UNITED NATIONS
JOINT STAFF
PENSION FUND

Enterprise-wide Risk Management Policy

UNITED NATIONS

ENTERPRISE-WIDE RISK MANAGEMENT POLICY

Contents

UNITED NATIONS
NEW YORK AND GENEVA, April 2006

Introduction

The United Nations Joint Staff Pension Fund (UNJSPF) administers a diverse and complex international public pension system based on a fully funded defined-benefit pension scheme, with annual pension benefits payments exceeding 1.4 billion USD dollars paid in 15 currencies, with 88,356 participants and 53,879 pensioners/beneficiaries residing and/or working in over 190 countries[1].

The services provided by the UNJSPF include[2]:

- Paying retirement, disability, death and other related benefits;
- Calculating, processing and maintaining entitlements;
- Establishing and maintaining records for all participants and pensioners/beneficiaries;
- Collecting, pooling and reconciling contributions;
- Managing investments through an Investment Management Services (IMS)[3]; and
- Measuring, monitoring and managing the risks relative to delivering retirement, disability and death benefits.

UNJSPF, as any other pension administrative entity, faces a variety of risks, some of which represent significant challenges. Among the most evident risks is the long-term aging trend of both retirees and their beneficiaries.

Another evident source of risk is the behavior of financial markets, which might have long-term implications in the risk/return assumptions of the Fund's financial assets. In the past decade, markets have been more volatile experiencing corrections in equity markets and offering low interest rates for investment-grade fixed income markets. At the same time, the trend observed in UNJSPF's actuarial valuations shows that actuarial stability is increasingly sensitive to investment performance.

Overall, sources of risk faced by UNJSPF are of varied nature, i.e. investment, operational, legal, administrative, technological, financial, changing trends in disability, systemic, demographic and catastrophic. Risks are interrelated and often reside outside the direct control of UNJSPF management. Therefore, the risk management task is complex and difficult. However, it is a fundamental task that needs to be addressed and directed by the Pension Board and senior management.

Fortunately, UNJSPF enjoys some considerable advantages in confronting the aging challenge and other main sources of risk:

[1] Figures as at 31 December 2004.

[2] In general terms, defined-benefit pension funds collect, "pool" and invest funds contributed by participants and sponsors to help provide for the future pensions of participants and their beneficiaries.

[3] The decision-making responsibility for the investments of the assets of the Fund rests upon the Secretary-General of the United Nations.

- A well-developed governance structure and management process that adequately reviews the performance and operational aspects of the Fund;
- Approved policies, guidelines and charters[4];
- An adequately funded ratio[5];
- Periodic actuarial reviews which assess the Fund's ability to meet its long-term financial obligations and which test the demographic, financial and other assumptions;
- A comprehensive risk assessment report[6] prepared by the Office of Internal Oversight Services (OIOS) which serves as UNJSPF Internal Auditors; and
- A well-diversified group of participants, retirees and beneficiaries.

Additionally, UNJSPF is currently launching an Asset and Liability Management study, and a proposal for the establishment of an Audit Committee is under review.

Traditionally, risks are treated independently (the so-called "silo approach")[7]. Risks of different categories are often intertwined. A "silo approach" to risk management may introduce inaccuracies and inconsistencies as different departments or staff may utilize varying definitions, assumptions, metrics and valuation techniques across the organization. Not only do these factors prevent the Fund from gaining an accurate risk perspective, they actually *increase* the organization's operational risk.

Consequently, the Policy set out in this document aims at implementing a framework with a comprehensive and integrated approach to risk management.

In recent years UNJSPF management and the Board have heightened their concern and focus on enhanced governance mechanisms and risk management, and it has become increasingly clear that a need exists for a robust framework to effectively identify, assess and manage risk. This Policy document is based on the concept of Enterprise-wide Risk Management (EWRM); it explains and explores the key principles, points out why the concept has become an imperative for the Fund, provides a common language and clear direction, and offers guidelines for a successful, continuous process.

The adoption of a sound EWRM process will permit UNJPSF management to administer the Fund's risk profile and to adequately address the growing demand on information about the risks faced by the Fund as well as the controls established to mitigate and control these risks.

[4] Since 2002, the UNJSPF has produced a series of documents that establish the guiding principles and management objectives that govern the Fund's operations. These documents have since been presented and approved by the Board in the form of four policy documents (Quality Management, Information Security, Communications, and Internal Control) and two guidelines or charters (Management and Internal Audit).

[5] As per the last actuarial valuation (as at December 31, 2003), the UNJSPF's funded ratio for the base case was over 95%, including benefits and their adjustments. The funded ratio represents the extent to which the assets in the Fund cover the liabilities with respect to the benefits already earned.

[6] The risk assessment report is mainly used by OIOS to determine the activities, scope and priorities of the audit plan and by Management to improve the Fund's internal control

mechanisms. This report will be updated annually, and every 4-5 years a complete risk assessment exercise will be conducted

[7] Silo approach, in this context, means that each department or area focuses on the risk implications exclusively from a limited perspective in as much as it affects them and that no real consideration is given to the implications for the entity as a whole.

II

Definition

Consistent with the Internal Audit Charter approved by the Board, where a reference from the professional standards of internal auditing was established[8], this Policy refers to the definition of the integrated framework for Enterprise Risk Management as proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)[9].

COSO defines in a purposeful and broad manner the essence of Enterprise Risk Management as:

> A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The approach to enterprise-wide risk management adopted by this Policy is unique. It reflects the Fund's special conditions, requirements and development. However, it has incorporated the definition and some of the key notions of the integrated framework for Enterprise Risk Management developed by COSO, as well as basic concepts of the Principles of Corporate Governance issued by the Organization for Economic Co-operation and Development (OECD).

This Policy establishes a formal, mandatory, systematic and integrated approach to identifying and managing risks. This Policy will be in effect upon Board approval, and will be reviewed on a biennial basis, or as needed.

[8] The Internal Audit Charter establishes that all aspects of the internal auditing of the UNJSPF will be in accordance with the standards for the professional practice promulgated by the Institute of Internal Auditors (IIA), which is one of the five original sponsoring organizations of COSO.

[9] COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting, through business ethics, effective internal controls and corporate governance. COSO was originally formed in 1985, and sponsored by the five major professional associations in the United States: the American Accounting Association; the American Institute of Certified Public Accountants; Financial Executives International; the Institute of Internal Auditors; and the National Association of Accountants (now the Institute of Management Accountants).

II Goals

If one does not know to which port one is sailing, no wind is favorable[10].

The most fundamental task of an organization's governance process is to establish clearly and objectively its mission and goals. Without them it is impossible to assess whether the organization's performance and results have been adequate. Goals and objectives are also a precondition to risk management, since they establish the basis for determining how the risks should be interpreted and administered.

> Managing risk is not just about assessing and monitoring all the things that could go wrong. Rather, it is about understanding all the things that need to go right for the organization to achieve its mission and objectives.

The Management Charter approved by the Board contains UNJSPF's mission, challenges, goals and objectives[11]. The UNJSPF CEO reports periodically to the Board and the Standing Committee on the progress made versus the goals and objectives established in the Management Charter. The governing bodies review the progress reported, taking proper care to analyze the resources used and the opportunity and quality of services rendered, as to ensure adequate effectiveness, efficiency, integrity and competence.

As per this Policy, the United Nations Joint Staff Pension Board, the Secretary-General and the UNJSPF senior management with delegated authority will continue to determine the organizational structure, processes and reporting lines required to ensuring that the entity's objectives are achieved.

Enterprise-wide risk management is established with the main purpose of providing UNJSPF main stakeholders with a reasonable assurance that its Mission and goals will be met.

The following Mission and Goals were identified and established in the Management Charter approved by the Board:

- Strategic goals – long-term high-level goals associated with ensuring that the Fund possesses and maintains the required infrastructure[12], processes and financial resources to meet the following mission:

  > To manage the UNJSPF under the authority of the Pension Board and provide related services to participants, as well as pension revenues and related benefits to retirees and beneficiaries in the best conditions of security, performance, responsibility and accountability and in full compliance with the highest standards of efficiency, competence and integrity[13].

[10] Quote attributed to ancient Rome's philosopher and dramatist, Lucius Annaeus Seneca.

[11] UNJSPF management ensures that objectives are set at different levels of the Fund and that they remain internally consistent.

[12] This considers infrastructure in the most ample acception of the word, i.e. all the resources required to adequately perform the Fund's processes, such as technological (computers, communications, knowledge), human and material resources.

[13] As presented and approved by the Board in the UNJSPF Management Charter.

- Reporting goals – goals related to communicating relevant, timely, reliable and adequate information to UNJSPF stakeholders

  UNJSPF has established a Communications Policy geared to ensuring a smooth and efficient communication flow with both internal and external audiences, including governing bodies, member organizations, participants, retirees/beneficiaries, staff and suppliers. The Communications Policy, which was approved by the Board, established the following objectives:

  - Professionalism - Demonstrate the Fund's professionalism: this will be done by ensuring a thorough knowledge of the rules, regulations and case law, making the Fund a place people will turn to for comprehensive, reliable information.
  - Understanding and accessibility – Respond promptly to client's needs for information and contact by making greater use of face-to-face communication and identifying the various stakeholders in the Fund, thereby ensuring that needs are properly understood and providing effective access for all.
  - Forward planning and development – Anticipate and respond to needs: this will be done by being constantly attentive to clients and developing tools and channels of communications allowing wide availability and access to information.
  - Customizing for different groups of stakeholders and participants – Target communication at the needs of different groups of stakeholders: participants, retirees/beneficiaries, member organizations, the Pension Board, the Standing Committee, retirees' and staff associations, etc. Customize information and, where possible, communications media for these different groups.
  - Responsiveness – Tailor the information conveyed or use all appropriate communications media when circumstances so warrant, such as in the event of a major incident or crisis.

- Compliance goals – goals related to UNJSPF operating in conformity with UNJSPF and UN rules and regulations

  The Fund has established a multi-layered internal control framework to address its compliance goals. The internal control framework is composed of the following main elements:

  - The Board of Auditors, as per statutory provisions, periodically audits the Fund and submits a report to the Pension Board covering the review of the Fund's operations, accounts and investments. The Pension Board, in turn, presents the results of the audit report to the General Assembly.
  - As per the Internal Audit Charter approved by the Board, the Office of Internal Oversight Services (OIOS), serving as UNJSPF Internal Auditors, ensure that approved methodologies and processes are being followed in the manner intended. The Fund's Internal Auditors also assist senior management (the CEO and the Representative of the Secretary-General for the investments of the Fund's assets) in strengthening the processes, working methods and control environment in order to guarantee the production and use of reliable and relevant information, and in promoting the efficiency and effectiveness of operations.

- The Board of Auditors and the Fund's Internal Auditors assist management and through it the Board in the identification of hazards or weaknesses in the operating environment. This contributes to the determination of the risk profile of the Fund and in its ability to achieve its objectives.
- The Fund has established internal control systems and integrated them with the management process, in order to provide reasonable assurance that: (a) management understands the extent to which the Fund's operations objectives are being achieved; (b) the published annual letters, reports and financial statements are prepared reliably; and (c) the applicable rules, regulations and administrative procedures are being complied with.
- The Secretary-General will enhance the internal control systems relative to investments and integrate them with the management process, in order to provide reasonable assurance that: (a) management understands the extent to which investment objectives are being achieved; (b) operational, managerial and financial reports are prepared reliably; and (c) the applicable rules, regulations and administrative procedures are being complied with.

- Operational goals – goals that address the Fund's primary responsibility, including performance, timeliness, service, quality, investment profitability, safeguarding of resources sustainable development, and global compact

  The Basel Committee[14] defines operational risk as the risk resulting from inadequate or failed internal processes (due to human or systems failures) or from external events that prevent an organization from delivering the required products or services as per conditions predetermined.

  Risk assessment should follow a "bottoms-up" approach (beginning at the transactional level), in order to place accountability and favor "ownership" at all levels of the organization[15]. This also allows for faster identification, measurement and response times.

- Funding goals – safeguarding financial resources and ensuring with a reasonable degree of certainty that financial resources will be available when required

  This special category of goals, not explicitly dealt with by COSO, is included in this Policy document due to the insurance-like nature of the main fiduciary responsibility of the Fund. That is, the Fund is entrusted with collecting and pooling resources and risks and providing insurance-like services (i.e. annuities for retirement, disability and death[16]).

[14] A standing committee comprised of representatives from central banks and regulatory authorities from a group of countries (Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) called the Basel Committee on Banking Supervision was formed under the auspices of the Bank of International Settlements (BIS) to deal with cross-jurisdictional situations, adequate international banking supervision and ensuring an internationally homogenous "playing field" for banks and other financial institutions.

[15] Under the section Functional Responsibilities, this Policy establishes the responsibilities at all levels for administering the Policy.

[16] The OECD Secretariat report on "Developments in Pension Fund Risk Management in Selected OECD and Asian Countries" considers that defined-benefit pension funds may be seen simply as a series of annuities for those who have retired and deferred annuities for those still working.

Participants and member organizations pay contributions to the Fund during the working term of participants, with the expectation that the Fund will provide them with a steady stream of resources at their retirement[17]. Therefore, the ultimate risk of the Fund is to be insolvent and not possess sufficient resources to meet its commitments.

In order to ensure that the Fund is properly funded, a biennial actuarial review is currently performed. The Committee of Actuaries, a Board advisory body, consults with the Investments Committee as to the level of long-term investment returns, reviews the Consulting Actuary's report and advises the Board on its funding ratio and on other actuarial matters. Additionally, the Fund will carry out in 2006, for the first time, an Asset Liability Management (ALM) review, with the objective of assessing the potential gap between assets and liabilities under different scenarios, testing assumptions used in the actuarial review, developing asset allocation alternatives, and providing risk mitigation recommendations[18]. Based on the results of the ALM study, the Secretary-General will ratify or rectify the strategic asset allocation and the currency hedging strategy, after consultation with the Investment Committee and in light of observations and suggestions made by the Pension Board on investment policy.

[17] The Fund also provides the alternative of paying a lump sum in commutation of up to one third of the actuarial value of the pensionable rights (as stipulated by article 28 (g) of the Regulations of the UNJSPF). As already mentioned, the Fund also covers disability and death, and provides other related benefits.

[18] It is the intention of the Fund to conduct ALM reviews periodically. Senior management is also reviewing the convenience of submitting once more a recommendation for consideration of the Board for the creation of a Board Committee dedicated to reviewing and advising on Asset Liability issues.

IV Process description

Managing risks entails: (a) identifying risks and developing a risk profile; (b) mapping risks and understanding the risk interrelationships; (c) assessing risks periodically; and (d) ensuring that an adequate audit and governance process is established and operates appropriately.

(a) Identifying risks and developing a risk profile – Managers will identify internal and external events that could potentially affect the achievement of UNJSPF's objectives, distinguishing between risks and opportunities[19]. Opportunities will be channeled back to management's strategy or objective-setting processes.

Managers will utilize as a source of information the Risk Assessment Report produced by the Internal Auditors, as well as the Management Letter and other reports produced by the Board of Auditors.

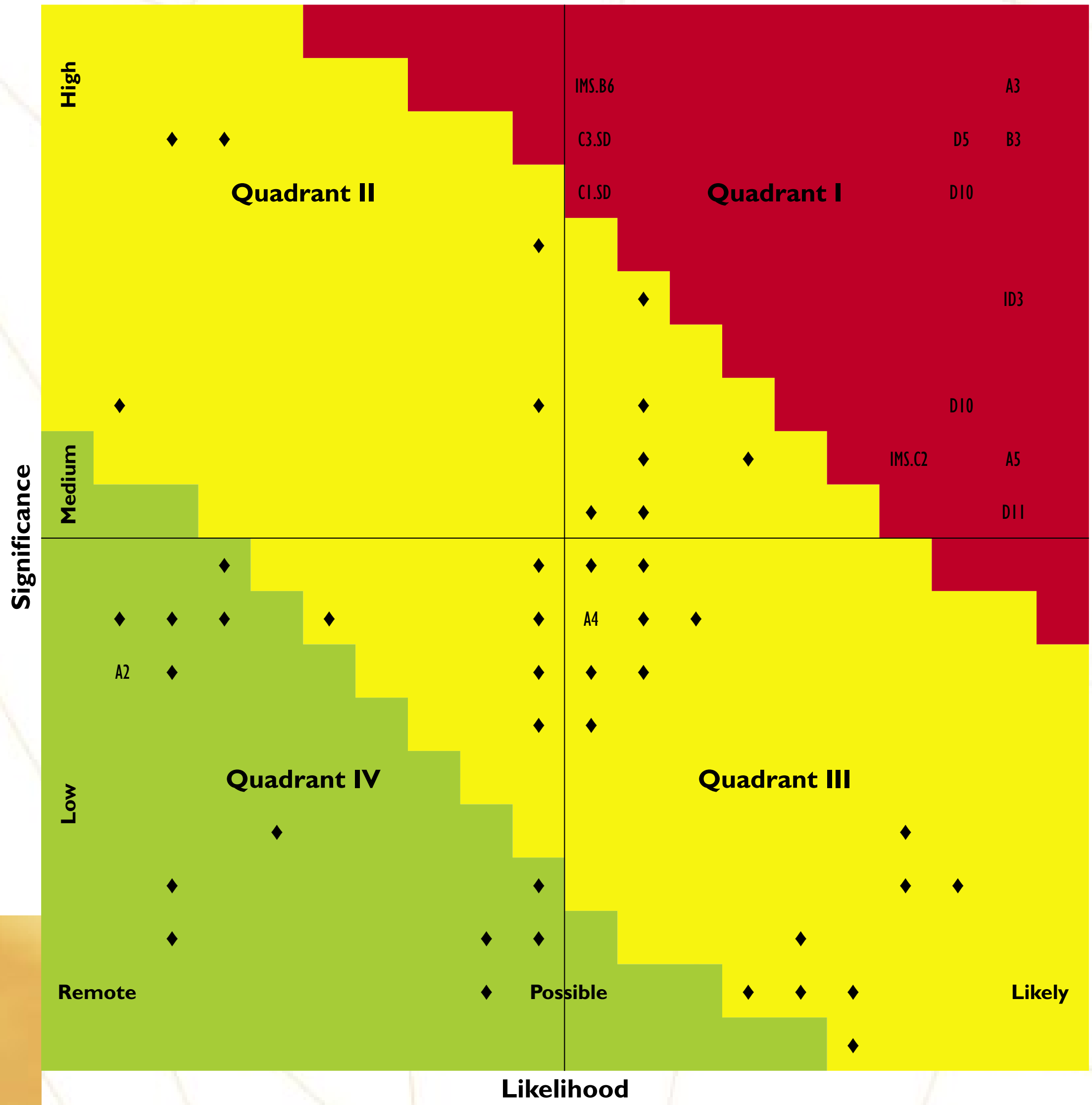
Line managers (office, service, section, unit) will consider the guidance of the Board and senior management as to the risk tolerance for each category of risks. The Secretary-General, after consultation with the Investment Committee and the Board, will propose the "risk appetite" in relation to investments.

(b) Mapping risks and understanding the risk interrelationships – Senior management will summarize the information provided by line managers into a meaningful enterprise-wide risk map, which will be presented to the Board periodically as part of the Enterprise-wide Risk Management Report.

The risk map is a tool used by the Fund to identify, measure the significance (potential impact on the Fund's ability to accomplish its goals) and the likelihood of the most relevant and recurrent risks. The risk map allows a simple and fast visualization of risks in relation to each other, gauge their extent, and plan what type of controls should be implemented to mitigate or control them. The following diagram depicts an example of a risk map.

[19] Events with a negative impact represent risks, which can prevent the Fund from achieving its goals and objectives. Events with positive impact may offset negative impacts or represent opportunities. Opportunities are defined as the possibility that an event might occur and positively affect the achievement of objectives, supporting efficiency and effectiveness.

Illustration of a Risk Map[20]



The risk map plots risks according to their significance and likelihood. The risk map is divided into four quadrants.

- Quadrant I – risks are classified as "severe", since they threaten the achievement of the Fund's objectives. These risks are both significant in consequence and likely to occur. They should be reduced or eliminated with preventive controls and strategies and should be subject to continuous monitoring and periodic reporting.
- Quadrant II – risks are classified as "significant", since they pose a high threat to the achievement of the Fund's objectives, but they are less likely to occur. In order to ascertain that the likelihood of these risks remains low, preventive controls and strategies should be adopted and these risks should be monitored periodically.

[20] The risks identified in the comprehensive risk assessment study performed by the Internal Auditors in 2005, were plotted according to their relative likelihood and significance. The colored risk ratings also match those assigned by the Internal Auditors.

- Quadrant III – risks are classified as "moderate", since they are less significant, but have a higher likelihood of occurring. These risks should be monitored periodically to ensure that they are being appropriately managed and that their significance has not been altered due to changing conditions.
- Quadrant IV – risks are classified as "low", since they are both unlikely to occur and not significant. They require minimal monitoring and control unless subsequent risk assessments show a substantial change, prompting a move to another risk category.

Risk Ratings – Based on the assessment of the likelihood and significance of an adverse event occurring, a color rating is assigned to each identified risk, as shown in the table below:

Higher risk	Likely and high; likely and medium; possible and high
Moderate risk	Likely and low; possible and medium; remote and high
Lower risk	Possible and low; remote and low; remote and medium

The following table provides a brief description of all the risks that present a significant threat to the Fund and are likely to occur, and which were classified as higher risks by the Internal Auditors in their comprehensive risk assessment study. In all cases, management is aware of the risks and has identified preventive measures and is in the process of implementing risk mitigation and control strategies. All of these risks are located in quadrant I, and therefore are subject to continuous monitoring and periodic reporting.

	Identification Code	Risk Rating	Description	Comments / Control Actions
I	A3 Governance Secretariat	Higher Q-I	**Understaffing** – Workload does not allow for down time and opportunity for re-assessment. Understaffing causes delays in processing particularly when updating payments to two-track.	Most areas are understaffed based on workload. There has been a high increase in new entrants and retirements. Participants have higher expectations to quicker response time. As per approved budgets and authorized positions, management has initiated actions to select and hire personnel in order to reinforce key areas and to ensure adequate staffing for the current workload and future projects (i.e. ERP, data warehousing, enhanced performance reporting, etc.)

	Identification Code	Risk Rating	Description	Comments / Control Actions
2	A5 Governance Secretariat	Higher Q-I	**Member organizations' staff turnover, training and expertise** – The Fund relies on the member organizations as a third party provider. If the member organizations do not adhere to policies, this adds burden to NY and Geneva offices. Member organizations have limited reporting capabilities, which also adds burden to NY and Geneva offices.	For efficiency and effectiveness the data collection and reporting process is decentralized to member organizations. Pension administration is not high on the member organizations' list of priorities. Member organizations utilize different software/systems (e.g. Peoplesoft, SAP). IMSS has developed interfaces for the systems of the member organizations with the higher transactional volumes. This has improved efficiency and timeliness of reporting. IMSS will continue implementing interfaces as economically and technically feasible and convenient.
3	B3 Governance Secretariat	Higher Q-I	**Banking relationships** – Due to procedural changes in the disbursement area, the Cashier's workload has increased. Due to this, there is limited cash flow analysis performed and there is the possibility that certain Treasury functions may not be performed timely or addressed. No monitoring of banking fees. Geneva staff does not have experience in processing a complete payroll cycle in case of a contingency.	Disbursements have been streamlined by concentrating operations with one main service provider. The Geneva office has been delegated the authority to provide payment instructions to the Bank in the event of a contingency. A full cycle payroll payment drill is scheduled for late 2006. Procedures for cash flow analysis and bank fee monitoring are being addressed. A Deputy-Cashier was selected and hired to ease the workload and to permit the Cashier to perform cash flow analysis and monitor banking fees.
4	C1 Systems Development IMSS	Higher Q-II	**PENSYS infrastructure** – The Internal Auditors will continue to be informed on both the maintenance of the PENSYS infrastructure as well as the analysis and planning conducted to secure a replacement. The Internal Auditors will conduct a pre-implementation review of the successor application at appropriate junctions.	IMSS has begun evaluating various Enterprise Resource Planning (ERP) applications in the context of the Pension Fund's long-run requirements. Budget has been approved for the current biennium to evaluate the various options. The goal is that a PENSYS replacement be in place on or about 2009.

	Identification Code	Risk Rating	Description	Comments / Control Actions
5	C3 Systems Development IMSS	Higher Q-II	**Data integration with member organizations** – If managed well these initiatives could result in cost savings and improved services. If not managed well the resulting problems could impact data integrity and the UNJSPF's reputation.	The seamless exchange of data between the Fund and its member organizations calls for all such entities to take advantage of existing electronic interface systems, sharing data stored in multiple systems and file formats. The Fund will make available web-based information "portal". ICT will work with member organizations to integrate their systems with the Fund's integrated systems environment.
6	D5 Control Finance	Higher Q-I	**Timely reconciliations** – There is a high volume of participant reconciliation exceptions (PRE) outstanding. PRE's are reconciled annually. Due to the fact that only reconciled withdrawal settlement amounts are paid, this reduces the occurrence of an overpayment.	There are approximately 17,000 PREs outstanding. The Fund will make a partial withdrawal settlement payment in the event there is an outstanding PRE. Once the PRE is reconciled, the outstanding balance will be paid. The 21 member organizations have different payroll/ reporting systems which adds to the complexity of reconciliations. The PRE reconcilement challenge has been recognized in the Management Charter. It has been established as a goal of the Accounts Unit the publication of a user-friendly guide for pension reporting for member organizations, as well as the provision of periodic training seminars to assist member organizations in contribution calculation and reporting. Additionally the Accounts Unit, will also devise a system assisted tool to track, reconcile and report participant reconciliation exceptions.
7	D10 Control Finance	Higher Q-I	**Lawson Accounting System** – Miscellaneous payments are manually entered into Lawson for payment. This is time consuming and prone to errors. Lawson is used to generate all off-cycle payments in NY (e.g. withdrawal settlements and lump sum commutation payments).	All manual entries into Lawson have a separate review performed by someone other than the person entering the information.

	Identification Code	Risk Rating	Description	Comments / Control Actions
8	D11 Control Administration	Higher Q-I	**Procurement of contractual services** – The discretion allowed for the procurement of contractual services may lead to the lack of appropriate bidding. The Internal Auditors should determine whether the processes and compensation of consultants hired under fixed length contract conform to UN's policies.	For the most part, the Fund follows the UN procurement rules in purchasing goods and services. The Board provided the CEO with authority to undertake direct procurement in certain circumstances. However, this authority has been exercised only when the UN Procurement Division is unable to procure services and/or products in a timely manner, or in case of an urgent or unforeseen requirement. All direct acquisitions approved with the delegated authority of the CEO are duly documented and are readily available for review by the Internal Auditors. As per Board resolutions, the Internal Auditors will perform periodic reviews of direct procurements.
9	B6 Governance Administration IMS	Higher Q-I	**Procurement policies established by the UN and/or UN's legal status may hinder timely access to necessary tools** – This is a significant risk given the possibility, for example, that Bloomberg would terminate its service to the Fund for late payment and/or failure to renew contract. Given that a substantial majority of the Fund's assets are managed by IMS investment officers, being cut off from the primary source of news and market data would be a serious adverse event. As with securities lending, the Legal Affairs department of the UN has not been able to work with third-party providers to facilitate delivery to IMS of analytical tools that are customarily made available by dealers to large investors. The risk is foregone investment returns.	There is consensus within IMS that compliance with the UN's procurement rules inhibits the investment staff's ability to act with the speed and impact appropriate for the management of a substantial portfolio such as the UNJSPF's. When the Bloomberg contract expires, IMS is required to go through a formal bidding process with market data providers, despite the consensus that Bloomberg is the best and that IMS will recommend that the contract simply be renewed. The Bloomberg payments are often past due. Failure to agree on contract language has prevented investment officers from taking advantage of robust decision supporting tools available to the Fund from dealers at no cost. There appears to be no exigency procurement policy or procedures for instances when a new computer or application is needed on an urgent basis.

	Identification Code	Risk Rating	Description	Comments / Control Actions
10	C2 Risk Measurement IMS	Higher Q-I	**Currency risk management should be improved** – If IMS has a strong view regarding the near term trend in FX rates they must have an accurate integrated view of the net position in each currency exposure in a manner consistent with the forecast. The Internal Auditors' perception is that IMS has an accurate picture of whether the portfolio is net long or short dollars vs. the benchmark, although they do not have a more granular currency-by-currency view on a timely basis. In addition there is a mix of currencies among the liabilities of the Fund but no integrated view of net currency positions across the entire Fund. If volatility in major exchange rates increased significantly, the currency exposures of the Fund might cause large shifts in funded status of the funds that might not be anticipated by the Fund's stakeholders.	Currency risk is assumed to be modest given the large (23) number of currencies in the assets and liabilities of the Fund. In other words, there is an implicit assumption of low correlation between the exchange rates for each currency pair. "FX hedges can be expensive and do not always work." 16% of liabilities are in Swiss Francs, but 0% of assets are denominated in Swiss Francs. This appears to be an accidental not intended result. However, IMS was deliberate in acting on its forecast for dollar weakness in 2003/2004 and was cognizant of the extent to which the portfolio was short dollars vs. the benchmark. It is anticipated that the currency profile of the Fund will be analyzed in the upcoming asset liability management study.
11	D3 Control IMS	Higher Q-I	**The accounting for real estate transactions is cumbersome and results in unreliable estimates** – The complex nature of accounting for share redemption related to real estate partnerships has resulted in confusion. Inaccurate accounting of assets might lead to incorrect financial reports and fund performance reports. Although the percentage of the Fund's assets in these partnerships is low, the risk is significant given the potential reputational damage if the Fund were required to restate returns due to a processing or accounting error.	Accounting for real estate requires at least 25% of one staff member's time but only makes up 6% of assets. An algorithm which has not been documented is used to estimate the number of shares redeemed when partnerships cannot yet specify the amount. The process used to calculate gains and losses utilizing the algorithm have produced inaccuracies in the past that involve a lengthy reconciliation process. A thorough review of IMS's Operations Manual will occur as part of the transition to the new custodian/MRK.

The table below provides examples of moderate and lower risks, which were plotted in quadrants III and IV, respectively.

	Identification Code	Risk Rating	Description	Comments / Control Actions
12	A4 Governance Secretariat	Modesk Q-III	**Not all positions have current job descriptions** – The risk is that job activities are not properly conducted or supervised. The complexity of benefit processing may require experienced personnel. The Internal Auditors should assess whether staffing on the accounting/ finance side is adequate.	The Fund follows UN regulations when hiring staff. The Management Charter recognized the challenge of documenting the institutional memory and experience of the Fund, especially at a time of continuing changes in benefit provisions and increased expectations from participants and beneficiaries. Therefore, the Fund embarked on the creation of a computerized Knowledge Management Fund, where all areas of the Secretariat contribute to capture, manage and disseminate explicit and tacit data across the Fund. This project also entails documenting procedures and job descriptions and uploading them into the Knowledge Management Fund.
13	A2 Governance Secretariat	Lower Q-IV	**Upcoming IT Senior Management retirements** – The risk is that management does not have suitable replacements for retiring personnel or modify/replace the PENSYS system on a timely basis.	The PENSYS system was developed in-house and is written in COBOL, which is no longer taught. In 2009, 2 management professionals will be retiring. Management reviews upcoming retirements on a bi-monthly basis. IT management has begun the process of evaluating various Enterprise Resource Planning (ERP) applications in the context of the Fund's long-term requirements and has set the goal to have the application replaced on or about 2009.

(c) Assessing risks periodically – Line managers will monitor risks according to their severity. Senior management will maintain an integrated risk perspective.

Risks will be assessed and handled as per approved methodologies and models (actuarial, stochastic and financial), or on line managers' informed judgment, where applicable. However, all staff as well as members of the governing bodies will operate under a "prudent person" principle, as defined by the OECD Principles of Corporate Governance, allowing for greater flexibility and clear accountability.

Under the prudent person principle, staff and members of governing bodies will act in the best interest of the Fund, taking into account the interests of participants, pensioners/beneficiaries, member organizations and the public good. The prudent person principle entails two duties: the duty of care and the duty of loyalty.

The duty of care requires acting on a fully informed basis, in good faith, with due diligence and care[21]. Good practice takes this to mean that a "prudent person" should be satisfied that key information and internal control systems are fundamentally sound. The duty of loyalty should be understood, in the context of the UNJSPF, as caring for the equitable treatment of all stakeholders and the avoidance of conflicts of interest.

Senior management will also summarize the information provided by line managers into a risk survey or risk matrix describing each risk, defining its significance and likelihood[22], and detailing the potential impact to the Fund's processes, the line manager responsible of addressing the risk, and the proposed actions or strategies.

Senior management will review bi-annually the progress made in the eradication, mitigation and control of the risks identified in the risk matrix, and will perform, with the assistance of the Internal Auditors, an enterprise-wide risk assessment exercise at least every 5 years.

Internal audits will be programmed and prioritized according to the results of the comprehensive risk assessment study.

Line managers will codify risk control measures consistent with the approved strategies. These will be monitored by the Fund's Internal Auditors to help ensure that the risk responses are effectively carried out. Senior management, with the input from line managers, will present for approval of the Board a set of strategies, aligned with the approved risk tolerance level, to terminate, transfer or mitigate the Fund's risks.

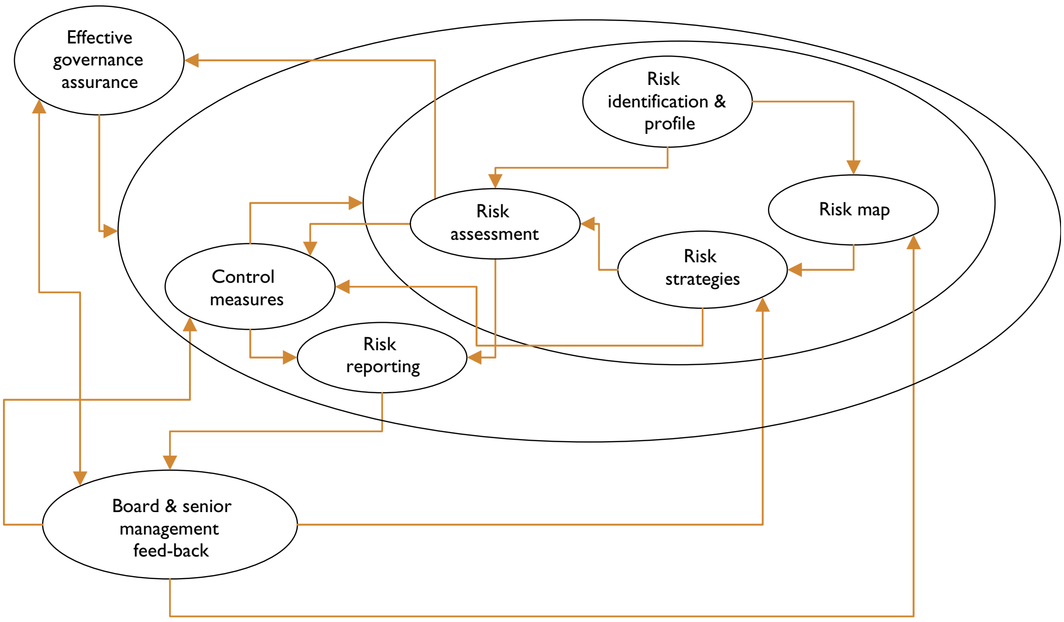
(d) **Ensuring that an adequate audit and governance process is established and operating appropriately** – For the first time, early in 2006, the Internal Auditors will perform an audit of the Fund's governance mechanisms in accordance with the terms of reference discussed and agreed by the Standing Committee and the Fund's CEO, in order to ascertain that appropriate and effective governance processes and practices are in place, to determine if best practices of governance are adopted by the Fund, and to suggest improvements thereon based on industry best practices. The Internal Auditors will perform a governance mechanism audit at least every 4 years.

In order to provide a better understanding of the enterprise-wide risk management process, a conceptual diagram is depicted below. The process is not strictly serial. Rather, it is an iterative and often multidirectional process where judgment, prudence and close communication play an important role.

[21] The duty of care does not extend to errors in business judgment so long as staff or members of the governing bodies do not act in a grossly negligent manner or if a decision is made with due diligence.

[22] The risk survey or matrix may combine the two risk measures, significance and likelihood, and translate them into a high, moderate or low risk priority indicator or into their visual equivalent as red, yellow or green indicator.

Conceptual Diagram[23]



V Effectiveness

Determining whether the Fund's enterprise-wide risk management process is "effective" is a judgment resulting from an assessment of whether all activities of the risk management process are being properly undertaken, and on the determination of whether the staff and members of the governing bodies are acting with proper fiduciary responsibility to the Fund.

VI Limitations

Even if the enterprise-wide risk management process is implemented in a sound and effective manner, unforeseen events might arise. Some of the unexpected causes might be: random occurrences, systemic failure, catastrophic events, faulty judgment, human error or collusion. These naturally establish limitations on enterprise-wide risk management. However, the objective of this comprehensive risk framework is to provide the Board, the Secretary-General and senior management with a reasonable – not absolute – assurance that the Fund has implemented with due diligence the systems and processes required to react promptly and commensurably to internal or external threats and risks.

[23] The conceptual diagram depicting the enterprise-wide risk management process shows the logical dependencies of the main activities. Section 9 of this Policy establishes the functional responsibilities.

VII

Functional responsibilities

This Policy applies to all of the Fund's processes and systems (including payments, contribution collections, record keeping, entitlements, reconciliations and investments) since its objective is to create and present an integrated, comprehensive, holistic view and response to the risks and threats faced by the organization. The responsibilities this Policy entails are as described below for each level of the Fund.

- Board and Standing Committee – The Board and Standing Committee provide general oversight, approve strategies and resources, and determine and communicate risk tolerance levels.

  Members of other governing bodies share the fiduciary responsibility in acting in the best interest of the Fund and in providing best guidance and advice considering the opportunities, risks and threats to the Fund. Additionally, governing bodies are responsible for overseeing that the Fund's activities are compliant with the Regulations, Rules and Pension Adjustment System, and are consistent with the global compact and sustainable development principles, reflect high ethical standards, and provide equitable treatment to all stakeholders.

- UNJSPF CEO – The CEO, and in his/her absence the Deputy CEO, is ultimately responsible for implementing and directing the enterprise-wide risk management process, for maintaining the global risk map, and for presenting for the consideration and approval of the Board and Standing Committee the enterprise-wide risk management report, budget, plans and strategies.

- The Representative of the Secretary General for the investments of the Fund – As per article 19 of the Regulations of the UNJSPF, the United Nations Secretary-General has decision-making responsibility for the investments of the Fund's assets. The Secretary-General is assisted in discharging this responsibility by his designated Representative for the investments of the Fund (RSG). The RSG is responsible for implementing and directing the risk management process relative to the investment function, for presenting and obtaining from the governing bodies the appropriate approvals and "risk appetite" guidance, and for effectively liaising and communicating relevant information in order to develop a Fund-wide integrated, comprehensive risk map and risk strategies.

- UNJSPF Line managers – Line managers support the enterprise-wide risk management (EWRM) process ensuring compliance with strategies and procedures, monitoring, reporting and managing risks within their spheres of responsibility and consistent with the approved risk levels.

  Line managers periodically report – at an operational and strategic level – the progress achieved towards the goals set in the Management Charter. As part of the reporting process, line managers include a variance analysis section in their performance reports to senior management, describing the causes of variance versus goals, risk limits and budget, and discussing the potential risk implications.

- **UNJSPF Staff** – All staff, within their spheres of responsibility, are responsible for executing enterprise-wide risk management (EWRM) in accordance with this Policy and with established protocols and procedures.

  The Board of Auditors and the Internal Auditors – The Board of Auditors assists the Pension Board, the Secretary-General and UNJSPF management in identifying and assessing risks. OIOS, in its capacity as UNJSPF Internal Auditors as mandated by the Pension Board, assists UNJSPF management in identifying and assessing risks. Audits performed by both audit bodies provide a reasonable assurance that appropriate and effective governance processes and practices are in place. The Internal Auditors assist management in ensuring that it is following the applicable rule, regulations and administrative procedures.

VIII Conclusions

The adoption of this Policy and the implementation of the enterprise-wide risk management process will provide better assurance as to the Fund's ability to meet its commitments and obligations and to achieve its Mission and Goals.

EWRM entails coordinating the identification, assessment, mapping, monitoring, communication and control of risks across the Fund's organization, and having in place the infrastructure, resources and plans to react promptly and commensurably. It requires understanding risks from a wide variety of perspectives and disciplines and the participation of all staff, management and members of statutory bodies. It also requires that managers develop options to address the identified risks.

With these options identified, managers are able to make educated decisions on the course of action that is best aligned with their goals as established in the Management Charter and within the accepted tolerance level.

Printed at United Nations, Geneva - GE.06-00648–April 2006–1,000 - UNJSPF/2006/3