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WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

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ORIGINAL: ENGLISH
DATE: JULY 2, 2010

Assemblies of the Member States of WIPO

Forty-Eighth Series of Meetings
Geneva, September 20 to 29, 2010

POLICY ON INVESTMENTS

document prepared by the Secretariat

1. The present document contains the World Intellectual Organization (WIPO) Policy on Investments (document WO/PBC/15/8), which is being submitted to the WIPO Program and Budget Committee (PBC) at its fifteenth session (September 1 to 3, 2010).

2. The recommendation of the PBC in respect of this document will be included in the "Summary of Recommendations Made by the Program and Budget Committee at its Fifteenth Session Held from September 1 to 3, 2010" (document A/48/24).

3. The Assemblies of the Member States of WIPO and of the Unions administered by it, each as far as it is concerned, are invited to approve the recommendation of the Program and Budget Committee made in respect of document WO/PBC/15/8, as recorded in document A/48/24.

[Annex follows]

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WO/PBC/15/8
ORIGINAL: ENGLISH
DATE: JUNE 29, 2010

Program and Budget Committee

Fifteenth Session
Geneva, September 1 to 3, 2010

POLICY ON INVESTMENTS

document prepared by the Secretariat

1. Financial Regulation 4.10 provides authority for the Director General to "make short-term investments of money not needed for immediate requirements in accordance with the Organization's investments policy, as approved by the Member States" and requires that he "inform the Program and Budget Committee regularly of any such investments." Financial Regulation 4.11 contains a similar provision related to long-term investments. Financial Rule 104.10 delegates this authority to the Controller.

2. Attached, as an Annex, is a proposed draft investment policy to be discussed by WIPO Assemblies of Member States at their Forty-Eighth Series of Meetings beginning on September 20, 2010. The proposed policy is based on investment policies adopted by several other UN system organizations. However, it also takes into consideration WIPO's unique characteristics which include:

   (i) Operating revenue: Unlike other UN agencies, WIPO receives only a small portion of its revenue from assessed contributions (6%) and from the advance payment of voluntary contributions for donor financed projects (2%). Of the remaining revenue, 87.5% represents revenue from fees and the remaining 4.5% revenue from interest and miscellaneous revenues. Therefore, unlike other UN agencies that either have large cash balances resulting from the pre-payment by donors of multi-year projects or contributions legally assessed and payable under treaties, over 90% of WIPO's revenue is directly related to and affected by its current operations.

(ii) Fees collected on behalf of third parties: A significant percentage of WIPO's cash represents fees collected on behalf of governments in accordance with the Madrid and Hague Unions treaties and regulations, fees held on behalf of PCT International Searching Authorities and advance payments and current accounts (deposits) held in connection with applications for trademarks or industrial designs. The total amount held at December 31, 2009 was 127.8 million Swiss francs or 34.9% of total cash and deposits.

(iii) FITS: An additional 15.8 million Swiss francs or 4.3% represents funds-in-trust (FITS) held on behalf of trust fund donors. In accordance with WIPO's agreements with donors, these funds represent a liability on WIPO's balance sheet rather than part of net assets.

(iv) Liability reserves: Unlike many other UN agencies which have established dedicated reserves, at the request of their governing bodies, that can be invested in longer-term securities, WIPO has not set aside any cash reserves to meet its obligations for post-employment benefit liabilities which totaled 124.6 million Swiss francs at December 31, 2009.

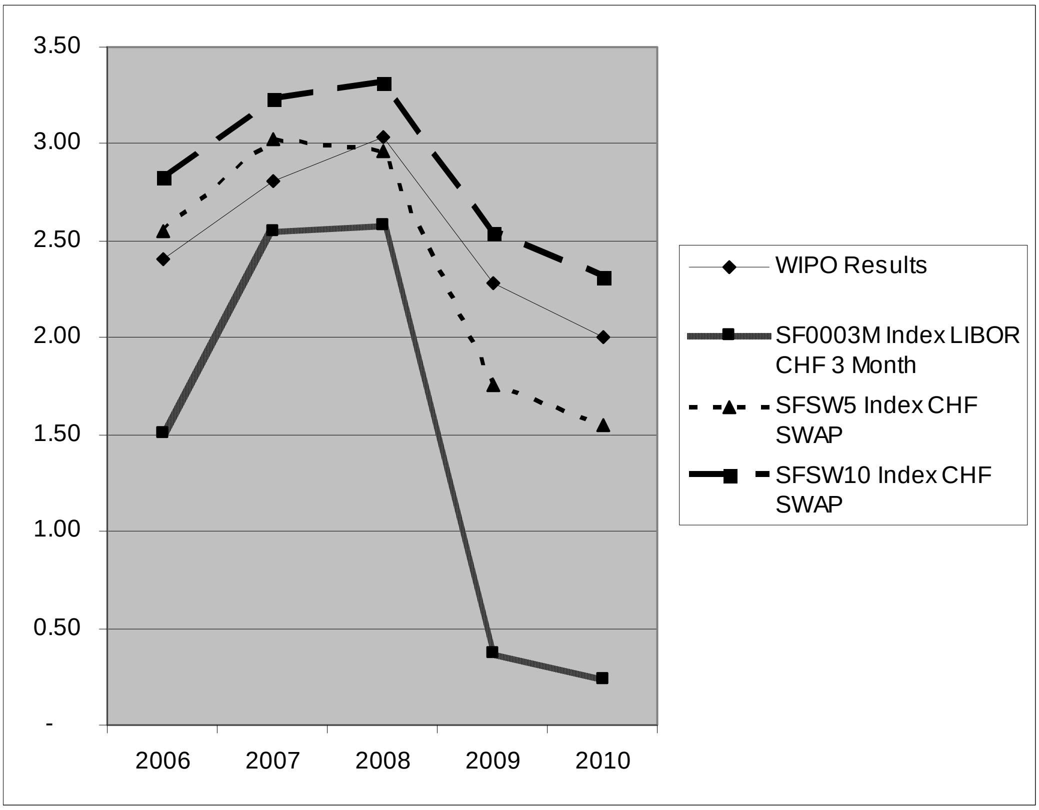
(v) Union reserves: WIPO has a more complex "ownership" of reserves by Unions with individual governance, subject to different treaty obligations, rather than ownership by a consolidated entity as is the case in other UN agencies.

(vi) Capital projects: WIPO's governing bodies have made significant commitments to financing capital expenditures for the construction of the new WIPO administrative building and the conference hall, security improvements and system enhancements over the next several years to be financed from existing reserve levels.

3. WIPO's revenues are impacted by changes in external market conditions, over which it has no control, to a far larger extent than are those of other UN organizations which are not involved in charging individuals for fees related to specific services. However, like most UN agencies, more than one-half of WIPO's costs are fixed, relating primarily to personnel, and these cannot be quickly reduced in response to falling fee revenues owing to the legal requirements imposed by the ICSC, UNJSPF and WIPO Staff Rules and Regulations.

4. This greater vulnerability to external conditions clearly requires WIPO to limit, as much as possible, the risks related to its investments and to ensure that sufficient cash resources are available to meet short-term liquidity needs. The Organization is greatly assisted in its efforts to achieve these two objectives by being in the fortunate position of having, as one of its banking services partners, the Swiss National Bank, an institution which enjoys a AAA credit rating and with which WIPO is able to place Swiss franc deposits. 95% of the Organization's available cash resources are held in Swiss francs and the current approach is to compare the rate offered by the Swiss National Bank to those rates offered by other banks for Swiss francs and to relevant indices. Rates offered for Swiss franc deposits by the Swiss National Bank are almost invariably higher than those available elsewhere in the market. This has enabled WIPO to achieve, over the past five years, rates that are comparable to those available on 10 year bonds despite the fact that its deposits are held on a three month roll-over basis. Being able to place such short-term deposits greatly facilitates WIPO's management of its liquidity and its requirement to have funds available to meet emergencies but does not involve having to accept a lower rate of interest, the usual cost of holding money on a short-term basis.

5. A comparison of the actual yield achieved by WIPO compared to Swiss francs indices is as follows:



6. The proposed investment policy continues the existing policy of achieving the highest possible annual return while minimizing the risk related to loss of principal, particularly in connection with fees collected for third parties and those reserves required to meet immediate operational needs. It does, however, provide for sufficient flexibility to examine alternative investments for those funds not covered by these restrictions or required to meet immediate needs.

7. The Program and Budget Committee is invited to recommend to the Assemblies of the Member States of WIPO to approve the Policy on Investments contained in the Annex to the present document.

[Annex follows]

**WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)
POLICY ON INVESTMENTS**

Authority

1. This investment policy is developed pursuant to Financial Regulation 4.10 that provides authority for the Director General to make short-term investments of money not needed for immediate requirements in accordance with the Organization's investment policy as approved by the Member States, and Financial Regulation 4.11 that provides authority for the Director General to make long-term investments of monies standing to the credit of the Organization in accordance with the Organization's investment policy as approved by the Member States. The investment policy also takes into consideration Financial Rule 104.10 (a) which delegates to the Controller the authority to make and prudently manage investments in accordance with the investment policy as approved by the Member States.

Objectives

2. The objectives of the investment policy are established in Financial Rule 104.10 (b) which provides that the Controller "shall ensure that funds are held in such currencies and invested in such a way as to place primary emphasis on minimizing the risk to principal funds while ensuring the liquidity necessary to meet the Organization's cash flow requirements". The primary objectives of the Organization's investment management, in order of importance, shall be (i) preservation of capital by limiting risks; (ii) liquidity to meet short-term needs and (iii) within the constraints of (i) and (ii), maximizing the rate of return.

Diversification of financial institutions

3. Financial Rule 104.12 (a) provides that "All investments shall be made through and maintained by recognized financial institutions designated by the Controller". The Organization's investments shall be distributed among multiple institutions, ensuring that no more than ten percent of the investments are exposed at one time to a single institution with the exception of institutions with sovereign risk and AAA/Aaa rating for which there are no restrictions or limit.

Currency of investment

4. Foreign exchange risk and exposure is to be managed in such a way as to minimize risk and preserve the value of assets as denominated in Swiss francs which is the currency in which the Organization's budget is approved and accounts are reported. To the maximum extent possible, short, medium and long term investments shall be managed by matching currencies held, forecast cash inflows and forecast disbursements by currency and period. In addition, funds in trust held on behalf of third parties in currencies other than the Swiss franc, may be held in a currency designated by the donor.

Benchmark

5. All categories of the Organization's cash resources enumerated below will be managed internally or by external fund managers by reference to the rate of return obtained by the Organization through deposits with the Swiss National Bank (*Banque Nationale Suisse* BNS) for Swiss francs, the 3-month Euribor rate for euro and the 3 month T-bill rate for United States dollars.

Categories of financial resources

6. In accordance with the investment principles mentioned above, the Organization's cash balances shall be categorized and described as follows:

   (a) Current operations – the amount needed on a day-to-day basis to meet the cash requirements of the Program and Budget. The amount required shall be determined by projections of cash in-flow and out-flow developed by Finance Services. Funds shall be held in such a manner that there is no probability of negative total return, with an investment horizon determined based on the cash flow analysis.

   (b) Restricted cash balances – the amount held on behalf of other parties including current accounts held on behalf of those filing international applications, funds held on behalf of governments, and unexpended balances of voluntary contributions held in trust (FITS special accounts). Funds shall be invested in such a manner that there is no possibility of negative total return, with an investment horizon, not to exceed three months, determined based on a cash flow analysis prepared by Finance Services reflecting historical trends on the utilization of such funds.

   (c) Fees collected on behalf of other parties - complementary, supplementary and individual fees held on behalf of members of the Madrid and Hague Union. Cash from fees collected on behalf of other parties may be invested in such a manner that there is no possibility of negative total return, with an investment horizon reflecting the dates for transfer of funds to members of each Union, as established in the rules of each Union.

   (d) Reserve committed to finance specific projects – amounts committed from existing reserves by the Assemblies to provide financing for specific projects. Funds may be invested in such a manner that there is no probability of negative total return, with an investment horizon taking into consideration a cash flow projection reflecting the estimated utilization requirements of each project.

   (e) Reserves un-committed – reserves that have not been committed by the Assemblies and Working Capital Funds may be invested with an investment horizon not to exceed two years so as to obtain a return higher than the benchmark in a manner that limits the probability of negative total return.

7. The investment of categories a) to d) above shall be managed internally by Finance Services of the Organization with the approval of the Chief Financial Officer/Controller. Cash flow projections for each category shall be updated periodically as required to ensure sufficient funds are available in each category to meet liquidity requirements.

8. The investment of funds in the un-committed reserves (category e) may be managed by external investment managers where the Chief Financial Officer/Controller determines it to be in the best interest of the Organization after consultation with the Advisory Committee on Investments to be established internally by the Director-General.

9. The categorization and investment guidelines for each category of the Organization's funds will be reviewed at least once every 3 years by the Advisory Committee on Investments and the Controller to ensure that they reflect changes in the Organization's business model and financial position.

External Investment Managers

10. Subject to the contract between the Organization and the external investment manager, the external investment manager shall be responsible for making investment decisions regarding the assets under its management, including decisions to buy, sell and hold securities. The external investment manager will be held accountable for following the investment guidelines and achieving the investment objectives as stated in the contract. Each investment manager will be required, at least annually, to provide evidence that the investment guidelines and limits agreed in the contract have been fully applied during the previous reporting period along with a comparison of investment returns to the benchmark specified in the Organization's Investment Policy.

11. The negotiation of contracts between the Organization and external investment managers will be the responsibility of Finance Services subject to the approval of the Chief Financial Officer/Controller after consultation with the Advisory Committee on Investments to be established internally by the Director-General. Each such contract shall specify the type of investments that may be purchased and the projected period in which investments may be held.

12. Limits on specific investments will generally be the responsibility of external fund managers unless limits are included in the investment guidelines as stated in the contract. However, with the exception of amounts deposited with institutions with sovereign risk and AAA/Aaa ratings, no more than 10% of the funds managed by each of the external investment managers may be invested in the same investment holding.

13. Contracts with external investment managers should provide for termination in the event of failure to take actions specified in the contract, failure to meet performance objectives or changes in the Organization's investment policy which render the use of an external investment manager inappropriate to the Organization's requirements.

Derivatives

14. Investment in derivatives for speculative purposes may not be included in the investment guidelines negotiated with an external fund manager. However, should investment in securities in currencies other than the Swiss francs be authorized in the investment guidelines specified within an agreement with an external investment manager, the use of hedging instruments to minimize the risk due to the fluctuation of the currency of the investment against the Swiss franc in order to avoid total negative investment returns may be authorized by the Chief Financial Officer/Controller after consultation with the Advisory Committee on Investments to be established internally by the Director-General.

[End of Annex and of document]

[End of Appendix and of document]