

# WIPO



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WORLD INTELLECTUAL PROPERTY ORGANIZATION  
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## PROGRAM AND BUDGET COMMITTEE

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#### PROPOSED UTILIZATION OF AVAILABLE RESERVES OVERVIEW AND BACKGROUND

*Document prepared by the Secretariat*

1. This document provides an overview of (i) Reserves and Working Capital (RWC) funds projected to be available at the end of the 2008/09 biennium; (ii) a summary overview of the financial impact of the proposals submitted to the Program and Budget Committee for its consideration at its thirteenth session for the use of the RWC funds; (iii) technical clarification with respect to the methodology to be applied for the approved appropriations from the RWC funds; and (iv) technical clarification with respect to the impact of the utilization of RWC funds to finance construction related expenditures on WIPO's balance sheet.

2. This document is to be read in conjunction with, and as further background to documents WO/PBC/13/6(a), 6(b), 6(c) and 6(d), which are submitted for consideration by the Program and Budget Committee separately, each on its own merit respectively.

#### Available Reserves

3. As Table 1 below indicates, the total level of RWC funds is projected to remain at 203.6 million Swiss francs at the end of the 2008/09 biennium, unchanged from the level reached at the end of the 2006/07 biennium. This is the result of the balanced revised budget proposal for 2008/09 submitted for approval by Member States (WO/PBC/13/4).

Table 1: Revised Financial Overview for 2008/09  
(in millions of Swiss francs)

	2006/07 Actual	2008/09 Proposed Budget	2008/09 Approved Budget	2008/09 Revised Budget	Difference Revised vs. Approved	
					Amount	%
a. Income	609.3	646.8	628.1	628.4	0.3	0.1%
b. Expenditure	532.6	630.2	626.3	628.4	2.1	0.3%
c. Surplus/(Deficit) (a-b)	76.7	16.6	1.7	0.0	(1.7)	-100.0%
d. Reserve opening balance	127.0	203.6	203.6	203.6	--	0.0%
<b>e. Total reserves (c+d)</b>	<b>203.6</b>	<b>220.2</b>	<b>205.4</b>	<b>203.6</b>	<b>(1.7)</b>	<b>-0.8%</b>
f. Reserves as percentage of biennial expenditure (e/b)	38.2%	34.9%	32.8%	32.4%	n/a	n/a
g. Reserve Target	95.9	117.4	116.9	117.9	1.0	0.8%
h. Reserve Balance (e-g)	107.8	102.8	88.4	85.7	(2.7)	-3.1%

\*Reserves and Working Capital Funds (RWCF)

4. As the above table also indicates, the RWC funds available above the target level set by Member States in the Organization's reserve policy<sup>1</sup> totals 85.7 million Swiss francs.

5. The Director General wishes to propose funding for only those activities which (i) are deemed critical at this time, either in substance and/or timing; and (ii) will not deplete the Organization's RWC funds below the target level established by the Member States.

6. The reason for this conservative approach is that the level of available RWC funds may be negatively affected by a decrease in WIPO's fee income in the current global economic and financial environment. While the Secretariat does not foresee such a downturn in income levels in the revised budget's base case scenario, it highlights for the attention of Member States that the low or high case income scenarios presented in the revised budget would significantly affect the level of available RWC funds as at the end of the current biennium. Accordingly, the approach taken in respect of the proposals for the utilization of available RWC funds is conservative and prudent.

7. The above is in line with the objective of maintaining the RWC funds at a level which ensures the continued operational and financial stability of the Organization, and to enable WIPO to cover any deficit from such funds in accordance with its reserve policy and its Financial Regulations and Rules<sup>2</sup>.

8. The income scenarios and the resulting levels of RWC funds are reproduced for ease of reference in Table 2 below (extract from WO/PBC/13/4).

<sup>1</sup> During the 35th Series of Meetings in September-October 2000, the Assemblies of the Member States of WIP approved (A/35/15, paragraph 151(b)) target levels for RWC funds as a percentage of estimated biennial expenditure as follows: (i) contribution-financed Unions - 50%; (ii) PCT Union - 15%; (iii) Madrid Union - 25%; and (iv) Hague Union - 15%. The overall average of these reserves, as a percentage of WIPO's proposed 2008/09 revised budget, results in a target level of 18.8%.

<sup>2</sup> Regulation 4.6 "The use, other than for the covering of any deficits, of any of the reserve funds is a matter for the decision of the General Assembly of WIPO or the Assembly of the Union concerned, as the case may be."

Table 2: Potential Range for Financial Results and RWCF Levels 2008/09  
(in millions of Swiss francs)

	2008/09 Revised Budget (BASE CASE)	2008/09 LOW CASE	2008/09 HIGH CASE
<b>Income</b>	<b>628.4</b>	<b>606.6</b>	<b>650.1</b>
Expenditure			
Personnel (incl. unallocated)	405.6	405.6	405.6
Non-Personnel (incl. unallocated)	222.8	222.8	222.8
<b>Total, Expenditure</b>	<b>628.4</b>	<b>628.4</b>	<b>628.4</b>
<b>Surplus/(Deficit)</b>	<b>0.0</b>	<b>(21.8)</b>	<b>21.7</b>
Reserve1	203.6	181.9	225.3
Reserve Target	117.9	117.9	117.9
Reserve Balance	85.7	64.0	107.4

<sup>1</sup> Reserves and Working Capital Funds (RWCF)

9. As indicated in the presentation of the Director General to Member States at their informal meeting on October 21, 2008, a number of future obligations may potentially reduce the level of available RWC funds. These relate to the following:

- The modernization of the IT systems of the “Madrid Agreement and Protocol System” (MAPS). In accordance with the decision of the Madrid Union Assembly’s decision at its 2007 session, an amount of 2.1 million Swiss francs was approved for the financing of Phase I. in 2008/09 of the project from the RWC funds of the Madrid Union. The funding necessary for Phases II and III of the project, if available above the required target level, were to be kept in the Madrid Union RWC funds. The total funding thus required would amount to 9.3 million Swiss francs from the Madrid Union RWC funds, which has been set aside for this purpose in accordance with the decision of the Madrid Union Assembly. It is recalled that, as indicated in the document submitted to the Madrid Union Assembly on the Modernization of the Information Technology System and Use (document MM/A/38/4 dated August 17, 2007), “the projects under Phase III may prove to be unnecessary and a decision regarding Phase III will only be taken if and when those projects prove to be necessary. A further study will be undertaken in early 2009 before any proposals regarding the financing of Phase III of the IT modernization program is made”; and
- The initial assessment of the impact of the implementation of International Public Sector Accounting Standards indicates that the overall net effect on the reserves will be a reduction in the order of 30 million Swiss francs, which is due to the deferral of part of PCT income and the requirement to establish provisions against future liabilities, offset by the addition to the assets of the inventory of equipment, buildings and publications. The Annex presents an overview of the indicative changes to WIPO’s balance sheet to illustrate this impact.

10. As a result of the above, the RWC funds available for utilization at this time, would amount to 46.4 million Swiss francs under the base case, 24.6 million Swiss francs under the low case and 68.1 million Swiss francs under the high case.

Overview of the Financial Impact of the Proposals for Utilization of Available Reserves

11. Table 3 below summarizes the financial impact of the proposals submitted for approval by Member States for the utilization of RWC funds on the basis described above. The conservative and prudent approach which the Secretariat has set out in respect of these proposals requires that the available RWC level taken as the basis for the proposals be taken as the “Net Reserve Balance” indicated in Table 3.

Table 3: Overview of Available RWC Funds and Proposed Utilization  
(in millions of Swiss francs)

	2008/09 Revised Budget (BASE CASE)	2008/09 LOW CASE	2008/09 HIGH CASE
Reserve <sup>1</sup> (A)	203.6	181.9	225.3
<b>Reserve Target (B)</b>	<b>117.9</b>	<b>117.9</b>	<b>117.9</b>
<b>Reserve Balance (C)</b>	<b>85.7</b>	<b>64.0</b>	<b>107.4</b>
<b>Items Reducing Available Reserves</b>			
- MAPS Modernization Phase I.	2.1		
- MAPS Modernization Phase II.	1.4		
- MAPS Modernization Phase III.	5.8		
- Impact of IPSAS implementation	30.0		
<b>Sub-total (D):</b>	<b>39.3</b>	<b>39.3</b>	<b>39.3</b>
<b>Net Reserve Balance (E=C-D)</b>	<b>46.4</b>	<b>24.6</b>	<b>68.1</b>
<b>Proposed Utilization of Reserves</b>			
- Security	7.6		
- New Construction - unfunded amount (20 million Sfr)	--		
- Architectural and Technical Project - New Conference Hall	4.2		
- IT Modules FRR and IPSAS	4.2		
<b>Total Proposed Appropriations (F):</b>	<b>16.0</b>	<b>16.0</b>	<b>16.0</b>
<b>Reserve Balance After Appropriations (G=E-F)</b>	<b>30.4</b>	<b>8.6</b>	<b>52.1</b>
<b>REMAINING RESERVES (A-D-F)</b>	<b>148.3</b>	<b>126.5</b>	<b>170.0</b>
<b>as % of biennial expenditure 08/09 of 628.4 million Sfr</b>	<b>23.6%</b>	<b>20.1%</b>	<b>27.0%</b>

<sup>1</sup> Reserves and Working Capital Funds (RWCF)

12. The proposed utilization of RWC funds totals 16.0 million Swiss francs, and consists of the following:

- a) Safety and Security Upgrade – 7.6 million Swiss francs over a period of three years, from 2009 to 2011 (see document WO/PBC/13/6(a));
- b) Financing for the unfunded portion of the cost of the New Construction – 20.0 million Swiss francs over a period of three years, from 2009 to 2011, as necessary (see document WO/PBC/13/6(b)), which would not have an impact on the level of the RWC funds as detailed further below;
- c) Architectural and technical project for a New Conference Hall – 4.2 million Swiss francs in 2009 (see document WO/PBC/13/6(c)); and
- d) Implementation of IT modules to establish compliance with the new Financial Regulations and Rules and IPSAS – 4.2 million Swiss francs over a period of two years, from 2009 to 2010 (see document WO/PBC/13/6(d)).

13. As illustrated by Table 3 above, the base case scenario presented for the revised budget for the 2008/09 biennium would enable funding of the above proposals, with a projected balance of 148.3 million Swiss francs, representing 23.6% of budgeted biennial expenditure, remaining available in the RWC funds. The high case scenario (driven by the range of fee income forecast for the current biennium), would result in a slightly higher level of remaining RWC funds at 170.0 million Swiss francs, representing 27% of budgeted biennial expenditure. Even the low case scenario for income levels would ensure that the level of RWC funds do not fall below the target level specified by the Organization's reserve policy, resulting in a projected balance of 126.5 million Swiss francs, representing 20.1% of budgeted biennial expenditure.

14. Table 4 below illustrates the planned timelines for use of the funds year on year from 2009 to 2011 in respect of the specific projects proposed. The following is further highlighted in this respect.

- a) The utilization of the funds is proposed to be spread over a range of periods, ranging from one to three years, while the RWC figures provided above give indications of income, expenditure and RWCF target levels for the current biennium only. The Organization will be presenting its 2010/11 budget in 2009 to Member States, by when further information will be available on the estimated income levels for 2008/09, and proposed biennial expenditure level for the 2010/11 will be known. This will enable more accurate projections for the required RWC funds' target level for the 2010/11 biennium, as well as a more accurate set of projections for results (surplus/deficit) for both 2008/09 and 2010/11, which will determine the level of overall RWC funds available to the Organization;
- b) The funds set aside for the implementation of Phase II and III of the MAPS Modernization Project will also not be needed before 2010, and the funds set aside for Phase III may not be needed at all, if the decision is taken not to proceed with the projects under this Phase;

- c) As indicated in the Revised Program and Budget for the 2008/09 biennium (document WO/PBC/13/4), the Secretariat is putting in place an Early Warning System to monitor the evolution of income levels in the current global economic and financial environment in order to ensure readiness to put in place cost containment measures in respect of 2008/09 expenditures if necessary. Together with the launching of a number of pro-active measures to ensure strengthening of a responsible spending culture as a matter of good business practice, these actions should serve to significantly mitigate the impact of the low case income scenario on the Organization's results and its RWC funds; and
- d) The level of the RWC funds in the low case scenario, at 126.5 million Swiss francs, representing 20.1% of budgeted biennial expenditure, continues to correspond to a healthy and prudent level of reserves for the Organization, and remains above the target level required by WIPO's reserve policy.

Table 4: Implementation Timelines and Use of Funds by Year  
(millions of Swiss francs)

	2009	2010	2011	TOTAL
<b>Security</b>	1.0	5.2	1.4	7.6
<b>New Construction - unfunded amount</b>	20.0	--	--	20.0
<b>Architectural and Technical Project - New Conference Hall</b>	4.2	--	--	4.2
<b>IT Modules FRR and IPSAS</b>	3.5	0.7	--	4.2
<b>TOTAL</b>	28.7	5.9	1.4	36.0

### Appropriation Methodology

15. It is recalled that WIPO's RWC funds are made up of those of the Unions administered by it, i.e. the Contribution-financed Unions, the PCT Union, the Madrid Union, the Hague Union and the Lisbon Union respectively. Table 5 below reflects the proposed appropriation methodology, which consists of allocating the share of the amounts to be appropriated to the Unions in accordance with their respective share of the total RWC balance as at end 2009.

Table 5: Proposed Share of Appropriation for Projects Proposed to be Financed from the Reserves  
Base case scenario  
(in thousands of Swiss francs)

	Contribution-financed Unions	PCT Union	Madrid Union	Hague Union	Lisbon Union	Total
Restated as at January 2008*	24,320	138,031	41,510	-340	111	203,632
Reserves as per Revised Budget 2008/09 as at end 2009	24,288	137,626	41,386	222	111	203,632
Adjusted Available Reserve**	24,288	137,626	32,049	222	111	194,296
Share of total by Union	12.5%	70.8%	16.5%	0.1%	0.1%	100.0%
<b>Proposed share of Reserve Projects</b>	<b>2,004</b>	<b>11,354</b>	<b>2,644</b>	<b>18</b>	<b>9</b>	<b>16,029</b>
RWCF target level required by Union 2008/09	18,863	71,458	26,587	995	0	117,903
<b>RWCF after appropriation for Reserve Projects</b>	<b>22,284</b>	<b>126,272</b>	<b>29,405</b>	<b>204</b>	<b>102</b>	<b>178,267</b>
Remaining balance	3,421	54,815	2,818	-792	102	60,364

\* Restated to accurately reflect the Arbitration and Mediation Center as a program and not a Union

\*\* Madrid Union Reserve reduced to reflect MAPS Modernization Project

Impact of Construction Related Appropriations

16. In response to queries from Member States, this section provides an overview of the impact of the proposed utilization of the RWC to finance construction related expenditures. The relevant proposal submitted to Member States for their consideration relates to the financing of the unfunded portion of the New Construction project, in the amount of 20 million Swiss francs. If, as a result of the architectural and technical project for the Conference Hall, a further appropriation were to be made from the RWC funds to finance the construction of the same wholly or in part, this would also be reflected in the same manner.

17. As Table 6 below illustrates, the expenditures in relation to the proposed funding for the New Construction would be recorded as follows:

- The amounts corresponding to those earmarked for spending against the RWC funds would be paid out of liquid assets (bank account) as required by the payment schedule for the works on the New Construction. This will result in a reduction in liquid assets on the balance sheet; and
- The value of the building on the balance sheet increases, initially as work in progress until completion of construction, when the building is brought onto the balance sheet at the total cost of construction.

18. On the asset side of the balance sheet, construction of the new building results in a shift from cash to a fixed asset, therefore the value of the reserves is not diminished. Though the value of land is not depreciated on the balance sheet, buildings are depreciated. Under UNSAS this is done at the rate of loan reimbursement, and under IPSAS it will be over 50 years, after which time the value will be zero. The buildings themselves, however, will continue to serve the Organization well beyond this timeframe.





## ANNEX

Summary Overview of Indicative Changes to WIPO's Balance Sheet  
UNSAS versus IPSAS

<u>UNDER UNSAS</u>		<u>Changes under IPSAS</u>	
WIPO Balance Sheet as at 31/12/2007 (In thousands of Swiss francs)			
<b>Assets</b>			
Liquid Assets	362,285		
Advances	6,753		
Debtor accounts			
Outstanding contributions	6,495	} → Total will increase to show amounts due from PCT Receiving Offices.	
Frozen arrears of LDCs	4,545		
Outstanding working capital funds	55		
Other	4,225		
Transitional assets	639		
Loan	10,000		
Transferable and fixed assets	34,243	Total will increase to show full value of land and buildings less depreciation; value of equipment less depreciation; and publications inventory.	
<b>Total Assets</b>	<b>429,240</b>	<b>PRELIMINARY CALCULATION FOR TOTAL ASSETS UNDER IPSAS</b>	<b>582,240</b>
		<b>UNSAS vs. IPSAS approximate difference: increase of</b>	<b>153,000</b>
<b>Liabilities</b>			
Borrowings payable within one year	1,394		
Unliquidated obligations	2,323		
Advance payment of contributions	275	} → Key changes increasing liabilities to (i) include deferral of PCT income; and (ii) new provisions to be added for post employment benefits, frozen contributions and receivables older than two years.	
Accounts payable	94,088		
Other funds and special accounts	97,589		
Borrowings payable after one year	29,942		
<b>Total Liabilities</b>	<b>225,610</b>	<b>PRELIMINARY CALCULATION FOR TOTAL LIABILITIES UNDER IPSAS</b>	<b>408,610</b>
		<b>UNSAS vs. IPSAS approximate difference: increase of</b>	<b>183,000</b>
<b>Reserves and Working Capital Funds</b>			
Working Capital Funds at end of period	8,342		
Reserves at end of period	195,288	Reduction to reflect value of accumulated surpluses/deficits under IPSAS (reflection of income deferral, increase to reflect valuation of land and buildings and equipment and inclusion of provisions for post employment benefits and frozen contributions and receivables over two years old)	
<b>Total Reserves and Working Capital Funds</b>	<b>203,630</b>	<b>PRELIMINARY CALCULATION FOR TOTAL NET ASSETS/EQUITY UNDER IPSAS</b>	<b>173,630</b>
		<b>UNSAS vs. IPSAS approximate difference: decrease of</b>	<b>-30,000</b>
<b>Total Liabilities, Reserves and Working Capital Funds</b>	<b>429,240</b>	<b>PRELIMINARY CALCULATION FOR TOTAL LIABILITIES AND NET ASSETS/EQUITY UNDER IPSAS</b>	<b>582,240</b>
		<b>UNSAS vs. IPSAS approximate difference: increase of</b>	<b>153,000</b>

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