

Program and Budget Committee

Seventeenth Session (informal) Geneva, June 27 to July 1, 2011

POLICY ON INVESTMENTS

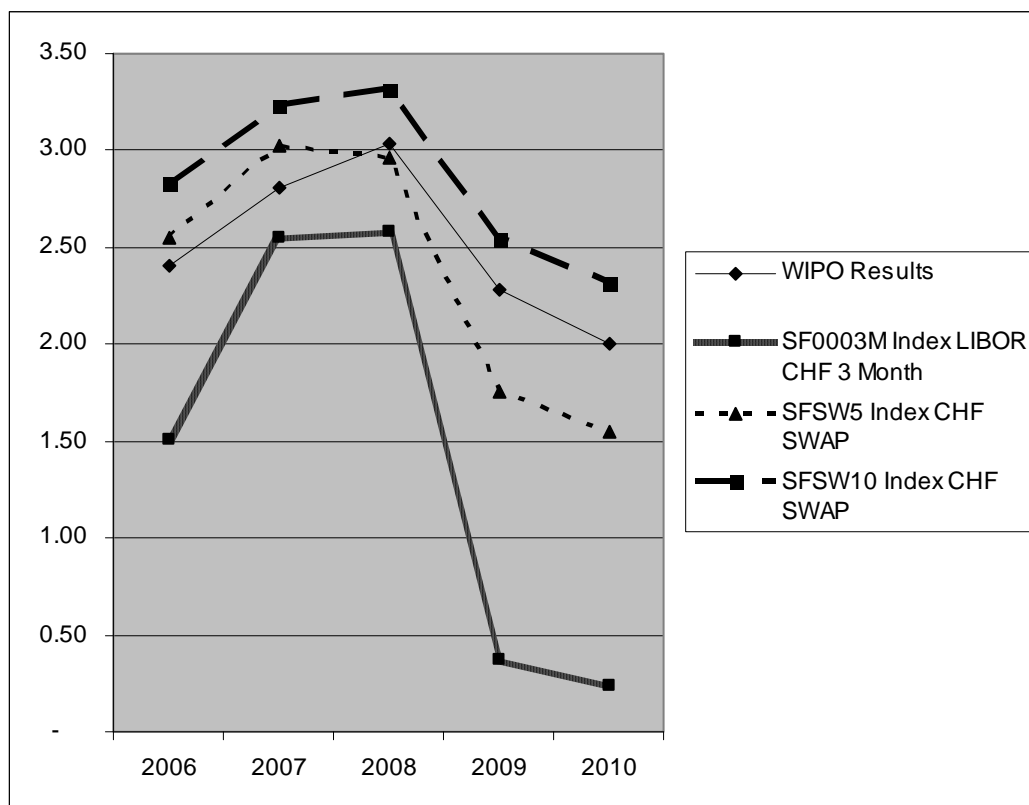
Document prepared by the Secretariat

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. At the fifteenth session of the Program and Budget Committee (PBC) the Secretariat submitted a proposed investment policy (WO/PBC/15/8) for the consideration of the Member States in accordance with the Financial Regulations. The PBC requested the Secretariat to submit a revised proposal at a later session of the PBC taking into account the observations and comments made by Member States.
3. Attached, as Annex I, is a revised proposed investment policy to be discussed by the PBC and forwarded with its recommendation to the WIPO Assemblies of Member States for decision at their forty-ninth series of meetings. The proposed policy takes into consideration the observations and comments made by Member States as well as WIPO’s unique characteristics. These characteristics which had been described in the previous submission to the PBC 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 (3%). Of the remaining revenue, 88% represents revenue from fees and the remaining 3% 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, 2010, was 117.8 million Swiss francs or 30.7% of total cash and deposits.
 - (iii) FITS: An additional 14.3 million Swiss francs or 3.7% 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 several 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 122.7 million Swiss francs at December 31, 2010.
 - (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.
4. 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 International Civil Service Commission (ICSC), United Nations Joint Staff Pension Fund (UNJSPF) and WIPO Staff Rules and Regulations.
5. 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 with those rates offered by other banks for Swiss francs and with 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.

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



7. The primary objective of the investment policy is to achieve the highest possible annual return while minimizing the risk related to loss of principal. The proposed investment policy continues the existing practice of investing Swiss franc cash resources not required for immediate use with the Swiss National Bank unless higher rates of return for the same time period can be achieved with other banks having an AA-/Aa3¹ or higher credit rating. As a further condition, investments with banks, other than those with the status of sovereign risk (Swiss National Bank), must have agreed to comply with the ten principles of the United Nations Global Compact. This compact asks companies to respect a set of core values in the areas of human rights, labor standards, the environment and anti-corruption.

8. *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 Annex I to the present document.*

[Annexes follow]

¹ AA- represents Standard and Poor's and Aa3 Moody's ratings for safe investments with low risk of failure (further details of credit ratings shown in Annex II).

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; (ii) liquidity and (iii) within the constraints of (i) and (ii), 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/Aaa¹ 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.

Benchmark

5. All categories of the Organization's cash resources will be managed internally 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.

¹ Details of credit ratings shown in Annex II

Categories of Investments

6. Investments will be made as follows:
 - (a) All Swiss franc investments for WIPO will be held with the BNS provided that the rate offered is higher than that available from commercial banks having the required credit rating.
 - (b) Investments other than those made with the Swiss National Bank shall be limited to money market funds and time deposits held by banks with a credit worthiness rating of AA-/Aa3 or higher and to high grade corporate or government bonds rated AA-/Aa3 or higher.
 - (c) Monies held for funds in trust will be placed in money market funds and time deposits with banks meeting the required credit rating.
7. Investment in derivatives for speculative purposes are not permitted. However, where investments are held in currencies other than the Swiss franc, the use of hedging instruments to minimize the risk arising from the fluctuation of the currency of the investment against the Swiss franc and thus 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.
8. The investments 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.
9. The investments of the Organization's funds will be reviewed at least annually by the Advisory Committee on Investments, to ensure that they reflect any changes in the Organization's business model and financial position.

Ethical Considerations

10. Investments in corporate bonds, time deposits and money market funds shall take into consideration whether the entity issuing the investment has embraced the United Nations Global Compact's ten principles in the areas of human rights, labor standards, the environment and anti-corruption. (www.unglobalcompact.org)

[Annex II follows]

CREDIT RATINGS BY AGENCY

MOODY'S		STANDARD & POOR'S		FITCH			
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1	P-2	A+	A-1	A+	F1	Upper medium grade	
A2		A		A			
A3		A-		A-			
Baa1	P-3	BBB+	A-2	BBB+	F2	Lower medium grade	
Baa2		BBB		BBB			
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative	
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+			
B2		B		B			
B3		B-		B-			
Caa1		C	CCC+	C	CCC	C	Substantial risks
Caa2			CCC				Extremely speculative
Caa3			CCC-				In default with little prospect for recovery
Ca			CC				
Ca	C						
C	D	/	DDD	/	In default		

[End of Annex II and of document]