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## Fifth Committee

**Summary record of the 16th meeting**
Held at Headquarters, New York, on Tuesday, 16 November 2010, at 10 a.m.

*Chair:* Mr. Tawana (Vice-Chair) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . (South Africa)
*Chairman of the Advisory Committee on Administrative and Budgetary Questions*: Ms. McLurg

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10-64076 (E)

*In the absence of Mr. Rosenthal (Guatemala), Mr. Tawana (South Africa), Vice-Chair, took the Chair.*

*The meeting was called to order at 10.10 a.m.*

**Agenda item 137: United Nations pension system** (A/65/9 and A/65/567; A/C.5/65/2 and A/C.5/65/3)

1. **Mr. Yossifov** (Chair of the United Nations Joint Staff Pension Board), introducing the report of the fifty-seventh session of the United Nations Joint Staff Pension Board (A/65/9), said that chapter II of the report provided an overview of Board recommendations and decisions. The first part of the chapter summarized those recommendations that required action by the General Assembly. Specifically, the Board recommended the approval of an amendment to the Fund's Regulations that would allow staff members who changed from full-time to part-time employment to continue to accrue full-time service for up to three years, provided that the required contributions were paid to the Fund at the full-time employment rate. The amendment applied the same constraints as those applied to periods of leave without pay for full-time staff. The Board also recommended the suspension, for all separations as from 1 January 2011, of the special index provision under the Fund pension adjustment system in light of the provision's conceptual deficiencies. Lastly, the Board recommended the approval of funding for the cost-sharing arrangement for the use of the new administration of justice system.

2. The thirtieth actuarial valuation of the Fund as at 31 December 2009 had revealed an actuarial deficit, the first in 14 years, of 0.38 per cent of pensionable remuneration, primarily reflecting the Fund's investment performance over the last two years of financial turbulence. Favourable performance in 2009 had been insufficient to offset the losses suffered in 2008, with the result that investment income had fallen short of the objective assumed in the actuarial valuation. The effect of updating the pension commutation factors to reflect the new mortality rates adopted in 2008 had also contributed to the losses recorded, which had been partially offset by lower than expected cost-of-living adjustments. The consulting actuary and the Committee of Actuaries had concluded that the current contribution rate remained sufficient to meet long-term liabilities and that, as at 31 December 2009, there was no need for deficiency payments under article 26 of the Regulations. The Board had also decided that no changes to the rate of contribution or the cap provision of the two-track feature of the pension adjustment system were necessary at the current time.

3. With regard to investment management, the Fund's total market value had increased by 32.2 per cent over the year ended 31 March 2010, representing a slight underperformance of 1.09 per cent relative to the established market benchmark. The combined two-year performance as at 31 March 2010 had been negative by 5.2 per cent, which represented an annualized outperformance of 0.47 per cent; the Fund had also outperformed its benchmark over the last 3, 5, 7 and 10 years. The Representative of the Secretary-General for the Investments of the Fund had explained the recent downward trend in the level of investment income received by the Fund and, as requested by the Board of Auditors and the Pension Board, had also provided a detailed explanation regarding the realized net loss of $467 million recorded in the calendar year 2009, as set out in paragraph 73 of the report.

4. Detailed information on the Fund's operations and financial position during the biennium 2008-2009 was provided in paragraphs 103 to 108 of the report. In that biennium, the number of active participants had increased by 10.3 per cent to 117,580, following an increase of 13.8 per cent in the previous biennium. Benefits in award had increased by 6.5 per cent to 61,841, after an increase of 5.3 per cent in the previous biennium. The principal of the Fund had increased from $30.6 billion to $33.1 billion; however, total investment income had fallen sharply to $2.7 billion from $7.2 billion in the prior biennium. The Fund's contribution income had increased by 18.5 per cent to $3.72 billion, while benefit payments had increased by 17.9 per cent to $3.76 billion, exceeding total contribution income by $41.5 million. Expenditures of $3.88 billion for benefits plus administrative and investment costs had exceeded total contribution income by $163 million.

5. The Board had considered a number of administrative items, described in paragraph 13 of the report. It had endorsed all the recommendations and conclusions of the Audit Committee, including the revised Internal Audit Charter. It had also noted that the Board of Auditors, in its report on the Fund's financial statements for the biennium ended 31 December 2009, had issued a modified audit

opinion as a caution to highlight inadequate disclosures concerning investments. In response, the Investment Management Division had provided the Board of Auditors with additional information on the losses recorded.

6. The Board had considered a number of matters relating to the governance of the Fund, specifically the revised accountability statement; the Board's composition and working methods; the draft job description for the next Chief Executive Officer; plan design; and the terms of appointment for the Chief Executive Officer and Deputy Chief Executive Officer, in respect of which it had approved an amendment to its rules of procedure. It had also approved a change in the Administrative Rules of the Fund to correspond to changes previously made in the Regulations in relation to participation and restoration of service, and had considered the impact of currency fluctuations on pension benefits. With regard to the forthcoming review of pensionable remuneration, the Board had requested that the defined-benefit plans of additional countries and similar international organizations should be included in the comparability review. Lastly, the Board had reviewed and taken note of the 15 judgements in respect of which the Board had been the respondent; the Board's decisions had been upheld in most cases, indicating that the Fund's Regulations and Rules were being properly administered.

7. The matters requiring the attention and decisions of the General Assembly were reflected in the proposed draft resolution on pension matters contained in annex XX to the Board's report.

8. **Mr. Sach** (Representative of the Secretary-General for the Investments of the Fund), introducing the report of the Secretary-General on investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase diversification (A/C.5/65/2), said that, despite market turbulence, the Investment Management Division had been strengthening the Fund's investment infrastructure in order to reduce costs and enhance security. A record number of competitive procurement exercises had been launched, as detailed in paragraph 9 of the report; in particular, an electronic trade order management system had been rolled out in January 2010 and integrated with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) payment system. The Division had also introduced personal securities, gift and hospitality policies to affirm its commitment to the highest standards of ethics, good governance and integrity.

9. In the 24-month period from 1 April 2008 to 31 March 2010, which included the major shocks of the recent financial crisis, the Fund's market value had fallen by some 6 per cent from $40.6 billion to $38.3 billion, having reached a low point of $26.7 billion in March 2009. However, the Fund's value had rebounded since 2009 to reach $41 billion as at 8 November 2010, which was equal to over 96 per cent of the peak value it had reached in late 2007. That upturn supported the recommendation of the Fund's consulting actuary that no action should be taken in respect of the actuarial deficit, which had been based on the Fund's market value of $37.5 billion at the end of 2009. The Division was confident that, with diligent bottom-up stock selection and prudent asset allocation, the Fund would continue to provide a secure foundation for the payment of pension benefits, while the implementation of new risk management software would provide an additional level of safety.

10. Following the rebalancing of the portfolio in the first half of 2009, the Fund had earned 32.2 per cent over the 12 months ended 31 March 2010, among the highest annual returns in its history. A breakdown of performance by asset class was given in paragraph 52 of the report. The Fund was further expanding its investments in developing countries and economies in transition; the Division continued to explore investment opportunities in such countries and had conducted investment visits to a number of regions in the period under review. Direct and indirect investments in developing countries had totalled $4.8 billion as at 31 March 2010, representing a 25 per cent increase over the 31 March 2008 level, and the portfolio was currently overweight in emerging markets.

11. In 2010 the markets had been characterized by equity market volatility, anxiety over exchange rates and protectionism, and concerns about the sustainability of euro-zone sovereign debt positions. The 7.5 per cent increase in the Fund's value between 1 January and 22 October 2010 reflected the benefits of diversification, prudent stock selection and tactical rebalancing. The Fund's performance had been primarily attributable to its global exposure to equities and fixed-income assets. As at 22 October 2010, equities had constituted 64.3 per cent; fixed-income

assets, 30 per cent; and real estate, 3.9 per cent of the Fund.

12. Since 2008, the Fund had been investigating a number of alternative assets. Following a lengthy and rigorous due diligence process, on 30 June 2010 the Fund had committed $150 million to the IFC African, Latin American and Caribbean Fund, L.P., a private equity fund created by the International Finance Corporation (IFC). That investment represented a sound diversification of asset classes and broadened the Fund's geographical diversification, increasing its stake in emerging markets.

13. Given the Fund's very long-term horizon and low turnover, unrealized gains and losses heavily outweighed realized gains and losses. Realized losses were generated as a result of portfolio pruning to ensure that only the most promising investments were retained; they were a natural outcome of managing short-term risk in order to meet the Fund's long-term objectives. In the calendar year 2009, unrealized gains had amounted to $6.2 billion, which dwarfed the realized loss of $467 million recorded that year.

14. With respect to the recommendations concerning portfolio risk management set out in the relevant report of the Board of Auditors (A/65/9, annex X, paras. 111-113), the Division had already implemented and activated 75 of the 128 controls outlined in its risk management manual, while 10 were partially active and the rest were in the process of being implemented. The Division would implement the recommendation to undertake a case-by-case review to identify lessons learned in respect of losses, and was already implementing a specific control concerning the implementation of lessons learned in respect of realized and unrealized losses and gains of more than 25 per cent. Concerning improvements in investment disclosure, the level of disclosure in the 2008-2009 accounts equalled the level in previous bienniums. In future, the Division would disclose realized and unrealized gains and losses in appropriately summarized and aggregated form, in line with industry best practice and the International Public Sector Accounting Standards (IPSAS). Templates for future disclosures would be discussed directly with the Pension Board's Audit Committee.

15. **Ms. Van Buerle** (Director, Programme Planning and Budget Division), introducing the report of the Secretary-General on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/65/3), said that, while annex XIX to the Board's report (A/65/9) reflected an increase in the overall administrative expenses of the Fund, the Board had decided to maintain the Fund's overall resources at the level of the initial appropriation and to accommodate the increase through the redeployment of resources from the investment budget. Consequently, the share of the United Nations under the cost-sharing arrangement would remain unchanged and the current appropriation under section 1 of the programme budget for the biennium 2010-2011 would be maintained.

16. **Ms. McLurg** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the report of the Advisory Committee on the United Nations pension system (A/65/567), said that the Advisory Committee concurred with the Board of Auditors and the Pension Board regarding the need to mitigate the risks associated with extreme market volatility, which would continue to influence the Fund's annual performance in future years. With regard to the deficit revealed by the actuarial valuation as at 31 December 2009, it was reassuring that the Fund's consulting actuary and the Committee of Actuaries had concluded that the current contribution rate remained sufficient to meet long-term liabilities and that there was no need for deficiency payments.

17. Bearing in mind that IPSAS would be operational on 1 January 2012 and that a new Chief Financial Officer would be responsible for their implementation, that post should be filled as soon as possible. The Fund should finalize its IPSAS implementation plan in a timely manner and continue with its preparations in order to avoid any possible delays, while the Board of Auditors should provide advice and guidance on that matter.

18. The Advisory Committee's position regarding the Board's recommendation that the Fund Regulations should be amended to allow part-time staff to "buy" full-time participant status was unchanged; it did not support the proposed amendment.

19. With regard to the report of the Board of Auditors on the financial statements of the Fund for the biennium 2008-2009, the Advisory Committee was concerned that the Fund had received a modified audit opinion with one emphasis of matter on the

management of investments, specifically relating to the non-disclosure of realized and unrealized losses. It noted that the Investment Management Division had agreed to improve the disclosure of such information in future. The Advisory Committee agreed with the Board of Auditors that risk controls should be strengthened to avoid excessive losses; it also welcomed the Division's implementation of a revised risk management policy and a new risk management manual. It concurred with the observations and recommendations of the Board of Auditors and expected the Investment Management Division to continue to ensure that safety, profitability, liquidity and convertibility remained the paramount investment criteria, pursuant to General Assembly resolution 32/73.

20. The Advisory Committee recommended approval of the recommendations contained in paragraph 12 of the Pension Board's report (A/65/9), subject to the observations and recommendations set out in its own report (A/65/567).

21. **Mr. Al-Shahari** (Yemen), speaking on behalf of the Group of 77 and China, said that the United Nations pension system should be improved so as to ensure that retirement, death, disability and related benefits were provided to participants and retirees on the basis of full respect for the principles of transparency and accountability. The Group was pleased to note that the number of participants in the United Nations Joint Staff Pension Fund, the number of periodic benefits in award and the Fund's principal had increased during the biennium 2008-2009. With regard to the actuarial deficit revealed by the thirtieth actuarial valuation of the Fund, and the considerable volatility of the Fund's investments, the Group wished to reiterate that the ongoing world financial crisis called for a cautious analysis of all types of investment. Future investments should take potential risks into account and the Investments Committee should play a key role in providing guidance to the Investment Management Division. In that connection, the Group joined the Advisory Committee in welcoming the initiatives currently being implemented by that Division and concurred with the Board's recommendations regarding the revised risk management policy and the need for continued implementation of the Division's risk management manual. The four main investment criteria — safety, liquidity, convertibility and profitability — should be respected.

22. In the current financial and economic crisis, it was more imperative than ever that the Fund should act on its commitment to pursue broader geographical diversification of its investments. Developing countries remained underrepresented in the Fund's portfolio. The Group therefore urged the Fund to increase its investments in developing countries and regions, which could help balance the portfolio and offset the negative impact of setbacks in other markets, and to report back to the General Assembly on that issue.

23. The Group would be seeking further information in informal consultations on the steps that the Pension Board would take to implement the recommendations of the Board of Auditors. The Group would also seek clarification on the governance matters referred to in paragraph 23 of the Advisory Committee's report.

*The meeting rose at 11.05 a.m.*