United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

Fifty-third session (13-21 July 2006)

General Assembly
Official Records
Sixty-first Session
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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
CEO	Chief Executive Officer
CPI	Consumer price index
EPPO	European and Mediterranean Plant Protection Organization
Eurocontrol	European Organization for the Safety of Air Navigation
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
GATT	General Agreement on Tariffs and Trade
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ICC	International Criminal Court
ICCAT	International Commission for the Conservation of Atlantic Tunas
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMIS	Integrated Management Information System
IMO	International Maritime Organization
IOM	International Organization for Migration
IPU	Inter-Parliamentary Union
ISA	International Seabed Authority
ITLOS	International Tribunal for the Law of the Sea

ITU	International Telecommunication Union
OSCE	Organization for Security and Cooperation in Europe
PENSYS	United Nations Joint Staff Pension Fund Administration System
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Tourism Organization

Chapter I
Introduction

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. As an independent inter-agency entity, the Fund operates under its own Regulations as approved by the General Assembly and, in accordance with its governance structure, is administered through the United Nations Joint Staff Pension Board, which currently consists of 33 members, representing the 21 member organizations that are listed in annex I to the present report. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads of those organizations and one third by the participants in the United Nations Joint Staff Pension Fund. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations and to the Fund's Pension Adjustment System, which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred in the administration of the Fund — principally the cost of its central secretariat in New York and its Office in Geneva, and the expenses of managing its investments — are met by the Fund.

3. The present report is submitted by the Board following its fifty-third session, held from 13 to 21 July 2006 at the United Nations Office at Nairobi (UNON). The members, alternate members and representatives accredited to the session of the Board, the Chairman and other officers elected by the Board, and those who actually attended, are listed in annex II.

4. The major items dealt with by the Board were: (a) actuarial matters, including in particular, the results of the twenty-eighth actuarial valuation of the Fund as at 31 December 2005; (b) the management of the investments of the Fund, including reports by the Representative of the Secretary-General for the Investments of the Fund on the investment strategy, policies, practices and performance for the two-year period ending 31 March 2006; (c) final report of the Working Group that was established to undertake a fundamental review of the size and composition of the Pension Board and its Standing Committee; (d) revised budget estimates for the biennium 2006-2007; and (e) consideration of the 2002 Pension Board recommendations relating to the benefit provisions of the Fund.

5. The Board examined and took note of the financial statements and schedules for the biennium 2004-2005 and considered the report of the Board of Auditors on the accounts and operations of the Fund. It also considered a report on the internal audit of the Fund.

6. Other items considered by the Board and included in the present report were related to: (a) transfer agreements by the Fund with the World Bank Group and with the Coordinated Organizations; and (b) applications for membership in the Fund by

the International Organization for Migration (IOM) and the International Commission for the Conservation of Atlantic Tunas (ICCAT).

7. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session and deals primarily with appeal cases, is shown in annex III to the present report.

8. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is shown in annex IV.

9. The membership of the Investments Committee, established under article 20 of the Regulations, is shown in annex V.

10. Chapter II below provides an overview of the decisions taken by the Board at its fifty-third session and chapter III provides a summary of the operations of the Fund for the biennium ended 31 December 2005. Chapters IV to X address issues on which action is required by the General Assembly, as well as matters on which the Board is obliged to report to the Assembly. **The salient observations, conclusions and recommendations of the present report are highlighted in bold print.** A draft resolution for the consideration of the General Assembly is contained in annex XXI.

Chapter II
Overview of decisions taken by the Board

A. Recommendations and decisions of the Board that require action by the General Assembly

11. The following recommendations and decisions taken by the Board at its fifty-third session require action by the General Assembly:

(a) The Board considered the resolutions on the United Nations pension system that had been adopted by the General Assembly on 20 December 2002 (resolution 57/286) and 2004 (resolution 59/269). After taking into consideration the results of the latest actuarial valuation of the Fund, which revealed a fifth consecutive surplus amounting to 1.29 per cent of pensionable remuneration, and the latest report of the Committee of Actuaries, the Board decided to:

(i) Recommend that as from 1 April 2007, the current reduction in the first consumer price index adjustments due under the UNJSPF Pension Adjustment System to benefits in award be lowered from 1.0 per cent to 0.5 per cent and that a 0.5 per cent increase be applied on the occasion of the next adjustment to the benefits being paid to existing retirees and beneficiaries who have already had the 1.0 per cent reduction applied to their benefits;

(ii) Recommend implementation, as from 1 April 2007, of its already approved 2002 recommendation to eliminate the limitation on the right to restoration for existing and future participants, based on length of the prior contributory service;

(b) The Board also decided to recommend approval of total additional resources relating to the biennium 2006-2007, in the amount of $2,403,000. The revised budget for the biennium 2006-2007 would then amount to $110,665,500. The increase is related primarily to investment costs amounting to $2,909,200 that would be authorized to enhance the Investment Management Service, reflecting: five new posts, indexed management costs, as well as consultant costs. The latter amount is offset by $1,000,000, representing in part the estimated reduction in advisory costs for active management. The increase also includes an additional $275,500 in administrative costs and $218,300 in audit costs;

(c) The Board recommends that the General Assembly concur with the revised UNJSPF-World Bank Group Transfer Agreement, which would take effect 1 January 2007;

(d) The Board recommends that the General Assembly concur with the proposed separate new Transfer Agreements between the Pension Fund and each of the six Coordinated Organizations, with effect from 1 January 2007; and

(e) The Board also recommends to the General Assembly that the International Organization for Migration (IOM) be admitted to membership of the Pension Fund, effective 1 January 2007, subject to the Fund's Secretary/CEO confirming to the General Assembly that the IOM fully satisfied all conditions for UNJSPF membership.

B. Information provided to the General Assembly on other action taken by the Board

12. The following items are provided by the Board for the information of the General Assembly:

(a) The Board noted the increase in the market value of the Fund's assets and the positive returns achieved during the biennium. The assets of the Fund had grown to over $33.1 billion as at 31 March 2006. The total annualized real rate of return for the two-year period ending on 31 March 2006 was 8.3 per cent; the cumulative annualized real rate of return over the 46-year period ending on 31 March 2006 was 4.3 per cent, after adjustment by the United States consumer price index;

(b) The Board decided to endorse the intention of the Representative of the Secretary-General to manage the North American equities portfolio in the passive mode using the current benchmark indexes (MSCI US and MSCI Canada);

(c) The actuarial valuation of the Fund, performed as at 31 December 2005, revealed a surplus of 1.29 per cent of pensionable remuneration, which was the Fund's fifth consecutive actuarial surplus;

(d) The Board noted that the periodic review of the cost/savings of modifications to the two-track feature of the Pension Adjustment System showed consistency with the past assessments and therefore decided that no changes were needed at this time; it also requested that consideration of the costs and/or savings of the modifications of the two-track system should continue to be taken up in conjunction with the actuarial valuations;

(e) The Board approved an amendment to the Fund's Rules of Procedure that provides for the appointment of ad hoc members to the Investments Committee and to the Committee of Actuaries; the Board also invited the Secretary-General, in cooperation with the United Nations Ethics Office, to establish procedures to ensure there were no conflicts of interest in the appointments of members to the two committees;

(f) The Board encouraged the Investment Management Service of the Fund to adhere to the principles of the Global Compact without compromising the four established investment criteria of safety, liquidity, convertibility and profitability;

(g) The Board urged the Investment Management Service to continue and intensify its efforts to collect tax refunds from several Member States;

(h) The United Nations Medical Director, who serves as the Medical Consultant to the Pension Board, provided a detailed report and analysis on disability and death benefits over the two-year period from 1 January 2004 to 31 December 2005; the Secretary/CEO, in coordination with the Medical Directors in the United Nations common system, will prepare a study on disability matters for the consideration of the Board at its next session, in 2007;

(i) The Board decided to establish an Audit Committee of the Board; it approved the Committee's terms of reference and recommended that the required resources amounting to $50,000 be approved for the biennium 2006-2007; the Committee is expected to provide an enhanced communications channel between the internal auditors, the external auditors and the Pension Board;

(j) After considering the report of the Board of Auditors, the Pension Board noted the main recommendations included in the report;

(k) Following its consideration of a report on consolidating the information technology (IT) services of the Fund secretariat and the Investment Management Service, the Board invited the Secretary/CEO and the Representative of the Secretary-General for the Investments of the Fund to make progress on common IT services opportunities for the Fund as a whole and to report to the Board at its next session;

(l) The Board agreed that Board expenses would continue to be shared and charged to the Fund's member organizations under the current methodology until 1 January 2008, at which time all Board expenses would be included in the Fund's budget and charged as administrative expenses;

(m) The Board considered an extensive report by the Working Group established to review the size and composition of the Board and its Standing Committee; the Board noted the extensive efforts made by the Group towards reaching a reduction in its size; it decided, however, to maintain its size at 33 members, as well as its current composition and allocation of seats; the Board adopted all the recommendations made for improving the Board's work efficiency; the Board will also consider a policy paper in 2007, which will provide clarification in respect to membership and attendance at the meetings of the Board and its Standing Committee;

(n) The Board decided to retain the current size, composition and allocation of seats on its Standing Committee and to make permanent the temporary provision approved in 2004 to include an additional alternate representative for the United Nations General Assembly; rule B.9 of the Rules of Procedure of the UNJSPF is being revised accordingly;

(o) The Board also decided that the costs related to two retiree representatives attending the Board and one retiree representative attending the Standing Committee would be shared as a Board expense on a provisional basis until its 2008 session, at which time the Board would consider more appropriate means for duly electing the representatives for the retirees;

(p) The Board further decided to revert to holding annual sessions as from 2007 and that it would aim to complete its work in five working days. During the odd-numbered years when the Board would be considering the budget of the Fund, efforts would be made to limit its agenda;

(q) The Board agreed on the rotation of seats for the next five regular sessions of the Board and its Standing Committee;

(r) The Board endorsed the UNJSPF Enterprise-wide Risk Management Policy as presented by the Secretary/CEO;

(s) The Board requested the Secretary/CEO to review the current provisions for special adjustments for small pensions, including the existing tables setting out the levels for special adjustments and the current arrangements regarding the periodicity of cost-of-living adjustments under the UNJSPF Pension Adjustment System; the results of those two reviews will be presented to the Board in 2007 and 2008, respectively;

(t) The Board requested the Secretary/CEO to visit the Fund's retirees living in Ecuador, with the aim of further analysing the impact of dollarization on such retirees, and to report his findings at the next session of the Board in 2007;

(u) The Board took note of the various documents relating to the possible purchase of additional years of contributory service and agreed to keep the matter under periodic review;

(v) After considering a report that examined the possibility of expanding the scope of residual settlements under article 38 of the Regulations of the Fund, the Board decided to keep the proposal under review and to reconsider the matter on the occasion of the next actuarial valuation;

(w) The Board decided to maintain the current system for establishing local track benefits with respect to Professional staff and to maintain the methodology for determining final average remuneration for staff in the General Service category; the Board agreed that those issues should continue to be closely monitored by the Fund secretariat;

(x) The Board took note of the relevant information provided by the International Civil Service Commission secretariat, in particular as to the movement since 1995 of the taxes at the headquarters duty stations; it also took note of the Commission's intention to report to the General Assembly that the current common scale of staff assessment should continue to apply and that it be reviewed in five year's time, or at the time of the next comprehensive review of pensionable remuneration, whichever comes first;

(y) The Board requested the Secretary/CEO to prepare a comprehensive study on the benefit provisions related to family members of the UNJSPF participants and retirees and to submit it to the Board in 2007;

(z) The Board agreed that the UNJSPF would record, for the purposes of determining entitlements to UNJSPF pension benefits, in particular under articles 34 and 35 of the UNJSPF Regulations, the personal status of a participant as recognized and reported to the Fund by the participant's employing organization; and

(aa) The Board requested that the final results of the Fund's Asset-Liability Management study, together with the corresponding recommendations of the Committee of Actuaries and the Investments Committee, be presented to the Board at its session in 2007.

Chapter III
Summary of the operations of the Fund for the biennium ended 31 December 2005

13. During the biennium ended 31 December 2005, the number of participants in the United Nations Joint Staff Pension Fund (UNJSPF) increased from 85,245 to 93,683, or by 9.9 per cent; the number of periodic benefits in award increased from 52,496 to 55,140, or by 5.0 per cent. On 31 December 2005, the breakdown of the periodic benefits in award was as follows: 17,992 retirement benefits, 12,392 early retirement benefits, 6,656 deferred retirement benefits, 8,923 widows' and widowers' benefits, 8,120 children's benefits, 1,015 disability benefits and 42 secondary dependants' benefits. In the course of the biennium, 12,345 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded is shown in annex VI to the present report.

14. During the same two-year period, the principal of the Fund increased from $19,391,948,903 to $23,564,271,285 or by 21.5 per cent (see annex X, statement II).

15. The investment income of the Fund during the period amounted to $4,409,631,399, comprising $1,874,887,172 in interest, dividends, real estate and related securities and $2,534,744,227 in net profit on sales of investments. After deduction of investment management costs amounting to $44,169,091, net investment income was $4,365,462,308. A summary of the investments as at 31 December 2005, and a comparison of their cost and market values, is given in annex X, schedules 2 and 3.

Chapter IV
Actuarial matters

A. Twenty-eighth actuarial valuation of the Fund, as at 31 December 2005

16. Article 12 (a) of the Regulations of the United Nations Joint Staff Pension Fund provides that “the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary”. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

17. The consulting actuary submitted to the Board the report on the twenty-eighth actuarial valuation of the Fund as at 31 December 2005; the previous valuation had been as at 31 December 2003 and its results had been reported to the General Assembly at its fifty-ninth session in 2004. The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

18. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Standing Committee in 2005, and in accordance with the Regulations, Rules and Pension Adjustment System of the Fund in effect as of the valuation date.

19. As in the last nine valuations, the actuarial value of the assets as at 31 December 2005 was determined using a five-year moving market value averaging method, subject to a limiting corridor of 15 per cent below and above the market value of the assets as at 31 December 2005. On this basis, the actuarial asset value was determined to be $27,878.3 million, which is 12.8 per cent less than the market value of the assets ($31,971.6 million, after cash flow adjustments).

20. In projecting future developments, three sets of economic and participant growth assumptions were used, in various combinations. No changes were made in the assumptions for the real rate of return on investments, inflation, or real salary increase. The participant growth assumptions were changed from those used in the previous three valuations to provide for modest growth for 10 years or zero growth. These economic and participant growth assumptions are set out in table 1 below:

Table 1

	Assumption (percentage)		
	I	*II*[a]	*III*
A. Economic assumptions			
Increase in pensionable remuneration (in addition to static increases)	4.5	**4.5**	4.5
Nominal rate of interest (investment return)	7.0	**7.5**	8.0
Price increases (reflected in increases of pensions to beneficiaries)	4.0	**4.0**	4.0
Real rate of interest (investment return after inflation)	3.0	**3.5**	4.0
Usual designation	4.5/7/4	**4.5/7.5/4**	4.5/8/4
Cost of two-track adjustment system (percentage of pensionable remuneration)	1.9	**1.9**	1.9
B. Participant growth assumptions			
For each of the first 10 years:			
Professional staff	0.0	**0.5**	1.0
General Service staff	0.0	**0.5**	1.0
After 10 years:			
Professional staff	0	**0**	0
General Service staff	0	**0**	0

[a] Regular valuation basis.

21. The Committee of Actuaries recommended, and the Standing Committee agreed in 2005, that the 4.5/7.5/4 set of assumptions (i.e., 4.5 per cent annual increase in pensionable remuneration in addition to the static scale, 7.5 per cent nominal interest rate and 4 per cent annual inflation rate with respect to increases in pensions after award) and the “10-year 0.50 per cent participant growth assumptions” should serve as the basis of the regular valuation for 2005.

22. The specific combinations reflected in table 1 above and included in the actuarial valuations as at 31 December 2005 were as follows: A.II with B.II (4.5/7.5/4 and 10-year 0.5 per cent growth in participants); A.I with B.II (4.5/7/4 and 10-year 0.5 per cent growth in participants); A.III with B.II (4.5/8/4 and 10-year 0.5 per cent growth in participants); A.II with B.I (4.5/7.5/4 and zero growth in participants); and A.II with B.III (4.5/7.5/4 and 10-year 1.0 per cent growth in participants).

23. With regard to demographic assumptions, the following changes were approved by the Standing Committee in 2005, acting on the recommendation of the Committee of Actuaries: (a) a reduction in the tabular rates of withdrawal for males in the Professional category by 15 per cent for all periods of service; (b) a reduction in the tabular rates of withdrawal for females in the Professional category by 15 per cent for the first three years of service; (c) an increase in the tabular rates of withdrawal for males in the General Service category by 20 per cent for participants with more than three years of service; and (d) an increase in the tabular rates of withdrawal for females in the General Service category by 10 per cent for participants with more than three years of service.

24. Upon the recommendation of the Committee of Actuaries, the Standing Committee agreed that the provision for administration costs to be included in the current valuation should be based on one-half of the approved budget for the biennium 2006-2007, divided by the total pensionable remuneration as of 31 December 2005. Using that methodology, the provision for administration costs included in the 31 December 2005 actuarial valuation was 0.32 per cent of pensionable remuneration.

Analysis of the valuation results

25. Table 2 below provides the results of the twenty-eighth actuarial valuation and compares them with the results of the regular valuation as at 31 December 2003.

Table 2

		Contribution rate required (as percentage of pensionable remuneration) to attain actuarial balance of Fund		
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference (surplus)/deficit*
31 December 2005	**4.5/7.5/4 with 10-year 0.5 per cent participant growth (regular valuation)**	**22.41**	**23.70**	**(1.29)**
	4.5/7/4 with 10-year 0.5 per cent participant growth	24.71	23.70	1.01
	4.5/8/4 with 10-year 0.5 per cent participant growth	20.08	23.70	(3.62)
	4.5/7.5/4 with zero participant growth	22.53	23.70	(1.17)
	4.5/7.5/4 with 10-year 1.0 per cent participant growth	22.30	23.70	(1.40)
31 December 2003	4.5/7.5/4 with zero participant growth (regular valuation)	22.56	23.70	(1.14)

Therefore, the regular valuation as at 31 December 2005 showed that the required contribution rate as at 31 December 2005 was 22.41 per cent as compared to the current contribution rate of 23.70 per cent, resulting in an actuarial surplus of 1.29 per cent of pensionable remuneration. This represents a decrease of 0.15 per cent in the required contribution rate from the rate disclosed as at 31 December 2003 (i.e., from 22.56 per cent to 22.41 per cent), when the valuation had revealed a surplus of 1.14 per cent. As can be seen in the table above, under real rate of return assumptions of 3 per cent and 4 per cent, with 10-year 0.5 per cent participant growth, the results would be, respectively, a deficit of 1.01 and a surplus of 3.62 per cent of pensionable remuneration, which demonstrates the major impact of the real rate of return assumption on the valuation results.

Current value of accrued benefits

26. The actuarial valuation contained another indicator of the funded position of the Fund, namely a comparison of the current assets of the Fund with the value of

the accrued benefits on the valuation date (i.e., the benefits for retired participants and beneficiaries and the benefits considered to have been earned by all current participants if their service were terminated on that date).

27. With respect to its liabilities on a plan termination basis, the Fund was in a strongly funded position, as it had been for the past eight valuations, if future adjustments of pensions were not taken into account. The funded ratios on that basis, which varied according to the rate of interest assumed, ranged from 135 to 145 per cent, with 140 per cent being applicable for the regular valuation. This meant that the Fund would have considerably more assets than needed to pay the benefits if no adjustments were made in pensions for changes in the cost of living. The funded position decreased considerably when account was taken of the current system of pension adjustments, including the cost of the two-track system (1.9 per cent of pensionable remuneration); the current valuation indicated funded ratios ranging from 87 to 98 per cent, with 92 per cent being applicable for the regular valuation. As shown in table 3 below, the funded ratios have improved substantially since 1986, both with and without assuming future adjustments of pensions for inflation, although the funded ratios have decreased slightly compared to those indicated by the 2003 valuation.

Table 3
Funded ratios, 1986-2004

	If future pension payments are made (percentage):	
Valuation as of 31 December	*without pension adjustments*	*with pension adjustments*
1986	118	67
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88
1999	180	113
2001	161	106
2003	145	95
2004	140	92

Results of valuation in dollar terms and other disclosure statements

28. The General Assembly had requested the Board, in its resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993, to consider the form in which it presented the valuation results, taking into account, inter alia, the observations made by the Board of Auditors. The Auditors had requested the Board to include in its reports to the General Assembly disclosures and opinions as regards the valuation results, namely presentations of (a) the valuation results in dollar terms, (b) a statement of sufficiency under article 26 of the Regulations of the Fund, and (c) a statement by the Committee of Actuaries and the consulting actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in their observations on the accounts of the Fund.

29. Accordingly, table 4 below summarizes the valuation results as at 31 December 2005, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions:

Table 4
Valuation results (surplus/(deficit))

Economic assumptions	*As percentage of pensionable remuneration*	*In dollar terms (millions)*
4.5/7.5/4 with 10-year 0.5 per cent participant growth (regular valuation)	1.29	2 760.1
4.5/7.0/4 with 10-year 0.5 per cent participant growth	(1.01)	(2 606.6)
4.5/8.0/4 with 10-year 0.5 per cent participant growth	3.62	6 667.8
4.5/7.5/4 with zero participant growth	1.17	2 411.8
4.5/7.5/4 with 10-year 1.0 per cent participant growth	1.40	3 124.6

It should be noted that the regular valuation as at 31 December 2003 revealed a surplus of 1.14 per cent of pensionable remuneration.

30. Table 5 below provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2005 and 31 December 2003, respectively:

Table 5
(Millions in United States dollars)

	31 December 2005	*31 December 2003*
Liabilities		
Present value of benefits		
Payable to or on behalf of retired and deceased participants	17 088.9	15 099.4
Expected to become payable on behalf of active and inactive participants, including future new entrants	58 223.8	48 137.1
Total liabilities	**75 312.7**	**63 236.5**
Assets		
Actuarial asset value	27 878.3	25 237.4
Present value of future contributions	50 194.5	39 948.7
Total assets	**78 072.8**	**65 186.1**
Surplus (deficit)	**2 760.1**	**1 949.6**

31. As they have in the past, the consulting actuary and the Committee of Actuaries stressed that care must be taken when considering the dollar amounts of the valuation results. The liabilities shown in table 5 above include those for individuals who have yet to join the Fund; similarly, the assets include the contributions for future new participants. The surplus indicates only the future effect

of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were highly dependent upon the actuarial assumptions used. As indicated in table 2 in paragraph 25 above, a deficit of 1.01 per cent of pensionable remuneration was indicated on the 4.5/7/4 valuation basis, i.e., a real rate of return of 3 per cent. A surplus of 3.62 per cent of pensionable remuneration was indicated on the 4.5/8/4 valuation basis, i.e., a real rate of return of 4 per cent. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial surplus, when expressed in dollar terms, should be considered only in relation to the magnitude of the liabilities and not in absolute terms. The surplus of $1,949.6 million under the regular valuation as at 31 December 2003 represented 3.1 per cent of the projected liabilities of the Fund. The surplus of $2,760.1 million under the current regular valuation represents 3.7 per cent of the Fund's projected liabilities.

Hypothetical projection models

32. Hypothetical models of the estimated progress of the Fund over the next 50 years were also prepared on the basis of the economic assumptions in the regular valuation, using the 10-year 0.5 per cent participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. These models showed that the Fund's assets at the end of the 50-year period would still be increasing, both in nominal and inflation-adjusted dollar terms. Additional models, in which the assumed nominal rate of return on investments ranged from 2 per cent to 5 per cent above the assumed 4 per cent rate of inflation, were also prepared. The models showed that the Fund balance continued to increase at the end of 50 years in nominal dollars in all cases, with balances ranging from $47 billion to $1.22 trillion.

View of the Committee of Actuaries

33. In its report to the Board, the Committee of Actuaries noted that this was the fifth consecutive valuation that had resulted in a surplus. The four previous valuations, as at 31 December of 1997, 1999, 2001 and 2003, had resulted in surpluses of 0.36, 4.25, 2.92, and 1.14 per cent, respectively, of pensionable remuneration. The Committee noted further that the net increase in the actuarial surplus revealed by the current valuation was primarily the result of gains derived from the continuing moderate levels of inflation and changes in the participant growth assumptions, which were partly offset by assumed losses attributable to investment returns on actuarial assets that were lower than foreseen in the actuarial assumptions and changes in the benefit provisions of the Fund.

34. The Committee noted that the funded ratios showed some decreases compared to those from the prior valuation. The Committee also noted that since the market value of assets as at 31 December 2005 was greater than the actuarial value of assets as of that date, all the funded ratios would be increased if the funded ratios were determined on the basis of the market value of assets rather than the actuarial value. In fact, all the funded ratios would have been 100 per cent or greater, based on the market value of assets.

35. The Committee of Actuaries concluded that it should not be assumed that the positive elements that had contributed to the improved financial position of the Fund since 1990 would continue to be achieved to the same extent in the future, and that caution should therefore be used in deciding how to manage the actuarial surplus of

1.29 per cent of pensionable remuneration. In particular, the Committee noted that the decrease in the value of the United States dollar against other key currencies may not yet be fully reflected in the current valuation results.

36. The Committee noted that it would continue to review the evolving experience of the Fund and make recommendations regarding changes in the actuarial assumptions, as appropriate. As the valuation method and the fundamental "real" financial assumptions have remained basically unchanged for several valuations, the Committee agreed that the latest result could thus be analysed closely in comparison with previous valuation. The Committee was of the view that, based on the continuation of the surplus disclosed in 2003, a portion of the surplus could be made available at this time to improve benefits. However, after considering all relevant data, the Committee agreed that prudence dictated that most of the surplus should be retained.

Statements on the valuation results

37. The statement of actuarial sufficiency prepared by the consulting actuary and approved by the Committee of Actuaries is reproduced in annex VII to the present report. The statement indicates that:

> "the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as of 31 December 2005, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as of 31 December 2005 is $31,971.6 million, or $4,093.3 million greater than the actuarial value of assets as of that date. Therefore, the surplus shown above would be larger based on a comparison with the market value of assets."

38. The statement of the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex VIII. In that statement, the Committee of Actuaries indicated that it had:

> "reviewed the results of the actuarial valuation as of 31 December 2005, which was carried out by the consulting actuary. Based on the results of the regular valuation, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration is sufficient to meet the benefit requirements under the plan."

39. The Committee of Actuaries also informed the Board that it would continue to review the evolving experience of the Fund. It will submit recommendations to the Board in 2007 on the assumptions to be used in the actuarial valuation of the Fund to be performed as at 31 December 2007.

Discussions in the Board

40. Clarifications were sought from the consulting actuary and from the Rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results and on the probable evolution of future valuation results.

41. Several members of the Board indicated their satisfaction with the fact that this was the fifth consecutive valuation showing a surplus and were hopeful that this could be the basis for implementing improvements in the pension benefits.

42. Several members of the Board noted that the valuation results indicated an improvement in the actuarial status of the Fund, and requested information as to the extent to which the current actuarial results would vary should there be significant changes in the market value of the assets of the Fund and in other key economic factors. The Board therefore requested a "sensitivity analysis" showing the extent to which future valuation results might change under different assumptions in the key parameters. The consulting actuary prepared an analysis of the impact of three key parameters — a sudden change in the market value of assets, in currency exchange rates and in inflation rates — which was reviewed by the Rapporteur of the Committee of Actuaries (annex XX).

43. Overall the Board stressed the need for caution and prudence regarding any changes to the United Nations pension system. The Board agreed with the Committee of Actuaries that prudence dictate that "most of the surplus should be retained".

Conclusion

44. **The Board took note of the actuarial condition of the Fund, as reflected in the valuation as at 31 December 2005.**

B. Membership of the Committee of Actuaries

45. The Board noted that the terms of two members of the Committee of Actuaries, A. O. Ogunshola (African States) and L. J. Martin (Western European and other States) would be expiring on 31 December 2006. Both members had indicated that they intended to retire from the Committee at the end of their current terms. The Board considered the membership of the Committee on the basis of a note prepared by the Secretary/CEO. The note outlined the guidelines followed by the Board in respect to its recommendations for appointment to the Committee of Actuaries. It recalled in particular that the composition of the Committee should consist of one member from each of the five regions: Africa, Asia, Eastern Europe, Latin America and Caribbean States, and Western Europe and Other States (annex IV).

46. In accordance with past practice, the Secretary/CEO had invited the staff pension committees and the members of the Committee of Actuaries to offer comments and to submit names of suitable candidates who would be willing to serve on the Committee, particularly from the African States and Western Europe and Other States regions. The Fund received the names of eight candidates who had confirmed their interest in serving on the Committee, with two candidates from the African States region, five from Western Europe and Other States and one from Latin American and Caribbean States. The Board reviewed the curriculum vitae of each of the eight candidates, keeping in mind the specific guidelines regarding equitable geographic representation.

47. **On the basis of its review, the Board decided to recommend that B. K Y S Yen, from the African States region, be appointed to replace Mr. Ogunshola and D. Latulippe, from the Western Europe and Other States region, be appointed**

to replace Mr. Martin, both for three-year terms from 1 January 2007 to 31 December 2009. The Board also decided to recommend the appointment of C. L. Nathal, from the Latin American and Caribbean States and K. Heubeck from Western Europe and other States, as ad hoc members for initial (renewable) terms of one year, as from 1 January 2007.

48. **The Board also requested that procedures be established, in cooperation with the United Nations Ethics Office, to ensure that there was no conflict of interest in the appointments of the members of the Committee of Actuaries.**

C. Monitoring of costs of modifications of the two-track feature of the Pension Adjustment System

49. In 1991 and 1994, the General Assembly, acting on the recommendation of the Board, had approved three changes in the Pension Adjustment System, which then entered into effect on 1 April 1992 and 1 July 1995: (a) the 1 April 1992 modification, which provided greater compensation for cost-of-living differences in deriving the initial local-currency pension for participants in the Professional and higher categories who submitted proof of residence in a high-cost country; (b) the application of the 1 April 1992 modification to the General Service and related categories as of 1 July 1995; and (c) the reduction of the "120 per cent cap" provision to 110 per cent, also with effect from 1 July 1995. In 2004, on the recommendation of the Board, the General Assembly approved a new provision under the two-track feature of the adjustment system, which provided for an adjustable minimum guarantee at 80 per cent of the United States dollar track amount. The Board and the General Assembly requested that the costs/savings related to these measures be monitored on the occasions of the actuarial valuations of the Fund.

1 April 1992 modification

50. A summary of the benefits actually paid in the 14 countries concerned, together with the amounts that would have been paid under the previous arrangements, was provided to the Board.

51. On the basis of that data, the seventh and latest assessment of the emerging cost of the April 1992 modification by the consulting actuary was 0.12 per cent of pensionable remuneration. This assessment was based on (a) the methodology used in 1994, 1996, 1998, 2000, 2002 and 2004, which takes into account the actual additional payments over the period reviewed, as well as changes in the geographic distribution of the recipients of benefits and (b) the results of the actuarial valuation as at 31 December 2005. The decrease in the estimated costs related to the current assessment period was attributed to the overall decreasing rate of benefits affected, which was due to the drop in the number of countries where a cost-of-living differential factor was applicable.

Extension of the 1 April 1992 modification to participants in the General Service and related categories separating on or after 1 July 1995

52. During the period 1 July 1995 to 31 December 2005, there were 24 retirement benefits processed in respect of General Service category participants, which involved proof of residence in a country where the COLD factors applied under the

revised "Washington formula". Owing to the consistently low number of benefits actually adjusted under this measure, it was not possible to make a meaningful assessment of the emerging cost of this modification in the Pension Adjustment System. It was noted that the actual experience was in line with the comments made by the Committee of Actuaries at the time the measure was initially reviewed and approved.

Reduction of the 120 per cent cap provision to 110 per cent

53. As of 31 December 2005, there were 47,020 main benefits in award (excluding children's benefits), of which 32,685 or 69.5 per cent, related to retirees and beneficiaries with only a dollar pension entitlement and 14,335 or 30.5 per cent, related to retirees and beneficiaries who were on the two-track Pension Adjustment System (i.e., had two pension records, both a dollar-track amount and a local-currency track amount). The number of cases involving the application of the cap provision as of December 2005 was 943 out of 14,335 (6.6 per cent), as compared to 1,022 out of 12,178 (8.4 per cent) as of December 2003.

54. The data for the review period, 10 years and 6 months, reflected a steady reduction in the overall utilization rate of the two-track option, from the 35.6 per cent level as of March 1996 to 33.7 per cent as of March 1998, to 31.1 per cent as of March 2000, 27.8 per cent as of 31 December 2001, and 27.5 per cent as of 31 December 2003. It then increased to 30.5 per cent as of 31 December 2005. It was noted that the 24.8 per cent utilization rate, since the introduction of the 110 per cent cap (i.e., during the period 1 July 1995 to 31 December 2005), was lower than the overall average utilization rate. It was also noted, however, that there was a notable increase in the number of benefits being paid under the two-track system over the last four-year period. This recent increase in two-track cases was directly linked to the relatively wide spread during the period between the higher 36-month average rates of exchange and to the relevant quarterly rates of exchange.

55. As part of the current actuarial valuation exercise, the consulting actuary estimated the emerging long-term costs of the two-track system as a whole, based on data since 1990, to be 1.92 per cent of pensionable remuneration; the actuarial assumption used in the latest valuation was 1.90 per cent of pensionable remuneration. In order to make an assessment of the savings arising out of the 110 per cent cap provision of the two-track system, the consulting actuary undertook to compare, on the basis of the data since 1990: (a) the emerging long-term costs of the two-track system, assuming the reduction in the cap from 120 per cent to 110 per cent as from 1 July 1995 did not apply, which was 2.10 per cent of pensionable remuneration, with (b) the emerging long-term costs of the two-track system as a whole, which was 1.92 per cent of pensionable remuneration.

56. On this basis and as a preliminary estimate, the emerging long-term savings due to the introduction of the 110 per cent cap provision were estimated to be of the order of 0.18 per cent of pensionable remuneration; at the time the change in the cap was proposed, the actuarial savings had been estimated at 0.20 per cent of pensionable remuneration. Since the current assessment of the emerging savings is based on limited data, the Committee of Actuaries agreed that analysis of more years of experience would be required, before any definitive estimate of the savings could be made.

Adjustable minimum guarantee at 80 per cent of the United States dollar track amount

57. The Board noted the information provided in respect to the introduction of the adjustable minimum guarantee at 80 per cent of the United States dollar track amount, which took effect as from 1 April 2005. The number of actual cases affected during the period under review was significantly less than the 420 cases that had been assumed for the costing exercise in 2004. It was recognized, however, that the number of cases in future periods, and the amounts of the resulting increases in such pensions, would vary depending on the specific circumstances of the entire period under consideration. Based on the minimal actuarial implications and on the very limited data available, the Committee of Actuaries agreed that any further action or adjustment in respect to this new measure would not appear warranted at this time. The Committee of Actuaries suggested, however, that the implications of this new provision should continue to be monitored and assessed in conjunction with future actuarial valuations.

58. The Board also considered the potential effect of the adjustable minimum guarantee on the two-track utilization rate. It recognized that the recent increase in the number of two-track cases (December 2005/December 2003) was attributed to the relatively wide spread that had occurred (primarily in the European currencies vis-à-vis the United States dollar) over the last couple of years between the 36-month average rates of exchange and the quarterly rates of exchange. The increase in the utilization rate, under these circumstances, was consistent with past experience, in line with such trends. In addition, it was noted that the 80 per cent adjustable minimum guarantee did not appear to have any material impact on the utilization rate of the two-track system. It was noted that for those who fully understood the implications and benefits of the new measure, some would be more inclined to opt for the two-track system, while others might become more sensitized to the possibility that they might not get the full United States dollar amount of their entitlement and therefore decide not to avail themselves of such an option. Any meaningful attempt to gauge the impact of the new measure on the utilization rate would require a statistically sound survey of those fully knowledgeable in the intricacies of the two-track system.

Conclusions of the Board

59. **The Board took note of the assessments provided on the actual emerging costs/savings of the modifications of the two-track features of the Pension Adjustment System and concluded that no changes needed to be made at this time, either as regards (a) the actuarial assumption for the cost of the two-track system or (b) the current parameters of the revised “Washington formula” and of the cap provision. It also agreed that consideration of the costs and/or savings of the modifications of the two-track system since 1992 should continue to be taken up in conjunction with the actuarial valuations and that any definitive trends should continue to be identified and reported to the Board.**

Chapter V
Investments of the Fund

A. Management of investments

60. The Board reviewed the investments of the Fund on the basis of a report and accompanying statistical data presented by the Representative of the Secretary-General for the Investments of the United Nations Joint Staff Pension Fund. The report provided information on the management of the investments of the Fund during the two-year period ending 31 March 2006 and described how the objectives and the investment strategy were applied against the background of the conditions prevailing in the economic, political and financial environment. The report showed the investment returns achieved over various periods and reviewed the financial accounts and administration of the investments.

61. The Director of the Investment Management Service provided a detailed summary on the performance of the Fund and additional statistical data on the performance of the Fund's investments against the markets and the Fund's benchmarks. After the introduction of the report on the management of the investments, the Representative of the Secretary-General took the opportunity to convey to the members of the Board some of his thoughts and ideas on the management of the Fund's investments for the future. The Chairman of the Investments Committee also made comments on the investments of the Fund. The Representative of the Secretary-General, the Chairman and members of the Investments Committee, and the Director of the Investment Management Service responded to questions.

62. The Director of the Investment Management Service informed the Board that there had been no changes in the non-discretionary advisory arrangements of the Investment Management Service but that the contract of one discretionary small capitalization account manager had been terminated owing to persistent under-performance of the portfolio. The Fund's master record keeper and custodian arrangements had also been modified such that in April 2006 a single Global Custodian had replaced the Fund's master record keeper and three regional custodians.

63. The assets of the Fund had grown from $15.2 billion to over $33.1 billion during the past 10 years. The market value of the Fund's assets increased to $33,118 million on 31 March 2006 from $26,589 million on 31 March 2004, an increase of $6,529 million, or 24.6 per cent. During the biennium, the tactical short-term asset allocation had been shifted slightly in accordance with the parameters established by the Representative of the Secretary-General, reflecting the Investments Committee's advice in order to favour equities so as to take advantage of favourable market conditions. During the biennium, the Fund had achieved its target of 3.5 per cent of real rate of return with 11.8 per cent nominal return, representing an 8.3 per cent real rate of return. Over the past 46 years, the Fund had achieved 8.7 per cent nominal return, representing a real rate of return of 4.3 per cent.

64. Based on the recommendation of the Investments Committee, the Representative of the Secretary-General had decided, without prior consultation with the Board or the General Assembly, to adopt a new long-term strategic asset allocation in May 2005. The new strategic asset allocation and the subsequent

change in the Fund's performance benchmark were adopted to better reflect the Fund's long-term strategic exposure to different asset classes. The new long-term strategic asset allocation was 60 per cent equities, 31 per cent bonds, 6 per cent real estate and 3 per cent cash and short-term investments. It was also decided that the short-term asset allocation could deviate within a range of +/- 3 per cent from the long-term strategic asset allocation. The new benchmark was composed of 60 per cent Morgan Stanley Capital International All Country World Index (MSCIAC), 31 per cent Lehman Brothers Global Aggregate Index (LBGAI), 6 per cent NCREIF Property Index, and 3 per cent 91-Day USA Treasury Bill.

65. During the year ended 31 March 2005, the Fund outperformed its old benchmark, composed of 60 per cent Morgan Stanley Capital International (MSCI) World Index and 40 per cent Citigroup World Government Bond Index (CWGBI), with a return of 10.4 per cent versus 8.9 per cent for the benchmark. For the year ended 31 March 2006, the Fund outperformed both the new and the old benchmarks, with a return of 13.3 per cent versus returns of 12.3 and 8.8 per cent of the new 60/31/6/3 and old 60/40 benchmarks, respectively. Over the last 15 years, the Fund had achieved an annualized return of 9.2 per cent, outperforming both the 8.7 per cent return of the new 60/31/6/3 benchmark and the 8.2 per cent return of the old 60/40 benchmark. The Fund's annualized performance for the two-year period ending 31 March 2006 was 11.8 per cent compared with the 10.8 per cent performance of the new 60/31/6/3 benchmark and the 8.8 per cent performance of the old 60/40 benchmark. It should be noted that the Fund's performance includes small capitalization accounts, which are not presented in either of the benchmarks.

66. The benchmarks for individual asset classes were also modified to better reflect the types of investments that the Fund keeps as strategic investment exposures. The benchmark for equities was changed from MSCI World, which does not include emerging markets, to MSCI All Country in which emerging markets are represented to reflect the Fund's long-term commitment to these markets. During the biennium, the Fund's equity portfolio had a return of 16.5 per cent, outperforming both the new MSCI World and MSCI All Country benchmarks, which had returns of 15.8 per cent and 14.8 per cent, respectively. The Fund's fixed income benchmark was also modified to reflect the Fund's long-term strategic exposure to other fixed income securities, such as corporate bonds in addition to government bonds. During the biennium, the Fund's fixed income portfolio had a return of 2.4 per cent, outperforming the returns of both the old CWGBI and the new LBGAI benchmarks, which had returns of 1.1 per cent and 0.2 per cent, respectively. The Fund's real estate portfolio had a return of 22.9 per cent, outperforming the 17.8 per cent return of the NCREIF benchmark during the past two years.

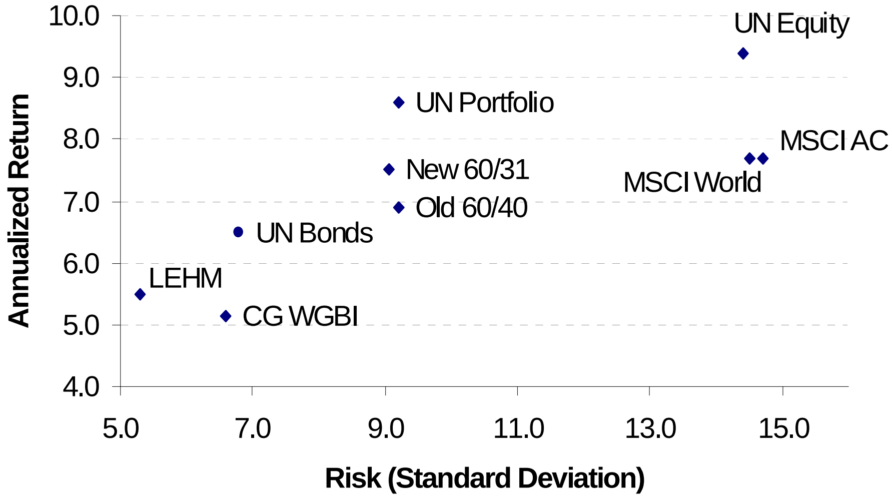
67. The Fund's annualized returns for periods ending 31 March 2006 are summarized in table 6 below:

Table 6

Investment annualized returns for periods ending 31 March 2006 (Percentage)						
Asset Class	**Quarter**	**Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
US equities	5.3	13.1	9.6	15.8	4.0	2.4
MSCI-USA	4.2	12.4	9.6	17.5	3.9	1.2
Outside US equities	10.0	28.8	22.7	33.1	11.6	7.8
MSCI-EAFE	9.5	24.9	20.1	31.7	10.0	6.0
All equities	7.9	21.3	16.5	24.6	7.9	5.2
MSCI-All countries	7.1	20.3	15.8	25.1	7.7	4.2
MSCI-World	6.7	18.6	14.8	24.0	6.9	3.6
US bonds	-1.0	2.4	1.8	3.5	6.1	6.6
Citigroup WGBI - USA	-1.2	2.0	1.0	2.1	4.6	5.4
Outside US bonds	-0.1	-4.4	2.8	8.1	11.7	6.7
Citigroup WGBI - ex USA	-0.2	-6.5	0.0	5.1	8.3	4.7
All bonds	-0.4	-2.8	2.4	6.6	9.9	6.9
Lehman Glb. Aggregate	-0.1	-2.6	1.1	4.5	7.1	5.0
Citigroup WGBI	-1.2	-2.0	0.2	2.1	4.6	5.4
Real estate	11.1	30.5	22.9	23.2	17.1	15.5
NCREIF Property Index	3.6	20.2	17.8	15.0	11.7	11.7
Short-term investments	1.1	2.9	2.7	4.5	5.6	5.5
TOTAL FUND	4.8	13.3	11.8	17.2	9.3	6.6
60/31/6/3 Benchmark	4.4	12.3	10.8	17.2	7.9	5.1
60/40 Benchmark	3.8	8.8	8.8	15.9	7.4	4.4

68. The Fund continued to achieve good investment returns with relatively low risk. As can be seen from the chart below showing the past 10-year historical data, the Fund had achieved slightly better returns with about the same risk as both the old and the new benchmarks.

UNJSPF risk/return profile based on annual returns in 1996-2006



69. The Director of the Investment Management Service informed the Board that an asset liability management study, to assist in determining the Fund's strategic asset allocation among various asset classes in the light of the Fund's liability characteristics and risk tolerance, was expected to be started before the end of the year and completed in early 2007. A steering committee composed of the Fund secretariat and the Investment Management Service had been established to coordinate the process of selecting the consultant. The analysis to be performed by the consultant will be extensively discussed by the Investments Committee and the Committee of Actuaries, preferably within a joint meeting, and any changes to investment policy will be decided by the Secretary-General after considering recommendations of the Investments Committee and the observations and suggestions of the Pension Board. The results of the study will be communicated fully to the members of the Board and the Board would be consulted on any possible changes in the management of the investments resulting from the findings.

70. In his opening statement, the Chairman of the Investments Committee stated that the current environment of relatively strong global economic growth accompanied by several serious geopolitical concerns and risks was historically unprecedented. In the past, geopolitical risks had been accompanied by economic caution that had slowed global economic growth and market performance. Some analysts and experts had concluded that globalization provided many opportunities, which were accompanied with big challenges. However, despite serious geopolitical risks the global economic growth remained relatively strong.

71. During the joint meeting with the Investments Committee, members of the Board raised a wide range of concerns and questions related, inter alia, to the Fund's investments in some volatile markets, such as China and Hong Kong (Special Administrative Region), and in emerging markets in general; investments in companies that produced goods or operated in countries that did not meet recommendations of ILO or some other agencies; socially responsible investing; investments in companies that were providing services to the Investment

Management Service; changes in the Fund's performance benchmarks; the Fund's new global custodian arrangement; peer group comparisons; reduction of the Fund's exposure to real estate; rationale behind adjusting the Fund's nominal returns with the United States consumer price index (CPI) when a large portion of the Fund's liabilities and almost half of its assets were outside the United States; whether the Fund's tax exemption status was taken into account in the performance numbers; relation between the Fund's performance benchmark and the actuarial real rate of return requirement; and information to be gained from the forthcoming asset liability management study.

72. The Chairman and the members of the Investments Committee, the Representative of the Secretary-General and the Director of the Investment Management Service responded to the questions and comments posed by the Board members.

73. In response to several questions and comments by representatives of the Participants and Governing Bodies on investments in emerging markets and particularly in the volatile markets of China and Hong Kong (Special Administrative Region), the Board members were advised that global emerging markets had been the best performing equity markets in recent years. These were high risk-high reward markets where a small exposure could result in considerable profits. However, it was emphasized that the exposure to these markets should be limited to a small portion of total equities and considered in relation to the Fund's overall risk tolerance policy. Investments in emerging markets provided necessary diversification. Also, since these markets were less efficient than the developed markets, particularly the North American markets, they provided better opportunities for outperformance. The fastest growing economies, such as China and India, were emerging markets and provided many investment opportunities. Also, in many developing countries, particularly in Africa (i.e., South Africa and Kenya) fast-growing markets provided good investment opportunities. It was impossible to get every single investment right and some losses should be expected; however, not participating in these markets would be counterproductive to the Fund's overall investment performance. As better company governance mechanisms were introduced, investing in these markets became less risky. The total returns of the Fund's emerging market portfolio had been excellent in the past few years.

74. In response to concerns expressed by the Participants' representatives regarding the Fund's investments in certain countries and companies, it was explained that while the Fund focused attention on investing in companies that had accepted the principles of the Global Compact, there were no guidelines limiting investments in companies, except for those producing armaments. Investment decisions were made on the basis of the potential rewards. The representatives of the executive heads stressed the four investment criteria of safety, convertibility, profitability and liquidity, as established and reconfirmed on numerous occasions by the General Assembly. The members of the Board were also informed that the Investments Committee endorsed the Fund becoming a signatory to the Principles for Responsible Investment. The Principles for Responsible Investment is an excellent vehicle to urge companies to be mindful of their social responsibilities and to bring to the attention of company management that failing to appreciate the context of the Principles could negatively impact the profitability of their business investments and subsequently their stock prices. Strict restrictions on investments based, for example, on the domicile of a company or a product should, however, be

avoided. Within the established guidelines of the General Assembly, the Investment Management Service would continue to invest in the best possible companies to ensure the best possible investment returns for the Fund.

75. In responding to a question by the Participants' representatives on investments in companies that were providing services to the Investment Management Service, the Board was informed that the Office of Legal Affairs had advised the Investment Management Service that investments in such companies could create conflicts of interest and should be avoided. In fact, the Investment Management Service sold all the shares of Northern Trust when that company was selected as the Global Custodian. A review of potential conflicts of interest had also been undertaken when the Chairman of the Investments Committee had started to work in an investment company that sometimes provided brokerage services to the Fund; it had been concluded that no conflict of interest existed in that case.

76. Regarding the change in the benchmark of 60 per cent Morgan Stanley Capital International (MSCI) World Index, 40 per cent Citigroup World Government Bond Index (CWGBI) to 60 per cent Morgan Stanley Capital International All Country World Index (MSCIAC), 31 per cent Lehman Brothers Global Aggregate Index (LBGAI), 6 per cent NCREIF Property Index, and 3 per cent 91-Day USA Treasury Bill, the Board was informed that the new benchmark provided more accurate comparisons as it more closely reflected the Fund's long-term strategic exposure to different asset classes as well as to different types of assets within each asset class.

77. In response to several questions on the Fund's new global custodian arrangements and the potential risks inherent in having only one company providing custodian services to the Fund's investment accounts, it was explained that while a single custodian provided a more efficient process and more timely accounting and performance data, the Investment Management Service had to establish a stricter and more comprehensive monitoring mechanism to ensure that data were accurate and correct and that the performance data calculations were in compliance with established accounting and performance calculation standards.

78. In responding to a comment from a representative of the Governing Bodies, the Board was informed that peer comparison was commonly done by many pension plan sponsors but that owing to the Fund's unique characteristics, it might be difficult to find comparable funds. For meaningful peer group comparisons, the Fund needed to identify funds that had similar asset allocations and liability structures and exposure to global markets as the Pension Fund. The Fund should be able to gain useful information from, for example, the pension funds of the World Bank, IMF and Asian and African Development Banks. Closer contacts with those funds could provide interesting and useful data on different asset class exposures and management styles.

79. In responding to a question from a representative of the executive heads on reduction in the Fund's investments in real estate, it was explained that the committed amount in real estate investment was currently close to 6 per cent, which was the target weight for such investments. Since the real estate funds in which the Fund participated would draw down cash as the funds' managers found properties to invest in, there was some cash that currently remained in the Fund's cash accounts.

80. Regarding the observation of the unsuitability of the United States CPI as the Fund's inflation indicator, made by a representative of the executive heads, the

members of the Board were advised that after the asset liability management study was completed, the possibility of replacing the United States CPI with another more suitable CPI, or with a composition of various CPIs, would be seriously considered.

81. In response to a question from a representative of the Governing Bodies, the Board was informed that as a subsidiary organ of the United Nations, the Fund's investment income was tax exempt. However, as the Fund uses benchmark indices that also take into account this effect, the comparisons between the Fund's performance and the performance of the benchmark indices were well matched.

82. In responding to a comment from a representative of the executive heads on the relation between the Fund's benchmark and the actuarial return requirement, it was stated that while the required rate of return as determined by the actuaries remained a long-term investment target, other benchmarks were useful as indicators of how the Fund performed compared with markets and other managers. The Fund's benchmark would be further reviewed and reconsidered based on the results of the asset liability management study, in order to determine the most suitable benchmarks for the whole portfolio.

83. Several questions and comments were made regarding the forthcoming asset liability management study. It was explained that the study would assist the management of the Fund's investments in deciding on an appropriate long-term strategic asset allocation to meet the Fund's liability obligation according to the Fund's risk tolerance level. The strategic asset allocation target, described as the weight in each asset class, will then serve as the Fund's overall benchmark.

Discussions in the Board

84. The Board noted with satisfaction the increase in the market value of the Fund's assets and the positive returns achieved during the biennium. It also noted the efforts initiated by the Representative of the Secretary-General and the Director of the Investment Management Service for restructuring Investment Management Services investment practices. The Board urged more open and transparent communications with the members of the Board as well as with the Fund's CEO. The Board also supported strengthening the communication between the Investments Committee and the Committee of Actuaries to ensure that the actuarial assumptions were adequately taken into account in the management of the investments. Furthermore, the Board requested the CEO and the Representative of the Secretary-General to review the memorandum of understanding between the Pension Fund secretariat and the Investment Management Service, which had been approved by the Board in 1998, with a view to strengthening coordination and the consultation process for matters of strategic importance to the Fund, in particular with regard to financial management and investment policy.

85. The Board expressed its appreciation to the Representative of the Secretary-General, the Chairman and the members of the Investments Committee, and the staff of the Investment Management Service for their work on the management of the Fund's investments. The Board also thanked the Chairman and the members of the Investments Committee for the service they were rendering to the Fund and for the open and comprehensive exchange of views during the joint meeting with the Board.

86. The members of the Board took note of the Fund’s new performance benchmark and noted with satisfaction that the Fund’s investments had outperformed both the new and the old benchmarks. However, the members of the Board requested that the Representative of the Secretary-General report back to the Board on any changes in the Fund’s benchmarks that might result from the asset liability management study.

87. **In concluding the discussion on the management of the investments, members of the Board reiterated the points made during the joint meeting with the Investments Committee and requested that the Board be fully informed about the developments and the results of the forthcoming asset liability management study and that the Board’s observations and suggestions be seriously considered by the Secretary-General in making any changes to the strategic asset allocation and investment policy.**

B. Investment management arrangements

88. As the value of the Fund’s assets had increased significantly over the past years and the complexity of investment opportunities had expanded, risk control within the Investment Management Service needed to shift from careful monitoring of individual investments to a more coordinated, total portfolio risk budgeting approach. The mandate of the Investment Management Service was to generate total portfolio returns required to meet the liability demands of the plan, while taking on a minimum level of risk. That would require the appropriate allocation of risk budgets to individual mandates/asset classes and the coordinated monitoring of each subcategorized part of the portfolio to ensure that the total risk budget was not exceeded.

89. In order to better control the Fund’s risk relating to Investment Management Service investment mandate and operations, the Representative of the Secretary-General recommended (a) to increase the number of posts in the Investment Management Service by five, and (b) to index the North American equity portfolio whose universe corresponds to the MSCI US and MSCI Canada indices, rather than actively selecting stocks in order to seek to outperform the market.

90. During the joint session with the Board, the Chairman of the Investments Committee informed the Board that the Investments Committee unanimously and strongly endorsed the two recommendations by the Representative of the Secretary-General and expressed the Committee’s support to enhance Investment Management Service resources to manage the portfolio and to improve its risk control policies.

91. In her introduction of the report on investment management arrangements, the Director of the Investment Management Service explained the two-tier process in making investment decisions, namely, the decision that could be derived from asset liability management and the decisions that needed to be taken in order to try to outperform the benchmarks. As the first tier, the asset liability management study, which the Fund was currently in the process of undertaking, would provide options for strategic (long-term) asset allocation. This was important as it was estimated that almost 90 per cent of the long-term returns could be explained by long-term asset allocation decisions. The second tier in the process would require an understanding of markets in order to determine where active management might provide higher returns than that of benchmarks and thus justify taking higher risks. Even though the

asset liability management study normally preceded the risk allocation decisions to add value to the Fund above the benchmark returns, the two processes were independent of each other.

Discussions in the Board

92. After her introduction, the Director of the Investment Management Service responded to questions and comments by members of the Board. In response to several related questions from a Participants' representative on why there would be a move to passively index North American equities now rather than wait for the results of the asset liability management study, it was explained that the decision-making factor for passive or active portfolio management was independent of the decision derived from asset liability management. The reasoning behind the proposed indexing was the fact that the North American equity markets, especially the United States equity market, were the most efficient in the world and thus extremely difficult to outperform. That condition would not change after the asset liability management study. Indexing would not reduce market (systematic) risks; the portfolio would still be subject to decline in the market, but it would reduce risks that relate to the attempt to outperform the market (non-systematic risk). In responding to a related question on why MSCI-US was selected as the index against which the North American portfolio would be indexed, it was explained that MSCI-US was actually a component of MSCI All Country, which was considered to provide one of the best coverages of the world equity markets. Therefore, it was considered the most appropriate for the Fund. While the indexation would require further diversification of the Fund's North American equity portfolio, it was already relatively diversified.

93. In response to the question by a representative of the Governing Bodies, it was explained that the asset liability management study would provide projections on the Fund's status with a probability based on simulated investment returns of different asset allocation options together with liability assumptions at different risk tolerance levels. However, the asset liability management study would not provide advice on whether the investments should be actively or passively managed. It was also mentioned that the risks, which were not likely to reward investors, should be avoided. Responding to a question by a Participants' representative, the Representative of the Secretary-General stressed that some arrangement could be made to incur no cost for the passive management of the North American equities. The Participants' representatives insisted that the process of selecting a consultant to carry out the asset liability management study should be transparent and competitive and that in no case should it be performed by Mercer.

94. Concerning the questions by representatives of the Participants about the cost and potential savings that would result from indexing of the North American large capitalization equities, it was explained that the costs included a one-time transition cost of $1,250,000 and an annual indexation management fee of $695,000. There would be cost reductions associated with indexation in the payment to the current investment adviser ($1.43 million) and commissions to brokers ($750,000). Therefore, the total net savings in adviser fees and reduced commission fees, partially offset by costs associated with indexing, would be $235,000 in the first year and $1,485,000 in subsequent years. The commission fees during the first year would be higher because of intensive trading during the transition period. However,

the savings for the following years were conservatively estimated, assuming the same level of reduction in commission payment to brokers.

95. In response to a question by a representative of the Participants on the need for a consultancy on the implementation of the Principles for Responsible Investments, it was explained that the consultancy would provide the Investment Management Service with very specific research information and analysis on the individual companies held in the Pension Fund in relation to the Global Compact rather than general information on the implementation of the Principles for Responsible Investments. A representative of the Participants expressed concern regarding good governance of the Fund’s investments and stated that an Investment Governance Committee could be established, as a subcommittee of the Board. Reference was made by participants to documentation submitted to the Board where there was a lack of clarity as to the role of the Board. The Participants stated that the report of the External Auditors indicated the need to involve the Pension Board in setting benchmarks and the Fund’s tolerance of risk.

Decision by the Board

96. The Board was unable to reach a consensus on its approach to the recommendations made by the Representative of the Secretary-General on the basis of the Mercer study on the Investment Management Arrangements. The Board decided therefore to hold a vote in accordance with sections A.5 and A.6 of the Rules of Procedure of the Fund. On the basis of a roll-call vote, with 17 in favour, 11 opposed and 1 abstention, the Board decided to:

(a) **Endorse the intention of the Representative of the Secretary-General to manage the North American equities portfolio in the passive mode using the current benchmark indices (MSCI US and MSCI Canada);**

(b) **Recommend additional resources amounting to $2,909,200, reflecting: five new posts; indexed management costs, including the costs of transition management services and consultant costs for the record-keeping of real estate investments and the monitoring of the newly hired global custodian. That amount would be offset by $1,000,000, representing in part the estimated reduction in active investments advisory costs of $1,430,000 per annum;**

(c) **Recommend the reclassification of two posts in the Information Management Systems Service in the Fund secretariat, while expressing concern about the slow pace of consolidation of the IT services between the Investment Management Service and the Fund secretariat;**

(d) **Recommend the establishment of an Audit Committee of the Board to provide an enhanced communications channel between the internal auditors, the external auditors and the Pension Board;**

(e) **Recommend additional resources to enhance the external audit functions of the Fund and to increase the Fund’s internal audit capabilities.**

The budgetary implications of the above recommendations, including the resource requirements of implementing two of the Board’s 2002 recommendations relating to the economy measures it had taken in the 1980s, are reflected in the revised budget estimates included in paragraphs 132 and 133 of the present report.

97. The Participants' representatives issued the following statement explaining their position with respect to the vote taken on the Investment Management Arrangements:

> "The Participants' representatives endorse the request for five new positions, as set out in R.10/Rev.1, annex I, and strongly recommend that **the positions approved by the Standing Committee in 2005 be filled first**.
>
> "With regard to the shift from active to passive management, i.e., indexation of the North American equity portfolio, the Participants feel that this represents a major investment policy change while we see the need to adapt the Investment Management of the Fund. In view of the lack of any proven urgency to this change and in the light of the very good results achieved by the Fund over the past 46 years, we strongly recommend that **any shift in investment decision and the implementation thereof be based on an asset liability management study, with an investment strategy based on a defined asset liability allocation, elaborated in consultation with the Investment Committee, the Actuary Committee, the CEO and the Board**. This should be accompanied by an appropriate business plan with clearly the defined cost, including any hidden cost. The Participants' group strongly supports **the recommendation of the External Auditors that the UNJSPF submit the new investment benchmark to the Board**. We also believe that the **Fund's tolerance for risk needs to be established in quantitative terms, with the involvement of the Pension Board**.
>
> "In the light of the recruitment of a Director, Risk and Compliance, that person should be included in these processes from the start.
>
> "In addition, we would like to see the implementation of the automated trade and management system before any major changes to the portfolio are made, to reduce the potential risk error.
>
> "In noting, on a strictly preliminary basis, the recommendations made in the consultant's report, the Participants' representatives wish to reiterate the need to ensure timely consultation and adequate information to the Board to allow for informed observations and suggestions.
>
> "Finally, whilst we view with satisfaction the willingness of IMS to cooperate more closely with regard to the MOU between the Pension Fund Secretariat and IMS, we are concerned that this apparently has not been the case in the recent past. In this respect we strongly recommend that **the current MOU be revisited to include cooperation on investment matters**."

The above position of the Participants was supported by FAFICS.

C. Membership of the Investments Committee

98. On behalf of the Representative of the Secretary-General, the Director of the Investment Management Service advised the Board that long-serving member J. Y. Pillay had informed the Secretary-General that he would no longer be available to serve in the Committee (annex V).

99. The Board noted the intention of the Secretary-General to reappoint F. Chico Pardo, of Mexico, and K. Ngqula, of South Africa, for additional three-year terms,

and to appoint E. Cardenas, of Argentina, as a new regular member of the Investments Committee for a three-year term beginning on 1 January 2007.

100. **The Board invited the Secretary-General in cooperation with the United Nations Ethics Office to establish procedures to ensure that there were no conflicts of interest in the appointments of the members of the Investments Committee.**

D. Global Compact and the investments of the UNJSPF

101. **The Board appreciated the report on Principles of Responsible Investment and welcomed the Secretary-General's decision to include the UNJSPF as signatory to the Principles for Responsible Investment. The Board encouraged the Investment Management Service to adhere to the principles to the extent possible without compromising the four criteria of safety, liquidity, convertibility and profitability, which remain the Fund's paramount investment guideline, and looked forward to a report on the progress made in the implementation.**

E. Proposed changes to the Fund's practice on administrative costs as they relate to the Investment Management Service budget and record keeping

102. A proposal had been submitted to streamline the current practice by henceforth including fees paid to external investment managers within the administrative costs of the Investment Management Service. **However, as suggested by the Representative of the Secretary-General, the Board deferred any decision on the matter to a later session of the Board, following the results of the asset liability management study and further consultations with the Board and the Investments Committee on the investment policy.**

F. Proposed changes to the UNJSPF policy on writing off the uncollectible tax refund claims

103. It was proposed to recommend to the Secretary-General to write off, from receivables due to the Fund, the sum of $6,581,579 consisting of unrecoverable refunds on taxes that had been kept on the Fund's balance sheet. These tax refunds arose from the Fund's investment transactions made between 1980 and 1997 in about eight countries and had been outstanding ever since. Full investigations had been conducted and substantial efforts had been made to recover these tax refunds but without success.

104. The Board was informed that it was unlikely that these specific tax receivables remaining with Fiduciary Trust Company International and Barclays Bank will be recovered as the relevant files with Fiduciary were destroyed in the attack on the Twin Towers in New York on 11 September 2001, and those with Barclays had been discarded by the Bank. The Secretary-General's representative on the United Nations Staff Pension Committee informed the Board that the Office of Legal Affairs had received documents on the matter but that the review had not yet been

concluded and that the Office of Legal Affairs was not, at this stage, in a position to give an opinion on the issue. It was further pointed out by several members of the Board that these taxes represented receivables from Member States and that it was the Organization’s policy not to write off receivables from Member States.

105. **It was concluded that while the Board noted the nature of these specific tax receivables and fully appreciated the Investment Management Service need to clear these long-standing receivables from its accounts, the Board was currently not in a position to support the proposal of the Representative of the Secretary-General to write off the unrecoverable tax receivables from Member States and urged the Investment Management Service to continue and intensify its efforts to collect these tax refunds.**

Chapter VI
Financial statements of the Fund for the biennium 2004-2005

106. The Board examined the financial statements and related data on the operations of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2005. It noted the increase in Fund participants over the prior biennium, from 85,245 to 93,683, or by 9.9 per cent, with increases occurring in 10 of the member organizations. The number of benefits in payment (55,140) had also increased, by 5 per cent, and the biennial payroll for benefits in payment amounted to $2.7 billion, representing an increase of 14.9 per cent over the prior biennium. The total expenditure of $2.8 billion for benefits, administration and investment costs exceeded contribution income by approximately $197 million, an annual average of $98 million, compared with an annual average of $145 million in the prior biennium. Contribution income increased from $2.1 billion to $2.6 billion during the biennium 2004-2005, an increase of approximately 24 per cent. The Board also noted the increase in the market value of the Fund’s investments, from $25.7 billion in December 2003 to $31.4 billion at the end of December 2005, an increase of 22.2 per cent.

107. **The Board took note of the financial statements for the biennium 2004-2005 and related data submitted by the Secretary/CEO (annex X).**

Chapter VII
Administrative matters of the Fund

A. Emergency Fund

1. Report on the Emergency Fund

108. The Board initially established the Emergency Fund in 1973, from voluntary contributions of member organizations, staff associations and individual contributors, to alleviate the distress of recipients of small pensions caused by currency fluctuations and inflation. Since 1975 it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

109. The Board reviewed the operations of the Emergency Fund since the submission of the previous report to the Standing Committee, in July 2005, and noted that during the period from 1 May 2005 to 30 April 2006, 21 disbursements had been made, totalling $67,185. The amounts disbursed over the two-year period, from 1 May 2004 to 30 April 2006, totalled $104,257, and total expenditure from the Emergency Fund since 1975 had reached approximately $1,084,062. At least 80 per cent of the cases processed within the reporting period related to medical expenses not reimbursed from any other source; several other cases related to reimbursement for funeral expenses.

110. The Secretary/CEO provided further information with regard to the cases currently under review. The Board was also provided with statistical data related to the number of requests by country and region, by separation date and by the former employing organization of the beneficiary requesting assistance. Additional statistics were provided regarding the type of benefit in payment to those requesting assistance and the amounts actually paid according to the country of residence. The Board noted that should the current low utilization rate of the Emergency Fund continue, the Board would need to revise the current level of the Fund's biennial allocation. The FAFICS representatives drew the attention of the Board to the problems that retirees may face in some countries should a pandemic of avian flu occur, and expressed the hope that those retirees would have access to the medical facilities provided by the organization and benefit from the assistance of the Emergency Fund.

111. Some Board members raised queries with regard to publicizing the Emergency Fund so that retirees and beneficiaries were better made aware of its existence and that it would therefore be more widely utilized. **The Board took note of the report submitted by the Secretary/CEO.**

2. Scope of coverage of the Emergency Fund

112. The Board reviewed a note prepared by the Secretary/CEO on an ILO proposal, submitted to the Pension Board at the fifty-second session, which proposed an enlargement of the scope of coverage of the Emergency Fund. The ILO proposal involved changes in the provisions governing the use of the Emergency Fund so that former Pension Fund participants and their dependants who were not in receipt of a UNJSPF periodic benefit, particularly those from the former Soviet Union, would be allowed access to that Fund. As requested by the Board, in his note, the Secretary/CEO analysed the proposal and provided an indication as to who

would be covered, the legal implications, the number of persons eligible and the anticipated cost.

113. The Secretary/CEO noted that currently the Emergency Fund provides financial assistance only to beneficiaries who are receiving a benefit from the Fund. The ILO proposal would open up the Emergency Fund to former participants, including their dependants, who are not in receipt of a periodic benefit (irrespective of the reasons why they do not receive a periodic benefit) but had met the conditions prescribed in the UNJSPF Regulations related to entitlement to retirement, disability, widow's, child's, disabled child's or secondary dependant's benefits. The Secretary/CEO stated that such persons will have either (a) received a benefit in the form of a withdrawal settlement or a transfer of pension rights under a transfer agreement or (b) deferred their choice of benefit or opted for a deferred retirement benefit that was not yet in payment. In the first instance, as the conditions in the proposal, "not yet in receipt of a periodic benefit" would not be met, the Fund had no further obligations towards those persons, nor would it have contact information or detailed family information in such cases.

114. The Secretary/CEO indicated that from 1970 through 2005, approximately 127,000 withdrawal settlements had been paid and the information pertaining to many of those settlements was not easily available. Electronic data was only available from 1992 and many of the older files pertaining to withdrawal settlements had already been destroyed. Determining eligibility under the ILO proposal would require a detailed analysis of folders to ascertain which persons or their family members could have been eligible for monthly benefits; additionally, the Secretary/CEO noted that the current guidelines indicate that while flexibility should be used in operating the Emergency Fund, it should not be used to relieve member organizations, institutions or Governments of their legal and moral obligations.

115. With regard to legal implications, the Secretary/CEO indicated that the practice of the Fund has been to consider that a beneficiary is an individual who is in receipt of a periodic monthly benefit from the Fund and no resources have ever been disbursed to former participants who were not beneficiaries. He also indicated the difficulties in interpreting the ILO amendments as related to the current Pension Fund Regulations. While noting that potentially some 127,000 persons could be eligible for consideration under the ILO proposal, the Secretary/CEO stated that of the 1,642 persons from the former Soviet Union who had been covered by the transfer agreement, 631 had at least five years of contributory service. However, there were 24,000 other former participants who also took withdrawal settlements with more than five years of contributory service and could therefore potentially be eligible. The Secretary/CEO indicated that owing to the complexities inherent in the proposal and the uncertainty as to the number of cases that could be involved, reliable cost estimates were not feasible; furthermore, the additional work involved in determining eligibility, if the proposal were adopted, could not be absorbed within existing resources.

116. Some Board members questioned whether it might be possible to open up the Emergency Fund to a specific group of persons experiencing hardship, who had either taken a withdrawal settlement or a transfer agreement and who had more than five years of service. The Secretary/CEO indicated that it would be difficult to isolate a single group of former participants for favoured treatment without

considering other groups that might also have experienced hardship in one form or another. An ILO Executive Head representative recognized that point while noting with regret that the Fund was unable to alleviate the problem facing former participants from the former Soviet Union.

117. **The Board agreed that if the ILO proposal were implemented, owing to significant administrative, legal and financial implications, it would not be a viable solution to try to alleviate the hardships of the former Soviet Union participants who had either taken a withdrawal settlement or had transferred their pension rights under the transfer agreements then in force. The Board concluded that there was no compelling reason to alter the Guidelines of the Emergency Fund in order to widen its coverage.**

B. Internal audit arrangements

118. With respect to this subject, the Board considered reports by the Office of Internal Oversight Services on the internal auditing of the UNJSPF during the period from 1 May 2004 to 30 April 2006. The Board also had before it a note by the Secretary/CEO concerning the appropriate reporting lines with regard to the internal audits of the Pension Fund, including reporting on pension matters to the General Assembly, and the standards expected from the auditors. The CEO/Secretary informed the Board that in the future it was expected that all internal audits would be carried out by auditors certified according to the standards set by the Institute of Internal Auditors. Furthermore, he apprised the Board of the establishment of a UNJSPF Procurement Advisory Committee to advise the CEO/Secretary on the use of direct procurement in individual cases, an authority granted to him by the Board and the General Assembly.

119. The Office of Internal Oversight Services Internal Audit Division introduced the report of the Office of Internal Oversight Services, which covered the summary of comprehensive risk assessment conducted by PricewaterhouseCoopers, the results of the audits conducted during the reporting period, and the implementation status of prior audit recommendations.

120. The Board expressed its serious concern regarding the apparent confusion on the reporting lines for internal audit matters. The Board had a lengthy discussion over the role and scope of internal auditors; it reiterated that the internal auditors should not conduct a second-layer of external auditing, but rather offer the management a tool to improve and adequately monitor operations. Several Board members empathized with the dilemma the CEO was facing with regard to the reporting lines, particularly in the light of General Assembly resolution 59/272 of 23 December 2004. Other Board members were concerned with the cost effectiveness of maintaining the Office of Internal Oversight Services as the internal auditors for the Fund and suggested that the CEO explore the possibility of establishing UNJSPF's own audit function. The Board reiterated the position that the established reporting lines for the Office of Internal Oversight Services vis-à-vis the Pension Fund were as follows: audits concerning operational activities of the Fund were first transmitted to the CEO, who reported thereon via the Pension Board to the General Assembly. Reports of the Office of Internal Oversight Services concerning the Fund's investments activities were submitted to the United Nations Secretary-General, through the Representative of the Secretary-General for the

Investments of the assets of the Fund, and to the CEO of the Fund. These reporting lines were now incorporated in the Audit Charter, approved by the Board at its fifty-second session.

121. The Board welcomed the CEO's request that in the future all internal auditors be certified and adhere to industry standards in their performance. **The Board decided that the newly established Audit Committee should review the competence of internal auditors and monitor the internal audit arrangements for UNJSPF — i.e., the structure and proper functioning — as a matter of priority. It was noted that the Audit Committee would provide an appropriate and enhanced communication channel between the Office of Internal Oversight Services and the Pension Board.**

C. External audit

122. A representative of the Board of Auditors introduced the report of the audit of the UNJSPF for the biennium ended 31 December 2005, via teleconference from New York. The full report of the Board of Auditors was provided to the Board and is set out in annex XI to the present report. The representative concluded his opening remarks by pointing out that the report of the Auditors gave an unqualified certification of the financial statements of the UNJSPF for the biennium ended 31 December 2005.

123. In drawing an overall assessment of the accounts and financial management of the UNJSPF, the representative of the Board of Auditors drew the Board's attention to the fact that although progress had been made and continued to be made, areas under consideration fell into three principal categories, namely, areas where significant improvement had been accomplished, areas where improvement was in hand but was yet to be completed, and areas where further progress still needed to be made. Dealing with each category in turn, the representative of the Board of Auditors remarked that significant progress had been made in clarifying cost-sharing arrangements between the UNJSPF and the United Nations, in the efforts made to restructure and strengthen the accounting function, and in the areas of overall treasury management and formalizing banking agreements. As for areas where progress was under way or in hand, the representative of the Board of Auditors mentioned improved asset/liability management, strategic management of the UNJSPF as far as setting its major objectives were concerned, and in the area of bank reconciliation. Those areas where, in the opinion of the Board of Auditors, progress remained to be made were confined to two major areas: the question of the reconciliation of the contributions receivable from member organizations; and what were referred to globally as the "back office" functions within Investment Management Service.

124. For the reconciliation of contributions, although the issues involved were not significant enough to require qualification of the financial statements at this juncture, the fact that the value appeared to be increasing was cause for concern and the Fund should seek a fuller understanding of the processes within the member organizations concerned to ensure that there was a mirror image of what was reported as a receivable on one side was shown as a liability on the other. As far as the back office functions were concerned, the representative of the Board of Auditors made the point that many of the concerns arose from the manual processes

involved in the processing of trade orders and the possibility for error that such processes introduced together with the complications they represented for compliance monitoring. The representative of the Board of Auditors recalled that of a total of 23 recommendations, 12 (52.2 per cent) had been implemented, 7 (30.4 per cent) were under implementation and 4 (17.4 per cent) had not been implemented. Of those not implemented, two recommendations had not been accepted by the Board. The representative of the Board of Auditors completed his introduction by remarking how rewarding the experience of conducting the audit of UNJSPF had been and thanking the different services involved for their help in providing the information requested. He then took advantage of the opportunity to introduce his successor, who would be responsible for the audit as from 1 July 2006.

125. In response to a request for clarification regarding the remarks in the report of the Board of Auditors concerning the consolidation of IT services, and in particular the need for the IMS information technology security policy to be brought up to the same standard as that of the Fund secretariat, the representative of the Board of Auditors explained that as set out in the report, the Fund secretariat's information security policy was compliant with ISO 17790 whereas that of the Investment Management Service was found not to be. The Board of Auditors had been informed that the Investment Management Service has now retained the services of a consultant to study the issue. The representative of the Board of Auditors had no comment to make as to whether the arrangements within the Investment Management Service had in fact improved since the review reflected in the draft report was completed. In bringing the Investment Management Service into compliance with the relevant ISO standard, either joint efforts on a consolidated platform with the Fund secretariat could be made, or a separate effort within the Investment Management Service alone; either way the standard within the Investment Management Service regarding information technology security policy had been found to require attention.

126. Noting that the key point of the audit was the clean audit opinion on the Fund's financial statements, clarification was sought as to whether in future audit reports it would be possible to include clearer guidance as to whether the recommendations were being addressed to the Fund secretariat, the Investment Management Service or the Board itself for action, and, furthermore, whether it was acceptable for a financial entity the size of the UNJSPF (more than $30 billion) to be subject to audit less than annually. In his reply, the representative of the Board of Auditors confirmed that it would be possible to give the clearer indication requested, subject to respecting the roles of the entities addressed. The second issue would disappear as IPSAS standards would be followed as from 2010. The representative of the Board of Auditors went on to assure the Board that although the Board did not receive a formal report annually, the intermediate, annual financial statements were audited and observations on areas of concern reported to the management of the Fund. He further commented that the UNJSPF was audited twice each year and that any issue found in the annual review that is not dealt with in the interim would be picked up and reported to the Board in the biennial report.

127. In response to a question regarding whether the proposed recruitment of a compliance officer and the upgrading of the trade order system would be adequate to prevent duplicate instructions being issued, the representative of the Board of Auditors explained that both would have further implications. In the first instance, an enhanced compliance monitoring function would require staff with detailed

knowledge of the applicable rules, regulations and procedures. In the second, use of an automated order placement system would imply accepting electronic signature capability. In any case, in both instances the sufficiency of either solution would depend upon how well it was implemented.

128. **The Pension Board thanked the representative of the Board of Auditors, and taking into account the observations of the Secretary/CEO, noted the main recommendations made by the Board of Auditors.**

D. Consolidation of the information technology services of the Fund secretariat and the Investment Management Service

129. The Standing Committee in 2005 strongly recommended that efforts be made to centralize the information and communication technology (ICT) operations of the Fund with a view to streamline the administrative and investment operations of the Fund. Furthermore, the General Assembly Advisory Committee on Administrative and Budgetary Questions (ACABQ) echoed the Standing Committee's recommendation by urging that serious consideration be given to consolidating the two information systems services within the Fund under a single organizational structure, which would encompass all activities of the Fund.

130. The Board was informed that the Working Group established by the Fund's CEO and the Representative of the Secretary-General for the Investments of the Fund to assess possible opportunities for shared information technologies services for the UNJSPF as a whole, concluded that despite reaching an agreement in principle to consolidate the common computer services under the Information Management Systems Service, it could not reach a common view as to the scope and manner of the consolidation.

131. The Board expressed its disappointment with the slow progress on this topic, and invited the Fund's CEO and the Representative of the Secretary-General for the Investments of the Fund to focus on specific areas where common services opportunities for interfacing and establishing joint arrangements might be pursued in the interests of secure, effective and economical ICT operations for the Fund as a whole. The Board also requested that it be informed during its next session of the progress achieved on this effort.

E. Revised budget estimates for the biennium 2006-2007

132. **The Board considered the additional requests for resources in the budget submissions made by the Secretary/CEO with regard to the biennium 2006-2007 during its discussions on the Investment Management Arrangements. On the basis of those discussions, the Board decided to:**

(a) **Recommend the reclassification of two P-4 posts to the P-5 level in the Information Management Systems Service. The Board recognized that the budgetary and management responsibilities related to both these posts have increased substantially since 1992, when the posts were last classified and especially since the completion of the Fund's major ICT re-engineering effort. The new level of the posts will be more in line with the increased responsibilities involved in managing all global applications and the computing**

infrastructure that supports the 21 member organizations of the Fund, including the servicing of over 150,000 participants and beneficiaries working and residing in some 190 countries. An additional $27,700 is requested in this connection, subject to cost sharing in the ratio of two thirds to one third between the Fund ($18,500) and the United Nations ($9,200), respectively;

(b) **Recommend the establishment of an Audit Committee of the Board with the aim of providing an enhanced communications channel between the internal auditors, the external auditors and the Pension Board. An additional $50,000 is requested to cover the anticipated travel costs in respect to seven members and two experts. This amount is not subject to cost sharing with the United Nations;**

(c) **Recommend the enhancement of the Investment Management Service through the addition of five new posts (i.e., 1 D-1; 2 P-5; 1 P-4; and 1 P-3) amounting to an additional request for resources of $464,200. This request for new posts recognizes the significant increase in the value of the Fund's assets and the increasing complexity of the investment opportunities. It also recognizes that the risk controls within the Investment Management Service must shift from careful monitoring of individual investments to a more coordinated total portfolio risk budgeting approach. Also with a view towards enhancing the Investment Management Service, the Board requests additional resources amounting to $500,000 for consulting advice to be provided from specialists in the custodian business. This request recognizes that the record-keeping responsibilities are becoming more complex and further development of the monitoring system and the operation manual are essential to keep close vigilance of the portfolio management. Additional resources amounting to $1,945,000 are also requested for indexation fees and one-time transition costs. The Board therefore recommends approval of additional resources totalling $2,909,200 for the overall enhancement of the Investment Management Service, which is not subject to cost sharing with the United Nations. This total amount is offset by $1,000,000, representing in part the estimated reduction in active investments advisory costs of $1,430,000 per annum;**

(d) **Recommend approval of additional resources for External Audit costs amounting to $85,900 to cover the increase in the total number of auditor weeks from 53 to 65. This increase is due to the additional coverage of the audit of information technology and investment management, not previously accounted for. The additional request by the Board of Auditors is subject to the ratio of five-sixths to one-sixth cost sharing between the Fund ($71,600) and the United Nations ($14,300), respectively;**

(e) **Recommend an increase in general temporary assistance in order to increase the Fund's internal audit capabilities. The provision of these additional resources will enable the Office of Internal Oversight Services to provide more extensive internal audit coverage aimed at enhancing the Fund's internal controls, accountability and efficiency, as well as the Fund's ability to address the challenges and achieve the objectives as set out in its Management Charter. The additional $132,400 requested represents one new post at the P-3 level, which is subject to cost sharing in the ratio of five sixths to one sixth between the Fund ($110,300) and the United Nations ($22,100), respectively.**

During its separate discussions in the context of the Board's 2002 recommendations aimed at reversing some of the economy measures taken in the 1980s, and following its review of the administrative implications of implementing two of those earlier recommendations, the Board also decided to:

(f) **Recommend resources for general temporary assistance amounting to $125,300 for implementation of the recommendation to reduce the current reduction factor by 0.5 per cent in the first pension adjustments due for existing and future beneficiaries, with effect from 1 April 2007. This amount would be subject to cost sharing in the ratio of two thirds to one third between the Fund ($83,500) and the United Nations ($41,800), respectively;**

(g) **Recommend resources for general temporary assistance amounting to $72,500 for implementation of the recommendation to eliminate the limitation on the right to restoration based on years of service, with effect from 1 April 2007. This amount would be subject to cost sharing in the ratio of two thirds to one third between the Fund ($48,300) and the United Nations ($24,200), respectively.**

133. **The Board therefore recommended a revised budget for the biennium 2006-2007 of $110,665,500 reflecting a total increase in the budget amounting to $2,403,000, as summarized in table 7 below.**

F. Arrangements for sharing Board expenses among member organizations

134. During its meeting in 2005, the Standing Committee reviewed the current practice to apportion Board expenses to member organizations and requested the Secretary/CEO to prepare a note for the next Board session on procedures whereby Board expenses are apportioned in a more equitable and transparent manner.

135. It should be recalled that during the seventh session of the Board, "The Secretary of the Board proposed that the conference costs of each Board session should no longer fall exclusively on the budget of the host organization but rather should be shared by all member organizations. He proposed that the expenses should be borne initially by the Fund subject to reimbursement by member organizations on the basis of the number of participants from each organization active at the end of the previous fiscal year-end. The Board decided to adopt the Secretary's proposal on this point starting from 1 January 1960."

Table 7

Revised estimates for administrative costs for the biennium 2006-2007 by object of expenditure

(Thousands of United States dollars)

	Appropriations			*Changes increase/(decrease)*			*Revised estimates*		
Category	*Fund*	*United Nations*	*Total*	*Fund*	*United Nations*	*Total*	*Fund*	*United Nations*	*Total*
Administrative costs									
Posts	19 591.7	9 795.8	29 387.5	18.5	9.2	27.7	19 610.2	9 805.0	29 415.2
Other staff costs	892.7	340.0	1 232.7	131.9	65.9	197.8	1 024.6	405.9	1 430.5
Consultants	—	—	—	—		—	—	—	—
Travel	379.4	—	379.4	50.0	—	50.0	429.4	—	429.4
Contractual services	10 095.3	2 708.9	12 804.2	—		—	10 095.3	2 708.9	12 804.2
Hospitality	5.2	—	5.2	—		—	5.2	—	5.2
General operating expenses	6 447.1	2 462.2	8 909.3	—		—	6 447.1	2 462.2	8 909.3
Supplies and materials	268.6	129.0	397.6	—		—	268.6	129.0	397.6
Furniture and equipment	3 372.6	817.2	4 189.8	—		—	3 372.6	817.2	4 189.8
Subtotal	**41 052.6**	**16 253.1**	**57 305.7**	**200.4**	**75.1**	**275.5**	**41 253.0**	**16 328.2**	**57 581.2**
Investment costs									
Posts	7 925.8		7 925.8	464.2		464.2	8 390.0		8 390.0
Other staff costs	365.8		365.8	—		—	365.8		365.8
Consultants	934.0		934.0	500.0		500.0	1 434.0		1 434.0
Travel	1 170.1		1 170.1	—		—	1 170.1		1 170.1
Contractual services	33 914.4		33 914.4	945.0		945.0	34 859.4		34 859.4
Hospitality	17.4		17.4	—		—	17.4		17.4
General operating expenses	1 731.0		1 731.0	—		—	1 731.0		1 731.0
Supplies and materials	64.3		64.3	—		—	64.3		64.3
Furniture and equipment	3 113.4		3 113.4	—		—	3 113.4		3 113.4
Subtotal	**49 236.2**		**49 236.2**	**1 909.2**		**1 909.2**	**51 145.4**		**51 145.4**
Audit costs									
External audit	399.9	80.0	479.9	71.6	14.3	85.9	471.5	94.3	565.8
Internal audit	1 034.0	206.7	1 240.7	110.3	22.1	132.4	1 144.3	228.8	1 373.1
Subtotal	**1 433.9**	**286.7**	**1 720.6**	**181.9**	**36.4**	**218.3**	**1 615.8**	**323.1**	**1 938.9**
Total fund	**91 722.7**	**16 539.8**	**108 262.5**	**2 291.5**	**111.5**	**2 403.0**	**94 014.2**	**16 651.3**	**110 665.5**
Extrabudgetary costs (after-service health insurance system)									
Other staff costs	131.0		131.0	—		—	131.0		131.0

136. While the decision taken by the Board referred to only Board sessions, in recent years the costs related to Working Groups established by the Board (which has increasingly become a larger proportion of the total costs), have been apportioned between member organizations in the same manner. The Board was informed that there are currently three distinct types of Board expenses: the actual cost of Board sessions; Working Group expenses; and travel costs incurred by its Chairman.

137. **The Board agreed that shared expenses should continue to be charged to member organizations under the current methodology until 1 January 2008, at which time all Board expenses would be included in the Fund's budget and charged against the Fund as administrative expenses.**

138. **In addition, it was agreed that, until 1 January 2008, member organizations would be billed on an annual basis, with full disclosure of all expenditures. To facilitate timely and accurate billing, the Board agreed that deadlines would be set for the submission to the Fund secretariat of relevant shared expenses incurred by member organizations. In this context, expenditures incurred by member organizations that are shared Board expenses should be received by the Fund secretariat within six months of the end of the year in which the expenditure occurred. To facilitate the reconciliation of the years between 2000 and 2005, such expenditures for Board expenses should be received by the Fund secretariat no later than 31 October 2006.**

G. Report of the Medical Consultant (Rules of Procedure, rule D.3)

139. The Medical Consultant to the Board presented a report with respect to the two-year period from 1 January 2004 to 31 December 2005. The report contained detailed information and analysis regarding the new disability benefits awarded during that period, together with data on new disabled children's benefits and on the deaths of participants while in service. The report analysed the incidence rate, the diagnostic categories, the average age, as well as the average contributory service of UNJSPF participants to whom new disability benefits were awarded. The Board expressed appreciation for the information and analysis provided.

140. Participants' representatives noted that the study requested by the Board in 2004 concerning partial disability issues and return to work after disability benefit has been awarded, had not been submitted to the Board. The Medical Consultant replied that she had consulted with the Medical Directors of the United Nations common system with regard to this issue and that they were still missing the definition of partial disability and therefore no further information had been provided on that topic. The Secretary/CEO advised the Board that it was his intention to submit to the Board at its next session a comprehensive study on disability matters.

141. The Board members inquired about the efforts made by the Medical Consultant to strengthen early detection and preventive measures, particularly with regard to mental health of staff members. In this connection, the role of the employing organizations with regard to available support programmes and health/welfare initiatives was highlighted.

142. In its discussion, the Board noted that the causes of disabilities have remained similar over time and that, overall, the disability rate in the UNJSPF was comparatively low. In this regard, the Board raised the issue of level of details of the Medical Consultant's report and recommended that a new overall approach be adopted. In the future, reporting could include the emerging trends the Medical Consultant could identify as well as information on different categories of staff who have been awarded the disability benefit as well as differences, if any, by occupational groups. Another element for review might be comparison of the rate of the disability benefits approved in different member organizations. **The Board welcomed the Secretary/CEO's statement to present for the next Board session a comprehensive review of the disability provisions of the UNJSPF Regulations and Rules, with possible suggestions for changes.**

Chapter VIII
Governance matters

A. Report of the Working Group undertaking a review of the size and composition of the Pension Board and Standing Committee

Background

143. In 2002 the Board decided to recommend that the General Assembly approve an increase in the size of the Board from 33 to 36 members, with the three additional seats to go to the United Nations. This decision was aimed at improving the share in member seats of the United Nations, in relation to its number of participants. The Assembly decided not to approve the proposal. In section VII, paragraph 3 of its resolution 57/286, the General Assembly requested the Board "to study the representation of the Fund's member organizations on the Board, so as to clarify the criteria adopted for that purpose, and to submit further proposals to the General Assembly at its fifty-ninth session, with a view to making such representation more equitable in order to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, the changing nature of the Fund's member organizations and improved participation by members and alternate members in the Committee and Board meetings".

144. In 2003, the Standing Committee established a Working Group to undertake a review of the size and composition of the Board and its Standing Committee. The membership of the Working Group was comprised as follows:

Governing Bodies:	V. Gonzalez Posse (United Nations) J. Larivière (WHO) T. Repasch (United Nations) (replaced R. Adnan, IAEA)
Executive Heads:	S. Tabusa (ILO) (replaced D. Macdonald, ILO) T. Panuccio (IFAD) J. Pozenel (United Nations)
Participants:	P. Sayour (ILO) (replaced J.-V. Gruat, ILO) J.-M. Jakobowicz (United Nations) C. Pichon (WHO)
FAFICS:	J.-J. Chevron A. Marcucci (replaced G. Saddler) W. Zyss

Dr. Larivière served as Chairman and F. DeTurris represented the Fund's secretariat.

145. The Chairman of the Working Group presented its final report to the Board. He recalled that after considering an initial report of the Working Group in 2004, the Board requested that a final report be prepared for its consideration in 2006, taking into account the views that emerged in the Board. In its final report to the Board in 2006, the Working Group confirmed the desirability of maintaining the tripartite and equal representation of the constituent groups. It also agreed on the principles which should continue to serve as the criteria for determining the size and composition of the Board.

146. The Working Group agreed that any proposal for change would need to respond to the six essential principles it had identified. In response to the Board's specific request to "present various options for the size and composition of the Board and Standing Committee, including retaining the status quo", the Group narrowed several options it had developed to two possible sizes, namely, a 21-member Board and a 33-member Board.

Board

147. In putting forward its final recommendation to the Board, the Working Group recommended that the Board adopt the option for a 21-member Board, which would have the following operational and governance aspects:

- Twenty-one-member Board to meet annually for five days, preceded by a two-day conference of the representatives of the member organizations
- Two-day conference, which would include 3 representatives from each member organization totalling 66 (including IOM), as well as 2 representatives of the retirees and other beneficiaries
- Twenty-four members of the conference who would not otherwise be entitled to attend would have their costs shared as a Board expense on a pro rata basis; such costs would involve travel to and from the Board meetings and the relevant daily subsistence allowance relating to the plenary meeting only
- Standing Committee would maintain its current size and composition but owing to annualization of Board meetings, the Standing Committee would not include the additional alternate representative for the General Assembly as approved as a temporary measure in 2004
- Standing Committee would approve the provisional agenda of the Board
- Grouping methodology for allocating and rotating seats would be maintained
- Board would share the costs of two retiree representatives to the Board and one retiree representative to the Standing Committee on a pro rata basis.

148. This option would provide that the formal session of the Board would be made up of 21 members and would allow for more equitable representation. IOM would be provided with a one-half seat during such sessions of the Board. All organizations would have the right to send three representatives each to the two-day conference allowing for participation during the preliminary consultative meeting.

149. In the event the Board was unable to reach agreement with respect to the Working Group's preferred option, the Working Group had put forward a second option, which would retain the 33-member size of the Board but with a slightly revised composition. The Group's second option would have the following operational and governance aspects:

- Thirty-three-member Board to meet annually for seven days
- No two-day conference proposed under this option
- Standing Committee would maintain its current size and composition but owing to annualization of Board meetings, the Standing Committee would not include the additional alternate representative for the United Nations General Assembly as approved as a temporary measure in 2004

- Standing Committee would approve the provisional agenda of the Board
- Grouping methodology for allocating and rotating seats would be maintained
- The Board would share the costs of two retiree representatives to the Board and one retiree representative to the Standing Committee on a pro rata basis.

150. This second option would provide for retention of the current arrangements as far as practicable, allowing for greater participation during the formal session of the Board, while also providing formal recognition to IOM.

Standing Committee

151. The size, composition and allocation of seats on the Standing Committee would be retained under both options put forward by the Working Group, with the exception of the 2004 temporary provision to include the additional alternate representative for the United Nations General Assembly, which would no longer be applicable. Both options envisaged that the role of the Standing Committee would be to approve the provisional agenda of the Board in addition to its current roles of reviewing appeals and acting when the Board is not in session.

Improved methods of work

152. The Working Group strongly recommended that the Board adopt, with immediate effect, the recommendations on "possible methods for improved participation and efficiency", as provided for in its report. The Working Group proposed that the recommendations relating to improved methods of work be considered regardless of the Board's decision as to its size and composition. Recommendations relating to "Board organization and governance" aimed to improve the governance of the Board and the Board's liaison with the General Assembly. The other recommendations, which concerned the "Efficiency of the meetings", would also provide for and give guidance on the agenda, pre-meeting preparation, group meetings, materials, presentations, information technology and Board members.

Conclusions of the Board

153. **The Board held an extensive discussion on the basis of the final report of the Working Group. It recognized the considerable efforts made by the Group towards reaching agreement on a reduction in the size of the Board.**

154. **The Board decided to adopt the following six principles, which would continue to serve as the criteria for determining its size and composition:**

(a) **Each member organization should be represented;**

(b) **The number of representatives for each organization should take into account the number of participants (including retirees and their beneficiaries) from the organization;**

(c) **The tripartite nature of representation on the Board should be maintained;**

(d) **Whatever numbers might emerge from (a) to (c) above, they would have to be adjusted in the light of the determination of the optimum size of the Board;**

(e) **The optimum size of the Board should be determined by reference to two essential objectives:**

(i) **That it be truly representative of the membership of the Fund;**

(ii) **That it obtain maximum effectiveness in discharging its responsibility of administering the Fund and responding to requests from the General Assembly;**

(f) **The retirees and other beneficiaries should be represented on the Board.**

155. **The Board decided to maintain its size at 33 members and its current composition and allocation of seats, as reflected in annex XII. It recognized that its decision did not fully respond to General Assembly resolution 57/286, since it did not address the low proportionate representation of the United Nations, nor did it correspond to all of the principles adopted by the Board. It agreed to review the matter again in three years after the Board has had adequate time to assess the results of its other decisions under this item, which focused primarily on improving its efficiency.**

156. **With respect to the Standing Committee, the Board decided to retain its current size, composition and allocation of seats, as provided in annex XIII. It also decided to finalize the 2004 temporary provision to include the additional alternate representative for the General Assembly. It agreed that the appropriate amendment, which had already been approved and incorporated in 2004 on a preliminary basis by the Board, would be maintained as part of rule B.1 of the UNJSPF Rules of Procedure and rule B.9 would be revised accordingly (annex XIX). The Board agreed that the Standing Committee would continue to meet primarily to consider appeal cases, as it has generally done during each regular session of the Board. The responsibility for approving the Fund's budget would, therefore, rest with the Board session in the odd-numbered years. The Board recognized that the various technical issues and other sensitive matters that often arise during the consideration of the budget would make it difficult to reach agreement during a meeting of the full Board. It agreed that the process of using an in-session working group to analyse and make recommendations on the budget should be maintained. In order to complete its work in five working days, however, the in-session working group would likely meet outside the normal hours of the Board. Its recommendations would then be presented to the Board at a plenary meeting for its approval.**

157. **The Board decided that the costs related to two retiree representatives attending the Board would be shared as an expense of the Board (on a pro rata basis) as proposed in the report of the Working Group. More specifically, the Board decided that as part of the current total FAFICS representation to the Board (i.e., four representatives and two alternate representatives) two retiree representatives could be put forth by FAFICS, in consultation with the CEO. The costs for those two representatives would be covered as an expense of the Board, and the costs related to the remaining FAFICS representatives, which would comprise two representatives and two alternates, would be covered by FAFICS. The Board decided that similar arrangements would need to be decided upon concerning the Standing Committee. The Board agreed that as part of the current total FAFICS representation to the Standing Committee (i.e., two representatives and two alternate representatives) the Board could**

agree to cover the expenses of 1 retiree representative to the Standing Committee. The costs related to the remaining FAFICS representation, which would comprise one representative and two alternate representatives, would be covered by FAFICS. Those arrangements would be considered provisional until the 2008 session of the Board, at which time the Board would need to consider more appropriate means for duly electing the representatives to the Board for all retirees and other beneficiaries (including holding elections). Once the arrangements are agreed upon, article A.9 (e) of the UNJSPF Rules of Procedure would be revised accordingly.

158. **The Board decided to maintain the "grouping methodology" and the 1 per cent threshold for possible eligibility to seats on the Board, in order to deal with future member organizations as proposed by the Working Group.**

159. **The Board also decided to adopt all the Working Group recommendations for improved efficiencies in the work of the Board, as provided in annex XIV. The Board also agreed that better coordination with the International Civil Service Commission would result in better efficiencies in the work of the Board. In addition, the Board requested the CEO to prepare a policy paper for its next session in 2007, which would provide clarification of the Regulations and Rules concerning membership on the Board and its Standing Committee, particularly with regard to the representation by the secretaries of the staff pension committees. In addition, the Board noted the FAFICS statement that additional gains in efficiency could be realized if the representatives of the retirees were to participate in all the various committees and working groups of the Board and that such representatives would take part in any other consultations and negotiations that are carried out on behalf of the Board and its Standing Committee. The Board also took note of the Protocols for the structure and preparation of papers to the Board provided by the ICAO Staff Pension Committee.**

160. **In agreeing to maintain the status quo, for both the Board and its Standing Committee, the Board approved the seat allocation and rotation schedules which are provided in annexes XV and XVI, respectively. As in the past, the schedules are provided for the next several regular sessions of the Board.**

161. **The Board agreed to revert to holding annual sessions as from 2007. It also agreed that if its recommendations for improved efficiencies are successfully implemented, the Board should be able to complete its work in five working days. The Board agreed that that would be the duration for its next session and that, if in the future it became necessary, the duration could be adjusted to conform to its workload. During the odd-numbered years when the Board would be considering the budget of the Fund, efforts would be made to limit the agenda.**

162. **In concluding its discussions on the item, the Board agreed that the Fund's Rules of Procedure would be amended accordingly and reported to the General Assembly in accordance with article 4 (b) of the Regulations of the Fund.**

B. Holding of annual sessions of the Board; financial and administrative implications

163. The General Assembly, in section V, paragraph 2 of its resolution 59/269 of 23 December 2004, urged "the Board to explore the possibility of meeting annually for a shorter duration and to report its conclusions, including all financial and administrative implications associated with that possibility".

164. The Board had before it a note by the Secretary/CEO on the current arrangements whereby the Pension Board meets biennially for a period of approximately seven to eight working days, in July of each even-numbered year. The Standing Committee meets for a shorter period, usually four to five days, in July of each odd-numbered year, with the budget proposal for the next biennium being the main item on its agenda. Additionally, the Standing Committee holds a half-day meeting in the even-numbered years, while the Board is in session, to review appeal cases.

165. The Board reviewed alternative proposals presented in the note on possible annual Board sessions. Under the first proposal, the Standing Committee would deal with appeal cases only in the even-numbered years and primarily with budget proposals for the next biennium in the odd-numbered years; the Board would split agenda items between its two sessions held in a biennium and/or decide which matters it would like to discuss on an annual basis. Under the second proposal, the Board would meet annually to deal with budget matters, but would also consider other limited matters, in the odd-numbered years. The Standing Committee would no longer deal with budget matters. It would continue to hold annual meetings, but of a shorter duration, and only to hear appeals cases.

166. During the discussion, a question was raised as to whether the General Assembly would be willing, or indeed be in a position to review the report of the Pension Board that would be generated as a result of the second session of the Board along with the report of the Standing Committee on the budget of the Fund. Also, if the Board were to meet annually and deal with the budget in lieu of the Standing Committee in the odd-numbered years, additional costs would be incurred by the member organizations because representation at Board sessions is larger than for Standing Committee meetings. The staff of the Fund secretariat would need to be increased to absorb the additional workload resulting from a Board session and a Standing Committee meeting being held every year.

167. **As noted above in the context of the discussion on its size and composition, the Board decided to revert to annual sessions, while making efforts to limit the duration of the sessions to five working days. Accordingly, the Board would deal with budget matters in the odd-numbered years and the Standing Committee would meet during each session of the Board primarily to deal with appeal cases.**

C. Rotation of seats on the Board and Standing Committee

168. **The Board also discussed the rotation of seats during its consideration of the Working Group's report on the size and composition of the Board. It decided to approve the rotation of seats for the next five regular sessions of the**

Board and its Standing Committee, as reflected in annexes XV and XVI, respectively.

D. Proposed amendments to the Administrative Rules of the United Nations Joint Staff Pension Fund and the Rules of Procedure of the Board

1. Provision for the appointment of ad hoc members to Board Committees

169. The Pension Board agreed at its July 2004 session, when approving the terms of reference for the Committee of Actuaries and the Investments Committee, that the Standing Committee would consider an appropriate amendment to the Fund's Administrative Rules, in order to provide for the possible appointment of ad hoc members to Committees of the Pension Board that are established pursuant to the Fund's Regulations.

170. The Standing Committee reviewed in July 2005 a possible amendment to the UNJSPF Administrative Rules which would involve adding a new section M to the Administrative Rules, dealing with the appointment of ad hoc members to committees of the Pension Board. There was general agreement in the Standing Committee that such a provision should be placed in the Fund's Rules of Procedure, rather than in the Fund's Administrative Rules. The Standing Committee also requested that the text of the proposed provision be limited to the appointments of ad hoc members to the Committee of Actuaries and the Investments Committee.

171. The Board was presented a possible amendment to the Fund's Rules of Procedure, which would involve adding a new section E, reading as follows:

> "Section E
>
> "Ad hoc members
>
> "E.1 Ad hoc members may be appointed to serve on the Committee of Actuaries and the Investments Committee, in addition to the regular members of those Committees appointed pursuant to articles 9 and 20 of the Regulations of the Fund, respectively. Such ad hoc members shall be appointed in the same manner as the regular members of the Committee concerned; however, the terms of office of the ad hoc members may differ from those of the regular members."

172. **The Pension Board decided to approve, in accordance with article 4 (b) of the Fund's Regulations, the proposed amendment to the Fund's Rules of Procedure.**

2. Approval of new Financial Rules of the United Nations Joint Staff Pension Fund

173. At its July 2004 session, the Pension Board requested the Fund secretariat to develop Financial Rules for the UNJSPF, which would then become part of the Fund's Administrative Rules. Accordingly, draft rules were presented to the Standing Committee in 2005, with the United Nations Financial Rules and Regulations serving as the model, to the extent applicable and relevant to the activities of the Fund. The intention was to follow the practice, established since the

inception of the Fund, to utilize the United Nations Financial Regulations and Rules, “to the maximum extent possible”.

174. The Standing Committee recognized that, as a general matter, there was a need to codify the long-standing practice that governed the Fund’s financial management, given that the UNJSPF Regulations did not contain any financial rules applicable to the operations of the Fund. After extensive discussion, the Standing Committee agreed that in order for the Board to have clear authority to make financial rules for the operations and activities of the UNJSPF, an amendment to the Regulations of the Fund was required and the Secretary/CEO was requested to submit a proposal to that effect to the Board in 2006.

175. **The Board requested the CEO to propose to the Board a new Administrative Rule for the Fund endorsing the established practice, as adopted by the Board and approved by the General Assembly, to use the United Nations Financial Regulations and Rules in the administration of the Fund’s financial management and operations, to the fullest extent possible, and where such United Nations Financial Regulations and Rules are not appropriate for the Fund’s administration of contribution and benefit payments, or other matters to be specified by the Board, to be guided by the financial rules set forth in an annex to the Administrative Rules.**

176. The Board further acknowledged the application, by the Secretary-General, of the United Nations Financial Regulations and Rules to the management of the investment of assets of the Fund in accordance with article 19 of the Regulations of the Fund.

3. Establishment of an Audit Committee of the Pension Board and terms of reference for an Audit Committee

177. At its session in July 2004, the Pension Board deferred taking a decision on the possible establishment of an Audit Committee of the Board. At the same time, the Board requested the Secretary/CEO to prepare, for the meeting of the Standing Committee in 2005, a report on the desirability of, and possible terms of reference for, an Audit Committee.

178. At its meeting in July 2005, the Standing Committee considered a report prepared by the Secretary/CEO on the possible establishment of an Audit Committee of the Board. Draft terms of reference for the Audit Committee were also provided and reviewed. The Standing Committee concluded in 2005 that the creation of an Audit Committee of the Board should be an integral part of the Board’s machinery since it would increase transparency and communication with respect to the audit activities of the Fund. Therefore, the Committee decided to recommend to the Board the establishment of an Audit Committee. Revised draft terms of reference for the Committee, which would be included in the Fund’s Rules of Procedure, were to be submitted to the Board in 2006.

179. During its discussion, the Board made additional revisions to the terms of reference requiring that appointed members be knowledgeable in accounting, auditing, financial management or compliance, and free from any relationship that would result in actual or perceived conflict of interest situation.

180. **The Board decided to establish an Audit Committee of the Board. It approved the terms of reference for the Committee and a budget for its expenses.**

181. **The Board appointed the following members to the Audit Committee: T. Repasch, J. Larivière, K. Matsuura-Mueller, G. Engida, J. B. McGhie, C. Santos Tejada and A. Marcucci, with the understanding that two additional members will be appointed as experts at the Committee.**

E. Enterprise-wide Risk Management Policy

182. The Pension Board has heightened its concern and focus on enhanced governance mechanisms and risk management, and it has become increasingly clear that a need exists for a strong framework to effectively identify, assess and manage risk.

183. In 2001, the Standing Committee approved a Management Charter, which was intended to: (a) develop a vision statement; (b) identify major challenges facing the Fund; (c) present clear goals, objectives and action plans for implementation over the next three years; and (d) facilitate the monitoring and assessment of Fund activities. Since then, the Board/Standing Committee have reviewed and approved four additional policy documents (quality management, information security, communications, and internal control) as well as the Internal Audit Charter.

184. The Fund secretariat introduced to the Pension Board the UNJSPF Enterprise-wide Risk Management (EWRM) Policy document. The EWRM Policy builds a comprehensive and integrated framework incorporating the main concepts, management processes, and governance and control mechanisms presented in the Fund's approved policy documents, guidelines and charters. The EWRM Policy will allow the Fund management to identify and manage risks, using a formal, mandatory, systematic and integrated approach, focusing on those that present a significant threat to the Fund and are likely to occur, and which were classified as higher risks.

185. **The Board welcomed the Fund secretariat's initiative and endorsed the UNJSPF Enterprise-wide Risk Management Policy. The Board, however, expressed the need to further refine the table of actions contained in the document, particularly as they relate to high risk areas identified, and taking into consideration the governance and the oversight mechanism of the Fund, including the Audit Committee.**

Chapter IX
Benefit provisions of the Fund

A. Consideration of the 2002 recommendations of the Pension Board by the General Assembly at its fifty-seventh session

186. The Board's 2002 recommendations with respect to pension benefits were included in the agenda of its current session following a decision by the Board in 2004 to "address in 2006, subject to a favourable actuarial valuation as at 31 December 2005, the possible total elimination of the balance of the 1.5 per cent reduction and, on an equal footing, the possible elimination of the limitation on the right to restoration based on the length of the prior service".

187. In 2002, following a notable improvement in the actuarial situation of the Fund, the Board approved a number of benefit enhancements that would effectively reverse some of the economy measures that were implemented in the 1980s when the Fund was experiencing a serious actuarial deficit. In its resolution 57/286, the General Assembly recognized that the Board's initial recommendations were also aimed to further promote the human resources framework adopted by the ICSC and the Assembly, as they would serve to enhance the mobility of staff and the portability of pensions.

188. Although the General Assembly approved the Board's initial recommendations in principle, it deferred taking any action in 2002. In 2004, following the Fund's fourth consecutive actuarial surplus, which had been revealed in the valuation as at 31 December 2003, the Board recommended and the General Assembly approved a phased approach in the elimination of the 1.5 per cent reduction in the first CPI adjustment due.

189. In section II, paragraph 4 of its resolution 59/269, the General Assembly had also taken note of the Board's intention to address in 2006, subject to a favourable actuarial valuation, the possible total elimination of the balance of the 1.5 per cent reduction in the first CPI adjustment due after retirement and, on an equal footing, the possible elimination of the limitation on the right to restoration based on length of prior service. The Board noted that, in section II, paragraph 5, of the same resolution, the Assembly had indicated that it would not consider any further proposals to enhance or improve pension benefits until action was taken on those two issues and on the other recommendations that had already been agreed upon by the Board and approved, in principle, by the General Assembly in its resolution 57/286.

190. The Board considered reiterating its earlier recommendations in the light of the fifth consecutive surplus revealed in the actuarial valuation. The valuation as at 31 December 2005 had revealed a surplus of 1.29 per cent of pensionable remuneration. In its discussions, the Board noted that the Committee of Actuaries had expressed the view that based on the continuation of the surplus that had been disclosed in 2003, a portion of the surplus could be made available at this time to improve benefits. The Board also kept in mind the Committee's view that prudence would dictate that most of the surplus should be retained.

191. The Board recalled that the possible total elimination of the 1.5 per cent reduction was initially estimated at 0.46 per cent of pensionable remuneration. In

recommending the lowering of the reduction from 1.5 per cent to 1.0 per cent, the Board had noted in 2004 that the first phase would have an estimated actuarial cost of 0.15 per cent of pensionable remuneration. The elimination of the limitation on the right to restoration due to the length of prior service had been estimated to have an actuarial cost of 0.17 per cent of pensionable remuneration. During its discussion, the Board noted that if it were to reduce the first CPI adjustment due after retirement by another 0.5 per cent and if it were to eliminate the limitation on the right to restoration based on length of prior service, it would retain an estimated 0.97 per cent of the surplus. The Board agreed that that would be an acceptable level.

192. **Recalling General Assembly resolutions 57/286 and 59/269, and after taking into consideration the latest actuarial valuation, which revealed a fifth consecutive surplus amounting to 1.29 per cent of pensionable remuneration, and the latest report of the Committee of Actuaries, the Board decided to:**

(a) **Recommend that as from 1 April 2007, the current reduction in the first consumer price index adjustment due under the UNJSPF Pension Adjustment System to benefits in award be reduced from 1.0 per cent to 0.5 per cent; and that a 0.5 per cent increase be applied on the occasion of the next adjustment to the benefits in payment to existing retirees and beneficiaries who have already had the 1.0 per cent reduction applied to their benefits;**

(b) **Recommend implementation as from 1 April 2007 of its already approved 2002 recommendation to eliminate the limitation on the right to restoration for existing and future contributing participants, based on length of prior service.**

193. **Following its review of the administrative implications with respect to implementing the above recommendations to reverse two of its earlier economy measures, the Board agreed to reflect the required resources in the revised budget estimates for the biennium 2006-2007. The proposed text for amending the Regulations and the Pension Adjustment System of the Fund is contained in annexes XVII and XVIII.**

194. While noting with satisfaction the above two decisions taken by the Board, FAFICS recorded strong disappointment that the Board was unable at this point to approve the "total" elimination of the remaining 1.0 percentage point reduction applied to benefits of retirees and other beneficiaries on the occasion of the first cost-of-living adjustment.

Proposals for the improvement of the Pension Adjustment System

195. The Board considered a number of proposals for enhancements to the Pension Adjustment System of the Fund, which were contained in a note that had been prepared and submitted by FAFICS. In its note, FAFICS classified its proposals under three categories: (a) cost-of-living adjustments; (b) actuarial measures; and (c) special adjustment for small pensions.

196. With respect to cost-of-living adjustments, FAFICS proposed that the 10 per cent threshold for an adjustment in October be lowered to 6 per cent and that adjustments should be effected whenever the 6 per cent threshold is reached. It also suggested that the periodicity of measuring and effecting the regular pension adjustments, when applicable, should be six months instead of one year. Under

actuarial measures, FAFICS reiterated its position calling for the total elimination of the 1.5 percentage point reduction in the first CPI adjustment applicable after separation from service. It was recalled that the General Assembly had already approved a partial elimination of the provision. Concerning the special adjustment for small pensions, FAFICS proposed that early and deferred retirement benefits no longer be excluded from the right to special adjustments under section E of the Pension Adjustment System. FAFICS also requested that the tables setting out the levels for special adjustments be updated and that the conditions of eligibility requiring 15 years of contributory service might be liberalized somewhat.

197. **Following its consideration of the note prepared by FAFICS, the Board requested the CEO to review the current arrangements regarding the periodicity of cost-of-living adjustments under the UNJSPF Pension Adjustment System. It was agreed that this review would be carried out in connection with the next actuarial valuation, which will be performed as at 31 December 2007. The Board also requested the CEO to carry out a review of the current provisions for special adjustments for small pensions, including the existing tables setting out the levels for special adjustments. The Board requested the CEO to present this review during its next session, in 2007.**

B. Study on the impact of dollarization

198. In 2002, the Standing Committee reviewed the impact of dollarization on retirees living in Ecuador, and concluded that for technical and legal reasons, United States-dollar pensions payable by the Fund could not be adjusted by the local inflation of any country other than the United States of America.

199. In 2004, the General Assembly in its resolution 59/269, invited the Board “to provide information on the special situation of pensioners living in countries having undergone dollarization and on possible proposals to attenuate the adverse consequences arising therefrom”. Consequently, the Fund secretariat carried out an initial general review in accordance with that resolution and submitted a report to the Board. The Board found the report and its presentation to the Board professional, concise and well substantiated.

200. The report identified a clear distinction between “de facto dollarization”, which was found to be widespread, and “official dollarization”, which was more limited and occurring in only a small number of countries. Other than Panama, which had adopted the United States dollar as its official currency in 1904 and a few small territories of the United States, it was found that only Ecuador, El Salvador and East Timor had recently and officially dollarized.

201. It was found that in El Salvador and East Timor the dollarization policy had been adopted and implemented systematically, thus avoiding the abrupt macro-economic transition experienced in Ecuador. The review confirmed that the pensioners residing in Ecuador were being paid fully in accordance with the Regulations, Rules and Pension Adjustment System of the Fund; however, certain retirees and beneficiaries in Ecuador were adversely affected by the dollarization policy. That adverse impact was comparable to the one experienced by other retirees receiving a dollar-based pension and living in countries experiencing high inflation rates and fixed, stable exchange rates with respect to the dollar for extended periods.

202. The Board analysed the options presented by the Fund secretariat with respect to possible avenues for dealing with the impact of dollarization on the Fund's retirees and beneficiaries residing in Ecuador and considered also the relevant recommendations on this topic expressed by the Committee of Actuaries.

203. While the Board did reach a consensus that dollarization has had adverse effects on the purchasing power of some retirees and beneficiaries living in Ecuador, it did not reach a consensus as to the appropriateness of the adoption of ad hoc measures, which were advanced by representatives of the Participants and some Governing Bodies and endorsed by FAFICS. The ad hoc measures involved a combination of the approval of a one-time payment linked to the monthly benefits of the retirees and beneficiaries affected, in addition to the approval of a one-time increase to the periodic benefits affected, on a prospective basis only. FAFICS drew the attention of the Board to a number of measurements that could be taken into account when this item is reconsidered.

204. **The Board decided to request the CEO to visit Ecuador to meet with the Fund's retirees, to continue analysing the matter further and to report on the subject during the next session of the Board.**

C. Purchase of additional years of contributory service

205. The Board had considered this subject, on the basis of notes prepared by the Consulting Actuary and the Secretary/CEO, at its sessions in 2002 and 2004. In 2005, the Standing Committee also considered two documents concerning the actuarial implications and estimated resource requirements if the Regulations were changed to allow for the purchase of additional years of contributory service, under certain limited circumstances. The Standing Committee agreed that (a) the staff associations of the UNJSPF member organizations might wish to survey their staff, so as to gauge the extent of interest in such a change to the Regulations, and (b) the Board should review this matter again at its session in 2006.

206. In considering this subject during its current session, the Board took into account a conference room paper prepared by the WFP/FAO Staff Pension Committee, summarizing the results of a survey conducted in its headquarter duty station regarding the interest of the surveyed population for the optional purchase of additional contributory years of service.

207. **The Board took note of the various documents and agreed to keep the option of purchasing additional years of service under review periodically.**

D. Residual settlements

208. At its 2004 session, the Board considered this subject on the basis of a note prepared by the Fund secretariat at the request of the Standing Committee regarding a proposal presented by the ILO Staff Pension Committee to expand the scope of the current provisions of article 38 in the Regulations. Article 38 guarantees that in no case would the Fund pay out total benefits to, or on account of, a former Fund participant that would be less than the former participant's own contributions to the Pension Fund.

209. The Board requested the Secretary/CEO to prepare for its session in 2006 a study which would consider expanding the scope of the current provisions of the Regulations dealing with residual settlements under article 38, with actuarial cost estimates for the following possible ranges to defining the amount of the potential residual settlement:

(a) The participant's own contributions, plus the employing organization's contributions;

(b) Equal to the withdrawal settlement (article 31 of UNJSPF Regulations);

(c) Equal to 75 per cent of the withdrawal settlement;

(d) Equal to 50 per cent of the withdrawal settlement.

210. The Board considered this subject again on the basis of a note prepared by the consulting actuary providing estimates of the actuarial costs in respect to the possible changes to the scope of article 38.

Discussions in the Board

211. **The Board took note of the estimated costs provided by the consulting actuary and agreed to keep the proposal under review and reconsider the matter on the occasion of the next actuarial valuation.**

E. FAR methodology and the impact of currency fluctuation on pension benefits

212. The Board considered a note by the Secretary/CEO, which presented two studies requested by the Standing Committee in 2005, both of which related to the impact of currency fluctuations on pension benefits. The Board noted that the two studies required different approaches in order to account for the different nature of pensionable remuneration as it relates to Professional staff and General Service staff. Both studies addressed variations in pension amounts according to different dates of separation. In order to make meaningful comparisons, the reviews focused on income-replacement ratios.

213. The first study, which related to Professional staff, revealed that the income-replacement ratios of participants retiring in New York on different dates (at a P-4 top step level with 25 years of contributory service) were consistently about 56 per cent. However, for two locations reviewed (Paris and Rome), the income-replacement ratios not only evolved in an inconsistent manner but also were significantly higher than the ratios for New York. For example, the income-replacement ratio in the case of Paris went from 63.07 per cent for a retirement in January 2005, to 59.67 per cent for a retirement in March 2006; for Rome, during the same period, the income-replacement ratio went from 66.02 per cent to 61.87 per cent. While decreasing, in both Paris and Rome, the income-replacement ratios nevertheless remained significantly higher than in New York. Similar patterns have been occurring over the years since the initial adoption of the two-track system of pension adjustment. At times the income-replacement ratios have been increasing with later separation dates and at times (as currently is the case in the locations reviewed) the ratios have been decreasing. When the income-replacement ratios begin declining, the Board understandably receives representations by participants

from the affected locations, requesting protection from the declining trends. Owing to the cyclical nature of exchange rate movements, however, the trends eventually reverse themselves.

214. In the view of the Secretary/CEO, the decreasing income-replacement ratios currently being experienced by Professional staff retiring in locations such as Paris and Rome have remained within a reasonable range. The Board noted that the Secretary/CEO proposed that the current system for establishing the local-track benefits should be maintained. The Board also noted that a possible alternative methodology, which was suggested in the report, could be based solely on income-replacement ratios. Under such methodology, pension benefits would be construed under a single local track, using New York as the base, with provision for the same income-replacement ratio at all locations, irrespective of the date of separation. A solution along these lines, however, would require a dramatic change from the current methodology, which has served the Fund well during some 30 years.

215. The second study presented by the Secretary/CEO focused on the impact of currency fluctuations on the pension benefits payable with respect to General Service staff. At separations between ages 55 and 60, the local-currency equivalent amounts of the United States-dollar pension, as determined by utilization of the United Nations quarterly exchange rates, under certain circumstances reflect irregular movements. These are the variations that often raise concerns with the participants involved. As shown in the report, the variations, which are more notable in the final average remuneration (FAR) amounts, are mitigated in the pension amounts payable at later separation dates owing to the (a) increases in the number of years of contributory service and (b) the gradual decreases in the early retirement reduction factors. It should be noted that such variations are further smoothed when the initial local-track pension amount is determined on the basis of the 36-month average exchange rate.

216. As in the case of the review carried out in respect of Professional staff, the Secretary/CEO proposed maintaining the current system for establishing pensionable remuneration and thus final average remuneration in respect of General Service staff, notwithstanding the variations due to fluctuations in exchange rates. The Board noted, however, that as in the review carried out with respect to the Professional staff, the report also considered a possible alternative methodology in the case of General Service staff. In the report, it was suggested that the Board might wish to request development of a more detailed alternative for determining the local currency pension for General Service staff directly from the local currency gross pensionable salary applicable while in service. Under such methodology, the deriving local currency pension would be drawn from a local currency FAR.

217. The Board also had before it the report of the Committee of Actuaries, which specifically addressed this item. In its report, the Committee of Actuaries noted the Secretary/CEO's intention to propose maintaining the current methodologies in respect of both categories of staff. The Committee of Actuaries also considered the two possible alternative methodologies contained in the report. The Committee stressed that should the Board decide to further consider either or both alternative methodologies, any adequate preliminary studies would require extensive statistical analysis, as well as actuarial cost estimates. A comprehensive analysis would also need to examine the impact that changes to the periodic benefit would have on the lump sum entitlement. Such studies would also need to address the overall

feasibility of implementing and maintaining the two methodologies, potential administrative implications, including the associated risks and challenges of accurately measuring and monitoring the long-term actuarial costs. The Committee agreed that such a study (or studies) would likely require considerable resources. The Committee noted that, in the event the Board decided to pursue either methodology further, it would also need to reconsider whether it wished to maintain or abandon the two-track system of pension adjustment. Maintaining the two-track option, in addition to adopting the suggested methodologies, would offer the participants an additional way to opt against the Fund. On the other hand, elimination of the two-track system of adjustment would result in new problems, especially in a worldwide Fund such as the UNJSPF.

218. In concluding its discussions on the two studies, including the possibility of pursuing alternative methodologies with respect to both categories of staff, the Committee of Actuaries recalled its earlier comments on the matter, which it had made initially in 1991 and reiterated in 1994:

> … any attempts to remove or limit variations in pension amounts according to different dates of separation would be extremely difficult to implement and justify, considering that the purchasing power of initial pensions was maintained after award through cost-of-living adjustments of both the dollar track and the local currency track amounts. Any measures taken in this regard would inevitably result in significant costs and administrative implications, both immediate and long term. The initial amounts of the benefit received by future retirees would have to be continuously compared with the adjusted amounts of the benefits received by earlier retirees and vice versa, with the consequent adjustment always being upward.

Conclusions of the Board

219. **The Board decided to maintain the current system for establishing the local track benefits in respect of Professional staff. It also agreed to maintain the methodology for determining the final average remuneration for staff in the General Service category. The Board also decided that these issues should continue to be closely monitored by the Fund secretariat and further considered at an upcoming session.**

F. Common scale of staff assessment for pensionable remuneration purposes

220. In 1996, the ICSC, in close cooperation with the Board, recommended a common staff assessment scale for the Professional and higher categories and the General Service and related categories, to be used in determining the pensionable remuneration levels of the respective staff. In its resolution 51/216 of 18 December 1996, the General Assembly approved the scale, with effect from 1 January 1997.

221. At that time, the Board recommended and the Commission had agreed that the common staff assessment scale should be reviewed and updated, as necessary, every two years based on tax changes at the headquarters duty stations.

222. The data provided in a note prepared by the ICSC secretariat indicated that the tax rate changes at the relevant locations since the last review, in 2004, have been minimal for both married and single taxpayers. The Commission also found that, over the years, the updating of the tax rates had shown such minimal changes that it would be preferable to review them in five years' time or at the time of the next comprehensive review of pensionable remuneration, whichever comes first. Accordingly, the Commission decided it would report to the General Assembly that the current common scale of staff assessment should continue to apply and indicated its intent to review the scale every five years or at the time of the next comprehensive review of pensionable remuneration, whichever comes first. The secretariat of ICSC indicated in its note on the subject that the review of pensionable remuneration has been rescheduled pending the completion of the pay and benefits review, the results of which might affect the determination of the pensionable remuneration levels.

223. **The Board decided to take note of the information provided by the ICSC secretariat, and in particular the level of movement of the taxes at the headquarters duty stations since 1995. It also took note of the Commission's intention to report to the General Assembly that the current common scale of staff assessment should continue to apply and that it be reviewed in five years' time, or at the time of the next comprehensive review of pensionable remuneration, whichever comes first.**

G. 1. Benefit provisions in respect of family, or former family members

2. Article 35 bis of the Regulations of the Fund

224. The Board decided in 2004 that the whole issue of family benefits arising from the UNJSPF Regulations should be reviewed. The Fund secretariat was requested to present to the Board a study on all benefit provisions in respect of family, or former family members, including children, which would also include a review of the proposals made by FAFICS, together with the financial implications of any suggested changes to the relevant articles in the Fund's Regulations. The Secretary/CEO provided information on benefit provisions together with the total number of benefits currently paid under each provision. In his paper, the Secretary/CEO made proposals to amend the Regulations, keeping in mind, inter alia, the proposals that FAFICS had made at the fifty-second session of the Board.

225. **The Board decided not to consider this issue at its current session. Instead, the Fund secretariat was requested to present to the Board, at its next session, a comprehensive study on the benefit provisions related to the family members of UNJSPF participants and retirees. That study should take into account the most recent proposals made by FAFICS as well as the recommendation made by the ILO Staff Pension Committee with regard to the minimum amount of the survivor's benefit.**

H. Practices of pension plans of international organizations in cases of fraud

226. In response to a question raised in the Standing Committee in 2005 regarding the availability of UNJSPF pension entitlements as a possible source of reimbursement for financial losses caused by staff members who have defrauded their employing organizations, the Secretary/CEO undertook a survey on the relevant practices of international organizations. The questionnaire was circulated to over 50 international and regional organizations. In presenting the results to the Pension Board, the Secretary/CEO noted that he had received a total of seven responses. None of the organizations that replied had provisions for involuntary assignment of pension benefit entitlements, even if there was a judgement from a competent national court against the retiree or beneficiary on the basis of fraud or other illegal act or fault.

227. **The Board regretted the modest interest of the organizations to participate in the study. It then took note of the report.**

I. Study of personal status for pension entitlements

228. The Secretary/CEO advised the Board that there had been significant changes in national legislation in several countries and that a number of member organizations of the UNJSPF had been reviewing the personal status of staff members for the determination of entitlements under their Staff Regulations and Rules.

229. Such decisions by member organizations have potential consequences for the UNJSPF with regards to entitlement to pension benefits for survivors and the Fund has started to receive a number of queries from participants regarding their entitlements.

230. **The Board decided that UNJSPF should record, for the purposes of determining entitlements to UNJSPF pension benefits, in particular under articles 34 and 35 of UNJSPF Regulations, the personal status of a participant as recognized and reported to the Fund by the participant's employing organization. In this regard, the Board also called on all member organizations to ensure that their staff member's personal status records are maintained and verified on a fully current basis.**

231. FAFICS, supported by the Participants' representatives, urged the organizations to spare no effort in order to elaborate and to apply a uniform policy on the issues of personal status.

Chapter X
Other matters

A. Proposed new UNJSPF transfer agreements

232. In 2004 both the Committee of Actuaries and the Pension Board expressed support for the conclusion by the Pension Fund of new bilateral transfer agreements of the outer-circle type with international organizations, including those that maintained only provident funds. The Fund secretariat therefore engaged in active discussions with a number of international organizations, with a view to concluding such new transfer agreements; the new agreements would be modelled very closely on the Fund's recently concluded outer-circle Transfer Agreements, i.e., those with the Organization for Security and Cooperation in Europe, the Universal Postal Union and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization.

1. UNJSPF-World Bank transfer agreement

233. **For the past several years, the Fund secretariat has been discussing with the pension secretariat of the World Bank Group (which covers the World Bank, the International Finance Corporation and the Multilateral Investment Guarantee Agency) a possible new outer-circle type of transfer agreement, which would be fully in line with the Fund's most recently approved transfer agreements of that type. An inner-circle-type transfer agreement with the World Bank, involving the essentially equivalent, one-to-one recognition of pensionable service by the receiving plan had to be terminated in 2000 owing to wide-ranging and fundamental changes to its Staff Retirement Plan adopted by the World Bank.**

234. **The draft text of a new transfer agreement with the World Bank Group was presented to the Board.**

235. **The Board approved, subject to the concurrence of the General Assembly, the proposed new UNJSPF-World Bank Group Transfer Agreement, set out in annex IX.A, effective 1 January 2007.**

2. Transfer agreements with the Coordinated Organizations

236. The Fund secretariat had also been discussing with the Joint Pensions Administration Section for the "Coordinated Organizations" (six separate international intergovernmental organizations based in Europe that act in concert to establish shared administrative policies, inter alia, with respect to personnel matters and social security/pension coverage) a possible new outer-circle type of transfer agreement between each of the Coordinated Organizations and the Pension Fund, which would also be fully in line with the Fund's most recently approved transfer agreements of that type. The Coordinated Organizations consist of the following: European Space Agency (ESA), Organization for Economic Cooperation and Development (OECD), European Centre for Medium-Range Weather Forecasts (ECMRWF), Council of Europe, Western European Union (WEU) and North Atlantic Treaty Organization (NATO). The Pension Fund currently has outer-circle-type transfer agreements with three of those organizations: ESA, OECD and ECMRWF.

237. The Fund secretariat developed and presented to the Board three model transfer agreements. One for the three organizations (ESA, OECD and ECMRWF) with which the UNJSPF now has outer-circle-type transfer agreements; another for two organizations with which the UNJSPF does not have transfer agreements (the Council of Europe and WEU); and one for the unique situation of NATO, which recently moved from a defined benefit pension plan (which is still the pension scheme for the other Coordinated Organizations) to a defined contribution plan.

238. **The Board decided to approve, subject to the concurrence of the United Nations General Assembly, the proposed new UNJSPF transfer agreements with each individual organization in the group of six Coordinated Organizations, as set out in the three transfer agreement models (with the corresponding required name changes) contained in annex IX.B, effective 1 January 2007.**

239. **The Board was also informed by the consulting actuary of the current updating of the demographic tables used in the actuarial calculations of the transfer value of the accrued entitlements for outgoing staff and of the actuarial equivalence of recognized contributory service for the amount transferred on behalf of incoming Fund participants.**

B. Possible application for membership in UNJSPF: International Organization for Migration and International Commission for the Conservation of Atlantic Tunas

1. International Organization for Migration

240. The Board considered the application by the International Organization for Migration (IOM) to become a member organization of the Pension Fund. On 2 December 2005, the Council of IOM adopted resolution No. 1130 (XC), authorizing the IOM Director-General to submit the IOM membership application. The Pension Fund secretariat received a letter dated 6 March 2006 from the IOM Director-General, submitting officially the application of IOM for UNJSPF membership, effective 1 January 2007. In his communication, the Director-General confirmed that (a) IOM is an international, intergovernmental organization; (b) it participates in the United Nations common system of salaries and allowances and other conditions of service; (c) it is ready to accept the jurisdiction of the United Nations Administrative Tribunal for pension matters; and (d) the conditions of entry into the UNJSPF, including any recognition of past IOM service as pensionable for UNJSPF purposes, would be reflected in an agreement negotiated and concluded by IOM with the Pension Fund. It was suggested that in future cases, such draft agreements might be brought to the Board’s attention.

241. At its fifty-second session, in 2004, the Pension Board had authorized the Standing Committee to consider in 2005 a possible application for UNJSPF membership that the IOM may submit and, if warranted, to make the required “affirmative recommendation” to the General Assembly. However, by the time of the meeting of the Standing Committee in July 2005, IOM had not submitted a formal application for UNJSPF membership.

242. **The Board decided to make an affirmative recommendation to the General Assembly that the IOM be admitted to UNJSPF membership, effective 1 January 2007, subject to verification by the Secretary of the Board, after**

consultation with the ICSC secretariat and before the required General Assembly action, that the staff regulations, rules and salary scales as amended and adopted by IOM conform to the common system of salaries and conditions of service.

2. International Commission for the Conservation of Atlantic Tunas

243. The Board was informed that the Pension Fund secretariat received a letter dated 30 March 2006 from the ICCAT Executive Secretary, submitting officially the application of ICCAT for UNJSPF membership, effective 1 January 2007. However, the Fund secretariat determined that, at least at the present time, ICCAT does not meet the conditions for admission to UNJSPF membership, as laid down in article 3 of the Fund's Regulations.

244. It was noted that ICCAT's application for membership was not accompanied by a resolution of its governing body granting the Executive Secretary the required authority to submit such application or to proceed to make the required changes to its staff regulations, rules and salaries scales.

245. **The Board acknowledged receipt of the ICCAT application for UNJSPF membership and concluded that, at least at the present time, the Board is not in a position to make an "affirmative recommendation" thereon to the General Assembly.**

C. Asset-liability management study: status report

246. In 2005, the Standing Committee approved, as part of the Fund's 2006-2007 budget proposal, the funding for a comprehensive asset-liability management study, which was supported by the Advisory Committee on Administrative and Budgetary Questions, and which was included in the Fund's budget for the biennium 2006-2007 as approved by the General Assembly.

247. The Board was informed that since January 2006, the Pension Fund had been pursuing through the United Nations Procurement Service the retention of a consulting firm to undertake such asset liability management analysis. The objective of the study will be to assist the Secretary-General in developing an optimal long-term asset allocation and currency strategies for the investments of the Fund, and to consider avenues to ensure effective, efficient and prudent management of the Fund's balance sheet to be able to meet, in the long term, the liabilities and obligations stipulated in the Fund's Regulations.

248. The Board was also informed that a Steering Committee had been established to monitor the progress of the study in order to ensure proper, effective and efficient management of the project. Additionally, it was communicated to the Board that the preliminary results of the study would be available in the spring of 2007, and that the Committee of Actuaries and the Investments Committee will be participating in a joint meeting to review the preliminary asset-liability management report and to offer their recommendations and suggestions.

249. **The Board requested that the final results of the Fund's asset-liability management study together with the corresponding recommendations of the Committee of Actuaries and the Investments Committee be presented to the Board at its next session.**

D. Venue and date of the fifty-fourth session of the Pension Board

250. **After confirmation of the dates of the 2007 summer session of ICSC, the Pension Board's fifty-fourth session is scheduled to be held at United Nations Headquarters in New York, from 9 to 13 July 2007. The Board accepted the invitation of the International Fund for Agricultural Development to host the Board's fifty-fifth session in 2008 in Rome.**

Annex I

Member organizations of the United Nations Joint Staff Pension Fund

The member organizations of the United Nations Joint Staff Pension Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and the Restoration of Cultural Property

International Civil Aviation Organization

International Criminal Court

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

Inter-Parliamentary Union

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

Annex II

Membership of the Board and attendance at the fifty-third session

1. The following members and alternate members were accredited by the staff pension committees of the member organizations of the United Nations Joint Staff Pension Fund, in accordance with the rules of procedure:

Representing	*Members*	*Alternates*
United Nations		
General Assembly	K. Akimoto (Japan)	A. A. Chaudhry[a] (Pakistan)
General Assembly	V. M. González-Posse (Argentina)	A. Kovalenko (Russian Federation)
General Assembly	G. Kuentzle (Germany)	L. Mazemo (Zimbabwe)
General Assembly	P. R. O. Owade[b] (Kenya)	T. Repasch (United States of America)
Secretary-General	W. Sach (United Kingdom of Great Britain and Northern Ireland)	R. Pawlik (Germany)
Secretary-General	J. Beagle (New Zealand)	S. Van Buerle (Australia)
Secretary-General	J. Pozenel (United States of America)	
Secretary-General	K. Matsuura-Mueller (Japan)	
Participants	A. Adeniyi (Nigeria)	J.-M. Jakobowicz (France)
Participants	C. Santos Tejada (Ecuador)	N. Nagayoshi (Japan)
Participants	A. Lakhanpal[a] (India)	
Participants	S. Liu (China)	
World Health Organization		
Governing body	J. Larivière[c] (Canada)	A. Jaffe Mohammad[a] (Oman)
Executive head	M. Dam[d] (United States of America)	C. Hennetier (France)
Participants	K. Bruchmann (Germany)	E. Mobio (Côte d'Ivoire)

Representing	*Members*	*Alternates*
International Labour Organization		
Executive head	S. Tabusa (Japan)	
Participants	P. Sayour (Switzerland)	F. Leger (France)
United Nations Educational, Scientific and Cultural Organization		
Governing body	Z. Bouzouita (Tunisia)	
Participants	J. Boulmer (United Kingdom of Great Britain and Northern Ireland)	
Food and Agriculture Organization of the United Nations		
Governing body	S. Ceolin (Brazil)	
Executive head	S. Giwa (Zimbabwe)	
Participants	M. Pace (Italy)	
International Civil Aviation Organization		
Governing body	S. Clegg (Australia)	
Executive head	A. R. Diallo (Burkina Faso)	
International Telecommunication Union		
Participants	J. Desbiolles (France)	J. Sanou (Burkina Faso)
World Meteorological Organization		
Governing body	T. W. Sutherland (Canada)	
International Maritime Organization		
Executive head	A. Nathoo (Tanzania)	
International Fund for Agricultural Development		
Participants	J. B. McGhie (United Kingdom of Great Britain and Northern Ireland)	
International Atomic Energy Agency		
Governing body	A. Wright (South Africa)	
Executive head	D. Northey (New Zealand)	
World Intellectual Property Organization		
Executive head	T. Dayer (Switzerland)	

Representing	Members	Alternates
United Nations Industrial Development Organization		
Executive head	P. Nenonen (Finland)	
Participants	A. Spina (Canada)	M.-O. Dorer (Lebanon)

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	Organization	Representing
W. Azuh	IMO	Governing body
M. Tun	IMO	Participants
C. Panetta	ICAO	Participants
D. Neal[a]	IAEA	Participants
T. Panuccio	IFAD	Executive head
D. Willers	ILO	Governing body
V. Yossifov[e]	WIPO	Participants
G. Engida	UNESCO	Executive head
F. Mugabe[a]	ITU	Governing body
M. Rolland	ITU	Executive head
W. Zyss	FAFICS	Pensioners
A. Castellanos del Corral	FAFICS	Pensioners
J.-J. Chevron	FAFICS	Pensioners
A. Marcucci	FAFICS	Pensioners
T. Teshome (Alt.)[a]	FAFICS	Pensioners
O. P. Larghi (Alt.)[a]	FAFICS	Pensioners

Observers	Organization
S. Booth	FICSA
M. Mwangi	CCISUA
R. Perruchoud	IOM

Secretaries of staff pension committees	*Organization*
M.-T. André	WHO
C. McGarry	ILO
M. Ghelaw	UNESCO
N. Gangi	FAO
M. Wilson	ITU
S. Hansen-Vargas	WMO
A. Nathoo	IMO
J. Sisto	IFAD
R. Sabat	IAEA
T. Dayer	WIPO
P. Nenonen	UNIDO
B. Pisani	ICCROM

3. The following attended all or part of the session of the Board:

Office of Internal Oversight Services (videoconference)

W. Petersen

F. Ndiaye

A. Charles-Browne

Board of Auditors (videoconference)

R. Seligmann

I. Vanker

Committee of Actuaries

H. Pérez Montás, Rapporteur

Consulting actuary

J. McGrath

Medical consultant

S. Narula

Investments Committee

W. J. McDonough (Chairman)

M. Arikawa

E. J. Cárdenas

K. Ngqula

J. Y. Pillay

H. Ploix

Under-Secretary-General for Management and Representative of the Secretary-General for the Investments of the Fund

C. Burnham

Investment Management Service

C. Okuda, Director

P. Sinikallio, Secretary of the Investments Committee

F. Torres-Torija, Investment Officer

4. B. Cochemé and S. Arvizu (Secretary/CEO and Deputy Secretary/Deputy CEO of the Board) served as Secretary and Deputy Secretary for the session, with the assistance of D. Bull (via videoconference), P. Dooley, F. DeTurris, P. Goddard, J. Sareva and P. Ryder.

Notes

[a] Did not attend session.

[b] First Vice-Chairman.

[c] Rapporteur.

[d] Second Vice-Chairman.

[e] Chairman.

Annex III

Membership of the Standing Committee

Representing	*Members*	*Alternates*
United Nations (Group I)		
General Assembly	G. Kuentzle	K. Akimoto
	P. R. Owade	V. González-Posse
		A. Kovalenko
Secretary-General	J. Pozenel	S. Van Buerle
	R. Pawlik	K. Matsuura-Mueller
Participants	A. Adeniyi	S. Liu
	C. Santos Tejada	J.-M. Jakobowicz
Specialized agencies (Group II)		
Governing body	S. Ceolin (FAO)	J. Larivière (WHO)
Executive head	S. Giwa (FAO)	C. Hennetier (WHO)
Participants	K. Bruchmann (WHO)	M. Pace (FAO)
Specialized agencies (Group III)		
Governing body	D. Willers (ILO)	
Executive head	G. Engida (UNESCO)	
Participants	P. Sayour (ILO)	F. Leger (ILO)
Specialized agencies (Group IV)		
Executive head	M. Rolland (ITU)	
Participants	C. Panetta (ICAO)	
Specialized agencies (Group V)		
Governing body	W. Azuh (IMO)	

Representatives	*Alternate representatives*
Federation of Associations of Former International Civil Servants	
W. Zyss	A. Castellanos del Corral
A. Marcucci	J. J. Chevron

Annex IV

Membership of the Committee of Actuaries

Member	*Representing*
A. O. Ogunshola (Nigeria)	Region I (African States)
T. Nakada (Japan)	Region II (Asian States)
J. Král (Czech Republic)	Region III (Eastern European States)
H. Pérez Montás (Dominican Republic)	Region IV (Latin America and the Caribbean)
L. J. Martin (United Kingdom of Great Britain and Northern Ireland)	Region V (Western European and Other States)

In addition, R. J. Myers (United States) has been appointed as a member emeritus.

Annex V

Membership of the Investments Committee

Members

M. Arikawa (Japan)

F. G. Chico Pardo (Mexico)

M. Dhar (India)

N. A. Kirdar (Iraq)

W. J. McDonough (USA)

K. Ngqula (South Africa)

J. Y. Pillay (Singapore)

H. Ploix (France)

J. Reimnitz (Germany)

Ad hoc members

A. M. Beschloss (Iran)

E. J. Cárdenas (Argentina)

I. Pictet (Switzerland)

Member Emeritus

J. Guyot (France)

Annex VI

Statistics on the operations of the United Nations Joint Staff Pension Fund for the biennium 2004-2005

A. Number of participants as at 31 December 2005

Member organization	*Participants as at 31 December 2003*	*New entrants*	*Transfer*		*Separations*	*Participants as at 31 December 2005*	*Percentage increase/(decrease)*
			In	*Out*			
United Nations	57 541	18 810	305	450	12 114	64 092	11.4
ILO	3 044	836	51	62	539	3 330	9.4
FAO	5 648	1 079	111	79	841	5 918	4.8
UNESCO	2 517	379	31	16	403	2 508	-0.4
WHO	8 966	2 562	155	154	1 597	9 932	10.8
ICAO	863	93	2	5	127	826	-4.3
WMO	303	47	13	7	54	302	-0.3
IAEA	2 207	337	12	17	278	2 261	2.4
IMO	344	40	10	1	50	343	-0.3
ITU	971	69	7	13	163	871	-10.3
WIPO	1 240	25	8	15	92	1 166	-6.0
IFAD	462	101	10	16	51	506	9.5
ICCROM	34	8	1	—	4	39	14.7
EPPO	11	1	—	—	1	11	0.0
ICGEB	152	30	—	—	11	171	12.5
WTO/Tourism	88	10	—	1	7	90	2.3
ITLOS	34	5	2	1	4	36	5.9
ISA	34	2	1	4	3	30	-11.8
UNIDO	786	104	15	8	114	783	-0.4
ICC	—	350	126	13	32	431	N/A
IPU	—	37	2	—	2	37	N/A
Total	**85 245**	**24 925**	**862**	**862**	**16 487**	**93 683**	**9.9**

B. Benefits awarded to beneficiaries during the biennium 2004-2005

Member organization	Retirement benefit	Early retirement benefit	Deferred retirement benefit	Withdrawal settlement Under 5 years	Withdrawal settlement Over 5 years	Child's benefit	Widow's and widower's benefit	Other death benefit	Disability benefit	Secondary dependant's benefit	Transfer under agreements	**Total**
United Nations	1 149	611	158	8 234	1 498	1 254	156	22	98	3	13	**13 196**
ILO	125	48	21	290	36	56	8	2	3	-	1	**590**
FAO	206	82	31	434	66	113	5	6	6	-	2	**951**
UNESCO	146	75	10	120	26	112	6	1	17	-	-	**513**
WHO	228	106	44	1 031	106	269	28	5	13	-	4	**1 834**
ICAO	53	12	-	41	15	19	2	1	3	-	-	**146**
WMO	16	17	-	14	4	12	-	-	2	-	1	**66**
IAEA	102	36	19	82	23	37	4	1	11	-	1	**316**
IMO	11	11	-	18	7	10	1	-	1	-	-	**59**
ITU	38	32	-	89	3	17	1	1	-	-	-	**181**
WIPO	20	6	1	49	8	6	2	4	2	-	-	**98**
IFAD	12	5	2	29	3	3	1	-	-	-	-	**55**
ICCROM	3	-	-	1	-	-	-	-	-	-	-	**4**
EPPO	-	1	-	-	-	-	-	-	-	-	-	**1**
ICGEB	-	1	-	7	2	1	-	-	-	-	-	**11**
WTO (Tourism)	3	-	-	3	-	2	1	-	-	-	-	**9**
ITLOS	1	-	-	3	-	-	-	-	-	-	-	**4**
ISA	1	-	-	1	1	-	-	-	-	-	-	**3**
UNIDO	23	15	3	61	9	20	2	-	2	-	-	**135**
ICC	-	-	-	30	1	-	-	-	-	-	-	**31**
IPU	-	2	-	-	-	-	-	-	-	-	-	**2**
TOTAL	**2 137**	**1 060**	**289**	**10 537**	**1 808**	**1 931**	**217**	**43**	**158**	**3**	**22**	**18 205**

C. Analysis of periodic benefits during the biennium 2004-2005

Type of benefit	Total as at 31 December 2003	New	Reinstatement	Benefits discontinued, resulting in award of survivor’s benefit	Benefit type changes	All other benefits discontinued	Total as at 31 December 2005
Retirement	16 713	2 137	-	(491)	1	(368)	17 992
Early retirement	11 730	1 060	-	(257)	(1)	(140)	12 392
Deferred retirement	6 575	289	3	(68)	-	(143)	6 656
Widow	7 796	180	5	781	-	(399)	8 363
Widower	498	37	-	65	-	(40)	560
Disability	921	158	-	(31)	-	(33)	1 015
Child	8 221	1 931	4	-	-	(2 036)	8 120
Secondary dependant	42	3	-	1	-	(4)	42
Total	**52 496**	**5 795**	**12**	**-**	**-**	**(3 163)**	**55 140**

Annex VII

Statement of the actuarial sufficiency, as at 31 December 2005, of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the twenty-eighth actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 2005 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and other actuarial assumptions used, including a 7.5 per cent discount rate, were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 188th meeting in 2005, except that future new entrants were not taken into account and no future salary growth was assumed.

3. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as of the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 2005.

4. All calculations were performed by the consulting actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set out below (in millions of United States dollars):

Actuarial sufficiency of Fund as of 31 December 2005

Item	*Amount*
Actuarial value of assets[a]	27 878.3
Actuarial value of accrued benefit entitlements	19 922.3
Surplus	**7 956.0**

[a] Five-year moving average market value methodology, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. **Accordingly, there is no requirement, as at 31 December 2005, for deficiency payments under article 26 of the Regulations of the Fund.** The market value of assets as at 31 December 2005 is $31,971.6 million, or $4,093.3 million greater than the actuarial value of assets as of that date. Therefore, the surplus shown above would be larger based on a comparison with the market value of assets.

Annex VIII

Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2005

Introduction

1. The actuarial valuation as at 31 December 2005 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, three sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. The assumptions used in the valuation were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 188th meeting in 2005, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2005

2. At its meetings in June 2006, the Committee of Actuaries reviewed the results of the actuarial valuation as of 31 December 2005, which was carried out by the consulting actuary. Based on the results of the regular valuation, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration is sufficient to meet the benefit requirements under the plan and would be reviewed at the time of the next actuarial valuation, as of 31 December 2007.

Annex IX

Agreements on the transfer of pension rights of participants

A. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the World Bank Group Staff Retirement Plan

Article 1

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the Pension Fund;

(c) "World Bank Group" means the International Bank for Reconstruction and Development, International Finance Corporation, and Multilateral Investment Guarantee Agency;

(d) "Staff Retirement Plan or SRP" means the Staff Retirement Plan and Trust of the International Bank for Reconstruction and Development, for eligible staff of the World Bank Group;

(e) "SRP participant" means a participant in the Staff Retirement Plan.

Article 2

1. A former SRP participant, who has not received a benefit under the Staff Retirement Plan, may elect to be covered by the provisions of the present agreement upon entering the service of a member organization of the Pension Fund and becoming a Pension Fund participant within six months after separation from the service of the World Bank Group, by electing within six months of becoming a Pension Fund participant to transfer all the accrued entitlements in the SRP to the Pension Fund.

2. Upon so electing, the former SRP participant shall cease to be entitled to receive any other benefit under the SRP, or any tax supplement with respect to the transferred benefit.

3. Upon the former SRP participant having made the election to transfer, the SRP and the World Bank Group shall pay to the Pension Fund an amount equal to the sum of the following:

(a) The values of all SRP benefits, if any, that would have been payable in a lump sum, absent a specific election under the present agreement, on account of the cessation of SRP participation;

(b) The actuarial equivalent of all SRP benefits, if any, that would have been payable in the form of an annuity, whether immediate or deferred, absent a specific election under the present agreement, on account of the cessation of SRP participation. The actuarial equivalent value shall be computed on the basis of schedule C, table 10, of the SRP; and

(c) In the case of participants under article 2A of the SRP, 15 per cent of the sum of (a) and (b).

4. The former SRP participant shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the SRP to the Pension Fund under the provisions of the present agreement.

Article 3

1. A former Fund participant who has not received a benefit under the Regulations of the Pension Fund, and who has become an SRP Participant (under the terms of article 2A of the SRP) within six months after participation in the Pension Fund has ceased, may elect to be covered by the provisions of the present agreement by electing within six months after becoming an SRP Participant to transfer all the accrued entitlements in the Pension Fund to the SRP.

2. Upon so electing, the former Fund participant shall cease to be entitled to receive any other benefit under the Regulations of the Pension Fund.

3. Upon the former Fund participant's having made the election to transfer, the Pension Fund shall pay to the SRP an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Fund participant would have been entitled under article 31 of the Regulations of the Pension Fund, upon separation from the service of a member organization of the Pension Fund.

4. A secondary cash balance account shall be established under the SRP for the former Fund participant, and that account shall be credited with the full amount of the payment made by the Pension Fund to the SRP under the provisions of the present agreement. Amounts later distributed from the secondary cash balance account shall not be subject to, or taken into account for purposes of, a tax supplement payable by the World Bank Group to the former Fund participant.

5. Only for purposes of determining whether the former Fund participant is eligible for a pension under section 3A.2 of the SRP, the former Fund participant's contributory service in the Pension Fund shall be added to his or her credited service under the SRP.

Article 4

SRP participants who entered the service of the World Bank Group and Fund participants who entered the service of a member organization of the Pension Fund before the effective date of the present agreement and after 1 March 2000 (the termination date of the previous agreement between the Pension Fund and the SRP) who have not received any payments from the Pension Fund or from the SRP, as the case may be, resulting from their participation, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund and the SRP, in writing, before 1 July 2007. Upon so electing, the provisions of article 2, paragraphs 2, 3 and 4, and article 3, paragraphs 2, 3 and 4, of the present agreement shall apply.

Article 5

The present agreement shall take effect from 1 January 2007. It shall continue in effect thereafter until modified or cancelled by written mutual consent of the parties thereto or cancelled upon not less than one year's prior notice given in writing by either of them.

B. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Coordinated Organizations*

1. Transfer agreement between the United Nations Joint Staff Pension Fund and the European Space Agency

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas the Regulations of the United Nations Joint Staff Pension Fund and the Pension Scheme Rules of the European Space Agency authorize the conclusion of such agreements with other international organizations and with the Governments of member States for the transfer and continuity of such rights;

It has been agreed between UNJSPF and ESA as follows:

Article 1
Definitions

1.1 For the purposes of the present Agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "ESA" means the European Space Agency;

(d) "ESA Scheme" means the Pension Scheme applicable to officials of ESA;

(e) "Official" means a staff member of ESA affiliated to the ESA Scheme.

Article 2
Transfers from the Pension Fund

2.1 A former Fund participant who has not received a benefit under the Regulations of the Pension Fund may elect to be covered by the provisions of the present Agreement upon becoming affiliated to the ESA Scheme within six months

* This text will be adapted by a simple name change for the application of the transfer agreements with the Organization for Economic Cooperation and Development and the European Centre for Medium-Range Weather Forecasts.

after participation in the Pension Fund has ceased, by electing within a further period of six months to transfer the accrued entitlements from the Pension Fund to the ESA Scheme.

2.2 Upon such election, the Pension Fund shall pay to the ESA Scheme, as soon as possible, an amount equal to the larger of:

(i) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(ii) The withdrawal settlement to which the former Fund participant would have been entitled under article 31 of the Regulations of the Pension Fund, upon separation from the service of a member organization of the Pension Fund.

2.3 On the basis of the amount determined in this way, the former Fund participant shall be credited with reckonable years of service in accordance with article 12, paragraph 1, of the Rules of the ESA Scheme and its relevant implementing Instructions.

2.4 Upon such election, the former Fund participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

Article 3
Transfers from the ESA Scheme

3.1 A former official of ESA who has not received a benefit under the ESA Scheme may elect to be covered by the provisions of the present Agreement upon entering the service of a member organization of the Pension Fund and becoming a Fund participant within six months after separation from the service of ESA, by electing within a further period of six months to transfer the accrued entitlements from the ESA Scheme to the Pension Fund.

3.2 Upon such election, ESA or the ESA Scheme shall pay to the Pension Fund, as soon possible, an amount equal to:

(i) The actuarial equivalent of the pension rights acquired by the former official in the ESA Scheme, established in accordance with article 12, paragraph 2, of the Rules of the ESA Scheme and its relevant implementing Instructions; or

(ii) The total amount of the entitlement, under article 11 of the Rules of the ESA Scheme, at the date the official left the service of the organization,

whichever is applicable.

3.3 On the basis of the amount determined in this way, the former official shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid to the Pension Fund by the ESA Scheme.

3.4 Upon such election, the former official shall cease to be entitled to any benefit under the ESA Scheme.

Article 4
Implementation of the Agreement

4.1 In order to implement the provisions of this Agreement, the Parties shall keep each other informed of the precise modalities to effect transfers, and of any change in the applicable procedures.

Article 5
Consultations and settlement of disputes

5.1 The Parties shall consult on any matter arising out of the present Agreement. The Parties shall use their best efforts to resolve any issue concerning the interpretation or implementation of the terms of the present Agreement.

5.2 Each Party shall report to the appropriate supervising authority or authorities on the operation of the present Agreement.

Article 6
Date of the Agreement

6.1 The present Agreement shall enter into force on 1 January 2007 and shall replace and supersede as of that date the Transfer Agreement previously concluded between the Parties, which had entered into force on 1 January 1980.

6.2 The present Agreement shall continue in effect until modified or terminated by the mutual consent in writing of the Parties hereto, or terminated unilaterally upon not less than one year's prior notice given in writing by either of them.

2. Transfer agreement between the United Nations Joint Staff Pension Fund and the Council of Europe*

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas the Regulations of the United Nations Joint Staff Pension Fund and the Pension Scheme Rules of the Council of Europe authorize the conclusion of such agreements with other international organizations and with the Governments of member States for the transfer and continuity of such rights;

It has been agreed as follows:

Article 1
Definitions

1.1 For the purposes of this Agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

* This text will be adapted by a simple name change for the application of the transfer agreement with the Western European Union.

(b) "Fund participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "Council of Europe Scheme" means the Pension Scheme applicable to officials of the Council of Europe;

(d) "Official" means a staff member of the Council of Europe affiliated to the Council of Europe Scheme.

Article 2
Transfers from the Pension Fund

2.1 A former Fund participant who has not received a benefit under the Regulations of the Pension Fund may elect to be covered by the provisions of the present Agreement upon becoming affiliated to the Council of Europe Scheme within six months after participation in the Pension Fund has ceased, by electing within a further period of six months to transfer the accrued entitlements from the Pension Fund to the Council of Europe Scheme.

2.2 Upon such election, the Pension Fund shall pay to the Council of Europe Scheme, as soon as possible, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Fund participant would have been entitled under article 31 of the Regulations of the Pension Fund, upon separation from the service of a member organization of the Pension Fund.

2.3 On the basis of the amount determined in this way, the former Fund participant shall be credited with reckonable years of service in accordance with article 12, paragraph 1, of the Rules of the Council of Europe Scheme and its relevant implementing Instructions.

2.4 Upon such election, the former Fund participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

Article 3
Transfers from the Council of Europe Scheme

3.1 A former official of the Council of Europe who has not received a benefit under the Council of Europe Scheme may elect to be covered by the provisions of the present Agreement upon entering the service of a member organization of the Pension Fund and becoming a Fund participant within six months after separation from the service of the Council of Europe, by electing within a further period of six months to transfer the accrued entitlements from the Council of Europe Scheme to the Pension Fund.

3.2 Upon such election, the Council of Europe shall pay to the Pension Fund, as soon possible, an amount equal to:

(a) The actuarial equivalent of the pension rights acquired by the former official in the Council of Europe Scheme, established in accordance with article 12, paragraph 2, of the Rules of the Council of Europe Scheme and its relevant implementing Instructions; or

(b) The total amount of the entitlement, under article 11 of the Rules of the Council of Europe Scheme, at the date the official left the service of the organization,

whichever is applicable.

3.3 On the basis of the amount determined in this way, the former official shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid to the Pension Fund by the Council of Europe.

3.4 Upon such election, the former official shall cease to be entitled to any benefit under the Council of Europe Scheme.

Article 4
Transitional provisions

4.1 Fund participants or officials of the Council of Europe at the date of entry into force of the present Agreement, who had been affiliated to the Council of Europe Scheme or Fund participants and who are not in receipt of any benefit from one of these schemes, may, on the same conditions and within twelve months of the date of entry into force of the Agreement, elect to avail themselves of the provisions of this Agreement.

Article 5
Implementation of the Agreement

5.1 In order to implement the provisions of the present Agreement, the Parties shall keep each other informed of the precise modalities to effect transfers, and of any change in the applicable procedures.

Article 6
Consultations and settlement of disputes

6.1 The Parties shall consult on any matter arising out of the present Agreement. The Parties shall use their best efforts to resolve any issue concerning the interpretation or implementation of the terms of this Agreement.

6.2 Each Party shall report to the appropriate supervising authority or authorities on the operation of the present Agreement.

Article 7
Date of the Agreement

7.1 The present Agreement shall enter into force on 1 January 2007.

7.2 The present Agreement shall continue in effect until modified or terminated by the mutual consent in writing of the Parties hereto, or terminated unilaterally upon not less than one year’s prior notice given in writing by either of them.

3. Transfer agreement between the United Nations Joint Staff Pension Fund and the North Atlantic Treaty Organization

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas the Regulations of the United Nations Joint Staff Pension Fund and the Pension Scheme Rules of the North Atlantic Treaty Organization authorize the conclusion of such agreements with other international organizations and with the Governments of member States for the transfer and continuity of such rights;

It is therefore agreed as follows:

Article 1
Definitions

1.1 For the purposes of the present Agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "NATO" means the North Atlantic Treaty Organization;

(d) "NATO Scheme" means the Pension Scheme applicable to the NATO official concerned, i.e., either the Coordinated Pension Scheme or the NATO Defined Contribution Pension Scheme;

(e) "Official" means a staff member of NATO affiliated to the NATO Scheme.

Article 2
Transfers from the Pension Fund

2.1 A former Fund participant who has not received a benefit under the Regulations of the Pension Fund may elect to be covered by the provisions of the present Agreement upon becoming affiliated to the NATO Scheme within six months after participation in the Pension Fund has ceased, by electing within a further period of six months to transfer the accrued entitlements from the Pension Fund to the NATO Scheme.

2.2 Upon such election, the Pension Fund shall pay to the NATO Scheme, as soon as possible, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Fund participant would have been entitled under article 31 of the Regulations of the Pension Fund, upon separation from the service of a member organization of the Pension Fund.

2.3 On the basis of the amount determined in this way, the former Fund participant shall, as applicable, be credited with reckonable years of service in accordance with article 12, paragraph 1, of the Rules of the Coordinated Pension Scheme and its relevant implementing Instructions or be recognized rights in accordance with article 6 of the Defined Contribution Pension Scheme Rules.

2.4 Upon such election, the former Fund participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

Article 3
Transfers from the NATO Scheme

3.1 A former official of NATO who has not received a benefit under the applicable NATO Scheme may elect to be covered by the provisions of the present Agreement upon entering the service of a member organization of the Pension Fund and becoming a Fund participant within six months after separation from the service of NATO, by electing within a further period of six months to transfer the accrued entitlements from the NATO Scheme to the Pension Fund.

3.2 Upon such election, NATO shall pay to the Pension Fund, as soon possible, an amount equal to:

(a) If the official has been affiliated to the Coordinated Pension Scheme,

(i) The actuarial equivalent of the pension rights acquired by the former official in that Scheme, established in accordance with article 12, paragraph 2, of its Rules and its relevant implementing Instructions; or

(ii) The total amount of the entitlement under article 11 of the Rules of that Scheme, at the date the official left the service of the organization;

whichever is applicable;

(b) If the official has been affiliated to the Defined Contribution Pension Scheme, the full value of the official’s account, in accordance with article 11.2.1 of the Rules of that Scheme.

3.3 On the basis of the amount determined in this way, the former official shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid to the Pension Fund by NATO.

3.4 Upon such election, the former official shall cease to be entitled to any benefit under the NATO Scheme.

Article 4
Transitional provisions

4.1 Fund participants or officials of NATO at the date of entry into force of the present Agreement, who had been affiliated to the NATO Scheme or Fund participants and who are not in receipt of any benefit from one of these schemes, may, on the same conditions and within twelve months of the date of entry into force of the Agreement, elect to avail themselves of the provisions of the present Agreement.

Article 5
Implementation of the Agreement

5.1 In order to implement the provisions of the present Agreement, the Parties shall keep each other informed of the precise modalities to effect transfers, and of any change in the applicable procedures.

Article 6
Consultations and settlement of disputes

6.1 The Parties shall consult on any matter arising out of the present Agreement. The Parties shall use their best efforts to resolve any issue concerning the interpretation or implementation of the terms of the Agreement.

6.2 Each Party shall report to the appropriate supervising authority or authorities on the operation of the present Agreement.

Article 7
Date of the Agreement

7.1 The present Agreement shall enter into force on 1 January 2007.

7.2 The present Agreement shall continue in effect until modified or terminated by the mutual consent in writing of the Parties hereto, or terminated unilaterally upon not less than one year's prior notice given in writing by either of them.

Annex X

Audit opinion and financial statements and schedules for the biennium 2004-2005

A. Audit opinion

We have audited the accompanying financial statements of the United Nations Joint Staff Pension Fund, comprising statements I to III, schedules 1 to 6 and the supporting notes for the biennium ended 31 December 2005. These financial statements are the responsibility of the Chief Executive Officer and the Under-Secretary-General for Management, Representative of the Secretary-General for the Investments of the Pension Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Chief Executive Officer and the Under-Secretary-General for Management, Representative of the Secretary-General for the Investments, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Pension Fund as at 31 December 2005, and the results of its operations and its cash flows for the biennium then ended, in accordance with the United Nations System Accounting Standards.

Furthermore, in our opinion, the transactions of the Pension Fund that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations Joint Staff Pension Fund.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Lead Auditor)

(*Signed*) Shauket A. **Fakie**
Chairman
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman
Philippine Commission on Audit

28 July 2006

Note: Mr. Séguin has signed the English and French versions of the audit opinion; the other members of the Board of Auditors have signed only the original English version.

B. Financial statements and schedules

Statement I

Statement of income and expenditure and change in principal of the Fund for the bienniums ended 31 December 2005 and 2003

	(United States dollars)			
	2004-2005		*2002-2003*	
Income				
Contributions				
Participants:				
Regular contributions	863 081 630		711 951 059	
Contributions for validation	6 809 897		2 068 363	
Contributions for restoration	2 879 286		3 056 453	
Member organizations:				
Regular contributions	1 726 163 260		1 423 902 117	
Contributions for validation	10 156 885		4 128 549	
Contributions for participants transferred in under agreements	1 832 563		585 089	
Receipts of excess actuarial value over regular contributions	677 888	**2 611 601 409**	423 864	**2 146 115 494**
Investment income (schedule 2)				
Interest earned	822 891 517		950 517 733	
Dividends	715 873 210		427 759 247	
Real estate and related securities	336 122 445		202 827 567	
Net profit (loss) on sales of investments	2 534 744 227	**4 409 631 399**	456 676 376	**2 037 780 923**
Interest earned from operations banks		**3 897 601**		**11 771**
Other income (note 4)		**13 342 586**		**10 068 104**
Total income		**7 038 472 995**		**4 193 976 292**

Statement I (concluded)

	(United States dollars)			
	2004-2005		2002-2003	
Expenditure				
Payment of benefits				
Withdrawal settlements and full commutation of benefits	127 051 003		126 707 291	
Retirement benefits	1 277 011 278		1 075 366 668	
Early and deferred retirement benefits	932 247 285		831 109 322	
Disability benefits	66 594 000		56 168 003	
Death benefits	266 602 338		226 205 166	
Children's benefits	35 063 900		32 201 531	
Currency exchange adjustments	406 978		7 874 660	
Payments for participants transferred out under agreements	1 849 469	**2 706 826 251**	270 311	**2 355 902 952**
Administrative expenses (schedule 1, note 3)				
Administrative costs	56 083 515		37 133 027	
Investment costs chargeable to gross income from investments	44 169 091		41 717 862	
Audit costs	1 376 929	**101 629 535**	964 877	**79 815 766**
Emergency Fund		**59 184**		**73 697**
Total expenditure		**2 808 514 970**		**2 435 792 415**
Excess of income over expenditure		**4 229 958 025**		**1 758 183 877**
Prior year adjustments (note 5)		(57 635 643)		2 086 214
Net excess of income over expenditure		**4 172 322 382**		**1 760 270 091**
Principal of the Fund, beginning of biennium		19 391 948 903		17 631 678 812
Principal of the Fund, end of biennium		23 564 271 285		19 391 948 903
Change in principal of the Fund		**4 172 322 382**		**1 760 270 091**

The accompanying schedules and notes are an integral part of the financial statements.

Certified correct:

(*Signed*) Christopher **Burnham**
Under-Secretary-General for Management
Representative of the Secretary-General for the Investments
of the United Nations Joint Staff Pension Fund

(*Signed*) Bernard **Cochemé**
Chief Executive Officer
United Nations Joint Staff Pension Fund

Statement II

Statement of assets, liabilities and principal of the Fund as at 31 December 2005 and 2003

	(United States dollars)			
	2005		*2003*	
Assets				
Cash and term deposits		286 794 023		382 624 767
Investments (schedules 2, 2A, 3 and 3A)				
Temporary investments — at cost (market value: $1,589,152,186)	1 589 758 377		1 184 102 652	
Bonds — at cost (market value: $9,085,092,714)	8 393 199 995		6 395 163 522	
Stocks and convertible bonds — at cost (market value: $19,292,945,118)	12 111 904 492		9 776 570 496	
Real estate and related securities — at cost (market value: $1,461,083,838)	926 121 857	23 020 984 721	1 416 799 110	18 772 635 780
Accounts receivable				
Contributions receivable from member organizations	85 859 097		62 276 137	
Receivable from investments (schedule 4)	225 354		—	
Accrued income from investments (schedule 5)	169 998 668		183 139 572	
Foreign tax accounts receivable (schedule 6)	18 134 051		22 899 501	
Other	25 183 407	299 400 577	12 546 461	280 861 671
Prepaid benefits		17 949 758		9 889 279
Total assets		**23 625 129 079**		**19 446 011 497**
Liabilities				
Accounts payable				
Benefits payable		24 136 743		41 886 016
Payable for securities purchased (note 6)		6 025 427		—
Other		30 695 624		12 176 578
Total liabilities		**60 857 794**		**54 062 594**
Principal of the Fund		**23 564 271 285**		**19 391 948 903**
Total liabilities and principal of the Fund		**23 625 129 079**		**19 446 011 497**

The accompanying schedules and notes are an integral part of the financial statements.

Certified correct:

(*Signed*) Christopher **Burnham**
Under-Secretary-General for Management
Representative of the Secretary-General for the Investments
of the United Nations Joint Staff Pension Fund

(*Signed*) Bernard **Cochemé**
Chief Executive Officer
United Nations Joint Staff Pension Fund

Statement III

Statement of cash flow for the bienniums ended 31 December 2005 and 2003

	(United States dollars)	
	2004-2005	*2002-2003*
Cash flows from operating activities		
Net excess of income over expenditure	4 172 322 382	1 760 270 091
(Increase) in contributions receivable	(23 582 960)	(22 662 949)
(Increase) in other accounts receivable	(12 636 946)	(10 656 006)
(Increase) decrease in prepaid benefits	(8 060 479)	(385 213)
Increase in benefits payable	(17 749 273)	7 832 266
Increase (decrease) in other accounts payable	18 519 046	11 650 448
Net cash from operating activities	**4 128 811 770**	**1 746 048 637**
Cash flows from investing activities		
(Increase) in cost of investments	(4 248 348 941)	(1 648 740 736)
(Increase) decrease in investments receivable	17 681 000	(36 011 636)
(Decrease) in payable for securities purchased	6 025 427	—
Net cash used in investing activities	**(4 224 642 514)**	**(1 684 752 372)**
Net cash from activities	**(95 830 744)**	**61 296 265**
Cash and term deposits, beginning of biennium	382 624 767	321 328 502
Cash and term deposits, end of biennium	286 794 023	382 624 767
Net increase in cash and term deposits	**(95 830 744)**	**61 296 265**

The accompanying schedules and notes are an integral part of the financial statements.

SCHEDULE 1
Status of appropriations for the biennium 2004 – 2005 in relation to administrative expenses for the bienniums 2004 – 2005 and 2002 – 2003

(Thousands of United States dollars)

	Revised appropriations, 2004-2005			Expenditure, 2004-2005			Expenditure, 2002-2003		
	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total
A. ADMINISTRATIVE COSTS									
Established posts	**15 949.5**	**7 974.7**	**23 924.2**	**16 431.2**	**8 215.6**	**24 646.8**	**13 469.0**	**6 734.5**	**20 203.5**
Other staff costs	**984.7**	**492.5**	**1 477.2**	**1 008.5**	**504.3**	**1 512.8**	**1 138.3**	**569.2**	**1 707.5**
Consultants	**52.2**	**-**	**52.2**	**-**	**-**	**-**	**-**	**-**	**-**
Travel of staff	259.5	-	259.5	310.7	-	310.7	197.9	-	197.9
Committee of actuaries	118.3	-	118.3	125.8	-	125.8	72.7	-	72.7
Travel	**377.8**	**-**	**377.8**	**436.5**	**-**	**436.5**	**270.6**	**-**	**270.6**
Training	**62.6**	**-**	**62.6**	**63.4**	**-**	**63.4**	**184.1**	**-**	**184.1**
International Computing Centre services	2 042.4	1 021.2	3 063.6	3 934.1	1 544.0	5 478.1	1 941.3	779.1	2 720.4
Contractual services	7 258.2	468.0	7 726.2	3 688.6	557.7	4 246.3	5 074.9	-	5 074.9
Contractual services	**9 300.6**	**1 489.2**	**10 789.8**	**7 622.7**	**2 101.7**	**9 724.4**	**7 016.2**	**779.1**	**7 795.3**
Hospitality	**13.3**	**-**	**13.3**	**4.0**	**-**	**4.0**	**1.5**	**-**	**1.5**
Rental and maintenance of premises	8 233.2	2 316.6	10 549.8	8 592.0	1 260.7	9 852.7	1 528.3	682.8	2 211.1
Rental and maintenance of equipment	27.0	13.5	40.5	43.1	21.6	64.7	914.7	421.7	1 336.4
Communications services	13.3	6.7	20.0	266.8	17.2	284.0	10.9	5.5	16.4
Operating expenses	130.0	-	130.0	116.3	-	116.3	324.1	-	324.1
Bank charges[a]	1 461.5	-	1 461.5	2 667.5	-	2 667.5	2 241.6	-	2 241.6
General operating expenses	**9 865.0**	**2 336.8**	**12 201.8**	**11 685.7**	**1 299.5**	**12 985.2**	**5 019.6**	**1 110.0**	**6 129.6**
Supplies and materials	220.0	110.0	330.0	107.2	53.6	160.8	315.0	112.2	427.2
Furniture and equipment	4 186.1	1 343.0	5 529.1	5 161.0	937.6	6 098.6	1 904.7	318.4	2 223.1
Supplies, furniture and equipment	**4 406.1**	**1 453.0**	**5 859.1**	**5 268.2**	**991.2**	**6 259.4**	**2 219.7**	**430.6**	**2 650.3**
Total administrative costs[b]	**41 011.8**	**13 746.2**	**54 758.0**	**42 520.2**	**13 112.3**	**55 632.5**	**29 319.0**	**9 623.4**	**38 942.4**

SCHEDULE 1 (continued)

(Thousands of United States dollars)

	Revised appropriations, 2004-2005			Expenditure, 2004-2005			Expenditure, 2002-2003		
	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total
B. INVESTMENT COSTS									
Established posts	**6 506.8**	**-**	**6 506.8**	**6 110.6**	**-**	**6 110.6**	**5 752.7**	**-**	**5 752.7**
Other staff costs	**114.8**	**-**	**114.8**	**141.4**	**-**	**141.4**	**36.6**	**-**	**36.6**
Consultants	**-**	**-**	**-**	**1 013.8**	**-**	**1 013.8**	**-**	**-**	**-**
Travel of staff	365.5	-	365.5	123.9	-	123.9	232.7	-	232.7
Investment Committee	697.4	-	697.4	439.9	-	439.9	457.1	-	457.1
Travel	**1 062.9**	**-**	**1 062.9**	**563.8**	**-**	**563.8**	**689.8**	**-**	**689.8**
Training	**204.2**	**-**	**204.2**	**52.1**	**-**	**52.1**	**38.5**	**-**	**38.5**
Electronic data processing and other contractual services	349.1	-	349.1	547.0	-	547.0	196.4	-	196.4
Investment reference services	1 122.4	-	1 122.4	914.3	-	914.3	704.1	-	704.1
Advisory and custodial fees	34 689.8	-	34 689.8	32 241.0	-	32 241.0	30 820.1	-	30 820.1
Contractual services	**36 161.3**	**-**	**36 161.3**	**33 702.3**	**-**	**33 702.3**	**31 720.6**	**-**	**31 720.6**
Hospitality	**16.8**	**-**	**16.8**	**11.7**	**-**	**11.7**	**14.6**	**-**	**14.6**
Rental and maintenance of premises	1 975.4	-	1 975.4	2 015.9	-	2 015.9	849.7	-	849.7
Operating expenses	-	-	-	23.1	-	23.1	89.5	-	89.5
Communications services	183.0	-	183.0	170.4	-	170.4	79.3	-	79.3
General operating expenses	**2 158.4**	**-**	**2 158.4**	**2 209.4**	**-**	**2 209.4**	**1 018.5**	**-**	**1 018.5**
Supplies and materials	78.2	-	78.2	72.8	-	72.8	-	-	-
Furniture and equipment	780.3	-	780.3	291.2	-	291.2	216.8	-	216.8
Supplies, furniture and equipment	**858.5**	**-**	**858.5**	**364.0**	**-**	**364.0**	**216.8**	**-**	**216.8**
Total investment costs	**47 083.7**	**-**	**47 083.7**	**44 169.1**	**-**	**44 169.1**	**39 488.1**	**-**	**39 488.1**

SCHEDULE 1 (concluded)

(Thousands of United States dollars)

	Revised appropriations, 2004-2005			Expenditure, 2004-2005			Expenditure, 2002-2003		
	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total	UNJSPF	United Nations	Total
C. AUDIT COSTS									
External audit	**407.8**	**81.6**	**489.4**	**323.2**	**64.6**	**387.8**	**352.4**	**70.5**	**422.9**
Internal Audit	**1 035.4**	**207.0**	**1 242.4**	**824.2**	**164.9**	**989.1**	**612.4**	**122.5**	**734.9**
Total audit costs	**1 443.2**	**288.6**	**1 731.8**	**1 147.4**	**229.5**	**1 376.9**	**964.8**	**193.0**	**1 157.8**
TOTAL ADMINISTRATIVE EXPENSES	**89 538.7**	**14 034.8**	**103 573.5**	**87 836.7**	**13 341.8**	**101 178.5**	**69 771.9**	**9 816.4**	**79 588.3**
D. INCOME									
Income from operations (bank interest)[a]	**-**	**-**	**-**	**3 897.6**	**-**	**3 897.6**	**11.8**	**-**	**11.8**

[a] Bank charges are stated as gross with bank interest shown as an income item.

[b] Administrative costs under statement I comprise the following:

Administrative costs (schedule I)	$55 632 481
Extrabudgetary cost for after-service health insurance	451 034
Administrative costs (statement I)	$56 083 515

SCHEDULE 2

Summary statement of investments for the biennium 2004 - 2005 with comparative figures for the biennium 2002 - 2003

(Thousands of United States dollars)

	Balance - at cost[a]		Income, 2004 - 2005		
Investments	31 December 2005	31 December 2003	Profit or (loss) on sales	Dividends, interest or other income	Total
Bonds (United States dollars)	3 229 002	2 015 786	42 682	218 929	261 611
Stocks and convertible bonds (United States of America)	5 320 694	4 077 932	657 165	256 695	913 860
Bonds (other currencies)	5 164 198	4 379 378	135 555	510 569	646 124
Stocks and convertible bonds (other countries)	6 791 211	5 698 638	1 557 465	459 178	2 016 643
Real estate and related securities (United States of America and other countries)	926 122	1 416 799	90 085	336 123	426 208
Temporary investments (United States dollars)	1 589 758	637 790	(143)	74 381	74 238
Temporary investments (other currencies)	-	546 313	51 935	19 013	70 948
Total portfolio	23 020 985	18 772 636	2 534 744	1 874 888	4 409 632

[a] Cost adjusted to reflect year-end adjustments.

SUPPLEMENTAL SCHEDULE 2A

Summary statement of investments by currency for the biennium 2004 - 2005 with comparative figures for the biennium 2002 - 2003

(Thousands of United States dollars)

Investments	Balance - at cost[a]	
	31 December 2005	31 December 2003
Bonds (United States dollars)	3 229 002	2 015 786
Stocks and convertible bonds (United States dollars)	6 044 447	4 763 728
Bonds (other currencies)	5 164 198	4 379 378
Stocks and convertible bonds (other currencies)	6 067 458	5 012 842
Real estate and related securities (United States dollars and other currencies)	926 122	1 416 799
Temporary investments (United States dollars)	1 589 758	637 790
Temporary investments (other currencies)	-	546 313
Total portfolio	23 020 985	18 772 636

[a] Cost adjusted to reflect year-end adjustments.

SCHEDULE 3

Summary statement of cost and market value of investments as at 31 December 2005 with comparative figures as at 31 December 2003

(Thousands of United States dollars)

Investments	31 December 2005			31 December 2003		
	Cost[a]	Percentage of total cost value	Market value[a]	Cost[a]	Percentage of total cost value	Market value[a]
Bonds (United States dollars)	3 229 002	14.0	3 326 285	2 015 786	10.7	2 187 272
Stocks and convertible bonds (United States of America)	5 320 694	23.1	8 733 384	4 077 932	21.7	7 213 162
Bonds (other currencies)	5 164 198	22.5	5 758 808	4 379 378	23.3	5 382 345
Stocks and convertible bonds (other countries)	6 791 211	29.5	10 559 561	5 698 638	30.4	8 077 681
Real estate and related securities (United States of America and other countries)	926 122	4.0	1 461 084	1 416 799	7.6	1 660 680
Temporary investments (United States dollars)	1 589 758	6.9	1 589 152	637 790	3.4	638 075
Temporary investments (other currencies)	-	-	-	546 313	2.9	590 045
Total portfolio	23 020 985	100.0	31 428 274	18 772 636	100.0	25 749 260

[a] Cost and market values adjusted to reflect year-end adjustments.

SUPPLEMENTAL SCHEDULE 3A

Summary statement of cost and market value of investments by currency as at 31 December 2005 with comparative figures as at 31 December 2003

(Thousands of United States dollars)

	31 December 2005			31 December 2003		
Investments	Cost[a]	Percentage of total cost value	Market value[a]	Cost[a]	Percentage of total cost value	Market value[a]
Bonds (United States dollars)	3 229 002	14.0	3 326 285	2 015 786	10.7	2 187 272
Stocks and convertible bonds (United States dollars)	6 044 447	26.2	8 733 384	4 763 728	25.4	7 213 162
Bonds (other currencies)	5 164 198	22.5	5 758 808	4 379 378	23.3	5 382 345
Stocks and convertible bonds (other currencies)	6 067 458	26.4	10 559 561	5 012 842	26.7	8 077 681
Real estate and related securities (United States dollars and other currencies)	926 122	4.0	1 461 084	1 416 799	7.6	1 660 680
Temporary investments (United States dollars)	1 589 758	6.9	1 589 152	637 790	3.4	638 075
Temporary investments (other currencies)	-	-	-	546 313	2.9	590 045
Total portfolio	23 020 985	100.0	31 428 274	18 772 636	100.0	25 749 260

[a] Cost and market values adjusted to reflect year-end adjustments.

SCHEDULE 4

Summary statement of accounts receivable from investments as at 31 December 2005 with comparative figures as at 31 December 2003

(United States dollars)

Accounts receivable	31 December 2005	31 December 2003
Bonds (United States dollars)	-	-
Stocks and convertible bonds (United States)	-	-
Bonds (other currencies)	-	-
Stocks and convertible bonds (other countries)	-	-
Real estate and related securities (United States of America and other countries)	225 354	-
Temporary investments (United States dollars)	-	-
Temporary investments (other currencies)	-	-
Total	225 354	-

SCHEDULE 5

Summary statement of accrued income from investments as at 31 December 2005 with comparative figures as at 31 December 2003

(United States dollars)

Accrued income	31 December 2005	31 December 2003
Bonds (United States dollars)	48 440 128	38 592 363
Stocks and convertible bonds (United States of America)	8 311 590	7 935 475
Bonds (other currencies)	101 038 303	126 702 966
Stocks and convertible bonds (other countries)	9 383 188	7 671 831
Real estate and related securities (United States of America and other countries)	2 289 002	1 874 499
Temporary investments (United States dollars)	319 520	104 509
Temporary investments (other currencies)	216 937	257 929
Total	169 998 668	183 139 572

SCHEDULE 6
Summary of foreign tax accounts receivable as at 31 December 2005

		Local currency						*Exchange rate in effect 31 December 2005*	*Equivalent in United States dollars*
		Prior to 2002	*2002*	*2003*	*2004*	*2005*	*Total*		
Belgium	EUR	11 305	—	—	—	—	11 305	0.847780	13 335
Brazil	CR$	553 895	87 654	66 830	—	457 676	1 166 055	2.335500	499 274
France	EUR	—	—	—	357 750	418 500	776 250	0.847780	915 627
	US$	—	—	—	20 985	21 000	41 985	1.000000	41 985
Ireland	EUR	153 065	—	—	—	—	153 065	0.847780	180 548
Italy	EUR	3 093 621	—	—	—	—	3 093 621	0.847780	3 649 085
Jordan	JD	36 207	4 000	—	—	—	40 207	0.708450	56 753
Kenya	K Sh	615 998	88 000	131 999	—	—	835 997	72.450000	11 539
Malaysia	M$	3 879 013	—	825 062	1 543 596	2 473 792	8 721 463	3.779500	2 307 571
	S$	748 129	—	—	—	—	748 129	1.662800	449 921
Mexico	MN$	341 399	—	—	—	—	341 399	10.637650	32 093
Philippines	P	955 148	—	—	—	—	955 148	53.035000	18 010
Poland	PLN	—	—	—	—	2 352 526	2 352 526	3.257400	722 210
Singapore	S$	2 022 241	—	—	—	885 972	2 908 213	1.662800	1 748 985
	M$	52 920	—	—	—	—	52 920	3.779500	14 002
Spain	EUR	2 506 005	—	225 572	—	—	2 731 577	0.847780	3 222 035
Switzerland	CHF	—	—	—	—	4 845 925	4 845 925	1.317950	3 676 866
United Kingdom of Great Britain and Northern Ireland	£	—	—	—	—	92 760	92 760	0.582495	159 246
	US$	—	—	—	—	176 750	176 750	1.000000	176 750
United States of America	US$	238 227	—	—	—	—	238 227	1.000000	238 227
Total amount outstanding									**18 134 061**

C. Notes to the financial statements

Note 1
Description of the Fund

The following brief description of the United Nations Joint Staff Pension Fund is provided for general information purposes only. Participants and beneficiaries should refer to the Regulations, Rules and Pension Adjustment System of the Fund for more complete information.

(a) General

The Fund was established by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and of other organizations admitted to membership in the Fund.

(b) Administration of the Fund

The Fund is administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat of the Board and of each such committee.

(c) Participation in the Fund

Every full-time member of the staff of each member organization becomes a participant in the Fund upon commencing employment under an appointment for six months or longer or completing six months service without an interruption of more than 30 days. The Fund currently has over 93,000 active contributors (participants) belonging to 21 United Nations system organizations and agencies (which include the United Nations Secretariat, the United Nations Children's Fund, the United Nations Development Programme, the Office of the United Nations High Commissioner for Refugees and specialized agencies and related organizations such as the World Health Organization in Geneva, the International Atomic Energy Agency in Vienna, the International Civil Aviation Organization in Montreal, Canada, the United Nations Educational, Scientific and Cultural Organization in Paris, etc.). There are currently about 55,100 retirees (beneficiaries) in some 190 countries. The total annual pension payments are about $1.4 billion, paid in 15 different currencies.

(d) Operation of the Fund

Participants and beneficiaries are handled by the Operations area of the Fund. Operations is based in New York, with a subsidiary office in Geneva dealing mainly with the United Nations agencies headquartered at that location. Many of the benefit payment functions undertaken in New York are replicated in Geneva for Europe- and Africa-based beneficiaries. All accounting for Operations is handled in New York through a centralized Financial Services Section. Operations also manages the banking and investment of monthly contributions from member organizations and funding the monthly pension payroll. There is a separate Investment Management Service, which manages the Fund's investment portfolio, totalling $31.4 billion as at 31 December 2005.

(e) Actuarial valuation of the Fund

The Board has an actuarial valuation of the Fund done at least once every three years by the Consulting Actuary.

Note 2
Accounting for operational and investment activities

The financial statements are drawn up by the Administration of the Fund. For operational activity (contributions and payment of benefits), the Fund relies on its own records and systems. For investment activity, the Fund relies on source data provided by the Master Record Keeper.

Note 3
Accounting for administrative expenses

For its administrative expenses, the Fund relies on its own records and on data drawn from United Nations systems. In addition, some of the administrative expenses of the Fund are borne by the United Nations. The Fund has changed its practice in this area for the biennium 2004-2005 by disclosing the full expenses of the Fund (i.e., those borne by the Fund and by the United Nations) and shows the United Nations share as income. This does not represent a change in policy as far as the share of the expense borne by the United Nations, but it does provide more complete disclosure. (See note 5 below regarding the previous practice and its correction.)

Note 4
Summary of significant accounting policies

The following are some of the significant accounting policies of the Fund, which take into account the common accounting standards for the United Nations system (except as noted below), and are in accordance with the Regulations, Rules and Pension Adjustment System of the Fund, as adopted by the General Assembly:

(a) Unit of account

The accounts are presented in United States dollars with balances held in currencies other than United States dollars being converted to United States dollars at the United Nations operational rate of exchange as at December.

(b) Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Investments

Investments are recorded at cost, and investments in other than United States dollars are converted using commercial historical exchange rates at the time of transaction instead of United Nations operational rates of exchange or current market rates at year-end. Interest income and dividends are recorded on an accrual basis, and foreign taxes withheld are recorded as receivables. Cash, accrued income from investments and foreign tax account receivables maintained in currencies other than United States dollars are translated at the applicable commercial exchange rates in effect at year-end and a gain or loss on exchange is recognized. Funds on deposit in interest-bearing bank accounts and overnight facilities and/or call accounts are shown as cash in the statements of assets, liabilities and principal of the Fund. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. No provision is made for amortization of bond premiums or discounts, which are taken into account as part of the gain or loss when investments are sold. Provision is made for the accretion of interest income on temporary investments, such as commercial papers, treasury bills and discount notes. Year-end real estate market values are the values as at the end of the third quarter. This is in accordance with industry standards, since appraisals as at 31 December are not available on a consistent and timely basis for presentation in year-end financial statements. In regard to private real estate funds, any information obtained after the cut-off and/or closing date of the Master Record Keeper will be recorded in the following financial period.

(d) Contributions

Participants and their employing member organizations are required to contribute, respectively, 7.9 per cent and 15.8 per cent of their pensionable remuneration to the Fund.

(e) Benefits

Payments of benefits, including withdrawal settlements, are recorded on an accrual basis. The right to a benefit is generally forfeited if, for two years (withdrawal settlement or residual settlement) or five years (retirement, early retirement, deferred retirement or disability benefit) after payment is due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.

(f) Principal of the Fund

The principal of the Fund represents the net assets at book value (cost) accumulated by the Fund to meet its liabilities in terms of future entitlements.

(g) Emergency Fund

The appropriation is recorded when the authorization is approved by the General Assembly; payments are charged directly against the appropriation account; any unexpended balance reverts to the Fund at the end of the year and biennium.

(h) Other income

Other income includes the part of the Fund’s administrative expenses to be borne by the United Nations.

Note 5
Prior-year adjustments

In 2000, the Fund started investing in certain United States Treasury inflation-protected securities. These are special types of Treasury notes or bonds which offer the investor protection from inflation. The semi-annual coupon payments are based on a percentage of the inflation-adjusted principal as at their respective payment dates. In the event of deflation, the security cannot be redeemed for less than the original face value but the coupon payments are based on the deflated principal. For the biennium 2002-2003, inflation adjustments were erroneously recorded, overstating the investment bond account and interest income by the amount of $12,829,572. Since it is the Fund’s policy to record investment accounts at cost and recognize realized gains and losses at the time of sale or maturity, an adjustment was made for the year 2004 to restore these securities to the proper historical costs and prior-year income.

However, in making these adjustments, the realized gains/losses on sales made in 2001, 2003 and 2004 were not properly adjusted. The prior-year adjustments for the year 2005 include corrections of the overstated realized gains of $5,667,129 and interest income of $2,291,127.

Prior to 2005, accounting for investments in private real estate funds was performed based on the reports of each private real estate fund manager, which were not standardized. It has been discovered that while most of those reports reflected realized gains/losses on actual sales of property from their operations as part of the Fund’s income, some reflected those gains/losses as realized gains/losses on sales of the Fund’s investments. The latter was not captured by the Fund at that time since there were no actual sales of its investments in such funds. Therefore, to ensure generally accepted accounting principles on income recognition and consistency, realized losses from operations within the funds have been recognized as the Fund’s loss from those investments. The prior-year adjustments for the year 2005 include these adjustments of $29,573,872.

Some administrative expenses of the Fund are borne by the United Nations, as the Fund’s secretariat also acts as the United Nations Staff Pension Committee. To accommodate this arrangement, a variety of procedures were adopted as regards the recording and payment of the administrative expenses. Some were paid directly by the Fund and some by the United Nations, which then charged the Fund. Part of the latter expenses, namely partial salary costs and rental of premises (for the period when the Fund occupied office space in the United Nations Secretariat building) were reimbursed by payments in compensation from the Fund to the United Nations.

Until 2003, the financial statements of the Fund were drawn up to reflect only that part of the expense, that the Fund was to bear. However, this was disclosed by showing net expenses (expenditure less an estimate of the United Nations share), rather than the fully disclosed position: namely, the gross total expenditure less the compensating income due from the United Nations and the allotment credited to the Fund’s account within the United Nations system. A number of correcting entries for the bienniums up to and including 2003 were required to reflect fully the under-recording of expenses ($33,200,259.35) and the non-recording of the use of the allotment in the United Nations system ($24,402,491.95). Since the entries set off each other, the net effect of $8,797,767.35 is included as prior-period adjustments.

Prior-year adjustments also include $122,632 written off for receivables related to the recovery of overpayments that are deemed no longer recoverable.

Note 6
Payable for securities purchased

The CIGNA Real Estate Fund (CREF) distributed proceeds from sales and other available cash on 3 October 2005. The Fund elected to transfer its share of the distribution, $6,025,426.58, into another private real estate fund, the Prudential Property Investment Separate Account (PRISA). The Master Record Keeper erroneously recorded the transfer by increasing the cost of PRISA and setting up accounts payable to PRISA. The entry should have increased the cost of PRISA, decreased the cost of CREF and recognized a gain on sale of CREF units. As this error was discovered after the cut-off date with the Master Record Keeper, an adjustment will be made in the following financial period.

Note 7
Non-expendable property

In line with United Nations practice, non-expendable property is not included in the fixed assets of the Fund but is charged against the appropriations for the year of purchase.

The following table shows the inventory value of the non-expendable property, at cost, expressed in millions of United States dollars, according to the cumulative inventory records of the Fund as at 31 December 2005:

Pension fund secretariat	12.32
Investment Management Service	1.32
Total	**13.64**

Note 8
Status of appropriations (schedule 1)

In accordance with General Assembly resolutions, the budget appropriations for the biennium 2004-2005 are as follows (in United States dollars):

	United Nations Joint Staff Pension Fund	*United Nations*	*Total*
Initial appropriation (resolution 58/272)	80 128 400	13 954 600	94 083 000
Additional appropriation (resolution 59/269)	5 340 700	80 200	5 420 900
Additional appropriation (resolution 60/248)	4 069 600	—	4 069 600
Revised appropriation	**89 538 700**	**14 034 800**	**103 573 500**

In addition, extrabudgetary resources, which will be reimbursed by a number of member organizations, were approved for the after-service health insurance system, as follows (in United States dollars):

	United Nations Joint Staff Pension Fund	*United Nations*	*Total*
Initial appropriation (resolution 58/272)	642 400	—	642 400

Annex XI

Report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2005

Summary

The Board of Auditors has reviewed the operations of the United Nations Joint Staff Pension Fund at its headquarters in New York.

In addition to the audit of the accounts and financial statements for the biennium ended 31 December 2005, the Board carried out reviews of the operations of the Pension Fund, in accordance with United Nations financial regulation 7.5.

The Board issued an unqualified audit opinion on the Fund's financial statements for the biennium ended 31 December 2005, as reflected in annex X.

Implementation of previous recommendations

In accordance with General Assembly resolutions 48/216 B of 23 December 1993 and 60/234 A of 23 December 2005, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2003. Of a total of 23 recommendations, 12 (52.2 per cent) were implemented, 7 (30.4 per cent) were under implementation, and 4 (17.4 per cent) were not implemented. Of the 7 recommendations under implementation, 4 (57.1 per cent) related to the 2002-2003 biennium and 3 (42.9 per cent) to the 2000-2001 biennium.

Coordination among oversight bodies

The Board continually coordinates with the other oversight bodies and experts in the planning of its audits in order to avoid duplication of effort. This includes consideration of the work planned and/or performed by the other oversight bodies to determine the extent of reliance that can be placed on the work done by those bodies.

Financial overview

The market value of the investment portfolio of the Fund as at 31 December 2005 increased by $5.7 billion (22.0 per cent) to $31.4 billion, as against $25.7 billion as at 31 December 2003. Total pension contributions increased by 21.7 per cent, to $2.6 billion (compared to $2.1 billion in the 2002-2003 biennium). Payments of benefits represented 96.4 per cent of expenditure and increased by 14.9 per cent, to $2.7 billion (compared to $2.4 billion in 2002-2003). The net excess of income over expenditure was $4.2 billion, an increase of $2.4 billion (137 per cent) compared to $1.8 billion in the biennium 2002-2003.

Cost-sharing arrangements

The Board noted that the Fund has made some progress in accounting for the cost-sharing arrangement with the United Nations, although further reconciliation needs to be expedited.

Actuarial valuation

The actuarial valuation as at 31 December 2005 showed a surplus of 1.29 per cent of pensionable remunerations, compared to a 1.14 per cent surplus as at 31 December 2003.

Accounting organization

The Fund is in the process of recruiting the staff necessary to implement a sound accounting organization.

Contributions receivable

Contributions receivable from member organizations have increased by 37.9 per cent since 31 December 2003, to $85.9 million, while contributions from member organizations have increased by 21.7 per cent, to $1.7 billion, during the same period. The Board noted that:

(a) The Fund's reconciliation procedures with member organizations did not allow for a timely reconciliation of the Fund's receivables with member organizations' payables before the closure of both sets of accounts;

(b) There was a discrepancy of $23.9 million, or 31.7 per cent, of contributions receivable between the receivables in the Fund's books and the payables recorded in the accounts of member organizations.

Bank reconciliation

The Board identified delayed and inaccurate bank reconciliations that had resulted in a net understatement of expenditure of $2.1 million and income of $0.2 million, and an overstatement of cash balances of $1.9 million.

Performance of the Fund

There was an increase of 13.7 per cent in the investment performance of the Fund in 2004 and of 7.4 per cent in 2005. This was a better performance than the Fund's approved benchmark. The Fund modified its benchmark but has so far failed to submit it to the Pension Board and the General Assembly. The Fund's performance was also better than its new benchmark. Although the Fund monitored its overall performance, it did not identify consistently individual contributors and detractors to performance.

Asset-liability management, strategic asset allocation and risk tolerance

The Fund has yet to set its risk tolerance and determine its asset allocation accordingly. An asset-liability study is planned to address this issue.

Cash management

Insufficient communication between the Fund's secretariat and the Investment Management Service had resulted in excessive cash holdings during part of the biennium.

Compliance, risk management and back-office functions

The current organization of the Fund's back-office and compliance function presents serious risks for the Fund, as illustrated by two instances of error or non-compliance that were not identified in time.

Relocation of the offices of the Pension Fund

The Fund has relocated to new premises. The space has increased by 106 per cent, while the rent has increased by 160 per cent; this corresponds to a one-third rise in the price per square foot (from $3 to $4 per square foot per month).

Management of participant data

Each year, the Fund manages an average of 5.5 documents per participant, or over 515,000 documents. On average, it identifies participant reconciliation exceptions for about 17.5 per cent of participants every year, or over 16,000 in 2005. The Board noted that:

(a) The high proportion of participant reconciliation exceptions was partly due to the type of data transfers utilized by the Fund;

(b) Although the Fund had aimed to cover 75 per cent of participants by automated data transfers by 31 December 2005, this proportion stood only at 49.7 per cent. Changes in information systems within member organizations partly accounted for the shortfall.

Payment of benefits

Although internal controls on critical payment stages are satisfactory, the Fund needs to improve the verification process for the certificate of entitlement and to reinforce safeguards on the payment of cheques delivered by diplomatic pouch.

Recovery of overpayments

Although individual cases were followed up, the Fund's systems do not allow it to monitor adequately the recovery of overpayments at the aggregate level.

Information and communication technology

From 2002 to 2005, the Fund paid $9.29 million to 15 individual consultants or companies; some of them worked almost continuously. The Fund informed the Board that this practice would not be continued.

The information technology risk management of the Fund's secretariat is aligned with best practice, whereas the practices of the Investment Management Service fall short of minimum requirements.

Performance management

At the end of 2005, the Fund had fallen 16 days short of its target to process all benefits within 15 days, owing to workload of the Geneva office.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Joint Staff Pension Fund for the period from 1 January 2004 to 31 December 2005, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article 14 (b) of the Regulations of the Pension Fund. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the international standards on auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was primarily conducted to enable the Board to form an opinion as to whether the expenditure recorded in the financial statements for the biennium ended 31 December 2005 had been incurred for the purposes approved by the Pension Board and the General Assembly; whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the Pension Fund presented fairly its financial position as at 31 December 2005 and the results of its operations for the biennium then ended, in accordance with the United Nations System Accounting Standards. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews primarily focused on the efficiency of the financial procedures, the internal financial controls, information and communication technology and, in general, the administration and management of the Fund. The audit was carried out at the Fund's headquarters in New York.

4. The Board continued its practice of reporting the results of specific audits through management letters containing observations and recommendations to the Fund's secretariat and to its Investment Management Service. This practice allowed for an ongoing dialogue.

5. The present report covers matters that, in the opinion of the Board of Auditors, should be brought to the attention of the Pension Board and the General Assembly. The Board's observations and conclusions were discussed with the Chief Executive Officer of the Fund and the Representative of the Secretary-General for the Investments of the United Nations Joint Staff Pension Fund, whose views have been appropriately reflected in the present report.

6. A summary of the Board's main recommendations is presented in paragraph 10 below. The detailed findings and recommendations are reported in paragraphs 12 to 104.

1. Previous recommendations not fully implemented

Biennium ended 31 December 2003

7. In accordance with General Assembly resolutions 48/216 B of 23 December 1993 and 60/234 A of 23 December 2005, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2003.[a] Details of the action taken and the comments of the Board are included in the present report and are summarized in the appendix. Of a total of 23 recommendations, 12 (52.2 per cent) were implemented, 7 (30.4 per cent) were under implementation and 4 (17.4 per cent) were not implemented.

Ageing of previous recommendations

8. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (A/60/387, para. 12). The financial period in which such recommendations were first made is indicated in the appendix.

9. Of the 7 recommendations under implementation, 4 (57.1 per cent) related to the 2002-2003 biennium and 3 (42.9 per cent) to the 2000-2001 biennium. Of the 4 recommendations not implemented, 2[b] were not endorsed by the Pension Board, while the remaining 2[c] could not be implemented by the Fund. The Board recommends another way forward (see paras. 31-37 below).

2. Main recommendations

10. The Board of Auditors recommends that the United Nations Joint Staff Pension Fund:

(a) **In coordination with United Nations agencies, reconcile on a periodic basis the contributions to the Fund (para. 37);**

(b) **Prepare monthly bank reconciliations in a timely manner and make the necessary adjustments to the accounts (para. 40);**

(c) **Determine its level of tolerance for risk, in accordance with its Regulations and the provisions of the Investment Manual (para. 50);**

(d) **Improve its internal review of performance by: (i) monitoring performance at levels below asset classes; (ii) performing systematic retrospective reviews of advice received; and (iii) subjecting the performance of investment managers to regular, independent reviews (para. 52);**

(e) **Expedite recruitment to the risk management and compliance officer positions (para. 61);**

(f) **Improve its trade order management system in respect of automated verification of investment rules (para. 65);**

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[a] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI.

[b] Ibid., paras. 42 and 46.

[c] Ibid., paras. 38 and 80.

(g) **Intensify its efforts to increase further the proportion of participants covered by automated data transfers (para. 77);**

(h) **Improve its techniques for the identification of beneficiaries (para. 80);**

(i) **Consider aligning all databases on a single identification number until such time as an enterprise resource planning system is implemented, and set up an indicator reflecting the number of days elapsed between registration of death and recovery of overpayment (para. 85);**

(j) **Improve the maintenance of benefit databases, the analysis of participant and benefit trends, and cash forecasting (para. 90);**

(k) **Extend to the Investment Management Service its good practices and policies relating to information and communication technology security (para. 99).**

11. The Board's other recommendations are contained in paragraphs 24, 30, 48, 55, 58, 70, 72, 82, 94 and 102.

B. Coordination among oversight bodies

12. The Board continually coordinates with the other oversight bodies and experts in the planning of its audits in order to avoid duplication of effort. This includes consideration of the work planned and/or performed by the other oversight bodies in order to determine the extent of reliance that can be placed on the work done by those bodies. During the present biennium, the Board placed reliance to the extent possible on the results of the eight audits conducted by the Office of Internal Oversight Services. It also took note of the results of the risk assessment exercise concluded in December 2005.

C. Detailed findings and recommendations

1. Financial overview

13. The number of Fund participants as at 31 December 2005 was 93,683 (64,092 from United Nations organizations and 29,691 from specialized agencies). It increased by 9.9 per cent during the biennium, as against 6.4 per cent during the 2002-2003 biennium. Of the total participants, 55,743 (59.5 per cent) were serviced by the New York office, and 37,940 (40.5 per cent) by the Geneva office. The Fund acts as the Staff Pension Committee, administering the participation and separation of staff for the United Nations Secretariat and some participating organizations.

14. The number of periodic benefits granted for the biennium 2004-2005 was 55,140, compared to 52,496 for the previous biennium (a 5.0 per cent increase). It included 17,992 retirement benefits (7.6 per cent increase, $1.28 billion), 12,392 early and 6,656 deferred retirement benefits (4.0 per cent increase, $0.93 billion), 8,363 widow's and widower's benefits (7.3 per cent increase, $0.27 billion) and 8,120 children's benefits (1.3 per cent, $0.03 billion).

15. The market value of the investment portfolio of the Fund as at 31 December 2005 increased by $5.7 billion (22.0 per cent) to $31.4 billion, as against $25.7 billion

as at 31 December 2003 and $21.5 billion as at 31 December 2001. The $4.0 billion increase in the value of stocks and convertible bonds accounted for 70.4 per cent of the rise in the market value of the Fund. The book value increased 22.3 per cent, from $18.8 billion at the end of 2003 to $23.0 billion as at 31 December 2005. Income from investments increased by $2.4 billion and reached $4.4 billion for the biennium (compared with $2.0 billion in 2002-2003). A $2.1 billion increase in profits on sales of securities accounted for 87.6 per cent of the increase in investment income.

16. Total pension contributions increased by 21.7 per cent, to $2.6 billion (compared to $2.1 billion in the 2002-2003 biennium). The main factors reported by the Fund in accounting for the rise were the increase in the number of participants and the variation of the United States dollar against other currencies.

17. Payments of benefits represented 96.4 per cent of expenditure and increased by 14.9 per cent, to $2.7 billion (compared to $2.4 billion in 2002-2003). The net excess of income over expenditure was $4.2 billion, an increase of $2.4 billion (137 per cent) compared to $1.8 billion in the biennium 2002-2003. Since 1994, contributions have not covered all benefits paid in the year, but the ratio of contributions to benefits has improved on a regular basis since 1997: in 2005, owing to a faster increase in the number of participants than in the payment of benefits, total contributions represented 98.0 per cent of benefits as against 93.9 per cent in 2003 and 87.2 per cent in 2001.

Emergency Fund

18. The Emergency Fund is financed from the assets of the Fund and voluntary contributions. It provides financial assistance to beneficiaries receiving a periodic benefit from the Pension Fund, in proven hardship owing to illness, infirmity or similar cases, and for funeral arrangements. Twenty-five disbursements were made in 2004 and 17 in 2005 for a total amount of $59,184, as against $73,697 in the previous biennium.

2. United Nations System Accounting Standards

19. The Board of Auditors assessed the extent to which the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2005 conformed to the United Nations System Accounting Standards. The review indicated that the financial statements were consistent with the Standards.

3. Presentation and disclosure of financial statements

Cost-sharing obligations between the Pension Fund and the United Nations

20. The Fund handles pension administration for the United Nations and serves as the local secretariat of the United Nations Staff Pension Committee. The United Nations shares with the Fund the corresponding administrative costs, in accordance with arrangements approved by the Pension Board and the General Assembly. The Board of Auditors had recommended that the Fund further request the United

Nations Secretariat to liquidate its cost-sharing obligations and seek a new procedure to account for cost-sharing arrangements.[d]

21. A consultant hired to help define the arrangements broke down the Fund's administrative expenditure as it was in the Fund's accounting system (Lawson) into the categories of expenditure appearing in the Integrated Management Information System (IMIS). This paved the way for a full billing process between the Fund and the United Nations, and the recording of accounts receivable and payable on both sides.

22. A prior-year adjustment of $8.8 million was made in the financial statements, as disclosed in note 5. This adjustment resulted from reconciliation with United Nations records from January 2000 to December 2005. The Fund informed the Board that the reconciliation of records regarding expenditure under cost-sharing arrangements prior to 1 January 2000 would be finalized before end of 2006 in order to close the balance pending between the United Nations and the Fund over past bienniums. The outstanding amount to be reconciled is an account payable of $2.8 million, which corresponds to payments made by the United Nations on behalf of the Fund.

23. A new cost-sharing arrangement started in January 2006 with the opening of a new IMIS fund dedicated to administrative expenditures operated by the Accounts Division of the United Nations Secretariat, which now takes care of all disbursements. The Pension Fund provides a monthly advance to the United Nations General Fund, based on the credit balance with the United Nations from the previous month, unliquidated obligations and estimated payments for the following month. The Pension Fund issues monthly statements to the United Nations which disclose the United Nations share of expenditures and requests for subsequent payments to the Pension Fund. The accounting has therefore been clarified as from January 2006.

24. **The Board recommends that the Fund expedite the reconciliation of remaining payables to the United Nations in respect of cost-sharing arrangements prior to January 2000.**

4. Actuarial valuation

25. The Investment Committee and the Committee of Actuaries held a joint session in May 2005 to undertake a comprehensive review of the economic assumptions to be incorporated in the actuarial valuation to be performed as at 31 December 2005. At its regular session in 2003, the Committee of Actuaries had agreed to decrease the inflation assumption assumed for the 31 December 2001 actuarial valuation from the 5.0 per cent per annum level to 4.0 per cent for purposes of the actuarial valuation as at 31 December 2003. This level of inflation assumption was maintained for the valuation as at 31 December 2005. The central assumption for the annual real rate of return of investments was 3.5 per cent. The two committees noted that the Fund's historical real rate of return since its inception had exceeded 3.5 per cent, yielding 6.0 per cent over the past 10 years, 7.3 per cent over the past 25 years and 4.1 per cent over the past 45 years. The two committees concluded that the 3.5 per cent real rate of return assumption should be maintained.

[d] Ibid., para. 54.

26. At its session in July 2005, the Standing Committee agreed with the recommendation of the Committee of Actuaries to maintain the demographic assumptions used in previous valuations, with a few changes in the tabular rates of withdrawal which would have minimal actuarial impact. It also noted that mortality assumptions would be reviewed entirely for the 31 December 2005 valuation. The basis of valuation of the assets was a five-year moving average of the market value of the Fund.

27. As at 31 December 2003, the result of actuarial valuation was a deficit of $3.2 billion for present participants, but a $1.9 billion surplus for present and future participants.[e] The actuarial valuation as at 31 December 2005 showed a deficit of $3.8 billion for present participants and a surplus of $2.8 billion for present and future participants. The contribution rate (as a percentage of pensionable remuneration) required to attain actuarial balance of the Fund for present and future participants was determined to be 22.41 per cent (22.56 per cent for the previous biennium), compared to the present contribution rate of 23.70 per cent, a 1.29 per cent surplus. The Committee of Actuaries concluded that it should not be assumed that the positive elements that contributed to the improved financial position of the Fund since 1990 would continue to be achieved to the same extent in the future, and that caution should therefore be used in deciding how to manage the actuarial surplus. The Board concurred with the need for caution to be exercised.

5. Accounting organization

28. The Board had recommended that the Pension Fund review its accounting organization and staffing table in order to implement sound accounting procedures, with a view to securing a safe validation process for book entries under the sole authority of the Accounts Unit and introducing a clear and effective segregation of duties.[f]

29. The Standing Committee approved six additional staffing posts in the budget approval for the biennium 2006-2007: one for the Deputy Chief of the Accounts Unit, two for accounting assistants, one for a Finance Officer and two for treasury assistants. Recruitment was under way by May 2006. In order to implement sound accounting procedures, an accounting manual is being compiled.

30. **The Board recommends that the Fund expedite the recruitment of the accounting staff and review its accounting manual.**

6. Contributions receivable

31. The Board had recommended that the Fund take appropriate steps to issue contributions reconciliation statements in a timely manner and further develop its proactive strategy towards member organizations for the clearing of receivables.[g] The Fund indicated that it had focused its efforts to clear receivables on the two main organizations concerned (United Nations Children’s Fund (UNICEF) and United Nations Development Programme (UNDP)).

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[e] For observations on the methods of actuarial valuation, see *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII, paras. 40-49, and ibid., *Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI, paras. 25 and 26.

[f] Ibid., *Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI, para. 33.

[g] Ibid., para. 51.

32. The procedures used by the Fund to book contributions receivable do not allow its Accounts Unit to identify and reconcile those differences prior to the closure of the accounts. On the second business day of each month, participant organizations are supposed to remit their contributions for the preceding month. Also, they are requested to provide contribution statements within two weeks of the start of the following month. The Fund ensures that organizations pay on time and that the amounts remitted match its own statements. It reduces the outstanding balance of receivables by the amount of cash received and accrues it by the amount on the monthly statement.

33. These statements are, however, only estimates, provided in aggregate and not for each individual participant. Whereas the estimates of some member organizations tend to be accurate, other organizations (including the United Nations, UNICEF and UNDP) provide set amounts based on prior-period experience, not on payroll figures. These monthly statements represent, on average, 65 to 70 per cent of contributions due, based on the payroll of each organization.

34. At year-end, member organizations are requested to calculate the exact amount due for regular contributions based on individual payroll figures. However, the Fund cannot verify the accuracy of each individual calculation, based on personnel actions on file and applicable regulations, prior to the closure of its accounts. This operation is a manual, time-consuming process that involves exchanges with member organizations and is generally concluded, depending on the organization, from seven to nine months after the end of the year. Before closing its accounts, the Fund corrects year-end schedules to deduct any contribution recorded on account of participants that have yet to join or have separated. The Fund then accrues the contributions receivable of each member organization to ensure that they match the total contributions due, in accordance with the corrected year-end schedule.

35. This procedure does not allow for a timely reconciliation of the Fund’s receivables with member organizations’ payables prior to the closure of both sets of accounts.

36. The Board reviewed the Fund’s contributions receivable as at 31 December 2005. Contributions receivable from member organizations have increased by 37.9 per cent since 31 December 2003, to $85.9 million, while contributions from member organizations have increased by 21.7 per cent, to $1.7 billion, during the same period. This showed a deterioration in the payment record of member organizations. The Board confirmed a sample of contributions receivable amounting to $75.3 million, or 87.7 per cent of the total, by requesting letters of comfort from the external auditors of four member organizations (UNDP, the World Health Organization, UNICEF and the International Labour Organization). The confirmations indicated that the organizations had only booked corresponding payables of $51.4 million, a discrepancy of $23.9 million, or 31.7 per cent of contributions receivable. UNDP accounted for $17.7 million, or 74.1 per cent, of the discrepancy.

37. **The Board recommends that the Fund, in coordination with United Nations agencies, reconcile on a periodic basis the contributions to the Fund.**

7. Bank reconciliation

38. The Board reviewed bank reconciliation procedures. There were delays ranging from four to nine months in the reconciliation of 6 of the 24 bank accounts. This is not in compliance with financial rule 104.4 and best practice. Numerous unreconciled entries, some of which date back to August 2004, were described as "unidentified", or lacked any reference to identify them. These included $2.1 million of bank charges and adjustments that had not been recorded in the Fund's accounts at closure. Conversely, some inaccurate bank reconciliations on three accounts had resulted in an understatement of cash balances and of income of $0.2 million. The net effect of these misstatements was to understate expenditure by $2.1 million and income by $0.2 million, and to overstate cash balances by $1.9 million.

39. The Fund indicated that the implementation of the new banking arrangement had monopolized the available accounting resources in 2004 and early 2005, and that additional, recently obtained resources would be used to improve bank reconciliation procedures. It also stated that, although the errors were serious in that there should have been greater accuracy in bookkeeping entries, the potential risk of any actual loss of funds was limited.

40. **The Board recommends that the Fund prepare monthly bank reconciliations in a timely manner and make the necessary adjustments to the accounts.**

8. Write-off of losses of cash, receivables and property

41. The Fund wrote off receivables from 16 beneficiaries, totalling $122,632 (compared to $104,425 for the previous biennium), in accordance with administrative rule J.9. The majority of cases resulted from irrecoverable overpayments to the estate of deceased beneficiaries when there were no surviving beneficiaries.

9. Ex gratia payments

42. The Fund informed the Board that no ex gratia payments had been made during the biennium 2004-2005.

10. Investment management

Performance of the Fund

43. In its resolution 49/224 of 23 December 1994, the General Assembly requested the Secretary-General to present in future reports on the investments of the Fund a fuller analysis of the performance of those investments and their significant components, including, where applicable, means of comparing performance with relevant benchmarks and other pension funds. In resolution 53/210 of 18 December 1998, the General Assembly welcomed the benchmark proposed by the Secretary-General and endorsed by the Pension Board for the total investment of the Fund, which consisted of two components: for equities, the Morgan Stanley Capital International World Index, and for bonds, the Salomon Brothers World Government Bond Index. Table 1 shows that the Fund outperformed the benchmarks during the biennium.

Table 1
Investment performance against approved benchmark (2004-2005)
(Percentage)

		2004-2005		
		1 Benchmark	*2 Fund*	*2-1*
Equities	2004	15.2	15.3	+0.1
	2005	10.0	12.3	+2.3
Bonds	2004	10.3	11.9	+1.6
	2005	(6.9)	(4.6)	(2.3)
Total, 2004		**13.3**	**13.7**	**+0.4**
Total, 2005		**3.1**	**7.4**	**+4.3**

44. Over 15 years, the performance of the Fund has been 9.6 per cent for equities, 8.1 per cent for bonds and 9.1 per cent overall. Its performance has consistently been superior to the benchmark. However, the Board noted that the Fund's assets included real estate and short-term investments that were not reflected in the benchmark. Following the Board's audit, the Fund reviewed the adequacy of this benchmark to its risk and return profile, in view of the discrepancies between the types of assets reflected in the benchmark and those in which the Fund had invested.

45. The Representative of the Secretary-General initiated a comprehensive review of benchmarking, which was performed by an external consultant. At its session in May 2005, the Investments Committee recommended a new benchmark, based on that study. It broadened the countries and types of securities against which the Fund's investment performance would be measured. The new global index is composed of a 60 per cent equities index, 31 per cent bonds index, 6 per cent real estate index and 3 per cent short-term index.

46. The performance of the Fund's investments exceeded the new benchmarks, but to a lesser degree than previously. For 2005, the performance of the Fund was 7.4 per cent overall, while the global benchmark increased by 6.6 per cent. The gap was only 0.8 percentage points, as against 4.3 percentage points with the previous benchmark.

Table 2
Investment performance: comparison of new and previous benchmark
(Percentage)

Investments	*2005*
Global performance	
Pension Fund	7.4
New benchmark	6.6
Previous benchmark	3.1
Equities	
Pension Fund	12.3
New benchmark	11.4
Previous benchmark	10.0
Bonds	
Pension Fund	(4.6)
New benchmark	(4.5)
Previous benchmark	(6.9)

47. The new benchmark has not been submitted to the Pension Board and the General Assembly for approval, contrary to the provisions of the Investment Manual (sect. III.A.1).

48. **The Board recommends that the Fund submit the new investment performance benchmark to the Pension Board and the General Assembly for approval.**

49. The comparison between the Fund's performance and any benchmark would need to take into account not only the return, but also the risk of the investments made. One traditional measure of risk was volatility, defined as the standard deviation of the return over its mean. Over the past 20 years, the annual rate of return of the Fund has been 10.0 per cent, with a volatility of 9.6 per cent, whereas with the former benchmark, the Fund had a return of 9.8 per cent, with 11.1 per cent volatility. However, the Fund's tolerance for risk has not been set in quantitative terms by the Secretary-General, with the assistance of the Pension Board and the Investments Committee and with the concurrence of the General Assembly, in conformity with article 19 of the Fund's regulations and section III.A of the Investment Manual. Setting such a level, following due process (i.e., after completion of an asset-liability management study), would assist the Fund in determining its appropriate investment strategy.

50. **The Board recommends that the Fund determine its level of tolerance for risk, in accordance with its Regulations and the provisions of the Investment Manual.**

51. Although the Investment Management Service monitors the performance of its various asset classes in relation to the benchmark, it does not identify consistently individual contributors and detractors to performance at the level of each country, sector, industry or individual security. Similarly, the quality of the advice of institutional advisers and of the Investments Committee has not been measured by

comparing actual market movements with projected developments. Although the performance of each investment manager is assessed by the Director of the Investment Management Service, it is not reviewed on a regular basis by an independent party, such as the Investments Committee.

52. **The Investment Management Service agreed with the Board's recommendation that it improve its internal review of performance by: (a) monitoring performance at levels below asset classes; (b) performing systematic retrospective reviews of the advice it receives; and (c) subjecting the performance of investment managers to regular, independent reviews.**

Asset-liability management, strategic asset allocation and risk tolerance

53. For a defined-benefit pension fund, such as the United Nations Joint Staff Pension Fund, the primary risk that needs to be mitigated is that the current and estimated future assets of the Fund will not be sufficient to meet its liabilities. Should this happen, it would not be in keeping with article 14 of General Assembly resolution 248 (III) of 7 December 1948 and the Regulations of the Fund. For assets to match liabilities, the Chief Executive Officer and Secretary of the Fund, the Committee of Actuaries and the Consulting Actuary need to work closely with the organs of the Fund in charge of assets (the Representative of the Secretary-General for the Investments of the Fund, the Investment Management Service, the Investments Committee and the institutional advisers). Informal joint meetings of the Committee of Actuaries and the Investments Committee were held in May 2003 and February 2005. A basic asset-liability study was produced for the Fund in 2003, but it relied on actuarial data as at 31 December 2001 and did not take into account all of the complexities of the Fund's liability profile.

54. The Fund needs to adopt a more systematic approach to asset-liability modelling as a foundation for its strategic asset allocation. The principle of an asset-liability study was approved by the Standing Committee at its session in July 2005 and funding for it was approved by the General Assembly in resolution 60/248 of 23 December 2005. The Fund informed the Board in May 2006 that a Steering Committee had been set up to monitor the progress made in regard to the study.

55. **The Board recommends that the Fund expedite the finalization of the asset-liability study which is to be used as a basis for strategic asset allocation.**

Cash management

56. The contributions of member organizations were previously received in the bank accounts of the Investment Management Service (about $91 million each month in 2004). The Service traditionally kept 0.5 per cent of its assets, or about $150 million, in cash for operational use by the Fund's secretariat. However, from early 2005, contributions began to be remitted directly to the bank accounts of the Fund's secretariat. These contributions were mainly received at the beginning of each month, while the bulk of the Fund's payments were made at the end of the same month. Furthermore, unused funds were transferred from the Fund's bank accounts in Geneva in February 2005 ($31.5 million) and in May 2005 ($2.0 million). The average balance held by the Fund in its money market deposit account has exceeded $138 million since February 2005, whereas monthly disbursements averaged $117 million in 2005 (and so far in 2006, $125.6 million). As a result,

there has been no need for the Fund's secretariat to request cash from the Investment Management Service to pay benefits since February 2005.

57. However, by October 2005, the Service claimed that it had not been informed of this changed situation and continued to keep $150 million in cash balances for the Fund's secretariat. This lack of communication prevented the Fund from optimizing its cash holdings and its foreign exchange transactions. The Representative of the Secretary-General responded in February 2005 that the exchange of information on cash management between the Investment Management Service and the Fund's secretariat would be formalized. Although a meeting between operations staff of the Investment Management Service and the Fund's secretariat was held in April 2006, a formal note recording the discussion remained to be finalized as at July 2006.

58. **The Board recommends that the Fund improve communication between its secretariat and the Investment Management Service on cash management and foreign exchange transactions in order to optimize its operations and holdings.**

Compliance, risk management and back-office functions

59. The Board recommended, in relation to the 2000-2001 biennium, that a compliance officer function be introduced to ensure compliance at all levels with both existing Staff Rules and supplementary guidelines.[h] Although a compliance section was included in the organizational chart dated 22 June 2004, it was not mentioned in the Investment Manual and did not have any staff. The Investment Management Service informed the Board that the recruitment of a chief of risk management and compliance, as well as a compliance officer, had been approved by the Standing Committee and the General Assembly in 2005, and would be carried out in 2006.

60. The risk management function is not clearly organized. In the organizational chart, it is considered part of the Information Systems Section and Risk Management, whereas in the Investment Manual it is considered part of the Investment Section. Neither section has a risk management officer.

61. **The Board recommends that the Fund expedite recruitment to the risk management and compliance officer positions.**

62. The Investment Manual sets out a number of guidelines with which the Investment Management Service needs to comply in its investment decisions. In addition to the strategic asset allocation and authorized tactical deviations from it, investments in companies that deal primarily in armaments or other military equipment are restricted (see General Assembly resolutions 31/197 and 32/73 B). The Fund may only invest in securities that have received the prior approval of the Representative of the Secretary-General. For equities, the provisions of the Manual also prevent holdings in a single security to represent over 5 per cent of the total equity portion of the Fund, or 4.75 per cent of the total capitalization of a type of security of the issuer. Similar rules apply for other asset classes.

63. The trade order management system of the Investment Management Service, implemented since November 2004, has been configured to ensure the issuance of a warning or restriction when compliance with the strategic asset allocation and the

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[h] Ibid., *Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII, para. 67.

maximum share of the Fund's equity might be compromised. However, it does not verify compliance with the rule regarding the percentage of total capitalization of a type of security, the prior approval of securities or the restrictions as regards armament and military equipment. Further, since the Fund has not implemented electronic signatures, recommendation forms and trade orders need to be handled and verified manually.

64. The current organization of the Fund's back-office and compliance function presents serious risks for the Fund, as illustrated by two instances of error or non-compliance that were not identified in time. In one case, two recommendations to sell the same stock were issued on the same day, one relating to $18.4 million and the other to $14.9 million. This led to bypassing the signature of the Director of the Investment Management Service, which would have been required had the $20 million threshold for a single recommendation been reached (Investment Manual sect. V.A.3). In another case, the same stock was sold twice to different parties by the same investment officer, once as part of a corporate action following a takeover and a second time as part of a sell order. This mistake was not identified by the investment officer's supervisor or by Operations. In order to settle the second trade, the Fund lost $8.7 million, or 45.4 per cent of the $19.3 million profit booked on the initial sale of the security. The Investment Management Service informed the Board that the Representative of the Secretary-General had decided that no disciplinary action should be taken against the individual involved. The Service commented that its investment infrastructure was still at the stage at which trade orders were placed by facsimile and there was no compliance monitoring system. It also indicated that the recruitment of a compliance officer and the upgrading of the trade order system compliance module would both contribute to mitigating compliance risks.

65. **The Fund agreed with the Board's recommendation that it improve its trade order management system in respect of the automated verification of investment rules.**

11. Fund administration

Administrative expenditure

66. In section X of its resolution 58/272 of 23 December 2003, the General Assembly approved for the biennium 2004-2005 expenses chargeable directly to the Fund, totalling $80.8 million ($89.5 million after revision by the Standing Committee). This amount comprised $41.0 million for administrative costs, $47.1 million for investment costs and $1.4 million for audit costs. Including the United Nations share, the total appropriation was $103.6 million. In relation also to administrative costs, the Pension Board approved special additional resources in the amount of $5.1 million for renovation work and the purchase of furniture and equipment for the Fund's new office accommodation.[i]

67. The Fund's expenditure for the biennium 2004-2005 amounted to $101.2 million, as against $79.6 million for the previous biennium, an increase of 27.1 per cent. Its administrative costs were $42.5 million, as against $29.3 million (an increase of 45 per cent). Investment costs amounted to $44.2 million, as against

[i] Ibid., *Fifty-ninth Session, Supplement No. 9* (A/59/9), para. 134 (a).

$39.5 million for the previous biennium (an increase of 9.5 per cent), a result of a 4.6 per cent increase in advisory and custodial fees, as well as an increase of 137 per cent in expenditure on rent and maintenance of premises.

Staff costs

68. Expenditure on established posts increased by 22 per cent ($24.6 million for the biennium 2004-2005, as against $20.2 for the previous biennium), and was 3 per cent above the revised appropriation of $23.9 million. Total staff costs for the biennium exceeded the appropriation by $0.4 million. Management was unable to indicate the impact of each of the likely causes of that increase. Posts approved by the Standing Committee for the biennium 2004-2005 increased by five units, or 3.1 per cent (168 against 163). In addition, 12 P-3/P-4 posts were reclassified as P-4 and one as P-5. An unidentified part of the increase of the expenditure on established posts may have related to the depreciation of the United States dollar against the Swiss franc in 2005. The absence of detailed monitoring of the causes of variations in staff costs risks impairing the Fund’s ability to anticipate and manage that cost, which represented 32 per cent of administrative expenses.

69. The Fund indicated that it did not have the staff resources to conduct a detailed analysis of the variations but would endeavour to explain variations caused by global changes, such as salary, post adjustment and exchange rate change.

70. **The Board recommends that the Fund monitor and account for the causes of variations in staff costs.**

Relocation of the Offices of the Pension Fund

71. On 1 April 2005, the Fund moved into premises of 72,516 square feet in Dag Hammarskjöld Plaza, New York, although it also maintains reduced space in Uganda House, New York (2,597 square feet instead of 5,194). The Dag Hammarskjöld Plaza premises were rented from October 2004 to permit the renovation of the office space at a total cost of $9.4 million. Monthly costs for the Fund’s previous locations amounted to $110,569; monthly costs at Dag Hammarskjöld Plaza reached $288,395 (excluding a $12,647 monthly expense for the 5 per cent renovation costs payable to the landlord). Space increased by 106 per cent (on average, the new area represents 525 square feet per New York staff member, compared to 255 square feet at the former premises, including all common areas), while the rent increased by 160 per cent; this corresponds to a rise of one third in the price per square foot (from $3 per square foot per month to $4 per square foot per month). The Fund may be in a position to vacate the premises at Uganda House and relocate the staff into its current premises, which would save some $82,000 per year.

72. **The Board recommends that the Fund consider vacating Uganda House and moving its staff to the new premises.**

Management of participant data

73. The Board has reviewed the management of participant data, from enrolment to separation. Each year, the Fund manages an average of 5.5 documents per participant, or over 515,000 documents. Most of the documents needed for entitlements are electronically captured or scanned into the Fund’s Content Manager

system. The manual processing of these documents (scanning and archiving), involving seven General Service staff on a full-time basis, creates risks of loss or error.

74. On average, the Fund identifies participant reconciliation exceptions — or situations in which the entitlement as recorded by member organizations differs from the Fund's assessment as in accordance with its Regulations — for about 17.5 per cent of participants every year, or over 16,000 in 2005. However, on the basis of current staffing and workload per exception, the Fund estimates that approximately 20 staff will be needed to address the exceptions of a given year. Therefore, only the most material and recurrent exceptions are reconciled during the year, whereas approximately 80 per cent of exceptions are not resolved until the time of separation. This creates a risk that the processing of separation benefits will not occur within 15 business days, as required by the Fund's service commitment in its management charter, approved by the Standing Committee at its session in July 2005. Although this risk is managed by the Fund, which makes partial payments as needed when contributions are in dispute at the time of separation, it would be preferable to reduce the frequency of its occurrence.

75. The high proportion of participant reconciliation exceptions is partly due to the type of data transfers utilized by the Fund. The most automated is the IMIS/PENSYS interface (PENSYS is the Fund's pension production system). This provides the Fund with an automatic weekly update of data produced by organizations covered by IMIS, as well as direct access to personnel actions for verification purposes. The implementation of this interface in November 2003 led to a 7.9 per cent decrease in the volume of incoming documents over a 10-month period, which translated into savings of 7,000 scanning hours and 549 hours for the enrolment of participants. Although this was partly offset by the need for new tasks (auditing and validating new entries and handling error reports), it also increased the quality of the Fund's data and reduced the likelihood of participant reconciliation exceptions.

76. As at October 2004, 28 per cent of participants were covered by an automated interface; in addition, 14 per cent of participants were covered by a batch process which did not provide the Fund with the same degree of assurances as an interface but was better than the manual processing of personnel actions. The Fund aimed to cover 75 per cent of participants either by an interface or a batch system by December 2005, starting from the October 2004 basis of 42 per cent. Although some progress has been made, the Fund could not reach its target: by May 2006, 31.6 per cent of participants were covered by an interface and 18.1 per cent by a batch process, a total of 49.7 per cent. The changes introduced by UNICEF, UNDP, the United Nations Population Fund and the United Nations High Commissioner for Refugees in the human resources modules of their enterprise resource planning systems required some extra work to maintain the level of interfacing previously achieved. However, the development of these systems, as well as the United Nations projects in this area, will provide the Fund with an opportunity to increase further the proportion of participants covered by automated data transfers.

77. **The Board recommends that the Fund intensify its efforts to increase further the proportion of participants covered by automated data transfers.**

Payment of benefits

78. The Fund has implemented a four-level internal verification process to minimize the risk of errors in the calculation of benefits. The Board found that internal controls in this area were robust, in particular at the critical stages of enrolment and separation of beneficiaries.

79. The verification of the entitlement of beneficiaries relies on the annual sending of certificates of entitlement to beneficiaries for signature to prove that they are still alive and entitled to benefits. In 2003, the Office of Internal Oversight Services found that, although the Fund had carried out its certificates of entitlement functions in a satisfactory manner, a test conducted by obtaining the death records of beneficiaries using an independent source revealed an overpayment of $159,152. It was also found that there was a need to improve the certificate of entitlement verification process and to provide greater assurance regarding the status of beneficiaries.

80. **The Fund agreed with the Board's recommendation that it improve its techniques for the identification of beneficiaries.**

81. Although the Fund mostly pays benefits by means of wire transfers, it also sends a variable number of cheques by post every month. The risk of fraudulent issuance of cheques is adequately covered by the use of secure payment software that confirms the payees and amounts of all cheques to the bank prior to payment. However, the Fund also sends by diplomatic pouch an average of 665 cheques per month, with a value of $4.0 million, to countries in which the postal systems are deficient. The controls implemented locally by UNDP to ensure that the individuals concerned receive the benefits are flawed — for example, in April 2005, the lists of signature proving receipt had not been returned to the Fund as requested for an average period of two years and up to four years.

82. **The Fund agreed with the Board's recommendation that it remind field offices of the need to comply strictly with the verification procedures for payment by cheque delivered by diplomatic pouch.**

Recovery of overpayments

83. The Fund was unable to provide the Board with an aged listing of receivables for overpayments as at 31 December 2004 and 31 December 2005. This was because PENSYS, the system that contains the data on participants and benefits, and Lawson, the accounting system, are interfaced but not integrated. Each participant is awarded a participant or beneficiary number in PENSYS, but has a different identity in Lawson. Another difficulty is that the accounts receivable module in Lawson had not been implemented by the Fund. The Fund needs to create a program to match production and accounting data, but was unable to do so as at May 2006. Although the Fund can follow up individual cases of overpayment (mostly due to the unidentified death of a beneficiary with no surviving dependent), it does not have an overview of the overall situation in regard to overpayments. In particular, it has no indicator of the number of days between registration of death and recovery of overpayment.

84. This problem highlights a greater challenge for the Fund. Its systems do not allow it to ensure a seamless access to enrolment, participant, beneficiary and financial data, and staff members constantly have to work simultaneously with two,

three, four or even five different systems. This is both inefficient and constraining for the Fund's operations, since any request involving the use of more than one system implies the development of specific programs, the risk of data format incompatibilities and the constraints of lagged response. The implementation of an enterprise resource planning system could alleviate this problem.

85. **The Board recommends that the Fund: (a) consider aligning all databases on a single identification number until such time as an enterprise resource planning system is implemented; and (b) set up an indicator reflecting the number of days elapsed between registration of death and recovery of overpayment.**

Statistical and analytical capacity

86. The quality of the data contained in the Fund's benefit database is uneven. The test of two months of payments for all categories of benefit showed that the final average remuneration was missing in 3.6 to 21.6 per cent of cases, depending on the type of benefit; the accumulation rate was missing in 61.9 to 74.1 per cent of cases; and the exchange rate was missing in 5.4 to 7.5 per cent of cases. Although this would not necessarily impair the quality of separation calculations, they would need to be performed manually. The missing data might also impair the quality of the actuarial valuation. This highlights the need to improve the quality of the data contained in the Fund's database.

87. This need is further highlighted by the fact that the Fund is unable to identify the exact impact of each of the possible causes of variations (increase in the number of beneficiaries, change in benefit rates, the two-track pension adjustment system, life expectancy, exchange rates, other) on the overall payment of benefits. It does not have any in-house capacity to analyse trends and make complex calculations. This affects the Fund's ability to monitor and anticipate variations in benefit payments.

88. The Board recommended in relation to the 2000-2001 biennium that the Fund establish cash-flow projections on a weekly, a monthly and an annual basis.[j] The Cashier Unit produces monthly projections based on past records; however, there are no annual projections based on a full statistical analysis of known and likely payments.

89. The Fund indicated that the recruitment of a statistician approved by the Standing Committee at its session in July 2005, would help the Cashier Unit to upgrade its cash forecasts and elaborate tools that would enable the Fund to optimize its cash management strategy and improve the rate of return of its liquid assets. A comparison between forecasts and actual figures would allow the identification of problem areas and possible improvements in the flow of funds in and out of the Fund's operational bank accounts.

90. **The Fund agreed with the Board's recommendation that it improve the maintenance of benefit databases, the analysis of participant and benefit trends, and cash forecasting.**

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[j] Ibid., *Fifty-seventh Session, Supplement No. 9* (A/57/9), annex XII, para. 65 (b).

12. Information and communication technology

Contractual services

91. During the 2004-2005 biennium, the Fund completed all re-engineering projects with the exception of the Data Warehouse system, which was expected to be delivered in May 2006. No new posts were requested for the 2004-2005 biennium, although eight temporary posts were converted to established posts. Additional resources related for the most part to contractual services requested for the re-engineering projects. Most of the posts were not filled before 2005 and three established posts were still vacant at the end of the biennium.

92. From 2002 to 2005, the Fund’s paid $9.29 million to 15 individual consultants or companies. Some of them worked almost continuously. Five consultants held contracts each year between 2002 and 2005. Another who worked for the whole period, first as an individual consultant and subsequently through a company, was paid $1.8 million for 71.9 months of work, equivalent to an annual salary of $302,773. Upon enquiry from the Board as to the reasons for this extensive use of consultants, the Fund responded that, based on the short-term nature of information technology projects and the different skill sets necessary to complete its projects, it had relied on consultant contracts. The contract extensions were also the consequence of the extension of the schedule for projects carried out under the strategic plan for information technology; projects were delayed by, on average, 18 months compared to the original schedule. Delays were generally due to the lack of office and computer room accommodation. This issue has been resolved with the new office location. In the future, the International Computing Centre will be used to satisfy short-term resource requirements, within the context of an overall outsourcing agreement.

93. All extensions of contract were approved by the Office of Human Resources Management, in compliance with the administrative instruction on consultants and individual contractors (ST/AI/1999/7 and Amend.1). However, the evaluation of the performance of consultants was neither thorough nor regular, in particular as regards the requirement for their work to be evaluated prior to rehiring.

94. **The Fund agreed with the Board’s recommendation that it improve the thoroughness and regularity of its evaluation of the work of consultants.**

Information and communication technology security policy

95. The Advisory Committee on Administrative and Budgetary Questions requested that serious consideration be given to consolidating the information technology services of the Fund’s secretariat and the Investment Management Service under a single organizational structure which would encompass all activities of the Fund (A/60/7/Add.7, para. 18). The Board noted that the information security policy of the Fund’s secretariat was comprehensive, compliant with ISO 17799 and commensurate with industry standards for its size of operation, whereas this was not the case for the Investment Management Service. While the secretariat had performed a detailed health check and review prior to the formulation of its policy early in 2005, the Investment Management Service had not formally mapped its information technology risks or adopted a structured approach towards the development of an information technology security policy.

96. A position of infrastructure manager was approved for the 2006-2007 biennium, primarily to manage the information technology infrastructure of the Investment Management Service and develop the security policy and procedures, notably in regard to encryption firewalls, an intrusion detection system, vulnerability evaluation techniques and a penetration test. The Investment Management Service, however, has no fraud prevention or staff training and awareness plans for information technology fraud, unlike the Fund's secretariat. In addition, the policy of the Service in regard to logical access controls does not address monitoring of system use and access.

97. In the absence of a risk assessment function, the Investment Management Service does not measure its level of exposure to computer fraud risks, unlike the Fund's secretariat. Although the Fund's secretariat implemented two monitoring tools to detect certain types of fraud, it does not use software to detect intrusion attempts or to identify an easy-to-find password. The Investment Management Service has acquired such software, but the Fund's secretariat is unaware of this.

98. Overall, the Fund secretariat's information technology risk management is aligned with best practice, whereas the practices of the Investment Management Service fall short of minimum requirements. Following the Board's audit, the Investment Management Service indicated that it would request a consultant to perform an information technology risk assessment in 2006.

99. **The Board recommends that the Fund extend to the Investment Management Service its good practices and policies relating to information and communication technology security.**

13. Performance management

100. The Fund's second management charter for the period 2005-2007 was prepared by its Chief Executive Officer and Secretary and approved by the Standing Committee in July 2005. Its main goal is to have a customer-oriented management, which requires a firm commitment to quality-controlled services, easily accessible information, quick and reliable responses and complete transparency vis-à-vis the Fund's participants, its retirees and their beneficiaries. The charter details the challenges that the Fund will face in carrying out its mission, the main objectives during the reporting period and the action plan with respect to each of the objectives.

101. One of the objectives is to process all benefits within 15 days, as a benchmark, and to continue to improve the quality and level of service to an increasing number of participants and pensioners/beneficiaries. The average processing time for retirement benefits was 18 days in 2004, as against 21 in 2003, but it deteriorated in 2005 to an average of 31 days, following difficulties encountered at the Geneva office. Monthly correspondence for benefit estimation was 11 days in 2005 (10 days in 2003 and 2004) and 15 days for change in payments (15 days in 2003 and 16 days in 2004).

102. **The Board recommends that the Fund upgrade its level of service to process all benefits within 15 days, in conformity with its objective.**

14. Internal audit

103. The Board had recommended that the Office of Internal Oversight Services continue to improve its auditor staffing and skills, establish and agree on an audit workplan with the Pension Fund and reduce its audit cycle time.[k] These recommendations have been implemented. A new Chief of Section and a Pension Fund Auditor (P-4) were recruited during the biennium, and the Office of Internal Oversight Services outsourced a comprehensive risk assessment of the Fund to an external consulting firm. A workplan for the biennium 2006-2007 was agreed upon with the Pension Fund, based on the risk assessment. Nine audit reports were issued during the biennium (the same number as during the previous biennium), with an improved cycle time (six months compared to over nine months).

104. The Board had also recommended that the Pension Fund consider establishing an audit committee.[l] This recommendation is under implementation, and a proposal to this effect was presented to the United Nations Joint Staff Pension Board for consideration at its fifty-third session in July 2006.

15. Cases of fraud and presumptive fraud

105. The Administration informed the Board of Auditors that no case of fraud or presumptive fraud had been discovered for the biennium ended 31 December 2005.

D. Acknowledgement

106. The Board of Auditors wishes to express its appreciation for the cooperation and the kind assistance extended to the auditors by the Chief Executive Officer of the United Nations Joint Staff Pension Fund and the Representative of the Secretary-General for the Investments of the Fund and their staff.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Lead Auditor

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit
(Chairman, United Nations Board of Auditors)

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

28 July 2006

Note: Mr. Séguin has signed the English and French versions of the report; the other members of the Board of Auditors have signed only the original English version.

[k] Ibid., *Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI, paras. 122, 139 and 142.
[l] Ibid., para. 129.

Appendix

Status of implementation of recommendations of the Board of Auditors for the financial period ended 31 December 2003[a]

Topic	*Financial period first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference in present report*
Implement sound accounting procedures	2000-2001		Para. 33		1	Paras. 28 to 30
Update the accounting manual	2002-2003		Para. 35		1	Paras. 28 to 30
Benchmark against other funds' best practices	2002-2003			Para. 38	1	Para. 9
Implement monthly reconciliation of payments of contribution	2000-2001			Para. 42	1	Para. 9
Review internal processes to ensure contributions are paid fully on the due date		Para. 44			1	Paras. 31 to 37
Encourage member organizations to account for contributions on an accrual basis	2000-2001			Para. 46	1	Paras. 31 to 37
Issue contribution reconciliation statements in a timely manner and improve clearing of receivables	2000-2001		Para. 51		1	Paras. 31 to 37
Request the United Nations Secretariat to liquidate its cost-sharing obligations		Para. 54			1	Paras. 20 to 24
Bill promptly participating organizations for services rendered		Para. 56			1	—
Record bank charges on operations as administrative costs		Para. 93			1	Paras. 38 to 40
Encourage organizations to submit separation documents in a timely manner	2002-2003		Para. 97		1	—
Update the list of approved officers		Para. 99			1	—
Finalize the relocation of the Fund's offices		Para. 109			1	Paras. 71 and 72
Draw lessons in terms of facility management		Para. 109			1	Paras. 71 and 72
Office of Internal Oversight Services to continue to improve its auditor staffing and skills and utilize outsourcing specialists		Para. 122			1	Paras. 103 and 104
Establish an audit committee	2002-2003		Para. 129		1	Paras. 103 and 104

Topic	*Financial period first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference in present report*
Establish an audit workplan together with the Office of Internal Oversight Services		Para. 139			1	Paras. 103 and 104
Office of Internal Oversight Services to reduce its audit cycle time		Para. 142			1	Paras. 103 and 104
Strengthen controls of the accounting function and the reporting of investment activity	*2002-2003*		*Para. 58*		*1*	*Paras. 59 to 65*
Continue to recover outstanding tax reimbursements, and further appeal to Member States to grant tax exempt status to the Fund		*Para. 60*			*1*	—
Comply fully with United Nations regulations and rules on procurement		*Para. 71*			*1*	—
Prevent the recurrence of vacancies in key senior management positions	*2002-2003*			*Para. 80*	*1*	*Paras. 59 to 65*
Provide and staff a budgetary post of compliance officer	*2000-2001*		*Para. 113*		*1*	*Paras. 59 to 65*
Total number		**12**	**7**	**4**	**23**	
Total number percentage		**52.2**	**30.4**	**17.4**	**100**	

[a] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI.

Annex XII

Size and composition of the Board

Group	*Number of members*	*Composition*
I. United Nations		United Nations Staff Pension Committee
		4 from members elected by the General Assembly
		4 from members appointed by the Secretary-General
	12	4 from members elected by the Participants
II. FAO		FAO Staff Pension Committee
		1 from members elected by the Governing Body
	3	1 from members appointed by the Director-General
		1 from members elected by the Participants
WHO		WHO Staff Pension Committee
		1 from members elected by the Governing Body
	3	1 from members appointed by the Director-General
		1 from members elected by the Participants
III. UNESCO	2	Staff Pension Committees in groups III, IV and V
ILO	2	
IAEA	2	5 from members elected by the Governing Bodies
IV. UNIDO	1.5	
WIPO	1.5	5 from members appointed by the executive heads
ICAO	1.5	
ITU	1.5	
V. WMO	1	5 from members elected by the Participants
IMO	1	
IFAD	1	
VI. ICC		
ICGEB		
WTO		
ICCROM		
ISA		
ITLOS		
IPU		
EPPO		
IOM		
Total	**33**	

Annex XIII

Size and composition of the Standing Committee

Group	*Number of members*	*Composition*
I. United Nations		United Nations Staff Pension Committee
		2 from members elected by the General Assembly
	6	2 from members appointed by the Secretary-General
		2 from members elected by the Participants
II. FAO	1.5	
WHO	1.5	3 from members elected by the Governing Bodies
III. UNESCO	1	
ILO	1	
IAEA	1	3 from members appointed by the executive heads
IV. UNIDO/WIPO	1	
ICAO/ITU	1	
V. WMO/IMO/IFAD	1	3 from members elected by the Participants
VI. ICC		
ICGEB		
WTO		
ICCROM		
ISA		
ITLOS		
IPU		
EPPO		
IOM		
Total	**15**	

Annex XIV

Improving participation and efficiency of the Board

In response to General Assembly resolution 57/286, the Board also examined elements of its efficiency, effectiveness and working methods. It decided to classify the items under consideration into two categories, namely, (a) Board organization/governance and (b) efficiency of the meetings.

A. Board organization and governance

Liaison with General Assembly

1. The Board agreed that its Chairman should be encouraged to attend the meetings of ACABQ and the Fifth Committee, as well as the informals of the Fifth Committee. It was noted that although it is not a requirement, the current practice is that the Chairman makes a statement and takes questions from ACABQ and, when possible, does the same in respect to the Fifth Committee. The Board decided that it would facilitate the dialogue during the informals of the Fifth Committee if the Chairman could endeavour to attend the meetings as well. The Board agreed that that might provide the General Assembly with a more comprehensive understanding of the deliberations of the Board. It was felt that the General Assembly decision not to endorse the recommendations of the Board in 2002 might have been the result of a misunderstanding of the extensive process the Board followed in reaching its recommendations. It was recognized, however, that scheduling difficulties could arise given that the dates for the informals were generally set without much advance notice. In order to ensure an opportunity for the Chairman to meet with members of the Fifth Committee, it was suggested that efforts could be made to schedule separate meetings apart from and prior to the actual discussions in the Fifth Committee.

Subcommittees of the Board

2. The Board agreed that as required, it would approve such subcommittees and working groups it deems necessary so that the Board can be in a position to focus its particular attention and expertise on specific issues that merit more in-depth consideration. The members of such subcommittees should be designated by the three constituent groups during a formal session of the Board, with one representative to be designated by the group representing the retirees and other beneficiaries. An example of such a subcommittee would be the Audit/Oversight Subcommittee, which was recently formalized. Other possible subcommittees that might be established if circumstances require it would be a Benefits and Participants Subcommittee, a Budget/Administration Subcommittee, and others.

B. Efficiency of the meetings

Agenda

1. The agenda should consist of six basic items: investments; actuarial matters; participants and beneficiaries; financial/budgetary matters; administration; and audit/oversight. The CEO/Secretary could be requested to formally present the

agenda, possibly with a written note outlining each key decision that would need to be taken at that particular session of the Board, along with his views and preferred course of action for each of the main items requiring a decision.

Pre-meeting preparation

2. The CEO/Secretary of the Fund could be requested to present a document explaining each decision that would need to be made at each session of the Board and its Standing Committee.

Group meetings

3. After the Board's opening meeting (half a day [or] first morning), a time should be dedicated for individual group meetings to study the agenda and documents, to develop and agree on strategies, with a view to making recommendations (and/or preparing comments) at the Board plenary meeting, thus working in a more efficient manner. Such meetings would include the representatives of the General Assembly or Governing Bodies, representatives from the Executive Heads and Participants and representatives of the retirees and beneficiaries. The Board agreed that that would improve efficiency, at no additional costs, by providing an opportunity for discussing the issues, prior to the sessions of the Board or Standing Committee. This could also be easily implemented, as it would involve only minor adaptations in the agenda and programme of work.

Materials

4. Board documents could be referenced according to whether decisions are required or not or if they are being provided for information purposes only. Efforts should also be made to provide executive summaries for the longer documents and that the more detailed information should, whenever possible, be presented in annexes separate from the actual report itself; conference room papers should be submitted through an approval process; preferably through a Committee composed of the Officers of the Board. Every effort should be made to provide documentation in French as well as in English. The Board would also agree to receive documentation in French without translation of tables if it would facilitate the process for the secretariat.

Presentations

5. As part of the ongoing integration of the members into the work of the Board and especially to assist the new members in the orientation process, the Board encourages the secretariat to consider inviting guest speakers when feasible to the sessions of the Board. Such speakers could provide special presentations in their areas of expertise (e.g., on investments, social security, actuarial matters, among others). The Board recognized that any action taken in this connection would need to be undertaken in the light of the emerging view for shorter sessions of the Board. Concerning the presentation of Board documents, time limits should be encouraged and better use should be made of audio-visual aides whenever possible; especially with respect to actuarial and investments material.

Information technology

6. On the basis of the success of the videoconference between Rome, Paris and New York, during the fifty-first session of the Board, in 2002, the Board felt that the use of videoconferencing should be encouraged for certain presentations (e.g., invited speakers, the Medical Consultants, the Chairman of ICSC, and others). The Board also urges the Fund to make all Board and Standing Committee documentation readily available to the members of the Board through its Knowledge Management System.

New Board members

7. New Board members should be encouraged to visit the secretariat, either in New York or Geneva, where they would be provided with a briefing from the staff of the Fund.

Annex XV

Allocation and rotation of Board seats after 2006

Group	Member organization	Regular Board session 2006			First regular Board session after 2006			Second regular Board session after 2006			Third regular Board session after 2006			Fourth regular Board session after 2006			Fifth regular Board session after 2006		
I	United Nations	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P	4 GA	4 SG	4 P
II	FAO	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
	WHO	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P	GB	DG	P
III	UNESCO	GB		P	GB	DG			DG	P	GB		P	GB	DG			DG	P
	ILO		DG	P	GB		P	GB	DG			DG	P	GB		P	GB	DG	
	IAEA	GB	DG			DG	P	GB		P	GB	DG			DG	P	GB		P
IV	UNIDO			P	GB	DG		GB				DG	P			P	GB	DG	
	WIPO	GB	DG				P		DG	P	GB			GB	DG				P
	ICAO	GB	DG				P	GB		P	GB			GB	DG				P
	ITU			P	GB	DG			DG			DG	P			P	GB	DG	
V	WMO	GB				DG				P	GB				DG				P
	IMO		DG				P	GB				DG				P	GB		
	IFAD			P	GB				DG				P	GB				DG	
VI	ICC ICGEB WTO ICCROM ISA ITLOS IPU EPPO IOM *																		
Totals		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11

* IOM to join as a member organization as from 1 January 2007.

Annex XVI

Allocation and rotation of seats on the Standing Committee after 2006 (elections to take place during the indicated Board sessions)

Group	Member organization	Regular Board session 2006			First regular Board session after 2006			Second regular Board session after 2006			Third regular Board session after 2006			Fourth regular Board session after 2006			Fifth regular Board session after 2006		
I	United Nations	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P	2 GA	2 SG	2 P
II	FAO	GB	DG				P	GB		P		DG		GB	DG				P
	WHO			P	GB	DG			DG		GB		P			P	GB	DG	
III	UNESCO		DG				P	GB				DG				P	GB		
	ILO	GB				DG				P	GB				DG				P
	IAEA			P	GB				DG				P	GB				DG	
IV	UNIDO, WIPO		DG				P	GB				DG				P	GB		
	ICAO, ITU			P	GB				DG				P	GB				DG	
V	WMO																		
	IMO	GB				DG				P	GB				DG				P
	IFAD																		
VI	ICC																		
	ICGEB																		
	WTO																		
	ICCROM																		
	ISA																		
	ITLOS																		
	IPU																		
	EPPO																		
	IOM *																		
Totals		5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5

*** IOM** to join as a member organization as from 1 January 2007.

Annex XVII

Recommendation to the General Assembly for amendment of the Regulations of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
Article 24. Restoration of prior contributory service		
(a) A participant re-entering the Fund after 1 January 1983 may, within one year of the recommencement of participation, elect to restore his or her prior contributory service, provided that on separation the participant became entitled to a withdrawal settlement under article 31 (b) (i), and provided further that the service was the most recent prior to the re-entry.	(a) A participant re-entering the Fund [**after 1 January 1983**] on or after 1 April 2007, who previously had not, or could not have, opted for a periodic retirement benefit following his or her separation from service, may, within one year of the recommencement of participation, elect to restore his or her most recent period of prior contributory service. **[, provided that on separation therefrom the participant became entitled to a withdrawal settlement under article 31 (b) (i), and provided further that the service was the most recent prior to the re-entry.**] Any participant in active service who re-entered the Fund before 1 April 2007 and was previously ineligible to elect to restore prior contributory service owing to the length of such prior service, may now do so by an election to that effect made before 1 April 2008.	**To eliminate limitation on right to restoration based on the length of the prior service.**

[a] Proposed additions are indicated by underlining and proposed deletions appear in boldface type within square brackets.

Annex XVIII

Recommendation to the General Assembly for change in the Pension Adjustment System of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
H. Subsequent adjustments of the benefit	H. Subsequent adjustments of the benefit	
20. The initial adjustments due after separation (or death, as the case may be), to both the dollar and the local currency amounts, shall be reduced by 1.5 percentage points except in the case of the benefits under section E above and the minimum benefits under the Regulations.	**20. The initial adjustments due after separation (or death, as the case may be), to both the dollar and the local currency amounts, shall be reduced by 1.5 percentage points except in the case of the benefits under section E above and the minimum benefits under the Regulations.**	
Effective 1 April 2005, the reduction in the initial adjustments due after separation shall be by 1 percentage point; with respect to benefits to which the 1.5 percentage points reduction was applied before 1 April 2005, there shall be a 0.5 percentage point increase in the first adjustment due on or after 1 April 2005.	**Effective 1 April 2005, the reduction in the initial adjustments due after separation shall be by 1 percentage point; with respect to benefits to which the 1.5 percentage points reduction was applied before 1 April 2005, there shall be a 0.5 percentage point increase in the first adjustment due on or after 1 April 2005.** <u>Effective 1 April 2007, the reduction in the initial adjustments due after separation shall be by 0.5 percentage point; with respect to benefits to which the 1.0 percentage point reduction was applied before 1 April 2007, there shall be a 0.5 percentage point increase in the first adjustment due on or after 1 April 2007.</u>	**Phased implementation of the elimination of the 1.5 percentage point reduction in the first adjustments due after separation from service.**

[a] Proposed additions are indicated by underlining and proposed deletions, if any, appear in boldface type within square brackets.

Annex XIX

Amendments to the Rules of Procedure of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*	*Comments*
Section B Standing Committee	Section B Standing Committee	
B.9 Attendance at meetings of the Standing Committee shall be limited to:	B.9 Attendance at meetings of the Standing Committee shall be limited to:	
(I) (b) One alternate member for each member of the Standing Committee;	(I) (b) One alternate member for each member of the Standing Committee, <u>except that three alternate members are eligible to attend on behalf of the two United Nations General Assembly members representing the United Nations Joint Staff Pension Committee.</u>	
	Section E Ad hoc members	
No existing section E	<u>E.1 Ad hoc members may be appointed to serve on the Committee of Actuaries and the Investments Committee, in addition to the regular members of those Committees appointed pursuant to articles 9 and 20 of the Regulations of the Fund, respectively. Such ad hoc members shall be appointed in the same manner as the regular members of the Committee concerned; however, the terms of office of the ad hoc members may differ from those of the regular members.</u>	

[a] Proposed additions are indicated by underlining and proposed deletions, if any, appear in boldface type within square brackets.

Annex XX

Actuarial sensitivity analysis of the 31 December 2005 valuation results

Impact of three key parameters on the results of subsequent actuarial valuations:

- Sudden change in market value assets
- Sudden change in currency exchange rate
- Sudden change in inflation rate

Asset changes

Per cent change[a] in market value of assets	*Eventual required[b] contribution rate %*
-40	26.46
-30	24.97
-20	23.48
-12.8	22.41
-10.0	21.99
0	20.50
10	19.01
20	17.53
30	16.04
40	14.55

[a] Assumes that the market value of assets will experience a sudden change (as shown) and thereafter will earn the assumed rate of 7.5 per cent per annum.
[b] This is the eventual required contribution rate after five years, as a result of the change in market value and assuming no other sources of gain or loss. It will take approximately five years before the full impact emerges, because of the current asset averaging methodology.

Calculations assume no other sources of gain or loss.

Currency exchange rate

Per cent change in local exchange rates vis-à-vis United States dollars	*Resulting[a] required contribution rate %*
-40	20.46
-30	20.99
-20	21.49
-10	21.97
0	22.41
10	22.84
20	23.25
30	23.63
40	24.00

[a] Net rate before allowing for the estimated offsetting effect of currency exchange rates on non-United States-denominated assets, which would appear as a change in assets. (Approximately 50 per cent of assets are affected by changes in currency exchange rates.)

Assumptions regarding currency exchange

- 85 per cent of General Services pay is affected by change in currency exchange rate (assumes 15 per cent of General Services pay is set in United States dollars).
- 30 per cent of pension payroll is affected by change in currency exchange rate.

Calculations assume no other sources of gain/loss.

Inflation rate

Actual inflation %	*Annual decrease in required contribution rate[a] %*
7	0.36
6	0.25
5	0.12
4	0.00
3	-0.13
2	-0.25
1	-0.39

[a] Assumes the inflation rate will change suddenly (as shown) and will return thereafter to the assumed rate of 4 per cent per annum.

Calculations assume no other sources of gain or loss.

Annex XXI

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters discussed in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report which the Assembly may wish to note in its resolution.]

The General Assembly,

Recalling its resolutions 55/224 of 23 December 2000, 57/286 of 20 December 2002, 59/269 of 23 December 2004, and section III of resolution 60/248 of 23 December 2005,

Having considered the report of the United Nations Joint Staff Pension Board for 2006 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund,[a] the report of the Secretary-General on the investments of the Fund[b] and the related report of the Advisory Committee on Administrative and Budgetary Questions,[c]

I
Actuarial matters

Recalling sections I of its resolutions 57/286 and 59/269,

Having considered the results of the valuation of the United Nations Joint Staff Pension Fund, which revealed a fifth consecutive actuarial surplus as at 31 December 2005, and the observations thereon by the consulting actuary of the Fund, the Committee of Actuaries and the United Nations Joint Staff Pension Board,

1. *Takes note* of the results of the actuarial valuation of the United Nations Joint Staff Pension Fund, which went from an actuarial surplus of 0.36 per cent of pensionable remuneration as at 31 December 1997 to an actuarial surplus of 4.25 per cent of pensionable remuneration as at 31 December 1999, to an actuarial surplus of 2.92 per cent of pensionable remuneration as at 31 December 2001, to an actuarial surplus of 1.14 per cent of pensionable remuneration as at 31 December 2003 and to an actuarial surplus of 1.29 per cent of pensionable remuneration as at 31 December 2005 and, in particular, of the opinions provided by the consulting actuary and the Committee of Actuaries, as reproduced in annexes VII and VIII, respectively, to the report of the United Nations Joint Staff Pension Board;[a]

2. *Also notes* that the Committee of Actuaries expressed the view that based on the continuation of the surplus, a portion of the surplus disclosed in 2005 could be made available at this time to improve benefits but that prudence would dictate that most of the surplus should be retained;

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[a] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 9* (A/61/9).
[b] A/C.5/51/___.
[c] A/61/___.

3. *Further recalls* that the Assembly already approved in 2002, in principle, the change in the benefit provisions of the Regulations of the Fund that would eliminate the limitation on the right to restoration based on the length of prior service;

4. *Approves* the change in the benefit provisions of the Regulations of the Fund, as set out in annex XVII of the report of the Board, to eliminate the limitation on the right to restoration for existing and future participants based on the length of the prior contributory service;

5. *Also takes note* of the Board's decision to amend the Fund's Rules of Procedure to provide for the appointment of ad hoc members to the Committee of Actuaries as well as to the Investments Committee;

6. *Concurs*, in accordance with article 13 of the Regulations of the Fund and with a view to securing continuity of pension rights:

(a) With the revised Transfer Agreement between the Fund and the World Bank Group as approved by the Board and set out in annex IX to the report of the Board, which will take effect from 1 January 2007;

(b) With the new Transfer Agreements between the Fund and each of the six Coordinated Organizations, as set out in annex IX to the report of the Board, which will take effect from 1 January 2007;

7. *Decides*, upon the affirmative recommendation of the Board, that the International Organization for Migration shall be admitted as a new member organization of the Fund, effective 1 January 2007;

II
Pension Adjustment System

Recalling sections II of its resolutions 57/286 and 59/269,

Having considered the reviews carried out by the consulting actuary, the Committee of Actuaries and the United Nations Joint Staff Pension Board, as set out in the Board's report, of various aspects of the Pension Adjustment System,

1. *Takes note* of the recommendation of the United Nations Joint Staff Pension Board that as from 1 April 2007, the current reduction in the first consumer price index adjustments due under the Pension Adjustment System of the United Nations Joint Staff Pension Fund to benefits in award should be lowered from 1.0 per cent to 0.5 per cent and that a 0.5 per cent increase should be applied on the occasion of the next adjustment to benefits being paid to existing retirees and beneficiaries who have already had the 1.0 per cent reduction applied to their benefits;

2. *Approves*, accordingly, with effect from 1 April 2007, the changes in the Pension Adjustment System, as set out in annex XVIII to the Board's report;

III
Financial statements of the United Nations Joint Staff Pension Fund and report of the Board of Auditors

Having considered the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2005, the audit opinion and report of the Board of Auditors thereon, the information provided on the internal audits of the Fund and the observations of the United Nations Joint Staff Pension Board,[a]

Notes that the report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2005 indicated that the financial statements were in compliance with accepted standard accounting principles and that there were no major findings of problems concerning procedures and controls,

IV
Administrative arrangements and revised budget of the United Nations Joint Staff Pension Fund

Recalling section IV of its resolution 57/286, section X of its resolution 58/272, section IV of its resolution 59/269 and section III of its resolution 60/248 concerning the administrative arrangements and expenses of the United Nations Joint Staff Pension Fund,

Having considered chapter VII of the report of the United Nations Joint Staff Pension Board[a] on the administrative arrangements of the Fund,

1. *Takes note* of the information set out in paragraphs 132 and 133 of the report of the United Nations Joint Staff Pension Board on the revised budget estimates for the biennium 2006-2007;

2. *Approves* the increase in total additional resources for the biennium 2006-2007 from 108,262,500 dollars to 110,665,500 dollars for:

(a) Reclassification of two information technology posts in the Fund secretariat;

(b) Travel expenses related to the newly established Audit Committee;

(c) Enhancement of the Investment Management Service through the addition of five new posts, indexed management costs, including the costs of transition management services and consultant costs;

(d) Enhancement of the external audit functions of the Fund and increase of the Fund’s internal audit coverage;

(e) Administrative costs to implement the approved modifications in the benefit provisions;

3. *Notes* that the Board requested the Fund to continue its efforts to consolidate the information technology services of the secretariat of the Fund and those of the Investment Management Service;

4. *Also notes* that the Board agreed that its expenses would continue to be shared and charged to the Fund's member organizations under the current methodology until 1 January 2008, at which time all Board expenses would be included in the Fund's budget and charged as administrative expenses;

V
Survivors' benefits

Recalling section V of its resolution 55/224, section V of its resolution 57/286 and section VI of its resolution 59/269,

1. *Notes* that the Board requested the Secretary/CEO to present to the Board in 2007 a comprehensive study on the benefit provisions related to family members of the United Nations Joint Staff Pension Fund participants and retirees;

2. *Also notes* that the Board agreed that the Fund would record, for the purposes of eventually determining entitlements to pension benefits under articles 34 and 35 of the Regulations of the Fund, the personal status of a participant as recognized and reported to the Fund by the participant's employing organization;

VI
Size and composition of the United Nations Joint Staff Pension Board and its Standing Committee

1. *Takes note* of the information set out in the report of the United Nations Joint Staff Pension Board[a] on the review of the size and composition of the Board and its Standing Committee, particularly the Board's decision not to recommend any change in its size;

2. *Notes with satisfaction* the recommendations adopted by the Board with a view towards improving the efficiency of its work and its intention to consider a policy paper in 2007 on membership and attendance at meetings of the Board and its Standing Committee;

3. *Also takes note* of the Board's decision to amend the Rules of Procedure of the Fund in order to make formal provision for the additional alternate representative of the General Assembly to attend the meetings of the Standing Committee, as approved provisionally by the Board in 2004;

4. *Further takes note* of the Board's decision that the costs related to two retiree representatives attending the sessions of the Board and one retiree representative attending the sessions of the Standing Committee would be shared as an expense of the Board on a provisional basis until its 2008 session, at which time the Board will consider means for duly electing the representatives for the retirees;

5. *Notes* that the Board also decided to revert to annual sessions as from 2007 with the aim of completing its work within five working days; the Board's focus during the odd-numbered years will be on the budget of the Fund;

VII
Other matters

1. *Takes note* of the Board's decision to establish an Audit Committee to provide an enhanced communications channel for the internal auditors, the external auditors and the Pension Board, with the consequent revision in the Rules of Procedure of the Fund;

2. *Notes* that the Board endorsed the Fund's Enterprise-wide Risk Management Policy;

3. *Also takes note* of the observations of the United Nations Joint Staff Pension Board, as set out in its report,[a] on the review and conclusions reached by the International Civil Service Commission on the changes in average tax rates at the headquarters duty stations, which formed the basis for the development of the current common scale of staff assessment for pensionable remuneration;

4. *Also notes* that the Board considered a detailed report of the medical consultant covering the period from 1 January 2004 to 31 December 2005;

5. *Notes* that the Board requested the Secretary/CEO to visit the Fund's retirees living in Ecuador with the aim of further analysing the impact of dollarization on such retirees and to report any findings at its session in 2007;

6. *Also notes* that the United Nations Joint Staff Pension Board intends to review the current provisions for special adjustments for small pensions and the current arrangements regarding the periodicity of cost of living adjustments at its sessions in 2007 and 2008, respectively;

7. *Takes note* of the Board's decision to revert to the possibility of expanding the scope of residual settlements under article 38 of the Regulations of the Fund during its session in 2008;

8. *Notes* that the Board intends to keep the possible provision for the purchase of additional years of contributory service under periodic review;

9. *Notes* that the Board decided to maintain both the current system for establishing local track benefits in respect of Professional staff and the methodology currently used in the determination of final average remuneration for staff in the General Service category; both issues will continue to be monitored by the Fund secretariat;

10. *Also takes note* of the other matters dealt with in the report of the Board;

VIII
Investments of the United Nations Joint Staff Pension Fund

1. *Takes note* of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund[b] as well as the observations of the United Nations Joint Staff Pension Board, as set out in its report;[a]

2. *Notes* the increase in the market value of the assets of the Fund and the positive returns achieved during the biennium and, in particular, the 4.3 per cent annualized real rate of return over the 46-year period ending 31 March 2006;

3. *Also notes* that the Board endorsed the intention of the Representative of the Secretary-General for the Investments of the Fund to manage the North American equities portfolio in the passive mode using the current benchmark indices;

4. *Further notes* that the Board encouraged the Investment Management Service of the Fund to adhere to the principles of the Global Compact to the extent possible without compromising the four established investment criteria of safety, liquidity, convertibility and profitability; the Board also urged the Investment Management Service to continue its efforts to collect tax refunds from several Member States.

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