

Program and Budget Committee

Fifteenth Session

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STATUS OF THE UTILIZATION OF RESERVES AND UPDATED FINANCIAL OVERVIEW FOR 2010

prepared by the Secretariat

1. This document provides an overview of (i) the status of Reserves and Working Capital funds (RWCF) following closure of the 2008/09 biennium¹; (ii) the status of RWCF appropriations approved by Member States to date, together with the updated estimates for the impact of the introduction of IPSAS on the RWCF, and the proposed appropriation for an Enterprise Resource Planning system (ERP) for WIPO; as well as (iii) an updated financial overview for 2010/11 and its potential impact on the level of available RWCF.
2. The proposal for the utilization of the RWCF (for the ERP system for WIPO) is presented as a separate document, on its own merit, for consideration by Member States.

3. *The Program and Budget Committee is invited to recommend to the Assemblies of the Member States of WIPO to take note of the contents of the present document.*

[Information on the Status of the Utilization of Reserves and Updated Financial Overview for 2010 follows]

¹ Please see also Financial Management Report for the 2008-2009 Biennium (publication FMR/2008-2009).

INFORMATION ON THE STATUS OF THE UTILIZATION OF RESERVES AND UPDATED FINANCIAL OVERVIEW FOR 2010

INTRODUCTION

- All Unions showed a surplus for the 2008/09 biennium. In accordance with the Organization's Reserve Policy (ref. documents A/35/15 and A/35/6), the target level of the Reserves and Working Capital Funds was met and exceeded for the biennium, as illustrated in the table below.

Table 1: RWCF by Union as of end 2008/09
(in thousands of Swiss francs)

	CF Unions	PCT Union	Madrid Union	Hague Union	Lisbon Union	Total
RWCF Adj., End 2007	24,321	138,029	41,509	(339)	111	203,630
2008/09 Income	38,285	458,920	100,818	7,484	1,923	607,431
2008/09 Expenditure	36,192	432,924	99,129	6,666	1,888	576,799
Surplus/Deficit	2,093	25,995	1,689	819	35	30,632
Reserve Special Projects expenditures 2008/09	751	4,255	992	6	6	6,009
RWCF End 2009	25,663	159,770	42,207	473	140	228,253

- The expenditures totaling 6.0 million Swiss francs shown under "Special Projects expenditures" in the table above reflect spending against appropriations approved by Member States against the Reserve Funds (see publication FMR/2008-2009). These appropriations are listed in full in the table below, as approved by Member States, and total 31.1 million Swiss francs.

RWCF APPROPRIATIONS

- In addition to the projects already approved for funding from the RWCF, the following other items affecting the level of the RWCF are indicated in the table below: (i) the proposal for the exceptional appropriation of unspent balances of budgets approved under the revised program and budget for 2008/09 for Development Agenda projects (implementation of Recommendations 2, 5, 8, 9, and 10 – please see publication FMR/2008-2009); (ii) the proposal for an Enterprise Resource Planning (ERP) project (please see WO/PBC/15/17 for full details of the proposal; and (iii) the estimate for the impact of the implementation of International Public Sector Accounting Standards (IPSAS) (to be updated in the second half of the year to reflect the External Auditor's recommendations and the 2009 results). It is further recalled that the amounts authorized to fund the New Construction Project (NCP) and the New Conference Hall Project (NCHP) for 20 and 24 million Swiss francs respectively, will remain part of the Organization's reserves, and are therefore seen to be an authorization to utilize RWCF without reducing their value.

Table 2: Overview of RWCF Utilization
(in millions of Swiss francs)

	Amount	Cash	Comment
- MAPS Modernization Phase I.	3.6	3.6	approved 2007 and 2009
- MAPS Modernization Phase II.	1.9	1.9	approved 2009
- MAPS Modernization Phase III.	8.3	8.3	approved 2009
- Database of acceptable indications of goods and services	1.2	1.2	approved 2009
- IT Modules FRR and IPSAS	4.2	4.2	approved 2008
- Architectural and Technical Project - New Conference Hall	4.2	4.2	approved 2008
- Security	7.6	7.6	approved 2008
Sub-total approved to date	31.1	31.1	Of this amount, 6.0 million Sfr has been spent as of end 2009
- Development Agenda Projects "Carryover"	7.2	7.2	proposed FMR 2008/09
- ERP proposal	25.0	25.0	proposed October 2010 Assemblies
- Impact of IPSAS implementation	21.1	--	estimate, to be adjusted to reflect the External Auditor's recommendations and the 2009 results
Sub-total proposed 2010 and IPSAS adjustment	53.3	32.2	
GRAND TOTAL	84.3	63.2	
Projects authorized for funding , with no impact on RWCF levels			
- New Construction	20.0	20.0	authorized 2008
- New Conference Hall	24.0	24.0	authorized 2009
	44.0	44.0	

4. As already noted last year (see WO/PBC/14/8), while in all except the case of the IPSAS-related adjustment of 21.1 million Swiss francs, the projects funded from the RWCF will involve a reduction in the cash levels of the Organization, (i) the expenditures in respect of the construction related projects (New Construction Project and the proposed New Conference Hall Project) will be capitalized in their entirety, and (ii) other project related expenditures will be capitalized to the extent allowed and required under the applicable accounting standards. However, in order to ensure that the liquidity projections for the Organization's RWCF are presented on a prudent and conservative basis, those projects which are not construction related are shown as fully utilizing the RWCF, i.e., expensing the costs assigned to them. As noted above in paragraph 3, it is highlighted that the IPSAS adjustment of 21.1 million Swiss francs is subject to External Audit review, and may further increase as a result of adjustments to be made to the total liabilities of the Organization in respect of various employee benefits (termination, ASHI, etc.). While such adjustments may not materialize, if they do, the impact may be a further increase of up to 15-18 million Swiss francs, which would then entail a corresponding downward adjustment in the level of the RWCF.
5. The share of the appropriation by Union in respect of the above (with the exception of the NCP and NCHP) is illustrated in the table below. The proposed appropriation by Union was calculated in accordance with the allocation methodology approved by Member States in the Program and Budget. Table 3 below further illustrates the estimated impact of the IPSAS adjustment by Union, confirming that the overall RWCF levels of the Organization can absorb these adjustments. It should be noted that the Madrid Union and Hague Union reserves would fall below their respective reserve target levels if all the appropriations and adjustments were spent and implemented at the same time. It is recalled, however, that (i) the appropriations are spent over multiple years, and therefore will impact the RWCF over a longer period of time, during which biennial results and changing reserve target levels will enable the restoration of these available reserve levels; and (ii) the temporary dip of RWCF levels below target does not indicate illiquidity or insolvency, as the Reserve levels continue to be healthy and positive overall.

Table 3: Overview of RWCF Available by Union
(in thousands of Swiss francs)

	CF Unions	PCT Union	Madrid Union	Hague Union	Lisbon Union	Total
RWCF End 2009	25,663	159,770	42,207	473	140	228,253
<i>LOAN from PCT to Hague 2009</i>		(3,000)		3,000		-
Adjusted RWCF End 2009	25,663	156,770	42,207	3,473	140	228,253
<i>Appropriations already approved, not yet spent</i>	<i>1,253</i>	<i>7,099</i>	<i>13,684</i>	<i>3,011</i>	<i>3</i>	<i>25,050</i>
RWCF available balance Jan 2010	24,410	149,671	28,523	462	137	203,203
RWCF APPROPRIATIONS PROPOSED 2010						
- DA 2, 5, 8, 9, 10 opening 2010 balances appropriated	487	6,672	12	-	11	7,182
- ERP PROPOSAL	1,695	23,226	41	-	39	25,000
RWCF available after all appropriations	22,229	119,773	28,470	462	86	171,022
2010/11 RWCF TARGET	18,490	68,524	28,381	1,442	-	116,836
RWCF BALANCE AVAILABLE ABOVE TARGET	3,739	51,250	90	(980)	86	54,186
<i>IPSAS adjustment*</i>	(1,320)	(17,546)	(2,568)	299	25	(21,109)
RWCF AVAILABLE AFTER ADJUSTMENT	2,420	33,704	(2,478)	(681)	112	33,077

*estimate, to be adjusted to reflect the External Auditor's recommendations and the 2009 results

6. Progress reports for the projects previously approved by the Assemblies for funding from the RWCF are submitted separately to the PBC or the respective Union Assemblies concerned (Madrid and Hague in respect of projects funded by their share of the RWCF), with actual expenditures against these shown in their respective progress reports. Paragraphs 7 and 8 below provide a brief summary of progress made in respect of the projects funded under the Madrid and Hague Union reserves.
7. As presented to the Madrid and Hague Union Assemblies in 2009 (MM/A/42/2 and H/A/28/2), progress in the execution of Phase I of the IT modernization strategy has been slower than expected, but nonetheless there has been demonstrated progress in that many new functionalities have been delivered to system stakeholders. All Phase I sub-projects are scheduled for completion (and therefore all the allocated resources will be consumed) during the course of 2010. Due to severe shortages in the availability of programming resources with the required technical skills to support the legacy systems, a revised approach to Phases II and III of the IT modernization strategy was also presented to the Madrid and Hague Union Assemblies in 2009. The skills shortages mentioned above amplified the business risks associated with continuing to depend on the legacy system's technical architecture. The revised approach included the combining of Phases II and III into a single project. The approach proposed that the identification of a new technical architecture and the redevelopment of the MAPS and DMAPS business transactions be "outsourced" to a commercial strategic partner that would be chosen following an Expression of Interest exercise and an Open International Tender. The Madrid and Hague Union Assemblies approved the revised approach including a project plan extending into 2012. It was also agreed to fund the revised approach fully from the reserve funds. The preparation of the necessary documentation has progressed to the point where the procurement exercise for a combined Phase II and III will be initiated in June 2010. A detailed project summary will be prepared for the consideration of the Madrid and Hague Union Assemblies in September 2010.
8. As approved by the Madrid Union Assembly in 2009 (document MM/A/42/4, paragraph 28), in October 2009 the International Bureau initiated the implementation of the project to accelerate the construction of the Madrid system database of acceptable indications of goods and services (Madrid G&S Database project) for which an amount of 1.2 million Swiss francs from the Madrid Union Reserve Fund was allocated. Between October 2009 and April 2010, good progress was made in the processing of new indications to be added to the database. By the end of April 2010, the database contained already more than 25,200 indications in English, 15,800 in French and

17,100 in Spanish. As originally planned, the contents of the database will be made accessible on line on the WIPO website by October 2010 at the latest. The Offices of four interested Contracting Parties have already agreed to cooperate in the development of the database by checking their acceptance of the terms contained therein. From a budgetary viewpoint, the project implementation is on target: some 75% of the total budget allocation had been spent or committed by April 2010. A detailed progress report on the project implementation will be submitted to the Madrid Union Assembly in September 2010.

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9. In line with its continued commitment to prudent financial management as well as close monitoring and careful management of the impact of the turbulence in the global financial and economic markets, the Secretariat regularly reviews updated estimates for WIPO's biennial income and expenditure levels. While the outlook continues to be positive in comparison with the significant drops observed in the previous biennium, the increases foreseen for registrations and renewals (R&R's) under the Madrid and Hague systems, as well as the international application levels (IA's) under the PCT, may prove to be somewhat optimistic in light of the continued difficulties observed in the global economy. While there is not sufficient evidence or data at this time to support a formal downward revision of budgeted income and workload estimates, the Secretariat is monitoring the evolution of the related statistics and trends with increased attention. Revised estimates of these workload levels continue to be provided to Member States on a quarterly basis via the Financial Observatory.
10. Most recent forecasts foresee a potential drop in income levels by up to approximately 18-19 million Swiss francs as a result of (i) lower than expected workloads under both the PCT and Madrid and Hague system; and (ii) a fee reduction proposed to be implemented under a differentiated UDRP filing option (Arbitration and Mediation Center), which would enable the filing of shorter complaints for lower fees. The Secretariat is closely monitoring and actively managing the allocation of spending authority and overall expenditure levels in order to ensure that these remain within the income levels generated over the biennium. In the unlikely scenario, however, that income levels come close to the low case scenario presented in the Budget, it may be preferable to allow expenditures to exceed income in order to ensure operational stability for the Organization overall. The table below presents an overview of the current best estimates for both income and expenditure levels ("Base Case"), alongside the budgeted figures as well as updated "High" and "Low" Case scenarios for income.

Table 4: Financial Overview for 2010/11
(in millions of Swiss francs)

	2008/09 Actual	2010/11 Approved Budget	2010/11 Range (based on updated income estimates June 2010)		
			LOW CASE	BASE CASE	HIGH CASE
RWCF Opening Balance	203.6	203.6	228.3	228.3	228.3
Income	607.4	618.6	572.4	600.0	622.1
Expenditure	576.8	618.6	588.3	600.0	610.0
Surplus/(Deficit)	30.6	0.0	(15.9)	0.0	12.1
RWCF after results	234.3	203.6	212.3	228.3	240.4
Reserve expenditure	6.0	-	25.0	25.0	25.0
RWCF End Biennium	228.3	203.6	187.3	203.3	215.4
<i>Reserves as percentage of biennial expenditure</i>	39.6%	32.9%	31.8%	33.9%	35.3%
Appropriations already approved, not yet spent	25.0	25.0	-	-	-
Appropriations proposed 2010	7.2*	-	32.2**	32.2**	32.2**
RWCF available after all appropriations	196.0	178.6	155.1	171.1	183.2
Reserve Target 2010/11 (as budgeted)	116.8	116.8	116.8	116.8	116.8
Reserve Balance	79.2	61.7	38.3	54.2	66.3
<i>IPSAS adjustment***</i>	21.1	21.1	21.1	21.1	21.1
RWCF AVAILABLE AFTER ADJUSTMENT	58.1	40.6	17.2	33.1	45.2

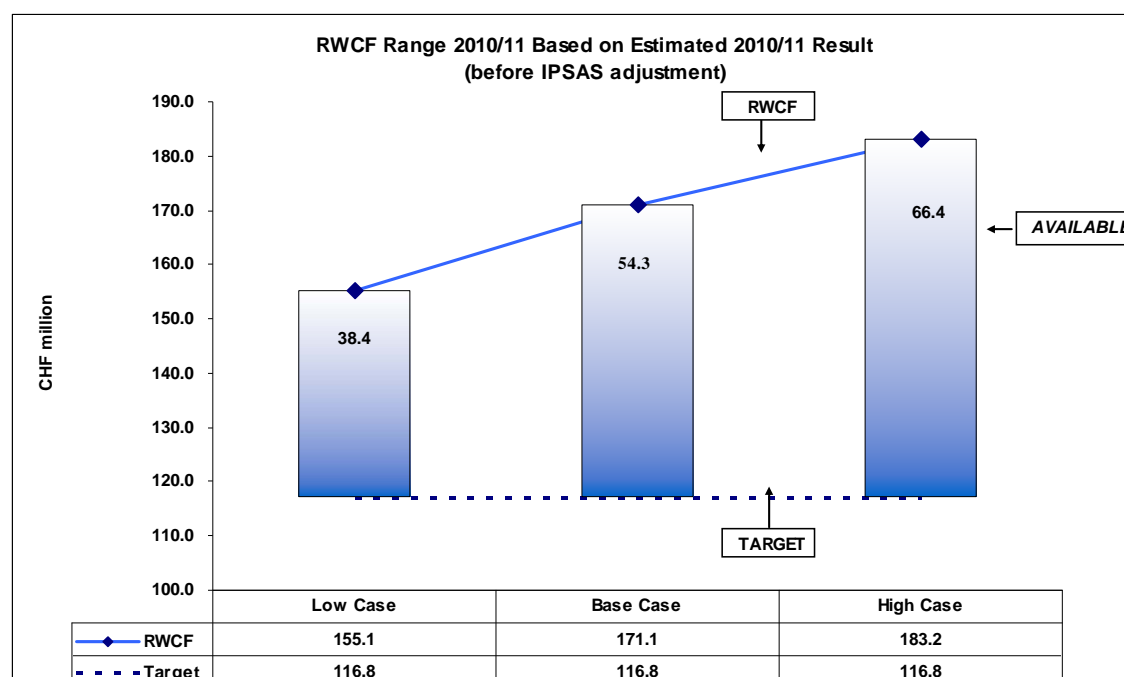
*DA Rec. 2, 5, 8, 9, 10 opening 2010 balances (appropriated)

**Includes DA Rec. 2, 5, 8, 9, 10 opening 2010 balances (appropriated) and the ERP proposal

***estimate, to be adjusted to reflect the External Auditor's recommendations and the 2009 results

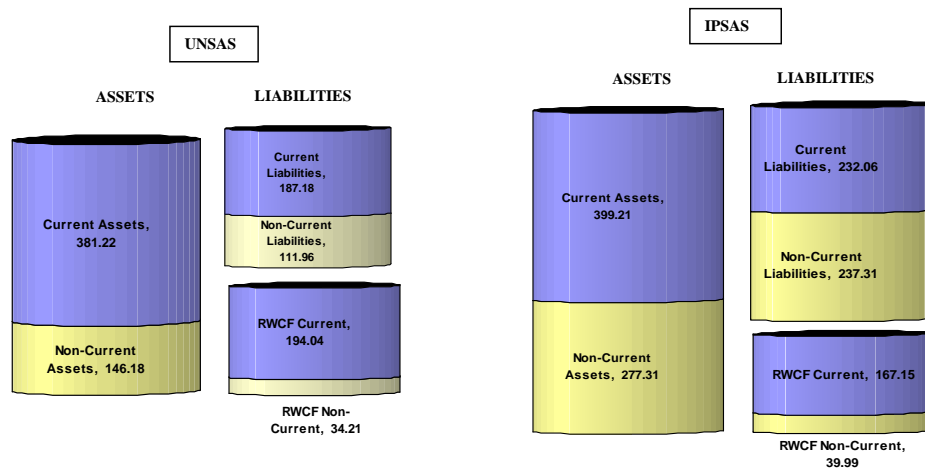
- As the table above indicates, the total level of RWCF is estimated to remain above the required reserve target level and provides adequate room for the proposed project fund appropriation, together with the required IPSAS adjustments as well.
- The chart below presents an overview of the potential impact of the high as well as low case income scenarios indicated in Table 4 above on the level of RWC funds available above the target level.

Chart 1: Available Reserves by Income Scenarios Presented for 2010/11
(in millions of Swiss francs)



13. As Chart 2 below illustrates, WIPO's liquidity position is healthy, with 85% (under UNSAS) and 81% (under IPSAS) of its RWCF held in cash or liquid assets. Liquidity has been computed to reflect total cash resources less current liabilities. In this computation the IPSAS adjustment to defer revenue for PCT and Trademarks pending final publication has not been taken into account as the revenue deferral represents only a timing delay, not a reduction in revenue. WIPO is an on-going operation receiving revenue from its various fees and other sources on a regular basis helping to ensure that its cash resources are replenished. In addition, the Madrid treaty and PCT regulations provide very few circumstances under which refunds of fees are possible limiting the impact of the deferral of revenue to the cash received in connection with fees.

Chart 2: Liquidity of RWCF
(in millions of Swiss francs)



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