformity with the Regulations of the Fund". The investments are made wherever this serves the interests of participants and beneficiaries. The Fund continued to increase development-related investments during the last biennium. Direct and indirect investments in developing countries amounted to $1.7 billion on 31 March 2004, an increase of 55 per cent from $1.1 billion at cost on 31 March 2002. Most of the increase was in the African region, as the Fund added investments in South African equities and bonds. Investments in Asia increased, particularly in the Republic of Korea and China. Development-related investments accounted for approximately 8.7 per cent of the Fund's assets at book value. The holdings were 49 per cent in United States dollar-denominated investments and 51 per cent in currencies other than the dollar.

85. During the meeting with the Investments Committee, members of the Board raised a wide range of concerns and questions related to, inter alia, the justification for the optimistic investment strategy of high exposure in the Fund's assets to equities even though, over the past 20 years, bonds seemed to achieve similar returns with lower volatility; the suitability of the 60:40 ratio of equity and bond investments for the ultimate objective of the Fund's investments, namely, to protect the principal of the Fund without undue risks while meeting the actuarial assumptions; corporate scandals and the Fund's policy of investing in blue-chip companies; investments in companies that provided services to the Investment Management Service; how the performance of non-discretionary advisers was evaluated; how the performance and value of real estate investments were determined; the status of the building purchased as an investment; why the Fund had so few investments in China and the Republic of Korea; socially responsible investments and the Global Compact; long-term policy on currencies and currency fluctuations; the change in the name of the benchmark for bonds; the Fund's policy on selling underperforming securities; the rationale behind the change in the structure of the custodian arrangements; how the Fund's real estate investments were protected against a potential bubble in real estate values; how to balance currency fluctuations between the United States dollar and the euro; the rationale for having small-capitalization accounts and their performance; and the extent to which the changes in asset allocation were a result of deliberate action.

86. The Chairman and the members of the Investments Committee, the Representative of the Secretary-General and the Director of the Investment Management Service responded to the questions and comments of the Board.

87. In response to the question on the level of the Fund's exposure to equities, it was explained that investing only in bonds would not be a prudent policy, since it would not provide the returns required by the Fund. Some pension funds had tried that approach, but those attempts had not been very successful. Maintaining flexibility in the asset allocation was the best policy for the Fund, in order to respond to changing conditions in the markets. The Investments Committee maintained its position of investing in equities because in the long term that asset class provided higher returns. In the current environment of increasing inflation and increasing interest rates, bonds were not likely to perform as well as they had in the past 10 to 20 years, when the world had experienced an exceptional era of declining interest rates and low inflation.

88. In response to concerns about corporate scandals and the Fund's investments in blue-chip companies, it was explained that investing in large, quality companies was still a solid policy, despite the recent scandals. Globalization was changing the environment in which companies operated. The world economy was going through a transition period, in which competition and selection of the strongest were extremely important. It was also true that the gap between rich and poor was increasing at the same time as the poverty rate was decreasing. In the end, it was in everyone's interest to ensure that more and more people had access to the consumption of goods and services. In order to invest in a stock, investors must have confidence that the management of a company would make the right decisions and take appropriate action for the company to survive in global markets.

89. In respect of questions concerning investments in the Republic of Korea and China, it was explained that, compared with the index, the Fund was overweight in Korea, since that was an area where the Investment Management Service had seen opportunities and liquidity was ample. The Fund was underweight in China. The relatively small amount of investments in China could be explained by the fact that it was not yet possible to make huge investments in the country because legislation to protect foreign investors was still weak. Also, many companies there were being brought to the market for the first time as initial public offerings and liquidity in some of the issues was limited, as other investors were looking for opportunities in the same market; as a result, good investment opportunities were relatively few, and demand for good stocks boosted their prices unreasonably high.

90. In response to several questions on real estate investments, it was explained that the target of 7 per cent of the Fund's assets in real estate was reasonable for a Fund of this size, according to best practices. Investments in real estate provided diversification. The Fund invested in public and private funds, mostly in the United States of America, but also internationally. Public funds were easy to value since they were similar to equities and were valued in public real estate markets on a daily basis. The private real estate funds were more complicated and were valued by the funds themselves on the basis of various criteria, such as cash flow, occupancy, value of the property in the market, interest rates, mortgages and rent income. Proper mechanisms for value assessment were in place, but with a time lag of approximately one quarter. The Fund's real estate portfolio was well diversified by types of property held and by geographical distribution, which reduced the danger

of being hurt if certain sectors or markets declined rapidly. With regard to the building at 222 East 41st Street in New York, the Investment Management Service had selected a selling broker and advertising had already been launched. The sale is targeted to be finalized by the end of September or early October 2004.

91. In response to a question regarding policy on selling underperforming stocks, the Board was informed that the Investment Management Service staff discussed and analysed portfolio holdings at weekly meetings with the Director. Any stock that had had significant movements in value was addressed. Investment officers conducted research on all companies in which the Fund was invested on a continuous basis to monitor the investment, which included meetings with company management. There was also an ongoing dialogue with the advisers regarding the portfolio. Stocks were sold when the fundamental value of the stock no longer supported the current price. Decisions were made on a case-by-case basis.

92. The Board was also informed that the Investment Management Service evaluated both non-discretionary and discretionary advisers on a regular basis. Discretionary advisers were evaluated by the performance of the portfolio against relevant indexes. The performance was also reviewed by the Investments Committee on a quarterly basis. The discretionary accounts had been established to provide diversity to the portfolio, as the performance of small-capitalization stocks was often unsynchronized with the performance of the large-capitalization stocks. Non-discretionary advisers were evaluated at the end of each year, using criteria established by the Investment Management Service. The use of the advisers would be revisited as part of the comprehensive review on the practices and policies of the Service.

93. In response to the question as to whether the 60:40 ratio of equity and bond investments was suitable for the ultimate objective of the Fund's investments, namely, to protect the principal of the Fund without undue risks while meeting actuarial assumptions, it was explained that the historical Fund performance exceeded the objective, and that a future review would be done to set an appropriate long-term asset allocation, concurrent with the setting of liability structure and actuarial assumptions to meet changing requirements as a result of the increasingly dynamic, competitive and complex environment of the world economy and the markets.

94. In response to the question about the rationale behind the intended change in the structure of the custodian arrangements, it was explained that the Investment Management Service was seeking an arrangement with one master record keeper/custodian instead of the current configuration of one master record keeper and three custodians. The latter arrangement was recommended by the Office of Internal Oversight Services, but the Investment Management Service would ensure that there were adequate controls on the services provided.

95. In responding to concerns that the Fund had investments in companies that provided services to the Investment Management Service, it was explained that the Service had been communicating with the United Nations Office of Legal Affairs to establish an appropriate policy to eliminate potential conflicts of interest in its investments.

96. In reference to questions about socially responsible investments and the Global Compact, the members were informed that the management of the Fund's

investments was fully supportive in this regard and that the Investment Management Service would promote the values of the Global Compact in a form consistent with the fiduciary responsibilities of the Fund to meet profitability goals, with a level of risk consistent with the Fund's actuarial assumptions and risk tolerance.

97. Regarding the question from members of the Board about the asset allocation policy, the Board was informed that during the bear market in 2002, the level of holdings in equities was reduced and holdings in bonds and cash were increased, with euro-denominated assets being favoured over United States dollar-denominated assets, given the uncertain economic and geopolitical environment. During 2003 this was gradually changed, as the economic situation improved and value was once again seen in equities.

98. In responding to questions relating to currency fluctuations and the possibility of maintaining the Fund's accounts in euros, it was explained that, irrespective of the currencies in which the assets were held or the accounts kept, there would always be fluctuations. The United Nations and the Pension Fund accounts were kept in United States dollars, and it was better to maintain that policy. Approximately 86 per cent of the world's currency reserves were held in United States dollars, followed by the euro, with about 13 to 14 per cent. Balancing the Fund's investments according to expected currency fluctuations was a very delicate task, since the expected capital gains often overrode the currency considerations. However, the Investments Committee and the management of the Fund's investments paid careful attention to expected movements in currency markets. The issue was discussed at length at the meetings of the Committee. During the biennium, the Fund had benefited from the appreciation of the euro because of a conscious decision to increase euro-denominated bonds and short-term investments. The proposed asset liability study would also look into the currency liability structure of the Fund.

Discussions in the Board

99. **The Board noted with satisfaction the rebound in the market value of the Fund's assets and the positive returns achieved during the biennium. It also expressed appreciation for and welcomed the efforts initiated by the Representative of the Secretary-General and the Director of the Investment Management Service for the restructuring of the Service's investment practices, as well as the improved communication with the members of the Board.**

100. The Board expressed its appreciation to the Representative of the Secretary-General, the Chairman and the members of the Investments Committee, the staff of the Investment Management Service and the investment advisers for their work on the management of the Fund's investments. The Board thanked the Chairman and the members of the Investments Committee for the service they were rendering to the Fund and for the open and comprehensive exchange of views during the joint meeting. The Board also thanked Mr. Omaboe and Mr. Oltramare for their long service and assistance in the management of the investments of the Fund.

101. In concluding the discussion on the management of the investments, members of the Board reiterated the points made during the joint session with the Investments Committee, requested that the Board be fully informed on the developments in and the results of the proposed comprehensive review on the policies and practices of the Investment Management Service and requested that the Representative of the

Secretary-General report to the Board any action taken as a result of the review. Some Board members raised questions related to the relevance of some of the benchmarks used for comparison with the investment performance of the Fund. Board members further requested that the review include a study combining the asset liability of the Fund with currency liabilities and actuarial assumptions. Members of the Board also noted improvement in the documentation provided, but requested that future reports on the management of the investments be more analytical. Some members also requested that attribution analysis on asset allocation and stock selection decisions and their impact on performance be included in future reports.

102. **The Board also took note of the Secretary-General's intention to retain a consulting firm to undertake a comprehensive review of the investment policies and practices of the Investment Management Service, so as to address all the findings and recommendations in the recent audit reports of the Office of Internal Oversight Services and the Board of Auditors. The Board requested the Representative of the Secretary-General to report to the Board on the results of that comprehensive review. The Board also noted that there had been no Director of the Investment Management Service for six months.**

B. Membership of the Investments Committee

103. The Representative of the Secretary-General informed the Board that two long-serving members, Mr. Omaboe and Mr. Oltramare, had informed the Secretary-General that they would no longer be available to serve in the Committee.

104. The Board noted the intention of the Secretary-General to reappoint Jürgen Reimnitz of Germany for an additional three-year term and to appoint Hélène Ploix of France and William J. McDonough of the United States of America as new regular members for three-year terms beginning on 1 January 2005. The Board also took note of the intention of the Secretary-General to reappoint Emilio Cárdenas of Argentina as an ad hoc member for an additional one-year term and Ivan Pictet of Switzerland and Khaya Ngqula of South Africa, as new ad hoc members for one-year terms beginning on 1 January 2005. The Board also noted the intention of the Secretary-General to ask Emmanuel N. Omaboe to continue his association with the Committee as member emeritus after his term ends, in December 2004.

105. The Board welcomed the Secretary-General's initiative of preparing terms of reference for the Investments Committee and appreciated that the members of the Investments Committee had been consulted in the drafting of the document containing those terms. The Board also noted that the terms of reference for the Investments Committee would take effect on 1 January 2005 and would be reflected in the Fund's Administrative Rules.

106. The Board invited the Representative of the Secretary-General to consider further, before the finalization of the terms of reference, the proposed limit of 15 years that a member could serve on the Investments Committee, especially as it might be applied to current members who had served the Committee well and who would reach the proposed 15-year limit relatively soon. The Board also urged the continuation of the practice of appointing members who had, at one point in their careers, been active investors. The Board further invited the Representative of the

Secretary-General to clarify the process of selecting the Chairman of the Investments Committee.

107. The Board expressed its appreciation to the departing members of the Investments Committee and, in particular, to the Chairman, whose dedication, knowledge and sense of humour would be missed.

Chapter VI
Financial statements of the Fund for the biennium 2002-2003

108. The Board examined the financial statements and related data on the operations of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2003. It noted the increase in Fund participants over the prior biennium, from 80,082 to 85,245, or by 6.4 per cent, with increases in all but four of the member organizations. The number of benefits in payment (52,496) had also increased, by 6.2 per cent, and the biennial payroll for benefits in payment amounted to $2.4 billion, representing an increase of 12.5 per cent over the prior biennium. The total expenditure of $2.4 billion for benefits, administration and investment costs exceeded contribution income by approximately $290 million, an annual average of $145 million, compared with an annual average of $185 million in the prior biennium. Contribution income increased from $1.8 billion to $2.1 billion during the biennium 2002-2003, an increase of approximately 20 per cent. The Board also noted the increase in the market value of the Fund's investments, from $21.5 billion in December 2001 to $25.7 billion at the end of December 2003, an increase of 19.6 per cent.

109. Several Board members asked about the increase in administrative costs. The Secretary/CEO stated that rental costs had been affected by an increase in the rent charged by the United Nations but that the cost per square foot would be reduced once the Fund moved to new premises in New York outside United Nations Headquarters. The Board also requested clarification on the substantial increase in bank charges. It was noted that this was due to the manual processing that had been required for many payments, pending the introduction of the Fund's new banking arrangements, expected to be operational by the end of 2004. The Board also noted that the administrative costs in statement 1 included, for the first time, the portion of the shared expenditure borne by the United Nations, which represented a change in accounting procedures that the auditors had recommended.

110. **The Board took note of the financial statements for the biennium 2002-2003 and related data submitted by the Secretary/CEO and expressed appreciation for the quality of services provided by the Fund to its participants and beneficiaries.**

Chapter VII
Administrative matters of the Fund

A. Internal audit arrangements

111. With respect to internal audit arrangements, the Board considered reports by the Office of Internal Oversight Services on the internal auditing of the United Nations Joint Staff Pension Fund during the period from 1 May 2002 to 30 April 2004 and on the status of its review and comprehensive risk assessment of the procedures and operating methods of the Fund, including both the Investment Management Service and the Fund secretariat. The Board also had before it notes by the Secretary/CEO on the performance of the internal audit function for the Fund and on a draft internal audit charter. The Director of the Internal Audit Division of the Office of Internal Oversight Services also attended the meetings of the Board and participated in the discussions during the consideration of this item.

112. The Secretary/CEO highlighted the new attitude and approach in the Office of Internal Oversight Services with regard to the internal auditing of the Fund's activities and operations, which involved a desire for collaboration with the Fund's management while professional independence was maintained by the internal auditors. There was full agreement among the Office of Internal Oversight Services, the Fund's senior management and the Representative of the Secretary-General for the Investments of the Fund that internal audit served as a management tool that assessed risks, verified the adequacy of internal controls and assisted in making all operational activities effective and efficient. It was in that spirit that the Office of Internal Oversight Services, the Secretary/CEO and the Representative of the Secretary-General had prepared the draft internal audit charter presented to the Board at its current session.

113. The Office of Internal Oversight Services will be carrying out a comprehensive risk assessment of the procedures and operating methods of the entire Fund, i.e., both of the investments area and of the Fund secretariat. The results of the risk assessment will then serve as a basis for future internal audit work plans, which will be developed in close cooperation with the Fund's management and the Investment Management Service.

114. **The Board strongly welcomed the new spirit of cooperation that now clearly existed between the Office of Internal Oversight Services and UNJSPF. It also expressed appreciation that the Office was strengthening the staff assigned to perform the internal auditing of UNJSPF and that all audits would follow established professional standards.**

115. **The Board approved the internal audit charter for UNJSPF presented by the Secretary/CEO, with some drafting changes suggested by members of the Board during the discussions. While the charter incorporated fundamental policy changes by the Office of Internal Oversight Services regarding the internal auditing of UNJSPF, the Director of the Internal Audit Division of the Office confirmed that the work would be performed within the approved budgetary resources, at least for the current biennium.**

116. The Board deferred taking a decision on the possible establishment of an audit committee of the Board. **The Secretary/CEO was requested to prepare, for the**

meeting of the Standing Committee in 2005, a report on the desirability of, and possible terms of reference for, an audit committee of the Pension Board; that study would also draw on the experience of international organizations and other comparable pension funds with audit committees.

117. The management of the Investment Management Service was taking steps to address the concerns and issues regarding the Service that had been raised in the report of the Office of Internal Oversight Services. An outside consultant specializing in advising investment businesses was being retained to undertake a comprehensive review of the policies and practices of the Service. The management of the Service took due note of the recommendations of and concerns cited by the Office. **It was confirmed that the Board would be kept fully informed of the results of the review by the outside consultant and the possible actions taken by the Investment Management Service on the recommendations.**

B. External audit

118. A representative of the Board of Auditors presented the main findings of the audit of the UNJSPF financial statements for the biennium ended 31 December 2003, via videoconference from New York. The full report of the Board of Auditors on the operations of the Pension Fund was provided to the Board and is set out in annex XI to the present report.

119. The Board of Auditors advised the Pension Board that the Fund's financial statements were generally in compliance with accepted accounting principles and that it was pleased with (a) the cooperation received from the Fund and (b) the fact that a number of its recommendations had already been implemented. Progress had been made towards creating a modern accounting organization, and the preparation of internal manuals was well under way. While understanding the constraints on efforts for real-time accounting for pension contributions, the Board of Auditors recommended that further steps be taken to move towards full accrual accounting and, in that regard, that the Fund benchmark against the best practices of other pension funds. The Board of Auditors also recommended further precision and refinements to the cost-sharing arrangements between the United Nations and the Fund and noted that, for its size, the Fund was operating "on a shoestring budget". As regards the Investment Management Service, the Board of Auditors recommended renewed efforts to recover outstanding tax reimbursements from Member States, the completion of a review of the Fund's real estate investments and the related decision-making processes, implementing transparency in all Investment Management Service operations and the establishment of an ethics compliance officer function.

120. The Board of Auditors stated that while it was satisfied with a number of reforms and actions of the Office of Internal Oversight Services with regard to its internal auditing of the Pension Fund, particularly regarding accounting issues, risk assessment, auditor staffing and the use of outsourced specialized auditors for investment management, some other improvements had yet to be achieved by the Office. The Board of Auditors noted that the new internal audit charter and the establishment of an audit committee of the Board would assist in the future internal auditing of all UNJSPF operations and activities.

121. The Pension Board expressed its satisfaction with the presentation made by the representative of the Board of Auditors and for the work undertaken as regards the assessment of the capacity and professional expertise required by the Office of Internal Oversight Services to provide the internal audit services for the Fund. Clarification was requested as to the recommendation for the establishment of an audit committee of the Board, as its responsibilities and relationship vis-à-vis the Office of Internal Oversight Services were not clear, bearing in mind that internal auditing was intended as a management tool. The representative of the Board of Auditors stated that there were a number of professional guidelines that could be referred to for the establishment of such a committee. Furthermore, the audit committee could be made up of members of the Pension Board and other persons with substantive experience in financial matters, so that the committee could assess the performance of the internal audit function, review the audit risk assessment and planning, analyse the nature of audit services to be provided and the resources required and then report directly to the Pension Board.

122. Queries were raised by Board members as to the reaction of the Fund's management to the recommendations of the Board of Auditors, including the possible cost implications of recommendations that called for additional staff in the Executive Office and the Accounts Unit, for the establishment of a compliance officer function and for an audit committee. The Secretary/CEO stated that he was in agreement with the recommendations made by the Board of Auditors and would be presenting proposals for appropriate staffing in line with its recommendations to the Standing Committee in 2005, as part of the Fund's 2006-2007 budget proposals.

123. The Representative of the Secretary-General, having reviewed the portion of the report by the Board of Auditors concerning the investments area, concurred with most of the observations and recommendations in the report. Steps to address certain issues raised had been taken: a new real estate adviser had been recruited; a legal expert had been hired on a short-term basis to review all the contracts that the Investment Management Service had entered into; and the legal expert and the United Nations Office of Legal Affairs were looking into potential conflicts of interest in investing in companies that provided services to the Fund. Although the work had started, more needed to be done. The Representative of the Secretary-General assured the Board that none of the internal and external audits carried out in the Investment Management Service in recent years had found any indication of fraud or misappropriation of funds. Concerns had been raised over a lack of proper files, inadequate audit trails and undocumented delegations of power and distribution of work, but nothing indicated any abuse or misappropriation of the Fund's assets. These concerns are being addressed by the new management of the Service.

124. The Board welcomed the efforts of the Representative of the Secretary-General and urged her to continue her efforts to address the concerns raised in the reports of both internal and external auditors.

125. **The Pension Board, taking into account the observations of the Secretary/CEO, accepted the main recommendations made by the Board of Auditors, with the exception of the following three:**

(a) **To implement a monthly reconciliation of the payments of contributions in order to enhance payment recovery and to introduce full accrual accounting;**

(b) **To continue to invite, as previously recommended, all participating organizations to account for contributions on an accrual basis;**

(c) **To establish an audit committee of the Pension Board.**

126. **It was agreed by the Board that in 2005 the Standing Committee would study the issue relating to the possible establishment of an audit committee of the Pension Board.**

C. Office space

127. **The Board was informed by the Secretary/CEO that, after lengthy negotiations, a 16-year lease agreement for office space at 1 Dag Hammarskjöld Plaza, at 2nd Avenue and 47th Street in New York, had been signed on 11 June 2004.** The office space, which will accommodate the Fund, including the Investment Management Service, will provide conference facilities and additional space for auditors and visiting officers and is comparable to the area that would have been available in the building purchased in 2003 as an investment, at 222 East 41st Street.

128. Before the premises are occupied, a certain amount of renovation will be required, mainly for the computer room and the replacement of furnishings. In this regard, a contract to complete the renovations over a period of 16 weeks is in the final stages of being signed. It is expected that the Fund will occupy the new premises by December 2004.

129. The Board expressed its appreciation to the Secretary/CEO for his efforts in this respect and requested, as a matter of urgency, that the United Nations Secretariat offices in charge of the contractual arrangements, the supervision of the renovation work and the procurement of furniture finalize the relocation of the Fund without delay, in order to avoid any additional costs to the Fund.

D. Review of financial and accounting rules as applicable to the Fund

130. The Board reviewed a note submitted by the Secretary/CEO in which justification was provided for the development of a set of financial rules specifically for UNJSPF and for the updating of the Fund's accounting manual, taking into account the United Nations accounting standards.

131. The Secretary/CEO noted that UNJSPF currently used the Financial Regulations and Rules of the United Nations, to the extent they were applicable and relevant to the activities of the Fund, and the UNJSPF Regulations, Rules and Pension Adjustment System, which govern the Fund's operations. However, while providing detailed information regarding contributions and benefits, these documents do not fulfil the function of a set of financial rules. One document is therefore needed, summarizing the financial rules of UNJSPF, to ensure transparency and internal control as regards the processes governing the Fund's activities. The proposed UNJSPF financial and accounting rules will also take into account that the Secretary-General of the United Nations has the fiduciary responsibility to decide on investments of the assets of the Fund.

132. **The CEO/Secretary informed the Board that the UNJSPF financial rules, to become part of the Fund's Administrative Rules, would use the Financial**

Regulations and Rules of the United Nations as a model. The proposed rules will be presented to the Standing Committee in 2005.

133. **The Board approved the recommendation by the Secretary/CEO that the review and approval of the new UNJSPF financial rules be delegated to the Standing Committee in 2005. The Board noted that the financial statements of the Fund for the biennium 2006-2007 could then be based on the new UNJSPF financial rules.**

E. Revised budget estimates for the biennium 2004-2005

134. The Board considered budget submissions made by the Secretary/CEO with regard to the biennium 2004-2005 and decided to approve additional resources in the amount of $5,340,700, as follows:

(a) Funds in the amount of $5,100,000, authorized in the 2002-2003 biennium for renovation work and the purchase of furniture and equipment for the Fund's new office accommodation, were to have been returned as savings to the principal of the Fund, since the necessary obligations could not be made during that biennium without a signed, binding lease for office space. Schedule 1 of the UNJSPF audited financial statements for the biennium 2002-2003, however, reflected an underexpenditure of $4,625,000. Now that a binding lease for 16 years has been signed for appropriate office space, resources in the previously indicated total amount ($5,100,000) are required for construction costs ($3,600,000) and for the acquisition of furniture and equipment ($1,500,000) for the Fund's new office accommodation. The amount requested represents the gross costs, without reference to the possible impact on the net costs borne by the Fund under the UNJSPF/United Nations cost-sharing arrangement;

(b) Implementation of the recommendation to provide for a minimum guarantee at 80 per cent of the United States dollar amount in the Fund's two-track Pension Adjustment System (see para. 182 below) will require additional resources of $142,700 for general temporary assistance, consisting of 13 workmonths of Professional staffing at the P-3/P-4 level and 3 workmonths of General Service staffing. This amount relates to the Fund's two-thirds share and does not include the one-third share, amounting to $71,300, chargeable to the United Nations under the established cost-sharing arrangement;

(c) Implementation of the recommendation to provide for a 0.5 per cent reduction in the current reduction factor of 1.5 per cent in the first pension adjustments otherwise due for existing and future beneficiaries, with effect from 1 April 2005 (see para. 146 below), will require additional resources of $98,000 for general temporary assistance, consisting of 8.5 workmonths of Professional staffing at the P-3/P-4 level and 2.5 workmonths of General Service staffing. This amount relates to the Fund's two-thirds share and does not include the one-third share, amounting to $49,000, chargeable to the United Nations under the established cost-sharing arrangement.

135. **The Board approved the three proposals in paragraph 134 above for additional resources required in the 2004-2005 biennium, in the total amount of $5,340,700, and noted that the revised estimates would then amount to a total appropriation of $41,011,800 for administrative costs for the biennium 2004-**

2005, with no changes requested for investment costs ($43,014,100), audit costs ($1,443,200) and extrabudgetary costs for after-service health insurance ($642,400).

136. **The Board noted that expenses in respect of the working groups, search group and contact group established by the Board would be shared as a Board expense, to be borne on a proportionate basis by the member organizations. The CEO will provide estimates to the staff pension committees, and to the Standing Committee in 2005, on the expenses of each of these groups, estimated in accordance with past practice.**

F. Emergency Fund

137. The Emergency Fund was initially established by the Board in 1973, from voluntary contributions of member organizations, staff associations and individual contributors, to alleviate the distress of recipients of small pensions caused by currency fluctuations and cost-of-living increases. Since 1975 it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

138. The Board reviewed the operations of the Emergency Fund since the submission of the previous report to the Standing Committee, in July 2003, and noted that during the period from 1 May 2003 to 30 April 2004 21 disbursements had been made, totalling $40,313. The amounts disbursed over the two-year period from 1 May 2002 to 30 April 2004 totalled $67,912. Total expenditure from the Emergency Fund since 1975 had reached approximately $979,805. At least half of the cases processed during the reporting period related to medical expenses not reimbursed from any other source; other cases related primarily to reimbursement for nursing or domestic assistance and funeral expenses, to assistance with remodelling a house to accommodate a wheelchair and to the purchase of basic furniture after a fire.

139. The Secretary/CEO provided further information as regards cases currently under review. The Board was also provided with statistical data related to the number of requests by country and region, the age range and type of benefit in payment to beneficiaries requesting assistance and the amounts actually paid, by region. Additional statistics relating to the former employing organizations of those requesting assistance will be included in future reports.

140. **The Board took note of the report submitted by the Secretary/CEO and confirmed that such reports should continue to be submitted on an annual basis, either to the Board or to the Standing Committee.**

141. **On the basis of a previous decision taken by the Board at its fifty-first session, the International Labour Organization (ILO) Staff Pension Committee submitted a proposal to enlarge the scope of coverage of the Emergency Fund. After discussion, the Board recommended that the Fund should review the ILO proposal and prepare a study for the Board on the subject in 2006, with clear indications as to the persons who might be covered, the legal implications, the number of persons who could become eligible and the anticipated cost implications of any such enlargement.**

Chapter VIII
Benefit provisions of the Fund

A. Consideration of the 2002 recommendations of the Pension Board by the General Assembly at its fifty-seventh session

142. The Board considered the resolution on pension issues that had been adopted by the General Assembly in 2002 (resolution 57/286). It was recalled that in 2002 the Board had approved certain recommendations made by the Working Group established to undertake a fundamental review of the benefit provisions of the Fund. The Board had approved the recommendations set out in paragraphs 157 and 158 of the Board's report to the Assembly.[1] The Assembly, in section I, paragraph 4, of its resolution 57/286, approved,

> "in principle, the changes in the benefit provisions of the Regulations of the Fund, as set out in annex XIV to the report of the Board, that would eliminate the limitation on the right to restoration for existing and future participants, with implementation to begin at such time as the actuarial valuation of the Fund shows a clear upward pattern of surpluses".

143. In section II, paragraph 2, of the same resolution, the General Assembly also approved,

> "in principle, the changes in the pension adjustment system, as set out in annex XIII to the report of the Board, with implementation to begin when the actuarial valuation of the United Nations Joint Staff Pension Fund shows a clear upward pattern of surpluses, namely:
>
> (a) To apply cost-of-living adjustments to deferred retirement benefits as from age 50;
>
> (b) To apply cost-of-living differential factors to deferred retirement benefits as from the date of separation".

In section II, paragraph 3, of that resolution, the Assembly noted

> "that the Board approved the recommendation of the Working Group to eliminate the 1.5 percentage point reduction in the first consumer price index adjustment due to existing and future beneficiaries, subject to an actuarial surplus being revealed in the actuarial valuation to be performed as at 31 December 2003".

144. The full report of the Working Group was made available to all members of the Board. In addition, the relevant recommendations of the Board, as transmitted in its report to the General Assembly in 2002,[1] were provided, together with the relevant excerpt from resolution 57/286.

145. The Board noted that the actuarial valuation performed as at 31 December 2003 revealed a surplus of 1.14 per cent of pensionable remuneration, which was the Fund's fourth consecutive surplus. It further noted that the current surplus was lower than the 2.92 per cent surplus revealed in the valuation as at 31 December 2001 and that the Committee of Actuaries cautioned a prudent approach in any use of the 1.14 per cent surplus.

146. The Board also reviewed a note prepared by the Secretary/CEO regarding the General Assembly resolution, in the light of previous discussions at the 186th meeting of the Standing Committee. **Taking into consideration the latest actuarial valuation, which showed a surplus as at 31 December 2003, and the reports of the consulting actuary and the Committee of Actuaries, the Board decided to:**

(a) **Recommend a phased approach to the elimination of the 1.5 per cent reduction in the first CPI adjustments due under the UNJSPF Pension Adjustment System to benefits in award;**

(b) **Recommend, as a first step, that the reduction rate be reduced from 1.5 per cent to 1 per cent, with effect from 1 April 2005;**

(c) **Recommend, with effect from 1 April 2005, that a 0.5 per cent increase be applied on the occasion of the next adjustments to the benefits in payment to existing retirees and beneficiaries who have already had the 1.5 per cent reduction applied to their benefits;**

(d) **Address in 2006, subject to a favourable actuarial valuation as at 31 December 2005, the possible total elimination of the balance of the 1.5 per cent reduction and, on an equal footing, the possible elimination of the limitation on the right to restoration based on length of prior service.**

147. To implement the decisions of the Board described in paragraph 146 above, effective 1 April 2005 the following provision would be added to the present paragraph 20 of the UNJSPF Pension Adjustment System:

> **"Effective 1 April 2005, the reduction in the initial adjustments due after separation shall be by 1 percentage point; with respect to benefits to which the 1.5 percentage point reduction was applied before 1 April 2005, there shall be a 0.5 percentage point increase in the first adjustment due on or after 1 April 2005."**

148. Regarding the other items referred to in General Assembly resolution 57/286 (i.e., application of the cost-of-living differential factor to deferred retirement benefits as from the date of separation and application of the cost-of-living adjustments to deferred retirement benefits as from age 50), the Board recommended that they be considered as priority items at its next session in 2006, with due caution as regards the actual and future actuarial position of the Fund.

149. **In recommending the lowering of the reduction rate from 1.5 to 1 per cent, the Board noted that the modification would have an estimated actuarial cost of 0.15 per cent of pensionable remuneration. The Board also recalled that its recommendation for an adjustable minimum guarantee for benefits payable on the two-track system of adjustment (see para. 182) would have an estimated actuarial cost of 0.005 per cent of pensionable remuneration.**

B. Purchase of additional years of contributory service

150. The Board considered notes by the consulting actuary and the Secretary/CEO in a follow-up to the review by the Board in 2002. As the Board recalled, it was in the final report of the Working Group charged with a fundamental review of the benefit provisions of the Fund that a recommendation had been made concerning a

possible new provision for the purchase of additional years of contributory service, at no actuarial cost to the Fund.

151. At its session in 2002, the Board noted the practical and technical difficulties involved in applying the condition that any such purchase would not have costs to the Fund and requested the Secretary/CEO to consult with the Committee of Actuaries and to report to the Standing Committee in 2003 on a reformatted proposal for the purchase of added years of contributory service. The provisions would need to be clearly defined and entail no actuarial cost.

152. The Standing Committee agreed in 2003 that the complexities associated with the purchase of additional years of service could be mitigated somewhat if the "no cost to the Fund" requirement were to be interpreted to include some minimal potential costs and if certain restrictions to the purchase were to apply. In this context, the Standing Committee requested the Committee of Actuaries to make suggestions, which would be presented to the Board in 2004.

153. The Board took into account a note prepared by the consulting actuary, which outlined three possible approaches to providing participants with the opportunity to increase their retirement benefits:

(a) Purchase of a fixed annuity;

(b) Purchase of additional years of contributory service, with certain applicable restrictions to alleviate some of the practical and technical difficulties of ensuring that the purchase cost is reasonably equitable for all participants;

(c) Purchase of additional years of contributory service without restrictions, the purchase cost of which would reflect the specific individual circumstances of each potential purchaser and the prevailing economic environment at the time of purchase.

154. The note reviewed the types of restrictions that could be applied to the purchase of additional years of contributory service to ensure that such purchase would have minimal potential cost to the Fund, and also provided illustrations of the cost involved to Fund participants. The note described the following restrictions, which would ensure that the cost charged for the purchased years would be reasonably equitable for all participants:

(a) The purchased years would not count for purposes of determining a participant's early retirement factor;

(b) The purchased years would not count for purposes of determining eligibility to receive a UNJSPF pension;

(c) The purchased years would not count for purposes of determining the amount of any withdrawal settlement.

155. The Board noted that the Committee of Actuaries, in its report dealing with this matter, agreed that if the restrictions outlined in paragraph 154 above were included, it would be feasible to proceed with the development of provisions for the option to purchase added years. The Committee of Actuaries also agreed that, except as provided by these restrictions, the Fund's established benefit structure could apply to the benefits derived from the purchase of additional years of contributory service.

156. The Board noted further that the Committee of Actuaries had not supported either the purchase of a fixed annuity from the Fund or the purchase of additional years of contributory service without any restrictions.

157. The note by the consulting actuary reviewed the administrative framework that would have to define clearly the conditions under which Fund participants would have the option to purchase additional years of service. The Committee of Actuaries agreed that, from an administrative perspective, the following conditions would apply:

(a) To protect the Fund against anti-selection, participants who elected to purchase additional years of service would have to make their purchase within a specified time interval after joining the Fund (similar to the case of time-sensitive election requirements applicable to transfer agreements). Thus, participants electing to purchase additional years of contributory service would be making a long-term investment, which would be in keeping with the collective nature of the Fund;

(b) The number of years any participant could purchase would be limited to, for example, a maximum of 3 years;

(c) The purchase of additional years of contributory service could be exercised only once during a participant's career.

158. Concerning the actuarial assumptions and methods that would need to be used for calculating the purchase costs, the Committee of Actuaries agreed that, for practical and administrative reasons, the costs could be calculated on the basis of the economic and demographic assumptions used to prepare the most recent regular actuarial valuation of the Fund, with the following exceptions:

(a) Retirement — at normal retirement age (60 or 62);

(b) Marital status — all participants would be assumed to be married, with wives five years younger than their husbands.

159. The Committee of Actuaries reviewed illustrative cost estimates prepared by the consulting actuary. On the basis of its discussions, the Committee was of the view that a single set of purchase rates might be used for males and females in both the Professional and the General Service categories. However, the purchase costs would be different for participants depending on whether their normal retirement age was 60 or 62.

160. The Committee of Actuaries noted the sensitivity of the purchase costs if other actuarial assumptions were adopted for these purposes, particularly changes in the underlying economic assumptions. The Committee also stressed that the illustrative costs calculated by the consulting actuary did not include a margin for the cost associated with allowing participants to elect to have their purchased benefit paid in accordance with the two-track adjustment system, or for any other potential anti-selection risk against the Fund. The Committee agreed that if a new provision for the purchase of additional years were adopted, the purchase rates, as finally implemented, would have to include such a margin.

161. The Committee of Actuaries also discussed the question of giving current Fund participants a one-time option to purchase additional years of service. The Committee noted that the Working Group's report dealt primarily with such purchases by new participants. The Committee discussed the increased risks of anti-

selection and the resulting difficulties of ensuring minimal cost to the Fund if current participants were also provided such an opportunity; those risks called for the need to take greater account of current interest rates than might be necessary if only future participants were provided with the option. The Committee agreed that it would not comment at this time on the possibility of also allowing current participants the option to purchase additional years of service.

162. During its discussions, the Committee of Actuaries noted that if a new provision for the purchase of additional years were implemented, the Fund would experience a significant increase in the related administrative workload. From an administrative perspective, the burden would likely be particularly heavy in regard to handling enquiries from participants interested in the possibility of such purchases, many (or most) of whom might not actually make such a purchase. There would also be significant resource and systems-development issues, since the pool of potential purchasers would be large (in theory, all future participants).

163. The Board considered a note by the Secretary/CEO that reviewed the administrative issues associated with the purchase of additional years of service. The note informed the Board of the complexity of implementing any of the purchase options, including the extensive programming changes required across all computer systems (participants, benefits, payments and accounts) and the additional temporary assistance and established posts to handle the extra work.

164. The note contained a checklist that indicated the key components of the work required to implement an option to allow for the purchase of additional years of service. Upon clarification of the purchase option that the Board may decide to support, the Secretary/CEO could submit detailed resource requirements. In view of the extensive work required to reprogram and test the systems, implementation of the purchase option would be scheduled for 1 January 2007.

Decisions of the Board

165. The Board considered the note prepared by the consulting actuary, the relevant portion of the report of the Committee of Actuaries and the note by the Secretary/ CEO on the associated administrative issues and costs. The Board noted the proposed restrictions that would apply to the purchase of additional years of service to ensure that there would be minimal potential cost to the Fund. Some members of the Board noted that the administrative costs associated with the new option, both initial and ongoing, would need to be taken into account to satisfy the requirement of minimal potential cost to the Fund. This would mean that interested Fund participants would be required to pay, at least in part, for those administrative costs.

166. The Board agreed to keep under consideration the option of purchasing additional years of service, subject to the restrictions outlined in paragraph 154 above. The Board agreed that the number of years any participant could purchase would be limited to three and that the purchase of additional years could be exercised only once during a participant's career.

167. **The Board requested the Secretary/CEO to consult with the Committee of Actuaries and to report to the Standing Committee in 2005 on the purchase rates, including margins for the cost associated with allowing current and future Fund participants to elect to have their purchased benefit paid in accordance with the two-track adjustment system, or for any other potential**

anti-selection risk against the Fund, which would be adopted for these purposes.

168. The Board also requested the Secretary/CEO to submit to the Standing Committee detailed resource requirements for implementing the purchase option, with applicable restrictions, in his budget proposals for the biennium 2006-2007. That study would also need to examine how the administrative costs would be allocated to interested participants and how the Fund might endeavour to recover the associated systems-development costs.

169. The Board also noted information provided by the Secretary/CEO with respect to the possible purchase by part-time Fund participants of UNJSPF contributory service at the full-time rate.

C. Residual settlements

170. The Board considered the subject of residual settlements on the basis of a note, prepared by the Fund secretariat at the request of the Standing Committee, regarding a proposal presented by the ILO Staff Pension Committee to expand the scope of the current provisions of article 38 of the UNJSPF Regulations. Article 38 guarantees that in no case would the Pension Fund pay out total benefits to, or on account of, a former Fund participant that would be less than the former participant's own contributions to the Pension Fund.

171. **After extensive discussion, the Board requested the Secretary/CEO to prepare for the Board in 2006 a study that would consider expanding the scope of the current provisions of the Regulations dealing with residual settlements under article 38, with actuarial cost estimates for the following possible ranges to define the amount of the potential residual settlement:**

(a) **The participant's own contributions, plus the employing organization's contributions;**

(b) **Equal to the withdrawal settlement (article 31 of the UNJSPF Regulations);**

(c) **Equal to 75 per cent of the withdrawal settlement;**

(d) **Equal to 50 per cent of the withdrawal settlement.**

D. Adjustment of pensions after award

172. It was recalled that in 2002 the Board had requested the Secretary/CEO to undertake a review of a problem concerning the adjustment of pensions after award. This request was made on the basis of a report by a Working Group of the Board in which a review of the two-track system of adjustment revealed a specific problem caused by steep depreciation in the value of the local currency against the United States dollar. Following his review, the Secretary/CEO confirmed that steep currency declines could have adverse effects on benefits being paid under the two-track system, if such declines were not accompanied by timely and offsetting adjustments for inflation. It was found that such occurrences could result in two problems, namely:

(a) **In some cases reviewed, the amounts payable could be as low as 30 per cent of the United States dollar-track amount that would have been received by a retiree or beneficiary had he or she remained solely on the dollar track;**

(b) **Retirees who separated many years ago may receive significantly smaller benefit payments than do recently retired retirees, notwithstanding the fact that their careers, years of service and age at separation might be identical.**

173. As retirees in South America had been expressing similar concerns to those cited by the Working Group, and as the Federation of Associations of Former International Civil Servants (FAFICS) and its member associations had provided input for the review, the Secretary/CEO agreed to visit retiree associations in Argentina, Uruguay and Brazil. Recognizing the seriousness of the twofold problem, the Secretary/CEO agreed that a solution should be found that would provide a reasonable level of protection in United States dollar terms. Notwithstanding the fact that the two-track system of adjustment is intended to protect the local-currency-track amount of a benefit, the Secretary/CEO concluded that the benefit amount should not be allowed to decrease to a point where a retiree or beneficiary on the two-track system might receive only a small portion of the amount that he or she would otherwise have been entitled to receive.

174. The Board noted that the search for solutions had first centred on the provisions available under paragraph 26 of the Pension Adjustment System. That provision allows for suspension of the local track when the results of applying the two-track system are aberrant and when there is substantial depreciation in the local currency combined with non-existent or inconsistent information on the country's CPI. However, it does not define what level of depreciation might be considered substantial or what information on CPI might be considered inconsistent. While there could be cases where the answer is clear (especially when no official CPI has been available for a country for many years), the situation is usually quite complex when regular CPI data are provided and/or when retirees in a given country are affected differently. It was also recognized that after the decision is made to suspend the local track for a specific country, the question will arise as to when the suspension may be lifted. On the basis of his review, the Secretary/CEO found that the provisions of paragraph 26 did not provide a solution to the currency depreciation problems being experienced in the countries examined.

175. Under the circumstances, the Secretary/CEO focused on the need to provide for a more meaningful minimum guaranteed amount that would apply to all benefits and would be set at a certain level of the United States dollar-track amount. He concluded that an adjustable minimum guarantee would provide the most equitable and workable solution to the problems identified. After giving full consideration to the implications, including the estimated actuarial costs, the Secretary/CEO concluded that the most appropriate level of protection would be at about 80 per cent of the dollar-track amount.

176. The Board also had before it a note prepared by the consulting actuary that reported on the estimated actuarial cost implications (or loss of savings) of the proposal made by the Secretary/CEO. Provision for an adjustable minimum guarantee would modify the current two-track system of adjustment, the cost of which was explicitly recognized in the periodic actuarial valuations at 1.9 per cent of pensionable remuneration. The consulting actuary had noted that if the proposed

modification were adopted, there would be no need to adjust the estimated cost of the two-track system currently reflected in the actuarial valuations, because the costs associated with the modification were minimal and would easily fall within the estimated long-term cost range of the system as a whole. **The consulting actuary estimated the actuarial costs at 0.005 of pensionable remuneration in respect of providing an adjustable minimum guarantee at the 80 per cent level.**

177. The Board noted that the Committee of Actuaries supported both the general findings of the review carried out by the Secretary/CEO and the analysis provided thereon by the consulting actuary. In its report, the Committee of Actuaries also noted that the proposal for an adjustable minimum guarantee was reasonable and would fit into the Fund's existing plan design. Recognizing that there was a need to strike a meaningful balance, the Committee of Actuaries concluded that the 80 per cent level proposed appeared to be sound and merited support.

178. The Board also considered a note by the Secretary/CEO containing information on the administrative implications for the Fund if the Pension Adjustment System were to provide for an adjustable minimum guarantee. It noted that implementation of such a provision would require additional resources, at an estimated cost of $214,000.

Discussions in the Board

179. The Board noted the complexity of the issue before it. It also recalled that the purpose of the two-track system of adjustment was (a) to ensure that, subject to the cap provision, a periodic benefit payable by the Fund would never fall below the real value of its United States dollar amount and (b) to preserve the benefit's purchasing power, as initially established in the currency of the recipient's country of residence. The Board further noted that the Pension Adjustment System was operating well in at least 95 per cent of cases. In addition, it recognized that in the small percentage of cases in which the cap provision was having an adverse effect, the system was being administered fully in accordance with the provisions approved by the General Assembly.

180. Some members of the Board felt that beneficiaries experiencing the adverse effect of the system had made bad choices, either with full and prior understanding of the implications of their choices or as a result of not having been fully informed as to the operation of the two-track system; they questioned whether the Fund should provide any protection against what ultimately turned out to be a bad choice. Concerns were also expressed as to the potential increase in the utilization rate of the two-track system if the proposal for a guaranteed adjustable floor were to be approved.

181. The consulting actuary noted that the cost estimates for the proposal were based on data extracted from the December 2003 payroll and therefore reflected the then-prevailing two-track adjustment system utilization and exchange-rate relationships. Based on the data examined, the actuarial cost implications of the proposed modification were relatively minimal. Although the data were based on a limited period, the actuarial cost of the proposed modification was not material when considered against the total liabilities in the valuation model.

Decision of the Board

182. **The Board decided to recommend that paragraph 23 of the UNJSPF Pension Adjustment System be amended to provide for an adjustable minimum guarantee at 80 per cent of the United States dollar-track amount, to become effective as from 1 April 2005, on a prospective basis only.**

183. The Board also had before it a note prepared by the ILO Staff Pension Committee regarding the effects of variations in local taxation systems on the UNJSPF pension adjustment mechanisms, which should be addressed during the forthcoming review of pensionable remuneration (see paras. 192-199 below).

E. Divorced spouses: experience review

184. At the session of the Board in July 2002, the Secretary/CEO was requested to report to the Board at its next session on experience with regard to actual requests received for payment of divorced surviving spouse's benefits pursuant to article 35 bis of the Fund's Regulations. As the article had been in effect, in its present form, only since 1 April 2001, and thus there had been only a limited number of cases (the total number of benefit payments to date under articles 35 bis and the related articles 35 ter and 45 was reported to the Board), the Secretary/CEO believed that there was as yet no sufficient basis for drawing any definite conclusions.

185. On this issue, FAFICS proposed to the Board certain changes to the benefit provisions concerning divorced spouses as found currently in article 35 bis. While some members of the Board expressed support for the FAFICS proposals, the Board was not in a position to reach any substantive decisions on the issues raised by FAFICS.

186. **After its discussion, the Board decided that the whole issue of family benefits arising from the UNJSPF Regulations should be reviewed. The Fund secretariat was requested to present to the Board at its next session a study of all benefit provisions in respect of family members or former family members, including children, which would also include a review of the proposals made by FAFICS, together with the financial implications of any suggested changes to the relevant articles of the Fund's Regulations. It was also proposed that this study should include the possibility of reducing the 10 years of marriage now required under article 35 bis (b) (i) to 5 years.**

F. Methodology for the calculation of final average remuneration

Background

187. The Board considered a note by the Secretary/CEO prepared in follow-up to the five previous reviews by the Board since 1994 on the procedures for determining final average remuneration. There had been no consensus at past Board sessions for changing the current procedures for establishing final average remuneration. At its 2002 session, the Board considered a note prepared by the Secretary/CEO following the Working Group's suggestion to examine two alternatives to the current methodology (best 36 months of pensionable remuneration over the last 5 years of contributory service), i.e. using the best 36 months over the last 8 or 10 years of service. In 2002 the Board requested the Secretary/CEO to continue to study all

possible means to redress aberrations in the levels of initial pensions and in income replacement ratios over time in certain duty stations, and to report to the Board when feasible; those concerned with the issue were invited to submit their suggestions to the Fund secretariat.

Current review

188. The note by the Secretary/CEO answered two questions raised by members of the Board. Firstly, the note confirmed that a device was already in place to protect General Service pensionable remuneration in the event of a reduction in its value following the introduction of new local salary scales. Secondly, the document showed that even though the current final average remuneration methodology can generate some temporary excesses in the level of income replacement ratios due to currency devaluations, statistical data do not reflect a correlation between drops in the value of the local currency and increases in the number of early retirements.

Discussions in the Board

189. During the discussion in the Board, regrets were expressed that the actuarial cost estimate of the proposed solution, whereby the participant's initial pension would be guaranteed not to be lower than what the Fund participant would have received had he or she separated upon reaching the age of early retirement, was not provided for the consideration of the Board. The view was also expressed that the Board should refrain from incurring any further additional cost in pursuing the study, and conducting any actuarial evaluation, of a measure that may not resolve the perceived problem and would generate undesired effects on income replacement ratios at this time. Some speakers expressed support for the Secretary/CEO's recommendation that, since the current final average remuneration methodology generally met its objective of securing an adequate income replacement ratio, no changes should be made. Several Board members expressed support for the proposal that initial pensions should not be lower than what the participant would have received upon reaching the age of retirement. In order to properly assess this proposal, further analysis of the issue was called for.

Decisions of the Board

190. The Board suggested that the problem, which had already led to six successive studies, should be redefined in its nature, scope and undesired effects to be addressed, for inclusion in the terms of reference of the joint group being established by ICSC and the Board for the current comprehensive review of pensionable remuneration. The review should be aimed at identifying possible alternative solutions through the determination of pensionable remuneration. Such measures should be aimed at providing protection at a specific threshold, with appropriate caps based on (a) initial pension entitlements and (b) income replacement ratios.

191. **The Board requested the Secretary/CEO to prepare, for the 2005 meeting of the Standing Committee, a study containing an actuarial cost assessment of the proposed early retirement protection measure, together with information on both the positive features and the anomalies that could arise as a consequence of the proposed measure, particularly with regard to differences in the initial**

pension entitlements between age 55 and the actual retirement age, and to the income replacement ratios over time.

G. Comprehensive review of pensionable remuneration

192. The Board considered the subject of the comprehensive review of pensionable remuneration on the basis of background information provided by the Fund secretariat, which contained (a) the relevant extract from the draft report of ICSC on its spring 2004 session, reflecting its discussion of, and proposal for, close cooperation with the Pension Board in the comprehensive review of pensionable remuneration; and (b) a note prepared by the ICSC secretariat on its review of the common scale of staff assessment. The consideration also included a videoconference with the ICSC secretariat in New York.

193. The Board reviewed the timetable and working methodology proposed by ICSC for its required close cooperation with the Pension Board in the conduct of the current comprehensive review of pensionable remuneration and consequent pensions for all common system staff.

194. **After extensive discussion, the Board decided to propose adding a number of items to the list of issues that ICSC had already marked for analysis and study during the comprehensive review and to propose specific modalities and a complete, detailed timetable for carrying out the work, as set out below.**

1. Possible additions to terms of reference for the comprehensive review

195. **In addition to the issues identified by ICSC at its fifty-eighth session, the Board decided to inform the Commission that the following matters should also be covered during the current comprehensive review of pensionable remuneration:**

(a) **Non-pensionable component;**

(b) **Double taxation;**

(c) **Reverse application of the special index for pensioners (at high-tax locations);**

(d) **Impact of steep devaluation of local currency and/or high inflation.**

196. **The Board also noted that a number of important technical issues required close attention during the comprehensive review of pensionable remuneration, including:**

(a) **Monitoring of income replacement ratios;**

(b) **Comparability of UNJSPF (a defined-benefits pension plan) with the United States Federal Employees Retirement System plan, which is essentially a defined-contributions pension plan;**

(c) **The possible impact on pensionable remuneration and pensions of the ongoing pay and benefits review.**

2. Modalities for the required close cooperation between the Pension Board and the International Civil Service Commission in the comprehensive review

197. **The Board also decided to propose to ICSC the following timetable and framework for the actual, practical implementation of the required close cooperation between the Pension Board and ICSC:**

(a) *Fall 2004 and winter 2004-2005.* Collaborative preparation by the secretariats of ICSC and the Pension Board of the detailed documentation and data on all relevant substantive and technical issues, based on the agreed terms of reference. The UNJSPF secretariat will maintain close interaction with a contact group of the Board, composed of the officers elected at its fifty-second session, in July 2004, and that group will then communicate on a regular basis with the three constituent groups on the Board and FAFICS;

(b) *Spring 2005.* Preliminary review, at the spring 2005 session of ICSC, of the substantive and technical documentation and data prepared by the two secretariats. It is expected that the contact group will be invited to attend that session;

(c) *July 2005 (before the summer 2005 session of ICSC).* Consideration by the Standing Committee of the documentation and data prepared by the two secretariats and of the preliminary review of the subject at the spring 2005 session of ICSC; decision on behalf of the Pension Board on the establishment, composition and membership (from the Board side) of the formal joint ICSC-Pension Board Working Group;

(d) *July 2005 (after the July 2005 meeting of the Standing Committee).* Consideration of the subject at the summer 2005 session of ICSC and agreement by ICSC at that time on the full, actual membership (from the ICSC side) of the joint ICSC-Pension Board Working Group;

(e) *August 2005-spring 2006.* Meetings, as required, of the joint ICSC-Pension Board Working Group;

(f) *Summer 2006.* At their respective summer 2006 sessions, the Pension Board and ICSC prepare reports and recommendations on the comprehensive review, for transmission to the General Assembly in fall 2006;

(g) *Fall 2006.* Consideration by the General Assembly of the comprehensive review of pensionable remuneration.

198. **The Board requested that its conclusions and decisions be communicated officially to ICSC during the summer 2004 session of ICSC.**

199. **With regard to the review of the common scale of staff assessment, the Pension Board took note of the conclusion of the ICSC secretariat that the current scale should continue to be applied in the determination of pensionable remuneration for all Fund participants, until its further examination in the context of the comprehensive review of pensionable remuneration.**

Notes

[1] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9).

Chapter IX
Other matters

A. Report of the Working Group reviewing the size and composition of the Pension Board and the Standing Committee

200. Following extensive discussions in 2002 concerning its size and composition, the Board agreed to recommend to the General Assembly that the membership of the Board be increased from 33 to 36, without any corresponding increase in the number of alternates. It further agreed to consider establishing, in the future, a requirement that a minimum number of Fund participants be maintained in order for an organization to retain a seat on the Board. In addition, the Board agreed that the size and composition of the Standing Committee should be maintained in accordance with the arrangements that it had agreed to in 2000. The Board made these recommendations with the understanding that further consideration would be given to the specific criteria applied since 1987 in the determination of its size and composition. It was also agreed that an examination would be undertaken to ensure that the Board would be truly representative of the membership of the Fund.

201. The General Assembly, however, did not approve the recommendation to increase the size of the Board. Instead, the Assembly, in section VII, paragraph 2, of its resolution 57/286, requested the Board

> "to study the representation of the Fund's member organizations on the Board, so as to clarify the criteria adopted for that purpose, and to submit further proposals to the General Assembly at its fifty-ninth session, with a view to making such representation more equitable in order to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, the changing nature of the Fund's member organizations and improved participation by members and alternate members in the Committee and Board meetings".

202. During its meeting in 2003, the Standing Committee took note of the action taken and request for a further review by the General Assembly. In order to assist the Board in its deliberations, the Committee decided to establish a Working Group to carry out a separate review; the Working Group met twice in the period 2003-2004 and prepared a first report on its findings and recommendations, which was presented to the Board in 2004.

Decision of the Board

203. **The Board, after careful consideration of the Working Group's report and related issues, thanked the Working Group for the work carried out to date. It also requested that the Working Group study further the issues involved, together with the additional information that emerged during the session of the Board.**

204. **The Board requested the Working Group to:**

(a) **Define a set of core principles needed to ensure a balanced, equitable and representative tripartite Board;**

(b) Analyse new trends, tendencies and best practices of effective governance bodies of comparable public sector pension funds, specifically the size of their boards;

(c) Study the implications of retirees' membership on the Board and Standing Committee within the tripartite structure;

(d) Review and propose alternative methods of representation and participation on the Board and Standing Committee, including the distribution of seats among the three constituencies;

(e) Further examine elements of the efficiency, effectiveness and working methods of the Board;

(f) Present various options for the size and composition of the Board and Standing Committee, including retaining the status quo.

205. **In carrying out its mandate, the Board requested that the Working Group bear in mind all the issues and positions discussed at the 2004 meeting of the Board.**

206. **The Working Group was requested to present a progress report to the Standing Committee in 2005 and a full report to the Board in 2006.**

207. **The composition of the Working Group is as follows:**

Governing bodies	**J. Larivière (WHO)** **V. González Posse (United Nations)** **T. Repasch (United Nations)**
Executive heads	**D. Macdonald (ILO)** **T. Panuccio (IFAD)** **J. Pozenel (United Nations)**
Participants	**J.-V. Gruat (ILO)** **J.-M. Jakobowicz (United Nations)** **C. Pichon (WHO)**
FAFICS	**J.-J. Chevron** **G. Saddler** **W. Zyss**

208. Temporarily, and pending final agreement on the size and composition of the Board and of the Standing Committee, the Board agreed to modify the composition of the Standing Committee by the addition of one further alternate member, drawn from the members of the United Nations Staff Pension Committee elected by the General Assembly. Pursuant to this agreement, the total number of alternate members of the Standing Committee from the General Assembly was increased from two to three. The number of members of the Standing Committee from the General Assembly remained at two.

209. As a consequence of the decision to change from two to three the number of alternate members of the Standing Committee drawn from the members of the United Nations Staff Pension Committee elected by the General Assembly, the Board approved an amendment to rule B.1 of the UNJSPF Rules of Procedure by which the following will be inserted as a new second sentence (with the current second sentence becoming the third sentence):

"Notwithstanding the foregoing, a total of three alternate members of the Standing Committee shall be elected by the Board, from the members of the United Nations Staff Pension Committee elected to represent the United Nations General Assembly on that Committee."

210. The Board considered suggestions for organizing more effectively the agenda for and limiting the length of sessions of the Board. Proposals were also made for the streamlining of documentation that was prepared for the Board and for introducing limitations on the presentation or introduction of such documentation. There was general agreement in the Board that these reforms would serve to make the Board both more efficient and more effective.

B. Transfer agreements

1. Transfer agreement between the United Nations Joint Staff Pension Fund and the Provident Fund of the Organization for Security and Cooperation in Europe

211. The Secretary/CEO presented to the Board the draft text of a revision to the transfer agreement concluded two years ago between UNJSPF and the Provident Fund of OSCE.

212. The Board had requested, at the time when the one-way transfer agreement with the Provident Fund of OSCE was approved in 2002, that the Fund secretariat negotiate a two-way agreement that would also cover the movement of staff from UNJSPF to the Provident Fund. Currently coverage is limited to staff who transfer from the Provident Fund to UNJSPF.

213. **The Board approved, subject to the concurrence of the General Assembly, the revised transfer agreement between UNJSPF and the OSCE Provident Fund, set out in annex IX, which would supersede, effective 1 January 2005, the current one-way transfer agreement between the two pension plans.**

2. Other possible transfer agreements

214. The proposed transfer agreement with WTO was a result of renegotiation of the existing outer-circle type transfer agreement between UNJSPF and the WTO Pension Plan. This was possible because the provisions of the two plans were substantially similar in most important respects. The Committee of Actuaries, at its June 2004 meeting, concluded that the draft agreement incorporated provisions that took appropriate account of the differences between the plans, so that the determination of the credited periods of contributory service and the calculation of transfer values would be equitable and appropriate for both.

215. The Board was also informed of the advanced stage of discussions by the Fund secretariat with other intergovernmental organizations (including the Universal Postal Union, the Coordinated Organizations, the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization and one or two more), with a view to concluding new, bilateral, outer-circle type transfer agreements between UNJSPF and these organizations. To this effect, the secretariat requested confirmation from the Board that it was, in principle, in favour of the conclusion of such additional bilateral, outer-circle agreements. The Board was advised that such new agreements would, in their substantive provisions, follow, as appropriate, the substantive provisions of the bilateral agreements already concluded by the Pension

Fund, with the agreement of the Board, with (a) organizations that had only provident funds (model: the revised UNJSPF-OSCE transfer agreement); and (b) organizations that had a defined-benefit plan (model: UNJSPF-Eurocontrol transfer agreement).

216. Some Board members expressed reservations with regard to giving advance authorization to the Fund secretariat to finalize new bilateral agreements currently under negotiation. Others welcomed these developments and also encouraged the Fund secretariat to enter into discussions with any interested organization, with the aim of negotiating additional transfer agreements and thereby facilitating staff mobility. The Fund secretariat clarified that pre-authorization was sought only in respect of agreements that were presently at a very late stage of negotiations with the organizations referred to in paragraph 215 above; should there be any deviation from the provisions of the model agreements cited, the Fund secretariat would not present them to the General Assembly for its concurrence in fall 2004.

217. **The Board decided to approve the proposed new transfer agreement between UNJSPF and the WTO Pension Plan, set out in annex IX, subject to the concurrence of the General Assembly, to replace and supersede, effective 1 January 2005, the Pension Fund's existing agreement with WTO. In addition, the Board authorized the Secretary/CEO to finalize the agreements currently under negotiation with the Universal Postal Union, the Coordinated Organizations, the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization and possibly one or two other organizations, provided that each of the agreements followed, in all substantive respects, the models of the Fund's recently approved transfer agreements. The Fund secretariat will report to the Standing Committee on the status of these additional agreements.**

218. **The Board also requested that the Fund secretariat report on a regular basis on the functioning of the Fund's transfer agreements in order for the Board to monitor their application in practice. The Board further decided that future transfer agreements negotiated by the Fund secretariat should include a stipulation for regular reporting by the parties, to their respective supervisory organs, on the application of the transfer agreement.**

C. The Global Compact and the Fund: proposed guidelines

219. The note on the subject of the Global Compact and the Fund, presented by the Secretary/CEO with the concurrence of the Representative of the Secretary-General for the Investments of the Fund, proposed to integrate the goals of sustainable development and the principles of the Global Compact in the Fund's long-term plans and day-to-day operational activities, as well as within the investment decision-making process. The note outlined the importance of an ongoing review of the benefit structure and of the Fund's funding position in order to avoid shifting the burden of any underfunded prior liabilities and commitments to future generations.

220. The note also presented possible actions, such as a regular management review of the Fund's operating processes, in particular those concerned with social and environmental issues, in reference to the goals and principles of the Global Compact.

221. Finally, as regards socially responsible investing, the Investment Management Service and its staff would incorporate a commitment to a sustainable-development investment approach while producing economic returns to finance the pensions of current and future participants in the Fund. In its discussion, the Board recalled that the Global Compact and sustainable-development policies were being promoted by the United Nations. It recalled that the Working Group established in 2000 had done a comprehensive review of the UNJSPF benefit structure and submitted a report to the Board that contained a number of proposals with short-, medium- and long-term horizons, forming a solid basis for the responsible governance of the Fund in the long term. The Board also expressed appreciation for the various initiatives of the Fund's management, including the proactive, coordinated and successful actions undertaken by the Fund's Office in Geneva to promote a mobility plan based on public transportation and to make greater use of recycled paper and energy-saving equipment. The Board's discussion on responsible investing focused on best practices, corporate governance principles and information gathered by Investment Management Service asset managers on environmental and social issues relevant for their ongoing analysis of risks within the decision-making process. It appreciated the commitment to a sustainable-development investment approach together with the objective of protecting economic returns for the benefit of the current and future participants in the Fund. The Board also recalled that all of the Fund's investments were subject to the established criteria of safety, profitability, liquidity and convertibility.

222. **The Board approved the proposed approach aimed at integrating the goals of sustainable development and the principles of the Global Compact into the Fund's operating processes and investment policies. It requested that periodic reports be provided on the status of implementation with regard to investment policies.**

D. Possible applications for membership in the Fund

1. Inter-Parliamentary Union

223. The Board considered the application by IPU to become a member organization of the Pension Fund. The Secretary-General of IPU had informed the Fund secretariat that the Executive Committee, which had full legal authority to act for IPU, would be meeting in Geneva in September 2004 to take the required action on behalf of IPU to satisfy the conditions for UNJSPF membership, as set out in article 3 of the Fund's Regulations. Given that the meeting in question would take place only after the session of the Board, the matter was brought to the attention of the Board in 2004, with the objective of completing the admission process for IPU by the end of the year. The process would require (a) an affirmative recommendation to that effect from the Board to the General Assembly, (b) confirmation by the Fund's Secretary/CEO to the General Assembly in fall 2004, after consultation with ICSC, that all the necessary conditions for admission had been duly met by IPU and (c) the General Assembly's definite decision on the admission of IPU.

224. **The Board decided to make an affirmative recommendation to the General Assembly that IPU be admitted to UNJSPF membership, effective 1 January 2005, subject to the Fund's Secretary/CEO confirming to the**

General Assembly, before the latter took a decision on the subject in fall 2004, that IPU fully satisfied all conditions for UNJSPF membership.

2. International Organization for Migration and International Commission for the Conservation of Atlantic Tunas

225. In addition, authorization was sought from the Board for the Standing Committee to consider, in summer 2005, applications for UNJSPF membership that IOM and ICCAT may submit before that date and, if warranted, to make in each case the required affirmative recommendation to the General Assembly.

226. **The Board decided to authorize the Standing Committee to consider, in summer 2005, applications for UNJSPF membership from the International Organization for Migration and the International Commission for the Conservation of Atlantic Tunas that may be received before June 2005 and to make, if warranted, affirmative recommendations thereon to the General Assembly in fall 2005.**

E. Date and venue of the fifty-third session of the Pension Board, in 2006

227. **The Board accepted the invitation of the United Nations to host the Board's fifty-third session, in 2006, at the United Nations Office at Nairobi. It also agreed that the duration of the next session of the Board would be reduced.**

Meeting of the Standing Committee in 2005

228. The Board agreed that the Standing Committee would meet at United Nations Headquarters in New York, with the dates being subject to the availability of conference facilities and the other meeting obligations of the members of the Standing Committee. Depending on the agenda, the Standing Committee would meet for a period of 3 to 5 days; the precise dates and duration of the meeting would be established by the Secretary/CEO, in consultation with the Chairperson of the Standing Committee.

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 Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

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-second session

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

Representing	*Members*	*Alternates*
United Nations		
General Assembly	K. Akimoto (Japan)	T. Repasch (United States of America)
General Assembly	G. Kuentzle (Germany)	A. Kovalenko (Russian Federation)
General Assembly	P. Owade (Kenya)[a]	L. Mazemo (Zimbabwe)
General Assembly	V. M. González Posse (Argentina)	M. M. Rahman (Bangladesh)
Secretary-General	J.-P. Halbwachs (Mauritius)	A. Barabanov (Russian Federation)
Secretary-General	R. McCreery (Ireland)	R. Pawlik (Germany)
Secretary-General	W. Sach (United Kingdom of Great Britain and Northern Ireland)	
Secretary-General	J. Pozenel (United States of America)	
Participants	J.-M. Jakobowicz (France)	
Participants	J. Bravo (Chile)	
Participants	C. Dahoui (Brazil)	
World Health Organization		
Governing body	J. Larivière (Canada)	A. Yoosuf (Maldives)
Executive head	M. Dam (United States of America)	H. Wild (United Kingdom of Great Britain and Northern Ireland)
Participants	C. Pichon (France)	E. R. Chacón (Guatemala)
International Labour Organization		
Governing body	W. Ringkamp (Germany)	
Executive head	A. Busca (Italy)[b]	

Representing	*Members*	*Alternates*
United Nations Educational, Scientific and Cultural Organization		
Executive head	M. Ait Si-Selmi (Algeria)	
Participants	J. Taillefer (France)	
Food and Agriculture Organization of the United Nations		
Governing body	S. M. Harbi (Sudan)	
Executive head	S. Giwa (Zimbabwe)	
Participants	M. Pace (Italy)	
International Civil Aviation Organization		
Governing body	L. Adrover (Spain)	
International Telecommunication Union		
Executive head	M. Rolland (Canada)	M. Wilson (Ghana)
Participants	J. Desbiolles (France)	H. J. Sanou (Burkina Faso)
World Meteorological Organization		
Participants	M. Peeters (Belgium)	
International Maritime Organization		
Governing body	J. Aguilar-Salazar (Mexico)	
International Fund for Agricultural Development		
Executive head	T. Panuccio (Italy)[c]	
International Atomic Energy Agency		
Governing body	M. P. Thema (South Africa)	
Participants	D. Neal (United States of America)	
World Intellectual Property Organization		
Governing body	R. Roul (France)	
United Nations Industrial Development Organization		
Executive head	P. Nenonen (Finland)	
Participants	A. Spina (Canada)	M-O. Dorer (Lebanon)

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	*Organization*	*Representing*
A. Picasso de Oyagüe	UNESCO	Governing body
M. Baranger	ITU	Governing body
S. Ahmad	ICAO	Executive head
J.-V. Gruat	ILO	Participants
V. Yossifov	WIPO	Participants
R. G. Menzel[d]	ICAO	Participants
D. Bertaud	IMO	Participants
R. Sabat	IAEA	Executive head
G. Saddler	FAFICS	Pensioners
A. Marcucci	FAFICS	Pensioners
J. J. Chevron	FAFICS	Pensioners
W. Zyss	FAFICS	Pensioners
R. Douesnard (alternate)	FAFICS	Pensioners
O. P. Larghi (alternate)	FAFICS	Pensioners

Observers	*Organization*
M. Dweggah (12-13 July 2004) R. Weisell (19-23 July 2004)	FICSA
S. Liu	CCISUA
S. Hanono	IADB
S. Hand	OSCE
R. Luther	World Trade Organization

Secretaries of staff pension committees	*Organization*
M.-T. André	WHO
C. McGarry	ILO
M. Ghelaw	UNESCO
N. Gangi	FAO
C. Gallagher-Croxen	ICAO
M. Wilson	ITU
S. Hansen-Vargas	WMO
A. Nathoo	IMO
J. Sisto	IFAD
R. Sabat	IAEA
T. Dayer	WIPO
P. Nenonen	UNIDO

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

Office of Internal Oversight Services

P. Azarias

International Civil Service Commission

M. Ordelt (videoconference)

Board of Auditors

A. Gillette (videoconference)

Committee of Actuaries

L. J. Martin, Rapporteur

Consulting actuary

J. McGrath

Medical consultant

Dr. S. Narula

Investments Committee

E. N. Omaboe (Chairman)

F. Bovich

F. Chico Pardo

Y. Oltramare

J. Y. Pillay

J. Reimnitz

P. Stormonth Darling

E. Cárdenas

H. Ploix

Under-Secretary-General for Management and Representative of the Secretary-General for the Investments of the Fund

C. Bertini

Investment Management Service

C. Okuda, Director

P. Sinikallio, Investment Officer, Secretary of the Investments Committee

A. Rotheroe, Investment Officer

4. B. Cochemé and J. P. Dietz (Secretary/CEO and Deputy Secretary/Deputy CEO of the Board) served as Secretary and Deputy Secretary for the session, with the assistance of D. Bull, P. Dooley, G. Ferrari, F. De Turris, J. Sareva and F. Bernard.

Notes

[a] Second Vice-Chairman.

[b] Chairman.

[c] Rapporteur.

[d] First Vice-Chairman.

Annex III

Membership of the Standing Committee

Representing	*Members*	*Alternates*
United Nations (Group I)		
General Assembly	G. Kuentzle	K. Akimoto
	P. Owade	V. M. González-Posse
		A. Kovalenko
Secretary-General	J.-P. Halbwachs	S. Barabanov
	J. Pozenel	R. McCreery
Participants	J. Bravo	C. Dahoui
	J.-M. Jakobowicz	
Specialized agencies (Group II)		
Governing body	J. Larivière (WHO)	M. S. M. Harbi (FAO)
Executive head	S. Giwa (FAO)	
Participants	C. Pichon (WHO)	M. Pace (FAO)
Specialized agencies (Group III)		
Governing body	Picasso de Oyagüe (UNESCO)	
Executive head	R. Sabat (IAEA)	
Participants	P. Sayour (ILO)	J.-V. Gruat (ILO)
Specialized agencies (Group IV)		
Governing body	R. Roul (WIPO)	
Executive head	M. Rolland (ITU)	
Specialized agencies (Group V)		
Participants	M. Peeters (WMO)	D. Bertaud (IMO)

Representatives	*Alternate representatives*
Federation of Associations of Former International Civil Servants	
G. Saddler	J-J. Chevron
W. Zyss	O. P. Larghi

Annex IV

Membership of the Committee of Actuaries

Member	*Representing*
A. O. Ogunshola (Nigeria)	Region I (African States)
T. Nakada (Japan)	Region II (Asian States)
J. Král (Czech Republic)	Region III (Eastern European States)
H. Pérez Montás (Dominican Republic)	Region IV (Latin American and Caribbean States)
L. J. Martin (United Kingdom of Great Britain and Northern Ireland)	Region V (Western European and other States)

In addition, R. J. Myers (United States of America) has been appointed as a member emeritus.

Annex V

Membership of the Investments Committee

Members

A. Abdullatif (Saudi Arabia)

F. Bovich (United States of America)

F. Chico Pardo (Mexico)

T. Ohta (Japan)

Y. Oltramare (Switzerland)

E. N. Omaboe (Ghana)

J. Y. Pillay (Singapore)

J. Reimnitz (Germany)

P. Stormonth Darling (United Kingdom of Great Britain and Northern Ireland)

Ad hoc members

E. J. Cárdenas (Argentina)

F. Harshegyi (Hungary)

H. Ploix (France)

Member emeritus

J. Guyot (France)

Annex VI

Statistics on the operations of the United Nations Joint Staff Pension Fund for the biennium 2002-2003

A. Number of participants as at 31 December 2003

Member organization	Participants as at 31 December 2001	New entrants	Transfers In	Transfers Out	Separations	Participants as at 31 December 2003	Percent increase/ (decrease)
United Nations	54 953	15 820	257	344	13 145	57 541	4.7
ILO	2 747	781	51	63	472	3 044	10.8
FAO	5 344	1 256	102	66	988	5 648	5.7
UNESCO	2 414	480	30	17	390	2 517	4.3
WHO	7 375	2 930	156	110	1 385	8 966	21.6
ICAO	873	106	2	7	111	863	(1.1)
WMO	322	32	13	9	55	303	(5.9)
GATT	3	-	-	-	3	-	(100.0)
IAEA	2 125	369	17	16	288	2 207	3.9
IMO	330	55	4	7	38	344	4.2
ITU	967	127	12	23	112	971	0.4
WIPO	1 106	214	12	9	83	1 240	12.1
IFAD	383	101	16	9	29	462	20.6
ICCROM	33	10	-	-	9	34	3.0
EPPO	12	2	-	1	2	11	(8.3)
ICGEB	145	18	-	-	11	152	4.8
World Tourism Organization	79	12	3	-	6	88	11.4
ITLOS	30	5	2	1	2	34	13.3
ISA	28	8	3	-	5	34	21.4
UNIDO	813	132	18	16	161	786	(3.3)
Total	**80 082**	**22 458**	**698**	**698**	**17 295**	**85 245**	**6.4**

B. Benefits awarded to participants or their beneficiaries during the biennium 2002-2003

Member organization	*Retirement benefits*	*Early retirement benefits*	*Deferred retirement benefits*	*Withdrawal settlements* Under 5 years	*Withdrawal settlements* Over 5 years	*Children's benefits*	*Widows' and widowers' benefits*	*Other death benefits*	*Disability benefits*	*Secondary dependant benefits*	*Transfer under agreements*	***Total***
United Nations	1 024	821	179	8 195	2 393	1 431	126	31	73	2	5	**14 280**
ILO	85	55	14	257	40	56	13	1	2	-	2	**525**
FAO	180	152	21	453	118	166	10	5	16	-	1	**1 122**
UNESCO	150	89	7	98	27	101	7	2	10	-	-	**491**
WHO	239	106	37	828	107	262	25	7	12	-	-	**1 623**
ICAO	38	11	4	46	9	28	2	-	1	-	-	**139**
WMO	19	9	2	17	7	2	-	-	1	-	-	**57**
GATT	-	-	3	-	-	-	2	-	-	-	-	**5**
IAEA	106	52	11	88	16	38	4	2	9	-	-	**326**
IMO	18	3	-	12	2	4	-	-	2	-	-	**41**
ITU	38	10	3	44	8	16	4	1	4	-	-	**128**
WIPO	9	12	2	44	10	9	2	-	4	-	-	**92**
IFAD	9	5	-	10	4	5	1	-	-	-	-	**34**
ICCROM	1	-	2	2	4	-	-	-	-	-	-	**9**
EPPO	1	-	1	-	-	-	-	-	-	-	-	**2**
ICGEB	1	-	1	4	3	-	1	-	1	-	-	**11**
World Tourism Organization	5	-	-	-	-	3	-	-	1	-	-	**9**
ITLOS	-	-	-	1	1	-	-	-	-	-	-	**2**
ISA	1	-	-	4	-	1	-	-	-	-	-	**6**
UNIDO	33	46	5	55	14	21	1	-	6	-	-	**181**
Total	**1 957**	**1 371**	**292**	**10 158**	**2 763**	**2 143**	**198**	**49**	**142**	**2**	**8**	**19 083**

C. Analysis of periodic benefits for the biennium 2002-2003 (participants or their beneficiaries)

Type of benefit	*Total as at 31 December 2001*	*New*	*Reinstatement*	*Benefits discontinued, resulting in award of survivors' benefits*	*Changes in benefit type*	*All other benefits discontinued*	*Total as at 31 December 2003*
Retirement	15 558	1 957	-	(464)	2	(340)	16 713
Early retirement	10 726	1 371	1	(222)	(1)	(145)	11 730
Deferred	6 509	292	1	(79)	(1)	(147)	6 575
Widow	7 241	168	8	744	-	(365)	7 796
Widower	446	30	-	53	-	(31)	498
Disability	845	142	1	(37)	-	(30)	921
Child	8 049	2 143	13	1	-	(1 985)	8 221
Secondary	42	2	-	4	-	(6)	42
Total	**49 416**	**6 105**	**24**	**-**	**-**	**(3 049)**	**52 496**

Annex VII

Statement of the actuarial sufficiency, as at 31 December 2003, of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of its Regulations

1. In the report on the twenty-seventh actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary has assessed the actuarial sufficiency of the Fund, for 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 2003 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 decremental actuarial assumptions used were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 186th meeting, except that future new entrants were not taken into account and no future salary growth was assumed. A 7.5 per cent discount rate was used.

3. The liabilities were calculated using a plan termination methodology. Under this 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 beneficiaries were valued on the basis of their accrued pension entitlements as at the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 2003.

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

5. The results of the calculations on the actuarial sufficiency of Fund as at 31 December 2003 are set out below (in millions of United States dollars):

Actuarial value of assets[a]	25 237.4
Actuarial value of accrued benefit entitlements	17 470.4
Surplus	**7 767.0**

[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 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 2003, for deficiency payments under article 26 of the Regulations of the Fund.** The market value of assets as at 31 December 2003 is $26,368.6 million, or $1,131.2 million greater than the actuarial value of assets as at that date. Therefore, the surplus shown above would be larger if based on a comparison with the market value of assets.

Annex VIII

Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2003

Introduction

1. The actuarial valuation as at 31 December 2003 was performed on the basis of 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 Standing Committee of the United Nations Joint Staff Pension Board at its 186th meeting, in 2003, on the basis of the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2003

2. At its meetings in June 2004, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 2003, which was carried out by the consulting actuary. On the basis of 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 2005.

Annex IX

Transfer agreements

A. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Provident Fund of the Organization for Security and Cooperation in Europe

Article 1

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the Pension Fund;

(c) "OSCE" means the Organization for Security and Cooperation in Europe;

(d) "Provident Fund" means the Provident Fund of OSCE;

(e) "Provident Fund participant" means a participant in the Provident Fund of OSCE.

Article 2

1. A former Provident Fund participant may elect to be covered by the provisions of the present agreement upon entering the service of a member organization of the Pension Fund and becoming a Pension Fund participant within six months after separation from the service of OSCE, by electing within a further period of six months to transfer all the accrued entitlements in the Provident Fund to the Pension Fund.

2. Upon so electing, the former Provident Fund participant shall cease to be entitled to receive any benefits from the Provident Fund.

3. Upon the former Provident Fund participant's having made the election to transfer, the Provident Fund or OSCE shall pay to the Pension Fund the full account balance of that individual in the Provident Fund, including any interest and investment gains attributable to the account.

4. The former Provident Fund participant shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as at the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the Provident Fund.

Article 3

1. A former Fund participant who has not received a benefit under the Regulations of the Pension Fund may elect to be covered by the provisions of the present agreement upon entering the service of OSCE within six months after participation in the Pension Fund has ceased, by electing within a further period of six months to transfer the accrued entitlements from the Pension Fund to the Provident Fund.

2. Upon so electing, the former Fund participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

3. Upon the former Fund participant's having made the election to transfer, the Pension Fund shall pay to the Provident Fund an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 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 article 31 of the Regulations of the Pension Fund, upon separation from the service of a member organization of the Pension Fund.

4. The account balance of the former Fund participant in the Provident Fund shall be credited with the full amount of the payment made by the Pension Fund in accordance with the provisions of this agreement.

Article 4

1. Provident Fund participants who entered the service of OSCE and staff members who entered the service of a member organization of the Pension Fund before the effective date of this agreement, and who have not received any payments from the Pension Fund or from the Provident Fund, as the case may be, resulting from their participation, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund and the Provident Fund, in writing, before 1 July 2005. Upon so electing, the provisions of article 2, paragraphs 2, 3 and 4, and article 3, paragraphs 2, 3 and 4, of this agreement shall apply.

Article 5

1. This agreement, as amended by the parties, supersedes their prior agreement and shall take effect from 1 January 2005. It shall continue in effect thereafter until modified or cancelled by written mutual consent of the parties thereto or cancelled upon not less than one year's prior notice given in writing by either of them.

B. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the World Trade Organization Pension Plan

Whereas the provisions of article 13 of the Regulations of the United Nations Joint Staff Pension Fund (UNJSPF) authorize the United Nations Joint Staff Pension Board, subject to the concurrence of the United Nations General Assembly, to approve agreements with member Governments of a member organization and with intergovernmental organizations with a view to securing continuity of pension rights;

Whereas the provisions of article 10 of the Regulations of the World Trade Organization Pension Plan (WTOPP) similarly authorize the conclusion of agreements with other international organizations and with member Governments for the transfer and continuity of such rights;

Whereas, with the concurrence of the General Council of the World Trade Organization and the United Nations General Assembly, a Transfer Agreement had been concluded between WTOPP and UNJSPF which became effective on 1 January 2001;

Whereas UNJSPF and WTOPP have agreed to replace the aforementioned Agreement with a new Transfer Agreement;

It is therefore agreed between UNJSPF and WTOPP as follows:

Article 1

1.1 For the purposes of this Agreement, the following words and phrases shall have the meanings specified below, unless different meanings are plainly required by the context:

(a) "Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the Fund;

(c) "WTO" means the World Trade Organization;

(d) "Plan" means the World Trade Organization Pension Plan;

(e) "Plan participant" means a participant in the Plan;

(f) "Contributory service in the Fund" means the contributory service which, under the Regulations of the Fund, may be taken into account for the computation of benefits, and includes service credited to a Fund participant under agreements similar in nature to the present Agreement;

(g) "Contributory service under the Plan" means contributory service as defined in article 16 of the Regulations of the Plan, and includes all periods of service used to compute benefits under the Plan;

(h) "FAR Fund" means the final average remuneration under the Regulations of the Fund, computed as of the Fund participant's last day of contributory service in the Fund;

(i) "FAR Plan" means the final average remuneration under the Regulations of the Plan, computed as of the Plan participant's last day of contributory service in the Plan;

(j) "Payment rate" means the lower of the total rate of contribution under the applicable Regulations (including the shares payable by both the participant and the employing organization) of the Fund or of the Plan, as the case may be, applicable on the last day of contributory service in the Fund or in the Plan;

(k) "Applicable exchange rate" means the average, computed over the 36 consecutive calendar months of contributory service (or the applicable such period if less than 36 months) up to and including the last month of participation in the Fund or the Plan, respectively, of the monthly United Nations operational rates of exchange between the United States dollar and the Swiss franc.

1.2 Unless otherwise defined herein, words and phrases used in the Regulations of the Fund or of the Plan shall have the same meanings in this Agreement.

Article 2

2.1 A former Fund participant who has not received a benefit under its Regulations may, upon becoming a Plan participant within six months after participation in the Fund has ceased, elect to be covered by the provisions of this Agreement, by notice in writing to that effect sent to the Secretary of the Plan within a further period of six months.

2.2 Upon such election, the former Fund participant shall cease to be entitled to receive any benefit from the Fund and shall be credited instead in the Plan with the following:

(a) Accumulated contributions equal to the former Fund participant's own contributions credited as at the last day of participation in the Fund, converted into Swiss francs at the applicable exchange rate;

(b) Pensionable remuneration calculated in accordance with article 19 of the Regulations of the Plan;

(c) Contributory service under the Plan, calculated as follows:

$$\frac{\text{FAR Fund x applicable exchange rate x contributory service in the Fund}}{\text{Pensionable remuneration in the Plan}}$$

2.3 The Fund shall, in respect of such a former Fund participant, pay to the Plan an amount equal to the payment rate under this Agreement times the FAR Fund, multiplied by the number of years and fractions of the contributory service in the Fund, converted into Swiss francs at the applicable exchange rate.

2.4 For the purposes of the present article, a Fund participant's last day of participation in the Fund must, except as provided in article 4 below, be no later than the day preceding the first day of participation in the Plan.

Article 3

3.1 A former Plan participant who has not received a benefit under its Regulations may, upon becoming a Fund participant within six months after participation in the Plan has ceased, elect to be covered by the provisions of this Agreement, by notice in writing to that effect sent to the Chief Executive Officer of the Fund within a further period of six months.

3.2 Upon such election, the former Plan participant shall cease to be entitled to receive any benefit from the Plan and shall be credited instead in the Fund with the following:

(a) Accumulated contributions equal to the former Plan participant's own contributions credited as of the last day of participation in the Plan, converted into United States dollars at the applicable exchange rate;

(b) Pensionable remuneration calculated in accordance with article 54 of the Regulations of the Fund;

(c) Contributory service under the Fund, calculated as follows:

$$\frac{\text{FAR Plan x applicable exchange rate x contributory service in the Plan}}{\text{Pensionable remuneration in the Fund}}$$

3.3 The Plan shall, in respect of such a former Plan participant, pay to the Fund an amount equal to the payment rate under this Agreement times the FAR Plan, multiplied by the number of years and fractions of years of contributory service in the Plan, converted into United States dollars at the applicable exchange rate.

3.4 For the purposes of the present article, a Plan participant's last day of participation in the Plan must, except as provided in article 4 below, be no later than the day preceding the first day of participation in the Fund.

Article 4

4.1 (a) If a Fund participant becomes a Plan participant during a period of leave without pay from a member organization of the Fund and, upon the termination of such period, ceases to be a Plan participant and resumes contributory service in the Fund, the Fund participant shall not be entitled to any benefit under the Regulations of the Plan in respect of such period but shall instead receive credits in the Fund as provided in article 3.2 above, with the Plan paying to the Fund an amount determined in accordance with article 3.3 above. Such period shall not also accrue to the Fund participant as contributory service in the Fund under article 22 (b) of its Regulations;

(b) If, upon the termination of such period, the Fund participant ceases to be a Fund participant and continues to be a Plan participant, the former Fund participant shall, upon election made in writing to that effect sent to the Secretary of the Plan within six months of the termination of such period, have applied the provisions of articles 2.2 and 2.3 above. These provisions shall also apply in the event of the death or disability retirement under the Plan of the Fund participant during such period, without having made a benefit election under the Fund's Regulations.

4.2 (a) If a Plan participant becomes a Fund participant during a period of leave without pay from WTO and, upon the termination of such period, ceases to be a Fund participant and resumes contributory service in the Plan, the Plan participant shall not be entitled to any benefit under the Regulations of the Fund in respect of such period but shall instead receive credits in the Plan as provided in article 2.2 above, with the Fund paying to the Plan an amount determined in accordance with article 2.3 above. Such period shall not also be counted for the Plan participant as contributory service in the Plan under article 16 (b) of its Regulations;

(b) If, upon the termination of such period, the Plan participant ceases to be a Plan participant and continues to be a Fund participant, the former Plan participant shall, upon election made in writing to that effect sent to the Chief Executive Officer of the Fund within six months of the termination of such period, have applied the provisions of articles 3.2 and 3.3 above. These provisions shall also apply in the event of the death or disability retirement under the Fund of the Plan participant during such period, without having made a benefit election under the Plan's Regulations.

Article 5

5.1 Interest, to the date on which payment is made by the Fund or the Plan of the amount due under articles 2.3 and 3.3 above, from the date of cessation of participation in the Fund or the Plan, respectively, shall be paid at the rate of 5 per cent per annum, or at such other rates as may be agreed from time to time between the Chief Executive Officer of the Fund and the Secretary of the Plan.

Article 6

6.1 If otherwise eligible to elect to be covered by the provisions of this Agreement, a former Fund or Plan participant who, without having received any benefit, moved from the Fund to the Plan, or vice versa, within the two-year period immediately preceding the entry into force of this Agreement, may elect to be covered under this Agreement by written notice to that effect, sent no later than 30 June 2005 to the Secretary of the Plan or the Chief Executive Officer of the Fund, as the case may be.

Article 7

7.1 The Chief Executive Officer of the Fund and the Secretary of the Plan shall agree on such measures as may be appropriate to give effect to this Agreement and to resolve any problems that may arise in the application of its provisions to individual cases.

Article 8

8.1 This Agreement shall enter into effect on 1 January 2005 and shall replace and supersede as of that date the Transfer Agreement previously concluded between the Plan and the Fund, which had become effective on 1 January 2001.

8.2 This Agreement shall continue in effect until modified or terminated by written mutual consent of the Parties hereto. However, either Party may terminate this Agreement unilaterally, by notice in writing given to the other Party, at least one year before the termination date specified in such notice.

Annex X

Audit opinion and financial statements and schedules for the biennium 2002-2003

A. Audit opinion

We have audited the accompanying financial statements of the United Nations Joint Staff Pension Fund, comprising statements I to III, schedules 1 to 6 and the supporting notes for the biennium ended 31 December 2003. These financial statements are the responsibility of the Chief Executive Officer of the Pension Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and conforming with international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Chief Executive Officer, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the biennium then ended, in accordance with the stated accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the United Nations Joint Staff Pension Fund 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 legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the United Nations Joint Staff Pension Fund's financial statements.

B. Financial statements and schedules

STATEMENT I

Statement of income and expenditure and change in principal of the Fund for the bienniums ended 31 December 2003 and 2001

(United States dollars)

Income	2002 - 2003		2000 - 2001	
Contributions:				
Participants:				
Regular contributions	711 951 059		591 680 685	
Contributions for validation	2 068 363		1 533 568	
Contributions for restoration	3 056 453		2 346 847	
Member organizations:				
Regular contributions	1 423 902 117		1 183 361 372	
Contributions for validation	4 128 549		3 105 860	
Contributions for participants transferred in under agreements	585 089		585 779	
Receipts of excess actuarial value over regular contributions	423 864	**2 146 115 494**	566 826	**1 783 180 937**
Investment income:				
Interest earned	950 517 733		901 433 092	
Dividends	427 759 247		378 408 500	
Real estate and related securities	202 827 567		142 978 690	
Net profit (loss) on sales of investments	456 676 376	**2 037 780 923**	810 731 575	**2 233 551 857**
Other income (note 4)		**10 068 104**		**6 087**
Total income		**4 193 964 521**		**4 016 738 881**

STATEMENT I (continued)

(United States dollars)

Expenditure	2002 - 2003		2000 - 2001	
Payment of benefits:				
Withdrawal settlements and full commutation of benefits	126 707 291		101 975 778	
Retirement benefits	1 075 366 668		947 975 060	
Early and deferred retirement benefits	831 109 322		772 633 007	
Disability benefits	56 168 003		47 644 607	
Death benefits	226 205 166		192 424 391	
Children's benefits	32 201 531		29 267 802	
Currency exchange adjustments	7 874 660		822 682	
Payments for participants transferred out under agreements	270 311	**2 355 902 952**	1 174 027	**2 093 917 354**
Administrative expenses (note 3):				
Administrative costs	37 121 256		18 080 584	
Investment costs chargeable to gross income from investments	41 717 862		38 010 173	
Audit costs	964 877	**79 803 995**	668 827	**56 759 584**
Emergency Fund		**73 697**		**71 792**
Total expenditure		**2 435 780 644**		**2 150 748 730**
Excess of income over expenditure		**1 758 183 877**		**1 865 990 151**
Prior year adjustments		2 086 214		299 831
Net excess of income over expenditure		**1 760 270 091**		**1 866 289 982**
Principal of the Fund, beginning of biennium		17 631 678 812		15 765 388 830
Principal of the Fund, end of biennium		19 391 948 903		17 631 678 812
Change in principal of the Fund		**1 760 270 091**		**1 866 289 982**

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

Certified correct:

(*Signed*) Catherine Ann Bertini
Representative of the Secretary-General for the
Investments of the United Nations Joint Staff Pension Fund

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

STATEMENT II

Statement of assets, liabilities and principal of the Fund as at 31 December 2003 and 2001

(United States dollars)

Assets	**2003**		**2001**	
Cash and term deposits		382 624 767		321 328 502
Investments (schedules 2 and 3)				
Temporary investments - at cost (market value: $1,228,120,704)	1 184 102 652		2 012 702 332	
Bonds - at cost (market value: $7,569,617,023)	6 395 163 522		6 678 775 928	
Stocks and convertible bonds - at cost (market value: $15,290,842,744)	9 776 570 496		7 331 197 899	
Real estate and related securities - at cost (market value: $1,660,679,766)	1 416 799 110	18 772 635 780	1 101 218 885	17 123 895 044
Accounts receivable				
Contributions receivable from member organizations	62 276 137		39 613 188	
Receivable from investments (schedule 4)	-		-	
Accrued income from investments (schedule 5)	183 139 572		144 967 113	
Foreign tax accounts receivable (schedule 6)	22 899 501		25 060 324	
Other	12 546 461	280 861 671	1 890 455	211 531 080
Prepaid benefits		9 889 279		9 504 066
Total assets		**19 446 011 497**		**17 666 258 692**
Liabilities				
Accounts payable				
Benefits payable		41 886 016		34 053 750
Payable for securities purchased		-		-
Other		12 176 578		526 130
Total liabilities		**54 062 594**		**34 579 880**
Principal of the Fund		**19 391 948 903**		**17 631 678 812**
Total liabilities and principal of the Fund		**19 446 011 497**		**17 666 258 692**

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

Certified correct:

(*Signed*) Catherine Ann Bertini
Under-Secretary-General for Management
Representative of the Secretary-General for the
Investments of the United Nations Joint Staff Pension Fund

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

STATEMENT III

Statement of cash flow for the bienniums ended 31 December 2003 and 2001

(United States dollars)

	2002 - 2003	2000 - 2001
Cash flow from operating activities:		
Net excess of income over expenditure	1 760 270 091	1 866 289 982
(Increase) in contributions receivable	(22 662 949)	(4 591 625)
(Increase) in other accounts receivable	(10 656 006)	(518 802)
(Increase)/decrease in prepaid benefits	(385 213)	670 510
Increase in benefits payable	7 832 266	8 460 968
Increase/(decrease) in other accounts payable	11 650 448	(4 210 836)
Net cash from operating activities	**1 746 048 637**	**1 866 100 197**
Cash flows from investing activities		
(Increase) in cost of investments	(1 648 740 736)	(1 882 960 910)
(Increase)/decrease in investments receivable	(36 011 636)	3 627 336
(Decrease) in payable for securities purchased	-	(21 337)
Net cash from investing activities	**(1 684 752 372)**	**(1 879 354 911)**
Net cash from activities	**61 296 265**	**(13 254 714)**
Cash and term deposits, beginning of biennium	321 328 502	334 583 216
Cash and term deposits, end of biennium	382 624 767	321 328 502
Net increase in cash and term deposits	**61 296 265**	**(13 254 714)**

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

SCHEDULE 1
Status of appropriations for the biennium 2002 - 2003 in relation to administrative expenses for the bienniums 2002 – 2003 and 2000 - 2001
(Thousands of United States dollars)

	Revised appropriations (biennium 2002-2003)	2002 - 2003 expenditure	2000 - 2001 expenditure
A. ADMINISTRATIVE COSTS			
Established posts	9 476.5	9 887.7	8 814.1
Common staff costs	3 663.0	3 581.3	2 913.4
Posts	**13 139.5**	**13 469.0**	**11 727.5**
Overtime and temporary assistance	1 319.6	1 138.3	922.5
Training	339.2	184.1	80.8
Other staff costs	**1 658.8**	**1 322.4**	**1 003.3**
Travel of staff	200.6	197.9	139.7
Committee of Actuaries	86.3	72.7	83.5
Travel	**286.9**	**270.6**	**223.2**
International Computing Centre services	**1 935.8**	**1 941.3**	**1 458.9**
Actuarial consulting services	402.1	407.1	369.8
Consultants	51.7	50.5	-
EDP contractual services	4 580.5	4 617.3	1 298.8
Contractual services	**5 034.3**	**5 074.9**	**1 668.6**
Communications services	10.0	10.9	10.0
Hospitality	13.1	1.5	0.9
Miscellaneous supplies and services	264.1	324.1	100.5
Rental and maintenance of equipment	1 153.2	914.7	375.9
Rental of premises	2 285.4	1 528.3	792.3
General operating expenses	**3 725.8**	**2 779.5**	**1 279.6**
Supplies and materials	**352.1**	**315.0**	**232.3**
Acquisition of equipment	3 873.1	1 904.7	486.1
Office furniture and fixtures	-	-	1.0
Equipment	**3 873.1**	**1 904.7**	**487.1**
Total administrative costs	**30 006.3**	**27 077.4**	**18 080.5**

SCHEDULE 1 (continued)

(Thousands of United States dollars)

	Revised appropriations (biennium 2002-2003)	2002 - 2003 expenditure	2000 - 2001 expenditure
B. INVESTMENT COSTS			
Established posts	4 284.9	4 248.6	4 065.1
Common staff costs	1 678.7	1 504.1	1 337.4
Posts	**5 963.6**	**5 752.7**	**5 402.5**
Overtime and temporary assistance	139.3	36.6	142.2
Training	182.8	38.5	53.0
Other staff costs	**322.1**	**75.1**	**195.2**
Travel of staff	359.6	232.7	236.9
Investments committee	698.4	457.1	472.6
Travel	**1 058.0**	**689.8**	**709.5**
Advisory and custodial fees	32 734.2	30 820.1	29 076.8
Investment consultants	174.1	196.4	141.4
Contractual services	**32 908.3**	**31 016.5**	**29 218.2**
Communications services	215.7	79.3	106.1
Hospitality	3.0	14.6	0.5
Miscellaneous supplies and services	75.3	89.5	103.3
Rental of premises	850.9	849.7	414.6
Bank charges	924.3	2 241.6	922.2
Income from banks	-	(11.8)	-
General operating expenses	**2 069.2**	**3 262.9**	**1 546.7**
Investment reference services	**772.3**	**704.1**	**541.7**
Data processing	295.8	216.8	396.4
Office furniture and fixtures	15.8	-	-
Equipment	**311.6**	**216.8**	**396.4**
Total investment costs	**43 405.1**	**41 717.9**	**38 010.2**

SCHEDULE 1 (continued)

(Thousands of United States dollars)

	Revised appropriations (biennium 2002-2003)	2002 - 2003 expenditure	2000 - 2001 expenditure
C. AUDIT COSTS			
External audit	354.4	352.4	338.7
Internal audit	619.1	612.4	330.1
Total audit costs	**973.5**	**964.8**	**668.8**
TOTAL ADMINISTRATIVE EXPENSES	**74 384.9**	**69 760.1**	**56 759.5**

The information included under schedule 1 relates to the Pension Fund share of administrative costs. The total disclosed differs from that shown as expenditure on statement I, where the full amount, including the share borne by the United Nations, is recorded.

SCHEDULE 2

Summary statement of investments for the biennium 2002 - 2003 with comparative figures for the biennium 2000 - 2001

(Thousands of United States dollars)

	Balance - at cost[a]		2002 - 2003 income		
Investments	31 December 2003	31 December 2001	Profit or (loss) on sales	Dividends, interest or other income	Total
Bonds (United States dollars)	2 015 786	1 926 908	53 030	260 316	313 346
Stocks and convertible bonds (United States dollars)	4 077 932	3 141 529	391 751	167 988	559 739
Bonds (other currencies)	4 379 378	4 751 868	(68 044)	584 280	516 236
Stocks and convertible bonds (other currencies)	5 698 638	4 189 669	(173 701)	259 772	86 071
Real estate and related securities (United States dollars and other currencies)	1 416 799	1 101 219	20 552	202 827	223 379
Temporary investments (United States dollars)	637 790	1 273 177	2	40 377	40 379
Temporary investments (other currencies)	546 313	739 525	233 086	65 545	298 631
Total portfolio	18 772 636	17 123 895	456 676	1 581 105	2 037 781

[a] Cost value adjusted to reflect year-end adjustments.

SCHEDULE 3

Summary statement of cost and market value of investments as at 31 December 2003 with comparative figures as at 31 December 2001

(Thousands of United States dollars except percentages)

	31 December 2003			31 December 2001		
Investments	Cost[a]	Percentage of total cost value	Market value[a]	Cost[a]	Percentage of total cost value	Market value[a]
Bonds (United States dollars)	2 015 786	10.7	2 187 272	1 926 908	11.3	1 997 227
Stocks and convertible bonds (United States dollars)	4 077 932	21.7	7 213 162	3 141 529	18.3	6 977 704
Bonds (other currencies)	4 379 378	23.3	5 382 345	4 751 868	27.8	3 977 441
Stocks and convertible bonds (other currencies)	5 698 638	30.4	8 077 681	4 189 669	24.5	5 383 268
Real estate and related securities (United States dollars and other currencies)	1 416 799	7.6	1 660 680	1 101 219	6.4	1 186 082
Temporary investments (United States dollars)	637 790	3.4	638 075	1 273 177	7.4	1 272 305
Temporary investments (other currencies)	546 313	2.9	590 045	739 525	4.3	733 851
Total portfolio	18 772 636	100.0	25 749 260	17 123 895	100.0	21 527 878

[a] Cost value adjusted to reflect year-end adjustments.

SCHEDULE 4

Summary statement of accounts receivable from investments as at 31 December 2003 with comparative figures as at 31 December 2001

(United States dollars)

Accounts receivable	31 December 2003	31 December 2001
Bonds (United States dollars)	-	-
Stocks and convertible bonds (United States dollars)	-	-
Bonds (other currencies)	-	-
Stocks and convertible bonds (other currencies)	-	-
Real estate and related securities (United States dollars and other currencies)	-	-
Temporary investments (United States dollars)	-	-
Temporary investments (other currencies)	-	-
TOTAL	-	-

SCHEDULE 5

Summary statement of accrued income from investments as at 31 December 2003 with comparative figures as at 31 December 2001

(United States dollars)

Accrued income	31 December 2003	31 December 2001
Bonds (United States dollars)	38 592 363	38 705 614
Stocks and convertible bonds (United States dollars)	7 935 475	5 760 060
Bonds (other currencies)	126 702 966	96 502 448
Stocks and convertible bonds (other currencies)	7 671 831	2 932 639
Real estate and related securities (United States dollars and other currencies)	1 874 499	770 746
Temporary investments (United States dollars)	104 509	217 940
Temporary investments (other currencies)	257 929	77 666
TOTAL	183 139 572	144 967 113

SCHEDULE 6

Summary of foreign tax accounts receivable as at 31 December 2003

		Local currency						Exchange rate in effect 31 December 2003	Equivalent in United States dollars
		Prior to 2000	2000	2001	2002	2003	Total		
Australia	A$	346 729	-	-	-	-	346 729	1.327228	261 243
Belgium	EUR	85 673	-	-	-	-	85 673	0.792801	108 064
Brazil	CR$	380 033	173 862	-	146 091	516 830	1 216 816	2.885000	421 773
Czech Republic	CZK	-	-	179 288	-	428 241	607 529	25.676850	23 661
France	EUR	201 330	-	215 000	240 000	252 736	909 066	0.792801	1 146 651
Germany	EUR	-	-	-	441 374	1 438 330	1 879 704	0.792801	2 370 966
Hungary	HUF	-	-	3 356 898	6 002 588	1 210 000	10 569 486	207.416700	50 958
Ireland	EUR	153 065	-	-	-	-	153 065	0.792801	193 068
Italy	EUR	5 610 770	-	-	-	-	5 610 770	0.792801	7 077 148
Jordan	JD	22 385	9 822	4 000	4 000	-	40 207	0.709000	56 709
Kenya	K Sh	483 998	-	132 000	88 000	131 999	835 997	76.000000	11 000
Malaysia	M$	5 118 240	182 000	578 049	610 047	825 062	7 313 398	3.800000	1 924 578
	S$	830 299	-	-	-	-	830 299	1.698300	488 900
Mexico	MN$	62 711	38 420	240 268	-	-	341 399	11.237250	30 381
Philippines	P	955 148	-	-	-	-	955 148	55.520000	17 204
Singapore	S$	2 028 735	4 130	-	109 100	627 607	2 769 572	1.698300	1 630 791
	M$	220 920	-	-	-	-	220 920	3.800000	58 137
Spain	EUR	2 506 005	-	-	12 812	225 572	2 744 389	0.792801	3 461 636
Switzerland	SwF	-	-	-	-	2 455 471	2 455 471	1.236750	1 985 422
United Kingdom of Great Britain and Northern Ireland	£	554 794	99 782	-	-	94 258	748 834	0.558612	1 340 526
United States of America	US$	238 227		-	-	-	238 227	1.000000	238 227
Zimbabwe	Z$	-	-	262 606	1 763 034	-	2 025 640	824.000000	2 458

Total amount outstanding	22 899 501

C. Notes to the financial statements

Note 1
Description of the Fund

The following brief description of the United Nations Joint Staff Pension Fund is provided for general information purposes only. Participants and beneficiaries should refer to the Regulations, Rules and Pension Adjustment System of the Fund for more complete information.

(a) General

The Fund was established by the General Assembly of the United Nations to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to membership in the Fund.

(b) Administration of the Fund

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

(c) Participation in the Fund

Every full-time member of the staff of each member organization becomes a participant in the Fund upon commencing employment under an appointment for six months or longer or completing six months service without an interruption of more than 30 days. The Fund currently has over 85,000 active contributors (participants) belonging to 19 United Nations system organizations and agencies (which include the main United Nations Secretariat, the United Nations Children's Fund, the United Nations Development Programme, the Office of the United Nations High Commissioner for Refugees and the various specialized agencies such as the World Health Organization in Geneva, the International Atomic Energy Agency in Vienna, the International Civil Aviation Organization in Montreal, the United Nations Educational, Scientific and Cultural Organization in Paris, etc.). There are currently about 52,500 retirees (beneficiaries) in some 190 countries. The total annual pension payments are about $1.2 billion, which are paid in 15 different currencies.

(d) Operation of the Fund

Participants and beneficiaries are handled by the operations area of the Fund. The operations area of the Fund is focused in New York, with a subsidiary office in Geneva dealing mainly with the United Nations agencies headquartered there. Many of the benefit payment functions undertaken in New York are replicated in Geneva for Europe- and Africa-based beneficiaries. All the accounting for operations is handled in New York through a centralized Financial Services Section. There is a separate Investment Management Service, which manages the Fund's investment portfolio, totalling $25.7 billion at 31 December 2003. The Investment Management Service also manages the banking and investment of monthly contributions from member organizations and funding the monthly pension payroll.

(e) Actuarial valuation of the Fund

The Board has an actuarial valuation of the Fund done at least once every three years by the consulting actuary.

Note 2
Accounting for operational and investment activities

The financial statements are drawn up by the administration of the Fund. For operational activity (contributions and payment of benefits), the Fund relies on its own records and systems. For investment activity, the Fund relies on source data provided by a master record keeper.

Note 3
Accounting for administrative expenses

For its administrative expenses, the Fund relies on its own records and on data drawn from United Nations systems (IMIS). In addition, some of the administrative expenses of the Fund are in fact borne by the United Nations. The Fund has changed the presentation of this item for the biennium 2002-2003 by disclosing the part borne by the United Nations as part of the Fund's income. Such presentation does not change the net result, nor does it represent a change to policy as far as the share of expense borne by the United Nations is concerned.

The presentation of schedule I of the financial statements for the biennium 2002-2003 is exclusive of the administrative expenses of the Fund borne by the United Nations. In accordance with article 15 (b) of the Regulations and Rules of the Fund, the administrative expenses of the Fund are estimated and approved on a biennial basis.

Note 4
Summary of significant accounting policies

The following are some of the significant accounting policies of 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, Rules and Pension Adjustment System of the Fund as adopted by the General Assembly:

(a) Unit of account

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 December United Nations operational rate of exchange.

(b) Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Investments

Investments are recorded at cost, and investments in other than United States dollars are converted using commercial historical exchange rates instead of United Nations operational rates of exchange. Interest income and dividends are recorded on an accrual basis, and foreign taxes withheld are recorded as receivables. Cash other than United States dollars is revalued at year's end, and a gain or loss on exchange is recognized. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(d) Contributions

Participants and their employing member organizations are required to contribute, respectively, 7.9 per cent and 15.8 per cent of their pensionable remuneration to the Fund. Contributions received from participants, member organizations and other funds are recorded as they are received during the course of the year and are accrued at year's end.

(e) 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.

(f) Principal of the Fund

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

(g) Emergency Fund

The appropriation is recorded when the authorization is approved by the General Assembly; payments are charged directly against the appropriation account; any unexpended balance reverts to the Fund at the end of the year and biennium.

(h) Other income

Other income includes the part of the Fund's administrative income expenses to be borne by the United Nations. This represents a change in presentation for the biennium 2002-2003 from that for previous bienniums.

Note 5
Non-expendable property

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

The following table shows the inventory value of the non-expendable property, at cost, expressed in millions of United States dollars, according to the cumulative inventory records of the Fund as at 31 December 2003:

Pension Fund secretariat	7.42
Investment Management Service	1.00
Total	**8.42**

Note 6
Status of appropriations (schedule 1)

In accordance with General Assembly resolution 56/255 of 24 December 2001, the budget appropriations for the biennium 2002-2003 are as follows (in United States dollars):

Initial appropriation (resolution 56/255)	74 322 400
Additional appropriation (resolution 57/286)	62 500
Revised appropriation	**74 384 900**

Annex XI

Report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2003

Summary

The Board of Auditors has audited the financial statements for the biennium ended 31 December 2003 and reviewed the operations of the United Nations Joint Staff Pension Fund.

The Board's main findings are as follows:

(a) Progress has been made towards a sound accounting organization in the operations side of the Pension Fund, but the Accounts Unit remained insufficiently staffed, with only 2 full-time Professional positions and 10 General Service posts;

(b) There were still significant delays in the reconciliation of contributions receivable with participating organizations; in addition, these reconciliations were sometimes incomplete;

(c) The Fund made progress towards the accrual accounting of contributions, but this was limited by participating organizations that did not follow the accrual basis for contributions;

(d) The amount receivable from the United Nations General Administrative Fund reached $10,043,906 at the end of the biennium;

(e) Four Member States had yet to grant tax-exempt status to the Pension Fund;

(f) The procurement of investment management consultant services did not fully comply with regulations and rules;

(g) The former director of the Investment Management Service did not secure a proper audit trail for the real estate investments, which he managed by himself;

(h) The post of Director of the Investment Management Service remained vacant from October 2003 to April 2004, which was inappropriate in view of the responsibility to manage assets in excess of $26 billion;

(i) The purchase of an office building in New York, for $180 million, was not conducted in a consistent manner;

(j) The United Nations Secretariat did not authorize the Fund before 2004 to procure enough office space to properly staff and manage its information and communication systems; this situation impaired the implementation of its budget and information technology development plan;

(k) The Investment Management Service had no disaster recovery plan, no formal information and communication technology strategic plan and no detailed anti-fraud plan;

(l) Progress was made towards an agreement between the Office of Internal Oversight Services and the Pension Fund with a view to improving the internal audit coverage of the Pension Fund;

(m) The Fund did not have an audit committee.

The Board's main recommendations are that the Pension Fund further review the accounting organization and staffing table; benchmark against other funds' best practices for accounting on pension contributions; invite all participating organizations to account for contributions on an accrual basis; verify with the United Nations Secretariat cost-sharing obligations and payments; further appeal to four Member States that have yet to grant tax-exempt status to the Fund; complete the review of its real estate investment management; improve the real estate decision-making processes by implementing a transparent audit trail on all operations; and establish an ethics compliance officer function and an audit committee. By July 2004, the Pension Fund planned to implement a number of appropriate remedies.

A list of the Board's main recommendations is provided in paragraph 13 of the present report.

Chapter I
Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Joint Staff Pension Fund (UNJSPF) for the period from 1 January 2002 to 31 December 2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article 14 (b) of the Regulations of the Pension Fund. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the international standards on auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the biennium ended 31 December 2003 had been incurred for the purposes approved by the Pension Board and the General Assembly; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements of the Pension Fund presented fairly its financial position as at 31 December 2003 and the operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent 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 under financial regulation 7.5. The reviews focused primarily on the efficiency of the financial procedures, the internal financial controls, information and communication technology and, in general, the administration and management of the Fund.

4. The audit was carried out at Headquarters in New York and at the Geneva Office.

5. The General Assembly, in its resolution 57/286 of 20 December 2002, took note of the intention of the Board of Auditors and the Pension Board to review the procedures and operating methods of the Investment Management Service. It also addressed the recommendation of the Advisory Committee on Administrative and Budgetary Questions in its report that the Board of Auditors report in the context of its audit for the biennium 2002-2003 on the capacity and professional expertise required by the Office of Internal Oversight Services to provide internal audit services for the administrative and investment activities of the Pension Fund.[a] The issue is reviewed in paragraphs 116 to 144 below.

6. In the same resolution, the General Assembly also took note of the intention of the Board of Auditors to review the terms of reference for an independent external performance review of the investments of the Fund. However, as of May 2004, the Fund's Investment Management Service had not prepared such terms of reference.

7. The Board continued its practice of reporting the results of specific audits through management letters containing observations and recommendations to the

Administration. This practice allowed for an ongoing dialogue with the Administration.

8. The present report covers matters that, in the opinion of the Board of Auditors, should be brought to the attention of the Pension Board and the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the present report.

9. A summary of the Board's main recommendations is presented in paragraph 13 below. The detailed findings and recommendations are reported in paragraphs 16 to 145.

A. Previous recommendations not fully implemented

Recommendations in the report for the biennium ended 31 December 1999

10. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999.[b] There are no significant outstanding matters, except for one recommendation that has not yet been fully implemented (see para. 60 below).

Recommendations in the report for the biennium ended 31 December 2001

11. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001.[c] Details of action taken and the comments of the Board are included in the present report and have been summarized in the appendix. Out of a total of 27 recommendations, 7 (26 per cent) had been implemented by May 2004, 11 (41 per cent) were under implementation, some only partially, and the Board was concerned that 9 (33.3 per cent) had not been implemented.

12. The Board has reiterated, in paragraphs 42 and 51 of the present report, previous recommendations that have not yet been implemented. The Board invites the Pension Fund to assign specific responsibility and establish an achievable time frame for their implementation.

B. Main recommendations

13. **The Board of Auditors recommends that the United Nations Joint Staff Pension Fund:**

(a) **Further review its accounting organization and staffing table in order to implement sound accounting procedures (para. 33);**

(b) **Update its accounting manual (para. 35);**

(c) **Benchmark against other funds' best practices on accounting for pension contributions (para. 38);**

(d) **Implement a monthly reconciliation of the payments of contributions in order to enhance payment recovery and to introduce full accrual accounting (para. 42);**

(e) **Review its internal processes and controls related to contribution income in order to ensure that contributions are paid fully and on the due date (para. 44);**

(f) **Continue to invite, as previously recommended, all participating organizations to account for contributions on an accrual basis (para. 46);**

(g) **As previously recommended, issue contributions reconciliation statements in a timely manner and further develop its proactive strategy towards the different organizations for the clearing of the receivables (para. 51);**

(h) **Verify with the United Nations Secretariat cost-sharing obligations and payments (para. 54);**

(i) **Maintain adequate controls over the Investment Management Service accounting process (para. 58);**

(j) **Continue to recover outstanding tax reimbursements and to further appeal to four Member States that have yet to grant tax-exempt status to the Fund (para. 60);**

(k) **Consider the appropriate means to prevent the recurrence of vacancies in key senior management positions (para. 80);**

(l) **Continue to encourage organizations to process and remit separation documents in a timely manner (para. 97);**

(m) **Establish an ethics compliance officer function (para. 113);**

(n) **Agree with the Office of Internal Oversight Services on the improvement of risk assessments, auditor staffing and skills and the use of outsourced specialized auditors in fields such as investment management (para. 122);**

(o) **Establish an audit committee (para. 129).**

14. The Board's other recommendations are shown in paragraphs 56, 71, 93, 99, 109, 139 and 142.

Chapter II
Background

15. The number of Fund participants as at 31 December 2003 was 85,245 (57,541 from United Nations organizations and 27,704 from specialized agencies). Of that total, 49,434 (42,889 from United Nations organizations and 6,545 from specialized agencies) were serviced by the New York Office and 35,811 (14,652 from United Nations organizations and 21,159 from specialized agencies) by the Geneva Office. The Fund acts as the Staff Pension Committee, administering the participation and separation of staff, for the United Nations Secretariat and some participating organizations.

Chapter III
Financial issues

A. Financial overview

16. The market value of the investment portfolio of the Fund as at 31 December 2003 had increased by $4.221 billion (19.6 per cent), to $25.749 billion, from $21.528 billion as at 31 December 2001; it had been $25.577 billion as at 31 December 1999. A significant part of the increase resulted from exchange rate fluctuations. The book value increased from $17.124 billion at the end of 2001 to $18.773 billion as at 31 December 2003. The investment income decreased by $196 million, to $2.038 billion for the biennium (from $2.234 billion in 2000-2001), due to a lower net profit on sales of securities ($323.1 million against $1,152.7 million). Interest earned increased from $901 million to $951 million, dividends from $378 million to $428 million and real estate and related securities from $143 million to $203 million.

17. Due to such factors as a general reclassification of staff, the variation of the United States dollar against other currencies and the increased number of staff on short-term missions, total pension contributions increased by 20.4 per cent, to $2.146 billion (for 2000-2001 the figure was $1.783 billion). The number of participants increased by 6.4 per cent, from 80,082 as at 31 December 2001 to 85,245 as at 31 December 2003.

18. Payments of benefits (96.5 per cent of total expenditures) increased by 12.5 per cent, to $2.356 billion (for 2000-2001, $2.094 billion). Regular retirement benefits ($1.075 billion) increased by 13.4 per cent, but early and deferred retirement benefits ($831 million) by only 7.6 per cent.

19. The net excess of income over expenditure was $1.758 billion, a decrease of $107.8 million (6.5 per cent) from $1.866 billion for 2000-2001.

20. Since 1994, contributions have not covered all benefits paid in a year: in 2003, due to a strong increase in contributions, the total contributions represented 93.9 per cent of benefits, against 87.2 per cent in 2001 (see line 5 in table 1). The trend of using investment income (line 2) to finance benefits as well as administrative and investment expenditures continued.

Table 1
Income, 1991-2003
(Thousands of United States dollars)

	1991	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
1. Contributions	641.9	711.7	777.5	800.7	787.4	801.7	816.6	854.5	928.6	1 009.7	1 136.4
2. Interest + dividends + real estate income	557.5	581.2	597.4	608.8	619.0	673.3	682.5	729.2	693.6	745.0	836.1
3. Direct cash =(1)+(2)	1 199.4	1 292.9	1 375.0	1 409.5	1 406.4	1 475.0	1 499.2	1 583.7	1 622.0	1 745.6	1 971.6
4. Payment of benefits	552.6	729.8	788.8	915.1	883.7	928.0	1 069.6	1 029.1	1 064.0	1 146.0	1 210.0
5. 1/4	116.2%	97.5%	98.6%	87.5%	89.1%	86.4%	76.4%	83.0%	87.2%	88.1%	93.9%
6. 3/4	217.0%	177.2%	174.3%	154.0%	159.1%	158.9%	140.2%	153.9%	152.4%	152.3%	162.9%

21. The Emergency Fund is financed from the assets of the Fund and voluntary contributions. It provides financial assistance to beneficiaries receiving a periodic benefit from the Pension Fund, in proven hardship owing to illness, infirmity or similar cases, and for funeral arrangements. The expenditures during the biennium 2000-2001 were $73,697, against $71,792 during the previous biennium.

B. United Nations system accounting standards

22. The Board of Auditors assessed the extent to which the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards. However, the Board had recommended in paragraph 28 of its report for the biennium ended 31 December 2001[c] that the accounting of expenditures comply with United Nations system accounting standards; by May 2004 the Fund had yet to take action regarding other income.

C. Presentation and disclosure of financial statements

General presentation

23. Financial statements of the Fund include, in accordance with financial rule 106.10: statements I (income, expenditures and changes in reserves and Fund balance), II (assets, liabilities, reserves and Fund balances) and III (cash flow). The schedules relate to (1) the status of appropriations for the biennium, (2) the investments for the biennium, (3) the cost and market value of investments as at the end of the biennium, (4) accounts receivable from investments as at the end of the biennium, (5) accrued income from investments as at the end of the biennium and (6) foreign tax accounts receivable as at the end of the biennium.

24. The general information is disclosed in the notes about United Nations system accounting standards rules applied by the Fund. However, the notes are inadequate

since they do not provide the basic accounting and financial hypotheses retained for the financial assets of the Fund.

Actuarial valuation

25. The Board of Auditors recommended in paragraph 42 of its previous report[c] that UNJSPF disclose in its report both "open group" and "actuarial evaluation, not considering any future member", or equivalent information in terms of "minimum benefit liability, result with pension adjustment". The Pension Fund planned to consider this recommendation in 2004 in the context of the actuarial valuation for the year 2003, which was to be completed in June 2004.

26. The Board of Auditors recommended in paragraph 49 of its previous report that UNJSPF consider all actuarial assumptions over a reasonable period of time prior to deciding on adjustments to the level of contributions or benefits under constant resources. The Fund indicated that it has no authority over the level of benefits or the rate of contributions, determined by the General Assembly following consultations with the Pension Board, and that the latter takes full account of the actuarial situation and of the views of the Committee of Actuaries, composed of independent outside experts. The Pension Board has made recommendations on this matter to the General Assembly.

D. Accounting and financial reporting

Accounting organization

27. The Board recommended in paragraph 30 of its previous report that the Pension Fund improve accounting staffing and supervision and review its accounting organization. The recommendation has been largely implemented. The post of Deputy Chief in the Accounts Unit, Financial Services Section, was filled in October 2003. The accounting organization has been revamped with the transfer of the accounting tasks from the Executive Office to the Accounts Unit. The Fund has been reviewing its accounting organization, through 18 projects on such matters as enhancement of accounting practices and financial statements presentation, segregation of duties, issues on contributions, procedures and manuals. The Pension Fund has indicated that further progress is scheduled after the implementation of new banking arrangements.

28. The Accounts Unit of the Financial Services Section bears the responsibility for coordination of accounting records for the production of the financial statements, but is not responsible for the work carried out by other units on the accounting records. The workflow of the accounting system (Lawson) is disseminated among numerous Fund services, some without supervision by the Accounts Unit, for operations as well as for investments. The Accounts Unit undertakes one part of the accounting process: it manages on a monthly basis the manual reconciliation between payable and actual contributions from the member organizations; the Unit also books custodian bank charges. Five units outside the Accounts Unit remained responsible for other accounting tasks:

(a) The Executive Office inputs into the Lawson accounting system transactions recorded in the United Nations accounting system (Integrated Management Information System (IMIS)) and entering vendor invoices into the

Lawson purchase order system to enable the Payments Unit to prepare payment vouchers. Management indicated that it would take further steps to resolve the conflict of functions between the Executive Office and the Financial Services Section and revise the corresponding procedures;

(b) The Cashier Unit (Financial Services Section) receives the bank checks and accounts for them in Lawson, without review of the entry by the Accounts Unit before posting to the general ledger;

(c) The Payroll Unit (Pension Entitlements and Client Services Section) inputs into the Lawson system payments and overpayment recovery;

(d) The Geneva Office carries out some of the accounting tasks referred to above;

(e) The Investment Management Service enters contribution payments and investment operations. The Accounts Unit has no authority to review its records, other than to ensure that they are accurately transferred into the Fund's accounting database.

29. Incompatible functions to be segregated are the custodial, accounting/recording and authorization functions. The "supervision" and "segregation of incompatible functions" controls fall under "disciplines over basic controls", which the Fund has not so far fully implemented.

30. The units other than the Accounts Unit are not under its direct accounting supervision. The staff members act as certifying officers, and there is no approving officer function. With only two Professional posts and 10 General Service posts, the Accounts Unit appeared to be insufficiently staffed, and management confirmed that it was unable to complete key reconciliation activities in a timely manner.

31. Since January 2004, administrative expenditures have been recorded directly in expenses accounts, as recommended repeatedly by the Board of Auditors in its previous reports (A/55/9, annex III, para. 47, in 2000; A/57/9, annex XII, para. 30, in 2002). After an interim audit by the Board, the Fund undertook an accounting organization study to improve accounting procedures in order to reflect expenditures on an accrual basis and to complete the segregation of duties in compliance with United Nations financial rules and sound internal controls policy. After a consultant had described the necessary steps, an interface was created between IMIS and Lawson to input administrative expenditure directly into Lawson from the Accounts Unit.

32. The segregation of duties between the Executive Office and the Accounts Unit was approved on 23 September 2003; by May 2004, the Fund had yet to take action for other units.

33. **The Pension Fund management agreed with the Board's recommendation to review its accounting organization and staffing table in order to implement sound accounting procedures, with a view to, notably, (a) securing a safe validation process for book entries under the sole authority of the Accounts Unit and (b) introducing a clear and effective segregation of duties.**

34. The units still have no general accounting instructions to comply with. The last accounting manual, which was issued in 1991, before the implementation of the

Lawson system, is outdated. The current de facto manual is a Lawson software manual, not specific to the accounting operations of the Fund.

35. **The Pension Fund agreed with the Board's recommendation to update its accounting manual.** The Fund added that it would present a plan to do so to the Pension Board in July 2004.

Contributions

36. The Board of Auditors recommended in paragraph 23 of its previous report[c] that, to comply with international accounting standards, the Fund post the participating organizations' monthly instalments towards contributions as revenue (class 4) in its general ledger, and not directly as class 1 assets, and that it adapt its procedures accordingly — towards accrual accounting. As recommended by the Board, since 2004 the Fund records monthly contributions as income, based on estimates and on an accrual basis.

37. The Board also recommended in the same paragraph that the Pension Fund obtain a better estimate of the level of the initial instalments and consider achieving in the longer term nearly real-time monthly data processing. As of June 2004, no action had been taken to obtain a better estimate of the level of the initial instalments. The protracted yearly reconciliation still lasts for several months after the end of the year. The Pension Fund noted that many member organizations have difficulty providing comprehensive and accurate information on monthly contributions and commented that, given that the data available on a monthly basis were known to be inaccurate, it had to be a question of what advantage would be gained by polluting the Fund's records with data known to be incorrect. It still considered that participating organizations would have considerable difficulty in providing accurate monthly data and that a monthly reconciliation would be labour-intensive and costly. The Board is of the view that there is no reason why the Pension Fund should not align itself with accounting best practices.

38. **The Pension Fund agreed with the Board's recommendation to benchmark against other funds' best practices on accounting for pension contributions.**

39. Contribution and remittance statements are sent monthly by participating organizations to the Accounts Unit, but there is still no book entry of the payable contributions or of the remittances before the end of the year. Member organizations' payments are deposited into a bank account and entered as a credit entry to a current asset account the following month (generally 15 days after the beginning of the month) in the Lawson system by the Investment Management Service. Remittances cannot be matched with the cash payments before being accounted for in Lawson (i.e., from two to six weeks later).

40. The Fund's Accounts Unit performs the monthly reconciliation of contribution remittances between the information provided by the Investment Management Service and monthly contribution statements, and acts upon any discrepancies. The lack of an immediate and permanent link between the Investment Management Service and the Fund secretariat's Accounts Unit limits internal controls. The Fund's capacity to proactively claim unpaid contributions and to properly account for them is limited.

41. Cash management includes the processing of payments of contributions to the Investment Management Service bank account. The Investment Management Service receives the contributions on a monthly basis and transfers to the Cashier Unit the amounts needed for paying pensions and benefits. Spreadsheets are provided to that effect by the bank and compared with bulletins from the bank acting as master record keeper. The Cashier Unit matches the custodian bank accounts with the daily cash requirements to pay pensions and administrative expenses. This system is complicated but effectively managed, with no cash shortages.

42. **The Board reiterates its recommendation that the Fund (a) implement a monthly reconciliation of the payments of contributions in order to enhance payment recovery and to introduce full accrual accounting and (b) launch a United Nations system-wide initiative to that effect.**

43. The Board of Auditors recommended in paragraph 65 of its previous report[c] that UNJSPF receive contributions directly into the "operations" bank accounts, which are used for paying benefits; establish cash-flow projections on a weekly, a monthly and an annual basis; and enact proper instructions for the cash account balances and the monitoring of currency purchases. The Pension Fund contracted new banking arrangements in March 2004 and informed the member organizations that they were to remit contributions to "operations" bank accounts once the arrangements were operational. New procedures for cash-flow projection and monitoring of currency purchases were also to be implemented. The Fund expected to achieve better control by July 2004.

44. **The Board recommends that the Fund review its internal processes and controls related to contribution income in order to ensure that contributions are paid fully and on the due date.**

45. The Board recommended in paragraph 80 of its previous report that UNJSPF ascertain that contributions were accounted for on an accrual basis in the same fiscal year by both parties. The Fund has adjusted its own accounting procedures, but it does not have authority over the accounting arrangements of participating organizations.

46. **The Board recommends that the Fund continue to invite all participating organizations to consider the feasibility of accounting for contributions on an accrual basis and by calendar-year period.**

Recovery of reimbursed expenditures and contributions

47. The Board had recommended in paragraph 83 of its previous report[c] that UNJSPF monitor more closely the monthly payments received against their likely level and proceed in a more timely fashion with the invoicing of late-payment charges. The recommendation is under implementation. The Fund reports, in the year-end financial statements, accounts receivable for participating organizations' payments, which are, however, still only estimates.

48. The Fund confirmed that due to the inherent unreliability of the initial data received from the organizations, the reconciliation of contributions receivable cannot be performed until the annual general ledger closing is completed, in late April. The final calculations of contributions receivable are usually carried out between July and October of the following year, too late to be included in the

financial statements. The situation has deteriorated. For the 2002 accounts, receivables had yet to be completed as at 27 April 2004, while the amount pending at the end of the biennium was $62.3 million, up from $39.7 million as at 31 December 2001.

49. The Fund worked closely with member organizations to minimize unsettled outstanding contribution receivables. The annual clearance of the balances between the Fund and the organizations is seldom final. Several balances are settled a number of months after the period's financial statements, but still often on an estimated basis. Some balances remain pending for several years, with discrepancies of up to several million dollars, as in the case of the United Nations Children's Fund.

50. The Board of Auditors recommended in paragraph 26 of its previous report that the Fund act upon underpayments or late payments as soon as the reconciliation of contributions was completed. The Fund was, by April 2004, to review these issues later in the year. The Fund also expected a reduction in delays with the arrangement to receive contributions directly in the new "operations" bank accounts.

51. **The Board reiterates its recommendation that the Fund take appropriate steps to issue contributions reconciliation statements in a timely manner and further develop its proactive strategy towards the organizations for the clearing of the receivables.**

52. The Fund handles pension administration for the United Nations and serves as the local secretariat of the United Nations Staff Pension Committee. The United Nations shares with the Fund the corresponding administrative costs, in accordance with arrangements approved by the Pension Board and the General Assembly. However, the Fund did not provide bills or inter-office vouchers to the United Nations Secretariat on a regular basis. This called for a periodic reconciliation between UNJSPF and United Nations Headquarters on the amount of reimbursement of expenditures under the agreed cost-sharing arrangements. By May 2004, the reconciliation was under way, but the Fund still could not accurately determine how much the United Nations Secretariat had paid for the previous years.

53. According to the Fund, the accounts receivable from the United Nations General Administrative Fund due in regard to the above reached $10,043,906 at the end of the biennium. Since the Board's audit, the Fund has initiated a revision of its administrative and accounting procedures for administrative expenses, with discussions with the United Nations for an improved system.

54. **The Board recommends that the Fund further request the United Nations Secretariat to liquidate its cost-sharing obligations and seek a new procedure to account for cost-sharing arrangements.**

55. The Fund pre-pays the expenditures related to meetings of the Pension Board and its working groups, to be reimbursed by participating organizations. The Fund waited for two years to bill the organizations. As a result, it was reimbursed very late, and only partially. No recovery action has been undertaken since December 2002. At the end of the biennium 2002-2003, accounts receivable reached $340,589, including $251,564 from the United Nations Secretariat.

56. **The Pension Fund agreed with the Board's recommendation to promptly bill participating organizations for services rendered and follow up with due diligence to obtain full payment.**

Interface master record keeper — Lawson

57. As noted by the Board of Auditors in paragraph 85 of its previous report,[c] "the lack of an Investment Management Service accounting system has introduced a potential financial risk since 2000". The Investment Management Service has not replaced its former accounting system, which was not year-2000 compliant. In 2000, it outsourced this function to the master record keeper. In July 2001, the Standing Committee of the Pension Board requested a study, which was arranged for only at the end of 2002. The consultant advised the Investment Management Service, in its mid-2003 report, to keep the master record keeper (MRK) system for the investment general ledger, while enhancing it through increased automation of data movements from the MRK to the UNJSPF Lawson general ledger. It outlined the benefits of the arrangement (business continuity, information technology infrastructure managed and maintained by the MRK, quality of service provided by the economies of scale at the MRK) and its cost-effectiveness: a custom-made application would have been expensive to develop and maintain. The Standing Committee confirmed the arrangement in July 2003, but no additional controls were reported. The Investment Management Service planned to seek a global custodian in 2005 and to strengthen controls of the accounting function and the reporting of investment activity.

58. **The Board encourages the Pension Fund to strengthen controls of the accounting function and the reporting of investment activity.**

Foreign tax accounts receivable

59. The foreign tax accounts receivable balance of $25.1 million as at 31 December 2001 had decreased to a still significant $22.9 million as at 31 December 2003 (see schedule 6). Two new Member States granted tax-exempt status to UNJSPF in 2002-2003, while four Member States still had not done so by May 2004, despite requests going as far back as 1987. The Fund had not sent reminders to those four countries since 1999 (to two of them), 2000 and 2002 respectively, but did not plan to make investments in them.

60. **The Board encourages the Pension Fund to continue to recover outstanding tax reimbursements and to further appeal to Member States to grant tax-exempt status to the Fund.**

E. Write-off of losses of cash, receivables and property

61. The Fund wrote off receivables from 36 beneficiaries, totalling $104,425 (against $53,022 and SwF 4,042 for the previous biennium) in accordance with administrative rule J.9 and after several years of efforts to recover the related overpayments, the majority of which result from the late reporting of the death of a beneficiary. The Fund agreed to take further steps to prevent such overpayments.

F. Ex gratia payments

62. The Fund informed the Board of Auditors that no ex gratia payments had been made during the biennium 2002-2003.

Chapter IV
Management issues

A. Investment management

Performance of the Fund

63. In its resolution 49/224 of 23 December 1994, the General Assembly requested the Secretary-General to present in future reports on the investments of the Fund a fuller analysis of the performance of those investments and their significant components, including, where applicable, means of comparing performance with relevant benchmarks and other pension funds. The General Assembly adopted a benchmark for the total investment of the Fund consisting of two components, for equities and bonds: the Morgan Stanley Capital International World Index for equities and the Salomon Brothers World Government Bond Index for bonds.

64. The Board of Auditors recommended in paragraph 58 of its report on the previous biennium[c] a more proactive strategy, with asset management tools such as formalized target prices to be reported to the Investments Committee. Management commented that the present performance benchmark had been requested by the General Assembly as mentioned above and accepted by the Pension Board, and that it had no jurisdiction over this matter.

65. The Fund performance against those benchmarks is shown in table 2.

Table 2
2002-2003 performance of the Fund

		2002-2003					*2000-2001*		
		1 Benchmark	*2 Fund*	*2-1*			*1 Benchmark*	*2 Fund*	*2-1*
		(percentage)					*(percentage)*		
Equities	2002	(19.9)	(18.0)	1.9	Equities	2000	(13.2)	(11.8)	2.4
	2003	33.8	31.0	(2.8)		2001	(16.8)	(15.2)	1.6
Bonds	2002	19.5	21.9	2.4	Bonds	2000	1.6	4.1	2.5
	2003	14.9	18.8	3.9		2001	(1.0)	2.4	3.4
Total	**2002**	**(5.3)**	**(2.9)**	**2.4**	**Total**	**2000**	**(7.2)**	**(6.2)**	**1.2**
	2003	**26.2**	**24.8**	**(1.4)**		**2001**	**(10.4)**	**(8.4)**	**2.0**

66. In 2002 and 2003, the investment performance was negative 2.9 per cent and positive 24.8 per cent, respectively. It was above the benchmark (-5.3 per cent) in 2002 and below it (26.2 per cent) in 2003.

Adviser services procurement

67. Advisory fees paid by the Fund during the biennium amounted to $15,835,000. Following a bidding process launched in 2000 that involved 15 competitors, a specially convened contracts committee and some input from the United Nations Procurement Division at Headquarters, the Investment Management Service retained

three non-discretionary advisers covering four fields, at an annual additional cost, as compared with the lowest offers, of $1,540,000.

68. Although one competitor enjoyed the overall highest technical score (857) and had the lowest fees ($1,490,000 per region), it was retained only to cover Asian stocks, because it was deemed to be strong in that region and weak elsewhere. Moreover, while for the remaining services the other two competitors were almost equal technically (843/842), the incumbent was eventually retained at an annual cost of $2,051,120, still exceeding the lowest bid by over $300,000.

69. The Board had recommended in its report on the biennium 1998-1999 (A/55/9, annex III, para. 38) that the management of the Investment Management Service expedite action in formulating the evaluation criteria of the performance for advisory and custody services. The evaluation files regarding the non-discretionary advisers show that no systematic assessment of adviser performance was documented, although day-to-day contacts allowed Investment Management Service personnel to constantly but informally evaluate the services. The wording of the evaluation was identical from one year to another and nearly so from one adviser to another.

70. Concerning real estate, a separate tender for non-discretionary services took place in 1997. The contract was awarded to a California-based firm in 1998 for a yearly fee of $87,000. In 1999 the fee was raised to $600,000 to include semi-discretionary services, without the Headquarters Committee on Contracts being involved in the process, contrary to procurement rules. By 2003, no evaluation file was available concerning services rendered by that firm. A new bid took place in November 2003, and a new adviser was awarded a five-year contract in January 2004, at a cost not to exceed $180,000 yearly. The Fund's Investment Management Service indicated that by June 2004 the ongoing arrangements for a new custodian and master record keeper were being made in close cooperation and coordination with the Office of Legal Affairs and the Procurement Division.

71. **The Fund's Investment Management Service agreed with the Board's recommendation to fully comply with United Nations regulations and rules on procurement.**

Real estate investment

72. The Fund's real estate investments are subject to the same rules and regulations as the Fund's whole portfolio, summarized in the Investment Section Organization, Policies and Procedures Manual. The Equities and Real Estate-related Investments Unit, in the Investment Section, is in theory responsible for recommending and executing the purchase and sale of real estate-related securities. However, the staffing table did not provide for an investment officer post, the occupant of which would have been in charge of that class of investment.

73. The Director of the Investment Management Service personally managed real estate investments until he retired in 2003. Upon his retirement, there was no proper, available written documentation on the real estate investments. For example, there was no record of approval of the real estate investment guidelines prepared by the outside adviser, and only a draft copy of the document was available. Approved-list recommendation forms and purchase recommendation forms were signed by one of the Unit's investment officers. But the Unit did not have the responsibility for, or

access to, the documentation and audit trail of the real estate investments. After the Board's audit, management commented that the Investment Management Service would endeavour to conduct a comprehensive inventory of real estate files to assess the level of existing documentation, to place that which was available in a more readily accessible and orderly condition and to seek to remedy any gaps in documentation.

74. Nor were there any records of the meetings that were held by the Investment Management Service with the adviser apparently four or five times a year. There was no complete list of the real estate operations performed during the biennium, no records of annual performance reviews of the adviser between 1998 and 2002 and no documentation on the process of renewal of the advisory contract after its expiration in February 2003. At the time of the Board's audit, the Officer-in-Charge of the Investment Management Service and the staff were unable to answer most questions on these investments because they did not know where to locate the corresponding files. The Board of Auditors resorted to recovering some information from the adviser's office in California. By June 2004, all real estate documents were routed to a real estate portfolio assistant, who was accountable for these files.

75. The Investment Management Service relied on outside advice processed solely by the Director and by the Representative of the Secretary-General. Management now agrees that it was not internally equipped with sufficient professional investment expertise in real estate.

76. Therefore, in this sector, the Pension Fund was faced until the fall of 2003 with significant risks because it:

(a) Did not comply with the organizational rules described in the Manual;

(b) Did not implement the standard oversight mechanism instituted by the organizational structure approved by the Secretary-General;

(c) Had no mechanism to monitor and control the services provided by its outside adviser beyond the Director's personal judgement;

(d) Had little accountability for the real estate decisions made by the Director of the Investment Management Service.

77. The extent of the risk was mitigated by the limited extent of real estate assets in the portfolio, which represented 6.7 per cent ($1.538 billion as at 30 June 2003) of the Fund's assets as at 31 December 2003. The Board is, however, pleased to note that the issue of real estate investment was to be addressed in 2004 during a review of the Service's structure by an outside consultant.

78. After a vacancy of over five months, a new Director was eventually appointed in May 2004. The Board is concerned that a position responsible for the management of $26 billion in assets was left vacant for such a long period.

79. The Administration commented that the search for the new Director had been undertaken in accordance with standard United Nations employment policies and procedures.

80. **The Board recommends that the United Nations consider appropriate means to prevent the recurrence of vacancies in key senior management positions.**

The 41st Street building

81. The Fund's Investment Management Service made a direct real estate investment in 2003 in New York City. At its 184th meeting, in July 2001, the Standing Committee of UNJSPF supported the proposal of the Secretary/Chief Executive Officer of the Fund regarding the rental of premises so as to provide a long-term solution for its own office-space requirements. By a letter dated 19 October 2001, the Under-Secretary-General for Management had authorized the Chief Executive Officer to begin an active search in the vicinity of the United Nations. At its meeting in October 2002, the Advisory Committee on Administrative and Budgetary Questions reiterated the appropriateness of the Fund's intention to locate permanent premises. The search resulted in the identification of a class A, "institutional grade" building located on 41st Street, in the vicinity of the United Nations, and the November 2002 decision to purchase it directly from its owner.

82. The total cost of the acquisition was $180.45 million. The Pension Fund paid the full amount in cash. UNJSPF intended to obtain a mortgage of $133 million to reduce the share of this single investment in the real estate portfolio from 11.8 to 5 per cent and to increase the projected return on the investment. Assuming 100 per cent occupancy and a 10-year hold, the return was estimated at 12.2 per cent after leverage and at 9.6 per cent without (assuming that part of the premises was leased to the Fund). Based on the total book value of the investment ($185.2 million as of 31 October 2003), a loss of 1 per cent amounted to $1.85 million per year. The building was purchased, but the mortgage was never taken, and the Fund's offices never moved into the building.

83. This investment was not compliant with the Fund's Manual describing the policies and operations of the Investment Management Service, which stated at that time that "direct investment in real estate should not be made (buying a physical property)". The policy was amended on this point in April 2003 — three months after the transaction was closed. Nevertheless, the Representative of the Secretary-General has full authority to approve or modify the Manual and the guidelines. Therefore, his authorization of this direct investment was considered to have the effect of legally overruling and de facto amending the Manual. However, management agreed that an amendment prior to the fact would have provided for a more orderly procedure.

84. The Representative of the Secretary-General decided in May 2003 that no further action regarding this property should be taken until the legal and investigative issues were resolved. Management commented after the Board's audit that the Office of Legal Affairs would in the future be consulted systematically and in a timely manner to prevent such risks.

85. The Investment Management Service and its adviser were of the view that the building could be sold at a profit, net of expenses, through a privately negotiated transaction or a limited bid process to limit expenses. On 5 December 2003, the Representative of the Secretary-General approved a sale recommendation from the Investment Management Service to try to liquidate the asset in question, considering now that the building's internal rate of return was lower than expected and would have a negative impact on the real estate portfolio performance. The Procurement Division at Headquarters was tasked with selling the building, and a brokerage firm was selected in May 2004. The financial outcome of this now short-term, prime real estate investment remained uncertain.

86. Management agreed that proper controls were ignored in the purchase of the building, due to inadequate supervision and lack of transparency in real estate management, which resulted in a breakdown of the standard checks and balances. Following the Board's audit, the Pension Fund commented that by mid-2004 it was processing real estate investment in the same transparent manner as it processed equity transactions, providing a similar audit trail, and that a new real estate adviser was constructing a strategic and tactical plan for real estate investments, to be reviewed by the Investments Committee and the Representative of the Secretary-General.

B. Fund administration

Administrative expenditures

87. In section V of its resolution 56/255 of 24 December 2001, the General Assembly approved appropriations for the biennium 2002-2003 amounting to $74,322,400, chargeable to the Fund.[d] This amount comprised $29,943,800 for administrative costs, $43,405,100 for investment costs and $973,500 for audit costs. In section IV of its resolution 57/286 of 20 December 2002, the Assembly increased the administrative costs by $62,500, to $30,006,300, thereby raising the overall appropriation to $74,384,900. The total appropriations were $85,393,000, including the United Nations contribution of $10,043,906 under the agreed cost-sharing arrangements (see paras. 52-54 above), but were eventually reduced to $80,278,000.

88. The Fund's share amounted to $69.8 million for the biennium 2002-2003, as against $56.8 million for the previous biennium, an increase of 22.9 per cent. Administrative costs were $27.1 million, against $18.1 million for the previous biennium (+ 49.8 per cent), but less than the revised appropriations of $30 million. In addition, investment costs amounted to $41.7 million for the biennium, against $38 million for the previous one (+ 9.8 per cent). This increase resulted from higher advisory and custodial fees ($30.8 million, against $29.2 million). Due to the delay in signing the contract with a new bank, and due to the incapacity of the Fund to provide the data-processing interface required, bank charges increased from $0.9 million to $2.2 million. Nevertheless, overall investment costs were less than the appropriation of $43.4 million.

89. Regarding the relocation of the Fund, in July 2003 the Standing Committee reported to the General Assembly that

> "net savings of $5,114,500 are expected for the Fund against the overall appropriations of $85,392,700, before the deduction of costs related to the acquisition of furniture and fittings, mentioned in paragraph 19 [on rental of new premises], in connection with the relocation of the Fund to premises outside the United Nations Secretariat building. All realized savings would be returned to the principal of the Fund".[e]

At the end of the biennium, no relocation had been undertaken and the savings were returned to the principal of the Fund (the difference between appropriations and expenditures charged to the Fund was $4,625,000). No appropriations for relocation expenditures were provided for 2004-2005.

Budget process

90. In June 2001, the Chief Executive Officer of the Fund submitted to the Standing Committee a management charter entitled "Framework for long-term vision and objectives of UNJSPF", as a first attempt at results-based budgeting. The Fund then reviewed its staffing structure. The Office of Internal Oversight Services audited budget practices in January 2003 and made recommendations to better link budget requirements to objectives and results. These recommendations have been largely implemented, but not completely, because the Fund did not have all the appropriate staff.

Bank charges

91. Since August 2002, one of the Fund's banks has charged a fee of $6 to $30 per transaction on non-dollar payments to beneficiaries because the Fund could not provide the data-processing interface it required. This has resulted in a monthly increase of some $30,000 in bank charges, contributing to the increase in bank costs already mentioned. Such expenditure was expected to continue until the data-processing interface becomes operational in 2004.

92. The bank charges relating to operations still appeared as investment costs instead of the administrative costs they are. Moreover, the net amounts invoiced by banks to the Fund every month are fees relating to services, reduced by compensating balances maintained at those banks by the Fund. Although the bank statements disclose the fees and the credit stemming from the balances maintained, the Fund continued to account only for the net amount, which means that the expenditures and income have been misstated, although not to a material extent, in the financial statements.

93. **The Board recommends that the Fund record fully all bank charges on operations as administrative costs.**

Performance in beneficiaries management

94. The number of active participants increased from 63,813 in 1994 to 85,245 in 2003 (33.6 per cent) and the number of periodic benefits in payment from 37,156 to 52,496 (41.3 per cent). During the biennium, the number of active participants increased by 6.4 per cent but the number of periodic benefits by only 2.7 per cent, against 20 per cent and 10 per cent, respectively, for the previous biennium. Full withdrawal settlements numbered 4,396 in 1994 and 6,503 in 2003, with an average of 5,130 per year during the entire period. In 2003, they represented 68 per cent of new benefits.

95. Quality management is considered a key component of the management charter presented to the Standing Committee of the Pension Board in July 2001. The main goal is to ensure that there is no more than one month's delay between the last salary and the first benefit payment. When all documents for separation, including payment instructions, have been received, the Fund has a commitment to pay monthly benefits, as well as lump sums and withdrawal settlements, within 15 working days of receipt. These goals had not yet all been achieved at the end of the biennium 2002-2003: in Geneva payments are made in an average of about 9 days after receipt of the full separation file, but in New York the average is 18 days (compared with 32 days in 2000).

96. Delays in the submission of documents are still long, on average about 220 calendar days for a pension settled in New York; the average delay in Geneva increased from 132 days in 2000 to 228 in 2003. They differ from one member organization to another, with a spread of from one to five days, up to several hundred days. The reasons vary, but the delays are detrimental for beneficiaries and generate supplementary tasks. The Fund agreed with recommendations made in 2002 by the Office of Internal Oversight Services to develop a web-based system to assist member organizations in submitting information electronically and to train the staff of member organizations. By May 2004, the web-based project was not yet operational.

97. **The Board recommends that the Pension Fund continue to encourage organizations to process and remit separation documents in a timely manner.**

Participating organizations' list of approved officers

98. Regarding the filing of participating organizations' approved signatures for processing separation documents, the notifications of approved officers were not always periodically renewed. Specimen signatures were missing. The effective date was not always stated. The names of officers-in-charge were not always disclosed. For example, instead of the specific notification of a United Nations approved signature, the Fund often had only a copy of the general "delegation of authority — approving officer" letter that emanates from the Controller. In May 2004, the most recent circular letter to confirm the list of approved names and signatures dated back to 1995; such a letter should be issued every few years.

99. **The Board recommends that the Pension Fund request that participating organizations regularly update the list of approved officers.**

C. Information and communication technology

100. The Board of Auditors recommended in paragraph 87 of its previous report[c] that UNJSPF complete, as a matter of urgency, the interface between the Lawson system and PENSYS. This has been implemented. The Board also recommended that the Fund adopt a coherent information and communication strategic plan, with a proper accounting system, and, in paragraph 97, other physical and logical security steps. The lack of implementation in some of the latter respects is reviewed in this section.

101. The Board recommended in paragraph 91 of its previous report that the Fund further review the difficulties in staffing positions in information and communication technology and design and implement a long-term staffing strategy. On the one hand, the Fund has approved a staffing strategy for operations as part of the budget proposal for 2004-2005. Two established posts were approved for conversion from general temporary assistance funding. Six posts remained as posts funded from general temporary assistance for the 2004-2005 biennium. These measures may not be sufficient to adequately meet the targets, as reviewed below. On the other hand, the Investment Management Service, which has its own Information Systems Section, had not yet filled the section chief post and a computer assistant post by April 2004; the recruitment process had been launched in 2000. The Fund stated that the prospective recruits did not meet United Nations requirements; however, by June 2004 a computer assistant post was about to be

filled, and two general temporary assistance staff members were working on the disaster recovery plan and the computer room relocation. Further action was to be considered after a study of the Investment Management Service structure and procedures, scheduled for September 2004.

102. The Board of Auditors recommended in paragraph 97 of its previous report that UNJSPF create a security officer function, develop a security and disaster recovery plan and promptly improve the control of access to the server room. A similar recommendation on disaster recovery had been made in the Board's report for the biennium ended 31 December 1999.[b] For its operations, the Fund had recruited a security officer as of September 2003, launched a business continuity planning process in April 2004, prepared security guidelines to be enacted later in 2004 and scheduled a security check and awareness programme for June 2004.

103. Regarding operations, in 1999 the Standing Committee requested an information technology strategic plan. The last of three studies concluded that a long-term technology strategy would leverage the existing investments and knowledge base, and information could be shared with the member organizations of the Fund, participants and beneficiaries through modern technology. In phase one, the short-term initiatives would consist of strategic planning, project planning, functional requirements and request-for-proposal development. In phase two, the longer-term initiatives would include the United Nations/IMIS interfaces with PENSYS (and similar arrangements for the other member organizations), infrastructure development, data-cleansing and standardization, building the interfaces and architecture required for storage of consolidated data and building the web applications necessary to view the consolidated data in a secure environment.

104. By June 2004, the Investment Management Service still did not have a disaster recovery plan, or, indeed, an information and communication technology strategic plan, despite repeated recommendations made during the Board's audits, but it stated that the pre-encumbrance process undertaken with various vendors for the disaster recovery plan and business continuity and recovery services and support was in progress.

105. The Fund has focused a process re-engineering study on the efficiency and quality of service improvements. The Fund concluded that 8 of 10 recommended projects should be considered for implementation: three future-direction projects (data collection, data warehouse, web application enablement) and five infrastructure enhancement projects (information security, workflow and processing, ethernet migration, knowledge management, storage area network). Disciplined project management was also considered vital. In addition, 47 other projects have been categorized as infrastructure-related, performance-enhancing or strategic, and documented with respect to project managers, status, issues and end date.

106. To implement those projects, the Fund requested eight additional established posts for the biennium 2002-2003, additional office space to accommodate the recommended increases in hardware, consulting services and staff, and an additional appropriation of approximately $8.2 million over the next three years, not including maintenance costs. The eight key re-engineering projects have been delayed due either to lack of office space and the Fund's inability to expand its computer room at Headquarters, or to unexpected delays in the procurement and legal process. As a result, the initial planning targets and their 2002 and April 2003 revisions were not

achieved. Only one of the key re-engineering projects was completed by the end of 2003.

107. The repeated delays have come at a significant risk for the overall performance of the Fund. The United Nations Secretariat could have prevented such risks by authorizing the Fund to rent appropriate space as soon as it was needed.

108. In view of the risks and the amounts at stake in terms of Fund operations, proper diligence and funding have not been provided for the modernization of the Fund's information systems. Finding a computer room and office space locally for a financial institution of this size would not under normal conditions be a challenge. The Fund did not act in a more timely manner, partly because of the lack or lateness of appropriate decisions from the Secretariat for several years. The delays have resulted in significant risks in terms of the continuity and reliability of the operations. The implementation of some of the recommendations of the Board of Auditors was delayed as well, as mentioned above. By June 2004, the relocation was again scheduled to be finalized, this time in October 2004.

109. **The Board recommends, as a matter of urgency, that the United Nations Secretariat (a) finalize the relocation of the Fund to, inter alia, modernize in a more professional and in a timely manner its information technology and operations and (b) review the lessons to be learned from this case of deficient management of facilities.**

D. Performance management

110. The mission of the Fund is to provide pension income and related benefits to retirees and other beneficiaries in the best conditions of security, performance, responsibility and accountability, while maintaining full compliance with the highest standards of efficiency, competence and integrity. The Fund has to face challenges such as life expectancy increases, the growing complexity of its regulations and an increasing demand for better two-way communication. The Chief Executive Officer accordingly submitted to the Standing Committee a management charter entitled "Framework for long-term vision and objectives of UNJSPF", in June 2001. It proposed six main objectives for the biennium 2002-2003: (a) to strengthen the direction and supervision of operations and activities by the Office of the Chief Executive Officer; (b) to develop a web-based information system; (c) to ensure quality services in a timely manner; (d) to develop an investment policy and strategic asset allocation that would reflect the Fund's strategic purpose of funding liabilities; (e) to develop a coordinated results-based approach in day-to-day operations; and (f) to enhance communication on activities.

111. The Fund achieved part of these goals: (a) delays in paying benefits have been reduced, but not always those related to the separation documents coming from participating organizations; (b) the web-based information system has been under development; (c) assets remained in line with the financial goals and consistent with the actuarial valuation; (d) communication on activities has been improved. Work towards other goals is still in progress, especially in accounting, as noted above in several respects.

E. Code of ethics

112. The Board of Auditors recommended in paragraph 67 of its previous report[c] that the Fund's Investment Management Service establish specific guidelines on ethics as well as a compliance officer function. In November 2003 the Representative of the Secretary-General eventually introduced an appropriate code of ethics and standards of professional conduct, sourced from the private sector, and required all fund investment officers and staff to comply with the financial disclosure procedures set by the United Nations code of ethics. The Investment Management Service considered that the compliance officer function had been fulfilled by the Representative of the Secretary-General, who is also the Under-Secretary-General for Management of the United Nations, but, by June 2004, it was pursuing the creation of such a post while expecting that the above-mentioned outside review would address this issue.

113. **The Board recommends that the Pension Fund establish an ethics compliance officer function.**

F. Internal audit

114. In its relevant report,[a] the Advisory Committee on Administrative and Budgetary Questions pointed out, during its review of the internal audit coverage of the Fund's activities, that it had not been provided with any compelling argument in support of a decision, which the Fund was considering, to discontinue the internal audit services of the Office of Internal Oversight Services. The Advisory Committee recommended that the Board of Auditors carry out an assessment of the capacity and professional expertise required by the Office of Internal Oversight Services to provide internal audit services for the administrative and investment activities of the Pension Fund, in accordance with commonly accepted industry standards for the audit of pension funds.

115. In carrying out its review, the Board has considered a number of factors, including: (a) the internal audit mandate, (b) staffing and resources, (c) reporting lines and audit committee, (d) audit universe and risk assessment, (e) work plan and (f) audit cycle timing.

The internal audit mandate

116. As confirmed by the Office of Legal Affairs, the Pension Board established in 1996 an internal audit function by providing a budgetary allocation "to enable OIOS to carry out that function".[f] This function covers both investment and non-investment activities. At the same time, the Pension Board also acknowledged a separate agreement between the Office of Internal Oversight Services and the Representative of the Secretary-General on the reporting lines for the internal audit of investment activities. It follows from that decision and that agreement that the Office of Internal Oversight Services, with the approval of the General Assembly, received an internal audit mandate from the Pension Fund, but that it did not have de jure authority to audit the Fund.

117. At its forty-seventh session, in 1996, the Pension Board noted that with respect to "the investment area, OIOS had agreed with the Representative of the Secretary-General for the Investments of the Fund that OIOS would retain a firm with strong

investment accounting experience to carry out a comprehensive audit of the Fund's investment activities; while OIOS would supervise that firm's work, no posts would be established".[8]

118. In the first part of 2004, the Pension Fund and the Office of Internal Oversight Services successfully reviewed their relationship, as expressed by their joint drafting of an audit charter that would reflect their respective responsibilities. **The Board commends their initiative towards the signature and implementation of the internal audit charter.**

Internal audit staffing and resources

119. The Board's review of their educational and professional backgrounds, as well as of their audit work, showed that Office of Internal Oversight Services professionals involved in UNJSPF audits generally had appropriate financial, accounting and auditing professional background, experience and continuous training. However, the Office of Internal Oversight Services has to some extent lacked the specialized skills required by the Fund's internal audit, especially on investment-management matters.

120. At the time of the Board's review, none of the internal auditors had extensive experience in such fields as the audit of investment management. These fields, some of which are seldom addressed in other parts of the United Nations system, can easily be covered by outsourcing to specialists. The Office of Internal Oversight Services has done so to some extent. It has recently ordered an extensive package of training courses for its auditors, and was considering internships for them in appropriate financial institutions. It could also call upon specialists who cover similar needs in other parts of the United Nations system, such as at treasuries.

121. Any requirement for additional Office of Internal Oversight Services staffing needs to be more fully documented. The Office has the capacity and professional expertise to increase staffing, subject to the ability to offer competitive salary packages in the case of outside, highly specialized recruitment, and was considering further steps after the Board's audit.

122. **The Office of Internal Oversight Services agreed with the Board's recommendation (a) to continue to improve its auditor staffing and skills and (b) to utilize outsourcing specialists in fields such as investment management.**

Reporting lines and audit committee

123. In 1996 the Pension Board set reporting procedures whereby reports would be transmitted to its Secretary/Chief Executive Officer, who would then determine whether all or part of such documentation should be transmitted in some way to the Pension Board. The results of internal audits of the investment area would be communicated by the Office of Internal Oversight Services to the Secretary-General, through his Representative, and to the Secretary. The Advisory Committee on Administrative and Budgetary Questions and the General Assembly, in its resolution 51/217 of 18 December 1996, took note of these procedures.

124. The Office of Legal Affairs confirmed, in an answer dated 25 February 2004, that the Office of Internal Oversight Services reports concerning the investment activities of the Fund are to be submitted to the Secretary-General, through his Representative for the Investments of the Fund, with a copy going to the Chief

Executive Officer of the Fund. The Secretary-General must, consistent with applicable General Assembly resolutions, submit to the latter all Office of Internal Oversight Services reports received, along with any comments. On the other hand, Office of Internal Oversight Services reports concerning internal audits of the operations and other activities of the Fund are transmitted only to the Chief Executive Officer of the Fund.

125. Communication has at times been somewhat difficult between the Office of Internal Oversight Services and the Pension Fund, but the latter has properly followed up on most Office of Internal Oversight Services reports.

126. After reviewing the data provided by both parties, the Board of Auditors considers that there is room for both parties to resolve issues such as independence, standards for developing an audit universe, audit risk assessment and planning, the nature of services to be provided and the resources required (including specialized assistance).

127. The internationally recognized standards of the Institute of International Auditors have been adopted by the Office of Internal Oversight Services. They require that the auditor be free of interference in determining the scope of internal auditing, but that the internal audit function should report to, and receive functional guidance from, an audit committee as well as to and from senior management. Like some other United Nations organizations, but contrary to governance best practices, the Fund does not have an audit committee. Its Board is not structured to act in this capacity because of its size, composition and frequency of meetings. Such an audit committee could have prevented or resolved past difficulties. The Fund's management agrees that it would be useful for the Pension Board to establish an audit committee.

128. The authority for the creation of such an audit committee, and for establishing regulations, such as on the internal audit function, falls under article 49 (a) of the Fund's Regulations: the Pension Board "may recommend amendments to these Regulations to the General Assembly, which may amend these Regulations after consultation with the Board".

129. **The Board recommends that the Pension Fund consider establishing an audit committee, taking into account General Assembly resolution 57/278, paragraph 6, on governance review.**

Audit universe and risk assessment

130. In 2002, the Office of Internal Oversight Services prepared its first risk assessment of the Fund's activities, but did not provide it to the Fund. The first step of a risk-based planning exercise is normally the definition of the audit universe (establishment of an exhaustive list of all the auditable entities). This step was not documented as such in the Office of Internal Oversight Services process. Some documents necessary for this definition, such as a list of information technology systems in use, were lacking. The definition was informal and based mainly on the knowledge accumulated by the internal auditors over the years. The views of the Fund's management on the definition of the audit universe were not sought.

131. The Office of Internal Oversight Services sent to UNJSPF a summary document including 10 risk areas, of which nine had a high significance (or impact) and six a high likelihood of risk, with no direct link between the risk items included

in the Office of Internal Oversight Services internal risk assessment survey sheet and the 10 risk areas. The process that led from one document to the other was not documented. Receiving only the summary document led UNJSPF management to conclude that this was the full audit universe and that the Office of Internal Oversight Services regarded most activities as high-risk.

132. During the same period, UNJSPF was drafting a quality management policy and an internal control policy. These two documents were finalized in March 2002 and submitted to the Pension Board at its session in July 2002. The internal control policy document contained a list of the main risks identified by UNJSPF management and classified in two main categories (operational and financial) and in 10 subcategories, such as legal, administrative, information technology, human resources, cashier, payroll, etc. The two risk frameworks (from the Office of Internal Oversight Services and from UNJSPF) were developed in parallel, with no communication between the two teams and projects. There was a lack of alignment between the risks identified.

133. Standards require that the risk assessment be reviewed annually. In 2003, the Office of Internal Oversight Services reviewed a risk assessment of the Fund. The review took into account the latest audits and the experience gained by the Office in its risk assessment methodology. The Office adopted an approach that it had previously tested in the United Nations Interim Administration Mission in Kosovo (UNMIK) and a new model table for risk assessment. However, while the Office of Internal Oversight Services had conducted extensive exchanges with UNMIK management and stakeholders, it did not do so in the case of UNJSPF.

134. The procurement arrangements for the engagement of a consultant for the risk assessment were in progress by June 2004, and the risk review was to start shortly. The Office of Internal Oversight Services planned to consult regularly with the Pension Fund management and Board in the course of that assignment.

Work plan

135. The Office of Internal Oversight Services work plan covering the period 2001-2003 was finalized with the concurrence of UNJSPF in January 2002. Some proposed assignments have been replaced by others, or postponed. Out of 11 audits included in the work plan:

(a) Four were carried out as planned (including budget, personnel and information technology);

(b) Two were carried out a year later than expected (the cash management audit of financial services, conducted from December 2002 to April 2003, and the investment performance, conducted from May to July 2003);

(c) Five have not been carried out (validation and restoration of prior service, bank reconciliation, benefit payment, certificate-of-entitlement verification process and record management).

136. The organization of accounting operations and procedures was covered only incidentally, while it should have been perceived by both parties as a significant risk.

137. Four new audits have been added: contractual arrangements between UNJSPF and the consulting actuary, in 2002 and governance mechanism, measuring

investment performance and purchase of real estate, in 2003. The governance mechanism was not one of the high-risk areas of which UNJSPF was notified in May 2002.

138. Since the Board's audit, the Office of Internal Oversight Services and the Pension Fund have discussed the 2004 work plan. They agreed on it for operations, and were still discussing the Investment Management Service part of it in May 2004.

139. **The Office of Internal Oversight Services and UNJSPF agreed with the Board's recommendation that (a) the Office of Internal Oversight Services discuss the internal audit work plan and any major changes to it with the Representative of the Secretary-General and the Fund's Chief Executive Officer, and (b) the plan should be approved according to a procedure to be agreed upon in the forthcoming internal audit charter to be signed by both parties.**

Audit cycle time

140. For the nine internal audits that reached the final-report stage in 2002-2003, the average audit cycle time (from the starting date of the audit to the production of the final version of the report) was over nine months. Included is the average time of 1.4 months taken by UNJSPF to reply to a draft report.

141. The actual number of days spent on eight audits conducted as of December 2003 was higher than budgeted, by 17 per cent (748 actual days, compared with 640 days budgeted). The number of budgeted days considered is based on the final budget and not the initial one. For example, the two separate audit assignments on cash management at the Fund's secretariat and in the Investment Management Service were initially budgeted for 130 days, and then increased to 195 days. The final time spent was 198.5 days.

142. **The Office of Internal Oversight Services and UNJSPF agree with the Board's recommendation that the Office of Internal Oversight Services reduce its audit cycle time through improvements to the accuracy of its initial budget time projections and through an appropriate management of time during the cycle.**

143. **The Board is glad to note that by May 2004 both parties had agreed on the required capacity and professional expertise, and that the Office of Internal Oversight Services was taking appropriate steps to further provide them.**

Internal control policy

144. The Board reviewed the procedures for the payment of benefits. UNJSPF distributed an internal control policy document in March 2003 to all its staff members. Procedures are clearly documented and processes are automated. Delegations of authority are updated. Appropriate controls are in place to ensure that the person who should receive a benefit is indeed the one who does. In October of every year, certificates of entitlement are sent to all the beneficiaries, to be returned to the Fund signed by them. A reminder is sent in January. In case of non-response, payment of benefits is suspended.

G. Cases of fraud and presumptive fraud

145. The Administration informed the Board of Auditors that no case of fraud or presumptive fraud had been discovered for the biennium ended 31 December 2003.

Notes

[a] See A/57/490, para.26.

[b] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 9* (A/55/9), annex III.

[c] Ibid., *Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII.

[d] The recosting of expenditures includes the removal of non-recurrent appropriations and the revision of the inflation factors used for the initial appropriation, provides for inflation and adjusts the rates of exchange used for the initial appropriations.

[e] See A/58/214 and Corr.1, para. 9.

[f] See *Official Records of the General Assembly, Fifty-first Session, Supplement No. 9* (A/51/9), chap. V, para. 113.

[g] Ibid., para. 114.

Chapter V
Acknowledgement

146. The Board of Auditors wishes to express its appreciation for the cooperation and the kind assistance extended to the auditors by the Chief Executive Officer of the United Nations Joint Staff Pension Fund and the Representative of the Secretary-General for the Investments of the Fund and their staff.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Caragүe**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Appendix

Summary of status of implementation of recommendations of the Board for the financial period ended 31 December 2001[a]

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Relevant paragraphs in current report*
Supervision of accounting to be enhanced and accounting organization to be reviewed		para. 30			paras. 27-60
Evaluation and accounting of contributions	para. 23				
Reconciliation of the payment of contributions and enhancement of payment recovery			para. 26		para. 44
Contributions accounted for on accrual basis in the same fiscal year by both parties		para. 80			paras. 42-46
Underpayment or late payment of contributions			para. 26		
Monitoring of monthly payments of contributions and invoicing of late-payment charges		para. 83			
Accounting for expenditures, including joint expenditure with another United Nations service	para. 28				para. 54
Recovery of outstanding tax reimbursements and tax-exempt status		para. 39			para. 60
Disclosure of both "open group" and "actuarial evaluation, not considering any future member"		para. 42			
Write-off of receivables	para. 51				
Offset of interest income and bank charges			para. 16		
Performance of the Fund: proactive strategy, with formalized target prices to be reported to the Investment Committee			para. 58		
Payment of contributions directly into the "operations" bank accounts		para. 65			
Weekly, monthly and annual basis cash-flow projections			para. 65		
Instructions for the cash account balances and the monitoring of currency purchases in new banking contracts			para. 65		
Guidelines related to specific Fund activities (ethics)	para. 67				paras. 112-113
Ethics compliance officer function			para. 67		
Termination clause for non-performance or late delivery in contract with master record keeper			para. 71		
Criteria for the evaluation of the performance of the advisory and custodial services		para. 75			para. 69

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Relevant paragraphs in current report*
Interface between the Lawson system and PENSYS	para. 87				
Implementing a coherent information and communications technology strategic plan and the procurement of a proper accounting system			para. 87		
Staffing Fund positions in information and communication technology and long-term staffing strategy		para. 91			paras. 102-111
Permanent information and communications technology security officer function		para. 97			
New security and disaster recovery plan					
Relevant physical and logical security steps to ensure continuity of the business	para. 97	para. 97 (Ops.)			
Control of access to the server room		para. 97			
Lack of an Investment Management Service accounting system	para. 85				paras. 57-58
Total					
Number	**7**	**11**	**9**	**27**	
Percentage	**26**	**41**	**33**	**100**	

[a] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII.

Annex XII

Recommendations to the General Assembly for changes in the Pension Adjustment System of the United Nations Joint Staff Pension Fund

Existing text	*Proposed text*	*Comments*
H. Subsequent adjustments of the benefit	H. Subsequent adjustments of the benefit	
20. The initial adjustments due after separation (or death, as the case may be), to both the dollar and the local currency amounts, shall be reduced by 1.5 percentage points except in the case of the benefits under section E above and the minimum benefits under the Regulations.	20. The initial adjustments due after separation (or death, as the case may be), to both the dollar and the local currency amounts, shall be reduced by 1.5 percentage points except in the case of the benefits under section E above and the minimum benefits under the Regulations. **Effective 1 April 2005, the reduction in the initial adjustments due after separation shall be by 1 percentage point; with respect to benefits to which the 1.5 percentage points reduction was applied before 1 April 2005, there shall be a 0.5 percentage point increase in the first adjustment due on or after 1 April 2005.**	To commence the phased elimination of the 1.5 percentage point reduction in the first adjustments due after separation from service.
I. Payment of the benefit	I. Payment of the benefit	
23. Where a beneficiary resides in a country other than the United States, the determination of the amount of the periodic benefit payable in a given month is made as follows:	23. Where a beneficiary resides in a country other than the United States, the determination of the amount of the periodic benefit payable in a given month is made as follows:	
The dollar amount as initially determined under subparagraph 5 (a) above and then adjusted under section H above, is converted to the local currency equivalent by using the exchange rate in effect for the month preceding the calendar quarter of that payment. The resultant amount is compared to the local currency amount as initially determined under subparagraph 5 (b) above and then adjusted under section H above. Except as provided in paragraph 25 below, the beneficiary is entitled, until the next quarter, to the greater of the local currency amount or the local currency equivalent of the dollar amount, subject to a maximum of: (a) 120 per cent of the local currency amount with respect to benefits payable on	The dollar amount as initially determined under subparagraph 5 (a) above and then adjusted under section H above, is converted to the local currency equivalent by using the exchange rate in effect for the month preceding the calendar quarter of that payment. The resultant amount is compared to the local currency amount as initially determined under subparagraph 5 (b) above and then adjusted under section H above. Except as provided in paragraph 25 below, the beneficiary is entitled, until the next quarter, to the greater of the local currency amount or the local currency equivalent of the dollar amount, subject to a maximum of: (a) 120 per cent of the local currency amount with respect to benefits	

Existing text	Proposed text	Comments
account of separations or deaths in service before 1 July 1995 and other benefits derived therefrom; (b) 110 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service on or after 1 July 1995 and other benefits derived therefrom.	payable on account of separations or deaths in service before 1 July 1995 and other benefits derived therefrom; (b) 110 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service on or after 1 July 1995 and other benefits derived therefrom. **The limitations described in (a) and (b) above shall not result in a benefit being smaller than either the United States dollar base amount determined in accordance with the Regulations of the Fund or 80 per cent of the adjusted United States dollar-track amount.**	To implement a minimum guaranteed floor for the local-track pensions.

Annex XIII

Amendment to the Rules of Procedure of the United Nations Joint Staff Pension Fund

Existing text	*Proposed text*	*Comments*
Section B Standing Committee	Section B Standing Committee	
B.1 At each regular session the Board shall appoint a Standing Committee composed of fifteen members (together with one alternate member for each of them) elected from the members and alternate members of the Board or of staff pension committees. The representational distribution shall be as indicated in appendix 2 below.	B.1 At each regular session the Board shall appoint a Standing Committee composed of fifteen members (together with one alternate member for each of them) elected from the members and alternate members of the Board or of staff pension committees. **Notwithstanding the foregoing, a total of three alternate members of the Standing Committee shall be elected by the Board, from the members of the United Nations Staff Pension Committee elected to represent the United Nations General Assembly on that Committee.** The representational distribution shall be as indicated in appendix 2 below.	To provide for an additional alternate member on the Standing Committee for the General Assembly.

04-45918 (E) 081004