

## Program and Budget Committee

### Twenty-Second Session Geneva, September 1 to 5, 2014

#### PROPOSAL TO AMEND THE POLICY ON INVESTMENTS

*Document prepared by the Secretariat*

#### BACKGROUND

1. A policy on investments was first submitted in accordance with Financial Regulation 4.10, to the Program and Budget Committee (PBC) in September 2010 (document WO/PBC/15/8). The Committee examined the document and “requested the Secretariat to present a redrafted proposal at a further session of the PBC, taking into account the observations and comments made by the Member States”. These observations and comments concerned primarily an unwillingness to use external investment managers or to invest unrestricted cash, not required for current operations or for reserve-funded projects, with an investment horizon of up to two years and a wish to take into account the need for investments to be in line with the principles of the UN Global Compact.
2. The policy was consequently amended and the revised version was submitted to the PBC during both of its sessions in 2011 (document WO/PBC/17/6), being finally approved by the Assemblies during its 49th session in autumn 2011. This second document (Annex I) incorporated the following revisions to the policy:
  - (a) Inclusion of a specific reference to the fact that surplus Swiss franc cash reserves not required for immediate use would be placed on deposit with the Swiss National Bank (BNS) unless higher rates of return could be obtained with other banks having the required credit rating (the equivalent to AA- per Standard and Poor’s and Aa3 per Moody’s);
  - (b) A removal of any reference to the use of external investment managers; and
  - (c) Inclusion of the requirement that counterparties with which WIPO invests, other than those with the status of sovereign risk such as BNS, must have agreed to comply with the ten principles of the United Nations Global Compact.

3. This revised policy, simpler in content than the version presented in 2010, faithfully reflects current practice.

4. In light of recent developments as presented below, the Secretariat has compiled a series of proposals for further development on the basis of Member States' feedback.

## RECENT DEVELOPMENTS

### WIPO's Bank Account

5. In a letter dated 9 April 2014, the BNS informed the Director General of WIPO that, following the introduction by the Swiss Federal Administration of Finance of new rules concerning the opening and maintenance of deposit accounts, WIPO would no longer be able to hold deposit accounts with the BNS. Similar notifications were also received by the International Telecommunication Union (ITU) and the Universal Postal Union (UPU). In order to facilitate the need to identify alternative institutions with which WIPO's investments could be held, the BNS has undertaken to allow WIPO a period of transition which will finish at the end of 2015. WIPO is therefore required to give instructions to the BNS with regard to the transfer of its deposits and the subsequent closure of its accounts by no later than 1 December 2015.

6. The Director General is in consultation with the Swiss authorities on this matter. The development has significant implications for the Organization as is explained below.

## WIPO'S POLICY ON INVESTMENTS

### Credit Ratings

7. As detailed in paragraph 2, this policy calls for all Swiss franc investments to "be held with the BNS provided that the rate offered is higher than that available from commercial banks having the required credit rating". In addition, the policy states that investments other than those made with the BNS "shall be limited to money market funds and time deposits held by banks with a credit worthiness rating of AA-/Aa3 or higher...".

8. Table 1 below shows the interest rates offered by BNS since January 2009 and compares these with the six month deposit rates obtainable from *Crédit Suisse* (long-term rating of A/A1). The rates offered by *Crédit Suisse* (CS) are comparable with those offered by other banks during the same period.

Table 1

	Indicative rate C.S.	BNS rate <sup>1</sup>	Annual average	
			C.S.	BNS
01.01.2009	0.8017	2.3750		
01.04.2009	0.5333	2.2500		
01.07.2009	0.5083	2.3750		
01.10.2009	0.3950	2.1250	0.5596	2.2813
01.01.2010	0.3383	2.0000		
01.04.2010	0.3325	2.0000		
01.07.2010	0.2100	1.6250		
01.10.2010	0.2417	1.3750	0.2806	1.7500
01.01.2011	0.2383	1.3750		
01.04.2011	0.2583	1.6250		
01.07.2011	0.2383	1.3750		
01.10.2011	0.0683	0.7500	0.8032	1.2813
01.01.2012	0.0942	0.5000		
01.04.2012	0.1833	0.6250		
01.07.2012	0.1800	0.3750		
01.10.2012	0.1550	0.2500	0.1531	0.4375
01.01.2013	0.0690	0.2500		
01.04.2013	0.0844	0.4000		
01.07.2013	0.0804	0.7500		
01.10.2013	0.0794	0.7500	0.0783	0.5375
01.01.2014	0.0774	0.8500		
01.04.2014	0.0740	0.5500		
17.06.2014	0.0700	0.4000	0.0738	0.6000

<sup>1</sup> Before 2013, amounts above 5 million Swiss francs could be withdrawn with three months' notice and since 2013, this period has been extended to six months. These rates are the most comparable to a six month rate

9. As the table illustrates, the rates offered by BNS have been consistently higher than those on offer elsewhere. Furthermore, not only have commercial banks been unable to match the returns offered by BNS but it is also the case that those banks with which WIPO has a relationship do not have the credit rating required by WIPO's Policy on Investments (Table 2).

Table 2

<b>Banking service supplied to WIPO/Banks</b>	<b>Standard and Poor's</b>	<b>Moody's</b>
<b>Investments</b>		
Banque Nationale Suisse	AAA	Aaa
Société Générale <sup>1</sup>	A	A3
<b>Operational</b>		
Crédit Suisse	A	A1
UBS (incl. FITs)	A	A2
Banque Cantonale de Genève	A+	n/a
Banca Nazionale del Lavoro	BBB	Baa2
Bank of Tokyo - Mitsubishi	A+	Aa3
JP Morgan Chase	A+	Aa3
Swiss Post Office	A+	n/a

<sup>1</sup>Paragraph 14 explains why WIPO is able to invest with Société Générale despite its long-term credit rating which is below the level required by the policy

10. One possible solution would be to establish relationships with other banks which do meet the credit rating criteria required. In this respect it is worth looking at the experience of other agencies and organizations. As most agencies operate in either US dollars or Euros, very few UN agencies have surplus Swiss francs to invest. However, enquiries made of two agencies which both operate in and invest Swiss francs, the World Meteorological Organization (WMO) and the International Labour Organization (ILO), have revealed that there are very few financial institutions which are currently willing to accept and remunerate Swiss franc deposits and those which exist are based in Switzerland. Annex II shows details of the returns recently obtained by WMO and the ILO, together with those achieved by two other Swiss franc investing organizations, the World Trade Organization (WTO) and *La Mutuelle* (a non-profit fund established to promote mutual assistance amongst staff members of the UN and its agencies in Geneva). The deposit returns have been obtained from commercial banks such as UBS, *Crédit Suisse* and BCGE, together with the Swiss Post Office. Both WMO and ILO report having tried to make investments with banks overseas with no success. For example, WMO, in an attempt to diversify risk, has managed to place money with Standard Chartered in the United Kingdom, but this earns no interest.

11. If WIPO wishes to earn interest on its deposits, albeit at the low rates currently available, it appears to have no choice other than to place the money with Swiss commercial banks and the credit ratings stipulated by the policy will have to be lowered in order to permit this. Money could also be placed with the Swiss Post office (Swiss Post Finance AG) which is rated as A+ (Standard and Poor's) and is supported by the Swiss Confederation. However, this institution

places a maximum on the amount of the deposit that it will accept (Annex I gives details of the limits placed upon the ILO and WMO). Lower ratings will also be required if monies held for funds in trust are to be deposited and earn a return.

12. It is therefore proposed to lower the acceptable long-term credit ratings and to include their short-term equivalents, as follows:

Table 3

Standard and Poor's		Moody's	
Long-term	Short-term	Long-term	Short-term
A	A-1	A2	P-1

13. To be acceptable, financial institutions should satisfy both of the stipulated ratings (for either long-term or short-term) which would mean that a long-term investment could only be placed with an institution that has a minimum rating of both A and A2.

14. The inclusion of short-term ratings is proposed for two reasons: (1) such ratings indicate the probability of a default within a year and given that all of WIPO's deposits are currently made for periods of less than twelve months, it would seem appropriate to use short-term credit ratings; (2) financial institutions occasionally receive short-term credit ratings which are relatively stronger than their long-term equivalents. This is the case for *Société Générale* which has a short-term rating (P1), which can be considered as the equivalent to the long-term rating of Aa3 required by the policy.

15. A review of other agencies' investment policies has revealed that many make the distinction between short and long-term investments, although there is no consistent definition of what constitutes short-term. For some agencies, this can be as short as three months, for others as long as one year. For WIPO, it is proposed that an investment of up to six months' duration be considered as short-term.

#### Diversification of financial institutions

16. The policy on investments calls for an adequate diversification of financial institutions, "ensuring that no more than ten percent of the investments are exposed at one time to a single institution with the exception of institutions with sovereign risk and AAA/Aaa rating for which there are no restrictions or limits". As explained in paragraph 10 above, it has been found to be impossible currently to deposit Swiss francs with an overseas bank and earn interest. Furthermore, the experience of the ILO and WMO has shown how difficult it is to find a sufficient number of institutions in Switzerland in order to adequately diversify risk. As with WIPO's policy, the ILO's investment policy stipulates the need to spread the risk of investments across at least ten institutions but, in order to earn interest on all of its deposits, an override to this has been issued by the Controller, enabling the ILO treasury section to divide cash deposits between only three institutions.

17. In order to address this issue, WIPO could endeavor to increase the number of its banking partners to include banks which are currently offering no remuneration on Swiss franc deposits, accepting that no interest will be earned, and could also establish a relationship with the Swiss post office as already suggested. In addition, the Controller could be given the authority to override this section of the policy, depending on the conditions prevailing within the Swiss franc money markets.

### Benchmark for returns

18. The policy sets a benchmark equivalent to the rate of return obtained upon deposits with the BNS. This benchmark will no longer be realistic as BNS returns have proved to be consistently above prevailing market rates and, furthermore, the information would no longer be available to WIPO. Research amongst other agencies has so far failed to reveal the use of any benchmark for Swiss franc deposits but the proposal is to continue this research with a view to suggesting a suitable benchmark.

### **TREASURY COUNTERPARTY RISK POLICY**

19. In 2013, the Organization commissioned the preparation of a study on its treasury and cash management practices, to include the production of a treasury policy. A Request for Proposals exercise (13/063) was organized, the winning bid was submitted by FTI Treasury, a firm of consultants, and their work was carried out between November 2013 and March 2014. The treasury policy prepared contains a series of policy statements, many of which do not require the approval of Member States as they draw on policies and practices which have previously been approved as part of other documents such as the Financial Regulations and Rules (FRR). One of the policies which does, however, require approval is the Treasury Counterparty Risk policy (Annex 2).

20. There is a strong link between this policy and the Policy on Investments as the Treasury Counterparty Risk Policy refers to acceptable credit ratings both for investment counterparties and for those counterparties providing banking operations (such as maintenance of current accounts and handling transactions through such accounts). The required ratings for investment counterparties are necessarily higher than those for operational banks as investment balances tend to be larger and held for longer periods with a financial institution than are operational cash balances. The ratings indicated for the two kinds of counterparties will now need to be adjusted in order to reflect the proposed change in the minimum credit rating required for investment counterparties.

21. The proposal is therefore to include the credit ratings suggested for investment counterparties (Table 2) and to establish BBB-/BAA3 (long-term) as the minimum credit rating for operational banks. In addition, the text “the counterparty credit parameters for investments are part of the Investment Policy which was approved by the Assemblies of the Member States on 5<sup>th</sup> October, 2011”, included within the policy will require updating.

### **RATES OF RETURN**

22. WIPO’s policy on investments states that “the primary objectives of the Organization’s investment management, in order of importance shall be: (i) preservation of capital; (ii) liquidity and (iii) within the constraints of (i) and (ii), the rate of return.”

23. As indicated in Table 1 above, for more than the last six years BNS has consistently offered to WIPO higher interest rates than those available from commercial banks and it is therefore clear that investment income will fall once the Organization is no longer able to place monies with the BNS and has, instead, to make deposits with commercial banks. By way of example, in 2013 WIPO earned 1.89 million Swiss francs on its deposits with the BNS. If, during this period, WIPO had invested with *Crédit Suisse* at the rates shown in Table 1, the Organization would have earned only 265,060 Swiss francs. Similarly, if WIPO had placed its investments in the same way as the ILO, with a maximum amount of 38 million Swiss francs held at the Swiss Post Office and the remainder in a 13 month term deposit with *Crédit Suisse*, the Organization would have earned 847,748 Swiss francs, again recording a fall in interest income.

24. In order to try to maintain (or improve) the level of investment income earned, it will be necessary to change the Organization’s approach towards investment. This could involve:

(1) investing in products which are currently not permitted by the policy (and which may involve more risk) or (2) placing cash for longer periods (thus reducing short-term liquidity) or (3) both.

25. Such changes in the Organization's strategy would require either in-house investment management skills (which are currently not available) or the use of external fund managers, together with close monitoring of cash flows in order to ensure that the Organization would not be faced with a shortage of cash.

26. A review of the investment policies maintained by other agencies across the UN (and not simply those which invest Swiss francs) reveals that agencies are predominantly invested in fixed income products such as term deposits and bonds. However, even with a restriction to use only fixed income products, many are able to invest in a wider product range than WIPO.

27. One proposal is therefore to expand the range of acceptable investments to include such products as bonds issued by supnationals, zero coupon bonds and capital guaranteed deposits. Further investigation of products which could be suitable would be required.

An additional proposal concerns WIPO's borrowings. Given the disparity between the rate of interest paid on borrowings (WIPO currently pays between 1.705 per cent and 3.0725 on the drawdowns of the loan which finances the New Building) and the rate received on investments and the fact that this disparity will increase once WIPO's arrangement with BNS comes to an end, one way of enhancing the net interest position (interest paid less interest received) would be to use investment monies to reduce borrowings. If this proposal were to be accepted WIPO would aim to make the balloon loan repayments which are due in November 2015 (24 million Swiss francs) and January 2016 (16 million Swiss francs), rather than extend the two loan tranches concerned and would also aim to finance the Conference Hall through its monies available for investment rather than by drawing down the loan which has been put in place for this purpose. Clearly, this strategy could only be pursued, either partly or in its entirety, if there were to be no liquidity problems for WIPO as a result. In order to ensure this, the Finance Division would continue to monitor the Organization's future cash flows and to produce forecast statements of financial position (balance sheets). With this information, the Finance Division will be able to determine whether adequate cash ratios (current and liquid ratios)<sup>1</sup> would be maintained if this strategy were to be followed. Current forecasts (up to 31 December 2015) suggest that this would be the case.

## **POLICY ON INVESTMENTS FOR AFTER-SERVICE HEALTH INSURANCE (ASHI) FUNDING**

28. The treasury study carried out by FTI Treasury recognized that the ASHI fund is a long term fund set aside to meet a long-term employee benefit which is arising on a constant basis and, as such, that it has a "pension fund type profile". In 2013 the Member States decided to set aside monies in a separate bank account to cover 50 per cent of the total liability for long-term employee benefits as at December 31, 2013, and to supplement this amount each year with the balance available from the budgeted 6 per cent charge against payroll costs, after deduction of the payment of long-term employee benefits (document WO/PBC/20/6). The balance of this funding as at June 30, 2014 is 84.4 million Swiss francs and is currently in a deposit with the BNS.

29. According to the consultants, all things being equal, the money originally set aside (80.5 million Swiss francs) has to earn 2.3 per cent per annum in order to maintain its relative proportion (i.e. 50 per cent of the liability). A higher return would obviously increase this proportion of 50 per cent just as a lower return would reduce the proportion. A return of 2.3 per cent cannot currently be obtained on bank deposits (whether held at BNS or elsewhere) or by investing in high quality bonds. Forecasts obtained from BNS show that a low interest rate environment is expected to prevail for the foreseeable future in Switzerland. By way of

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<sup>1</sup> Current ratio is calculated as current assets divided by current liabilities whilst liquid ratio is calculated as liquid assets divided by current liabilities

illustration, CHF-denominated bonds issued by the *Confédération* in May 2014 with a 30 year maturity will yield only 1.59 per cent.

30. There is a choice of objectives with regard to ASHI financing that could be considered:
- (a) Ensure that the capital is fully secured by investing only in low risk assets such as bank deposits and sovereign bonds, accepting that this will be accompanied by low returns and the consequent risk that the value of the capital will be eroded over time. This option could mean that WIPO would have to increase its annual contribution to an amount above the 6 per cent charge net of payments in order to compensate for the fact that the capital may not only fail to keep pace with a growing liability but also fail to maintain its proportion of the liability.
  - (b) Aim to achieve a return of 2.3 per cent in order to maintain the proportionate contribution towards the liability. FTI Treasury advises that such an objective would suggest investing in structures such as Absolute Return Funds which optimize capital security while targeting specific returns. These returns would be supplemented by the annual contribution and the proportion of the liability represented by the fund could increase over time.
  - (c) Seek higher returns but recognize that this will require accepting higher levels of risk. Such an approach would lend itself towards investing in riskier asset classes such as equities, property and alternatives such as commodities – typically in funds rather than in fixed assets. Achieving an enhanced return on ASHI investments may enable the Organization to reduce or avoid the need to supplement the fund with the unused part of the 6 per cent payroll charge.

31. Several UN agencies have begun to fund their ASHI liabilities and the table below provides details of how these funds have been invested.

Table 4

Agency	ASHI Investments USD million	Internally managed	Externally managed	Internally and externally managed	Investment products
FAO	433		X		50% equities 50% bonds of which 10% are in emerging markets
IFAD	70		X		N/A
ILO	77		X		bonds
OECD	25			X	N/A
UNDP <sup>1</sup>	500		X		60% equities, 30% fixed income, 10% alternatives such as private equity and hedge funds
UNICEF <sup>1</sup>	300		X		
UNOPS <sup>1</sup>	27		X		
UNWTO	2	X			N/A
WFP <sup>2</sup>	356		X		Similar to FAO
UNHCR <sup>3</sup>	27	X			Money market, certificates of deposit
WHO	614		X		Equities Fixed income Considering real estate, hedge funds and private equity

<sup>1</sup> UNDP, UNICEF, UNOPS, UNFPA, UNWOMEN and UNCDF were party to the same Request for Proposals exercise launched in 2013 with the objective of securing external fund managers to manage their ASHI financing. At the time of this document's preparation, the funds are in the process of being transferred to the managers selected.

<sup>2</sup> USD 356 M represents 82% of WFP's ASHI liabilities. Details of the percentage of the total liability covered by other agencies are currently not available.

<sup>3</sup> UNHCR advises that it has not yet undertaken an AIM study. This study could change the investment products used.

32. An integral component in determining the strategy for ASHI financing is to undertake an Assets and Liability Management analysis (ALM) of the funding in order to correctly match the maturities contained within the overall liability with the assets into which the funding would be invested. The ALM analyst would then advise as to which investment asset classes should be used. Such an analysis costs 20 to 40 thousand Swiss francs.

33. The proposal would therefore be to undertake an ALM study and to then prepare a separate investment policy for ASHI which would draw on the practice of other UN agencies which have already established or are in the process of establishing an investment strategy for ASHI. Such a policy would permit investment products, such as equities, which are suited to a long-term fund. One product which could be considered is a home loan scheme for staff, enabling staff members to purchase a home on terms that would be slightly better than those on offer from commercial banks. The ASHI funds would benefit from receiving interest on monies lent to staff at rates which would be considerably higher than those paid on bank deposits. The European Patent Office offers such a home loan scheme and this could be studied to assess whether such a scheme should be offered by WIPO.

34. The following decision paragraph is proposed.

35. *The Program and Budget Committee:*

*(i) recognized the need to amend the policy on investments; and*

*(ii) requested the Secretariat to:*

*(a) submit a detailed proposal on a revised version of the policy, at its next session, following its review and clearance by the Investment Advisory Committee;*

*(b) undertake an ALM study and submit a separate investment policy for ASHI financing, following its review and clearance by the Investment Advisory Committee; and*

*(c) subject to there being sufficient levels of liquidity available, finance the Conference Hall from monies available for investment rather than by drawing down the loan which has been put in place for this purpose and/or make either or both of the loan repayments related to the New Construction Project which are due in November 2015 and January 2016.*

[Annexes follow]



## **POLICY ON INVESTMENTS**

*Approved by the Assemblies of the WIPO Member States at the Forty-Ninth Series of Meetings held from September 26 to October 5, 2011*

### Authority

1. This investment policy is developed pursuant to Financial Regulation 4.10 that provides authority for the Director General to make short-term investments of money not needed for immediate requirements in accordance with the Organization's investment policy as approved by the Member States, and Financial Regulation 4.11 that provides authority for the Director General to make long-term investments of monies standing to the credit of the Organization in accordance with the Organization's investment policy as approved by the Member States. The investment policy also takes into consideration Financial Rule 104.10 (a) which delegates to the Controller the authority to make and prudently manage investments in accordance with the investment policy as approved by the Member States.

### Objectives

2. The objectives of the investment policy are established in Financial Rule 104.10 (b) which provides that the Controller "shall ensure that funds are held in such currencies and invested in such a way as to place primary emphasis on minimizing the risk to principal funds while ensuring the liquidity necessary to meet the Organization's cash flow requirements". The primary objectives of the Organization's investment management, in order of importance, shall be (i) preservation of capital; (ii) liquidity and (iii) within the constraints of (i) and (ii), the rate of return.

### Diversification of financial institutions

3. Financial Rule 104.12(a) provides that "All investments shall be made through and maintained by recognized financial institutions designated by the Controller". The Organization's investments shall be distributed among multiple institutions, ensuring that no more than ten per cent of the investments are exposed at one time to a single institution with the exception of institutions with sovereign risk and AAA/Aaa<sup>1</sup> rating for which there are no restrictions or limit.

### Currency of investment

4. Foreign exchange risk and exposure is to be managed in such a way as to minimize risk and preserve the value of assets as denominated in Swiss francs which is the currency in which the Organization's budget is approved and accounts are reported. To the maximum extent possible, short, medium and long term investments shall be managed by matching currencies held, forecast cash inflows and forecast disbursements by currency and period.

### Benchmark

5. All categories of the Organization's cash resources will be managed internally by reference to the rate of return obtained by the Organization through deposits with the Swiss National Bank (*Banque Nationale Suisse* BNS) for Swiss francs, the 3-month Euribor rate for euro and the 3 month T-bill rate for United States dollars.

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<sup>1</sup> Details of credit ratings shown in the Annex

### Categories of Investments

6. Investments will be made as follows:

(a) All Swiss franc investments for WIPO will be held with the BNS provided that the rate offered is higher than that available from commercial banks having the required credit rating.

(b) Investments other than those made with the Swiss National Bank shall be limited to money market funds and time deposits held by banks with a credit worthiness rating of AA-/Aa3 or higher and to high grade corporate or government bonds rated AA-/Aa3 or higher.

(c) Monies held for funds in trust will be placed in money market funds and time deposits with banks meeting the required credit rating.

7. Investment in derivatives for speculative purposes are not permitted. However, where investments are held in currencies other than the Swiss franc, the use of hedging instruments to minimize the risk arising from the fluctuation of the currency of the investment against the Swiss franc and thus avoid total negative investment returns may be authorized by the Chief Financial Officer/Controller, after consultation with the Advisory Committee on Investments to be established internally by the Director General.

8. The investments shall be managed internally by Finance Services of the Organization with the approval of the Chief Financial Officer/Controller. Cash flow projections for each category shall be updated periodically as required to ensure sufficient funds are available in each category to meet liquidity requirements.

9. The investments of the Organization's funds will be reviewed at least annually by the Advisory Committee on Investments, to ensure that they reflect any changes in the Organization's business model and financial position.

### Ethical Considerations

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

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

[Annex II follows]

## PERMITTED INVESTMENT PRODUCTS AND RECENT RETURNS OF SWISS FRANC INVESTING ORGANIZATIONS

Organisation	Minimum Credit Rating	Maximum % to be held	Investment products permitted	Recent/current Investments
International Labour Organization	A-	10% (c. CHF 30M) but an override of investment policy limit has been issued by Controller to allow investments of up to CHF 100M with same institution	<ul style="list-style-type: none"> <li>Bank deposits</li> <li>Swiss post office</li> <li>Money market funds</li> <li>Short dated bonds</li> </ul>	<p>Have approached various banks outside Switzerland - none interested in CHF deposits</p> <p>CS/UBS - 13 month term deposit - 0.25%</p> <p>La Poste - interest falls once a certain maximum is reached - CHF 38M earns 0.25%, any additional amounts earn 0.125%. 0.125% also payable on a certain initial amount before 0.25% is triggered</p> <p>External fund managers permitted</p>
World Meteorological Organization	Individual/bank financial strength rating (BFSR)	No more than 70% with an individual institution	<ul style="list-style-type: none"> <li>Bank deposits</li> <li>Deposits with Swiss post office</li> <li>Short-term government debt up to 6 months maturity</li> <li>Money market funds rated AAA</li> <li>Sovereign-backed debt</li> </ul>	<p>Post Finance CHF 50M maximum - 0.15% Amounts up to 30 M earn a lower rate</p> <p>Standard Chartered CHF 20M - 0%</p> <p>UBS - CHF 13M (CHF 5M fixed for 3 months at 0.1%, balance earning 0.05%)</p> <p>CS - CHF 14M (CHF 10M fixed for 6 months at 0.25% with balance earning 0.05%)</p> <p>Deutsche Bank CHF 2M - 0%</p> <p>Other - CHF 0.5M - 0%</p>
World Trade Organization	A+	None stipulated	<ul style="list-style-type: none"> <li>Interest bearing accounts</li> <li>Bank term deposits up to 24 months</li> <li>Money-market investment funds</li> </ul>	<p>Credit Suisse "Compte Cash deposit" - 0.20%</p> <p>Requires 31 days' notice with a 1% fine for earlier withdrawals</p> <p>UBS "Compte marché monétaire 35" - 0.10%</p> <p>Requires 35 days notice and no interest is paid for the last month prior to termination</p> <p>Have never worked with external fund managers and believes they would not be allowed</p>
la Mutuelle	<ul style="list-style-type: none"> <li>AI (Moody's or Standard &amp; Poor equivalent)</li> <li>Government and Treasury Bonds - AA (Moody's or Standard &amp; Poor Equivalent)</li> <li>Bonds from supranational and international development institutions - AA</li> <li>Corporate bonds - A (or below A depending on whether debtors' quality can be determined)</li> <li>Capital guaranteed structured products</li> <li>Unrated bonds - checked with UBS (Swiss credit update) with a minimum UBS credit rating of A</li> </ul>	10% of total invested assets	<ul style="list-style-type: none"> <li>Bank deposits</li> <li>Certificates of deposit</li> <li>Capital guaranteed structured products</li> <li>Government and Treasury Bonds</li> <li>Bonds from supranational and international development institutions</li> <li>Corporate bonds</li> <li>Capital guaranteed structured products</li> <li>Unrated bonds</li> </ul>	<p>Bonds are kept until maturity - currently returns are low. Average duration of portfolio cannot exceed 7 years</p> <p>External fund managers are permitted</p> <p>Such managers are allowed to invest up to 10% in other investments such as "absolute return funds", convertible funds, etc... Given a 5 year mandate which can be renewed.</p>

## TREASURY COUNTERPARTY RISK

Treasury counterparty credit risk on treasury related assets arise as a result of holding cash investments, cash at bank and from entering into foreign currency transactions. Default by treasury counterparties represents a significant risk to WIPO. WIPO policy is to manage this risk through risk diversification, counterparty credit assessment and the use of counterparty credit limits.

Treasury counterparty risk management distinguishes between:

- Investment counterparties – core surplus cash and reserves which are subject to approved Cash Investment policy parameters
- Bank counterparties:
  - Cash at bank – cash used for liquidity purposes to meet payment obligations as and when they fall due
  - Foreign currency transactions – the in-the-money fair value of approved hedging instruments.

***The counterparty credit parameters for investments are part of the Investment Policy which was approved by the Assemblies of Member State on 5<sup>th</sup> October 2011.***

***Rule 104.2 of the FRR gives authority to the Controller to designate the banks in which the funds of the Organization are kept. This is the source of authority for the counterparty risk parameters in respect of cash at bank and foreign currency transactions.***

### Policy Statements & Provisions

Policy Issue	Policy Statement & Provision
Counterparty Credit Ratings	<ul style="list-style-type: none"> <li>▪ WIPO will only enter into transactions with approved counterparties and those who maintain the following long-term investment grade ratings:               <ul style="list-style-type: none"> <li>○ Investment counterparties:                   <ul style="list-style-type: none"> <li>▪ a minimum credit rating of AA-/Aa3</li> </ul> </li> <li>○ Bank counterparties:                   <ul style="list-style-type: none"> <li>▪ A minimum credit rating of A-/A3 applies.</li> <li>▪ Or by exception where specifically approved by IAC.</li> </ul> </li> </ul> </li> <li>▪ Approved counterparties are set out in <b>Schedule 5</b>.</li> </ul>
Counterparties Approval	<ul style="list-style-type: none"> <li>▪ Treasury transactions will only be executed with approved counterparties which meet the minimum credit criteria requirements as defined in this policy.</li> <li>▪ All bank, foreign exchange and investment counterparties must be pre-approved by the Investment Advisory Committee.</li> </ul>

Policy Issue	Policy Statement & Provision
Credit Default Swap Levels	<p>Where a readily available Credit Default Swap (CDS) rate is quoted for counterparties (on Bloomberg or Reuters), WIPO will monitor these as an indication of counterparty risk.</p> <ul style="list-style-type: none"> <li>▪ WIPO will in particular monitor closely any counterparties with a CDS level on excess of 300bps and may reduce/remove any exposure to these counterparties</li> </ul>
Counterparty Credit Risk Framework and Limits	<ul style="list-style-type: none"> <li>▪ Credit limits will apply to individual counterparties. Exposure limits will take account of: <ul style="list-style-type: none"> <li>○ The nominal value of cash and investments held with a counterparty</li> <li>○ The Mark to Market Exposure on Foreign Currency Transactions with a counterparty</li> </ul> </li> <li>▪ Individual and category exposure limits applicable to approved counterparties as follows: <ul style="list-style-type: none"> <li>○ A maximum OVERNIGHT limit of CHF 20 million applies to bank counterparties with a credit rating below AA/Aa</li> <li>○ Not more that 10% of total cash, ITM derivatives AND investments can be held with any single counterparty unless it has an AAA credit rating</li> </ul> </li> </ul>
Limits Approval	<ul style="list-style-type: none"> <li>▪ The approved counterparty and exposure limits can be revised by the Director General and the Controller, acting together.</li> </ul>
Exposure Monitoring	<ul style="list-style-type: none"> <li>▪ WIPO must regularly evaluate, measure and report treasury counterparty exposure.</li> </ul>

[End of Annex III and of document]