

Program and Budget Committee

Twenty-Third Session
Geneva, July 13 to 17, 2015

REVISED POLICY ON INVESTMENTS (TO BE EFFECTIVE ON DECEMBER 1, 2015)

Document prepared by the Secretariat

BACKGROUND

1. Following the introduction in 2014 by the Swiss Federal Finance Administration (AFF) of new rules concerning the opening and maintenance of deposit accounts, the Director General of the World Intellectual Property Organization (WIPO) was informed in a letter dated April 9, 2014 (Annex I), that WIPO would no longer be able to hold deposit accounts with the AFF (this department was referred to as the National Bank of Switzerland or BNS throughout the current Investment Policy in Annex II). The AFF has allowed WIPO a period of transition which will finish at the end of 2015, and WIPO is therefore required to give instructions with regard to the transfer of its investments and the subsequent closure of its accounts by no later than December 1, 2015.
2. Following this development, which has significant implications for the Organization, document WO/PBC/22/19 "Proposal to Amend the Policy on Investments" was submitted to the Program and Budget Committee (PBC) in September 2014 and it was agreed that a detailed proposal on a revised version of the investment proposal, together with a separate investment policy for After-Service Health Insurance (ASHI) financing, would be submitted to the next session of the PBC.
3. Since the PBC meeting in September 2014, the banking landscape has changed significantly in Switzerland, most notably because of the introduction of negative interest rates by the BNS following its abandonment of the EUR/CHF currency peg in January 2015. The BNS negative rate is currently – 0.75 per cent but this could deteriorate further, and several Swiss financial institutions are already charging higher negative rates (up to – 3.0 per cent). WIPO is currently fortunate in that the AFF has not imposed negative interest rates on the Organization's investments; instead, these are attracting an interest rate of zero. The

combination of a negative interest rate environment and the requirement to withdraw its investments from the AFF by the end of 2015 gives rise to considerable challenges for the management of WIPO's monies available for investment. These are further discussed in document WO/PBC/23/7 "Proposal for Additional Revisions to Policy on Investments" which addresses the various issues involved. The Secretariat recognizes that, given the number of issues and the nature of certain concepts related to investments, the PBC may not decide upon them in its upcoming sessions in 2015. However, following the decision of the AFF, the Organization will need an amended investment policy to be in place in December 2015 (if only for an interim period), when its investments are withdrawn from the AFF.

4. This document therefore proposes the minimum changes required to the current investment policy, in order to have available to the Organization a policy that would enable it to operate under the new circumstances from December 2015. The proposed changes are indicated as track changes in the policy document itself (Annex II) and are explained below.

PROPOSED CHANGES

Changes to paragraph 2

5. In paragraph 2 ("Objectives"), the final sentence will change as follows (the new proposed text is underlined):

current: "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."

proposed: The primary objectives of the Organization's investment management, in order of importance, shall be (i) preservation of capital (to the extent possible if prevailing interest rates are negative); (ii) liquidity and (iii) within the constraints of (i) and (ii), the rate of return.

6. The change is required in order to reflect current market conditions in Switzerland where interest rates are now negative on bank deposits and on Swiss government bonds up to 12 years (as at the date of this document). Market commentators differ in their estimates of how long this situation may continue, with some believing that negative interest rates will prevail in Switzerland for up to five years.

Changes to paragraph 3

7. In paragraph 3 ("Diversification of financial institutions"), the final sentence requires amendment (the new proposed text is underlined).

current: "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/Aaa¹ rating for which there are no restrictions or limit."

proposed: The Organization's investments shall be distributed among multiple institutions, with the aim of dividing investment monies amongst a minimum of four institutions, if possible. All of the Organization's investments may be placed with a single institution which enjoys sovereign risk and AAA/Aaa¹ rating.

¹ Details of credit ratings shown in Annex II.

8. The change is required as it has become increasingly difficult to identify banks which are willing to accept Swiss francs from new customers. This has already been identified as a problem in 2014 and document WO/PBC22/19 explains how both the World Meteorological Organization (WMO) and the International Labour Organization (ILO) had found very few financial institutions which were willing to accept and remunerate Swiss francs. The situation has now worsened and it is currently not only impossible to find a bank offering a positive return on Swiss franc deposits but also very difficult to find a bank which will accept significant amounts of Swiss francs from a new customer. This is true for both Swiss banks and banks overseas. The Organization will therefore distribute its investment monies amongst its four banking partners and will try to establish new banking relationships in order to diversify investments still further.

Changes to paragraph 5

9. Paragraph 5 (“Benchmarks”) will change as shown below (the new proposed text is underlined):

current: “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.”

proposed: All categories of the Organization’s cash resources will be managed internally by reference to the 3-month Swiss Libor rate for Swiss francs, the 3-month Euribor rate for euro and the 3 month T-bill rate for United States dollars.

10. The change is necessary as the Organization will no longer be able to invest with the Swiss authorities (AFF) and therefore requires a benchmark which is more appropriate.

Changes to sub-paragraph 6(a)

11. Sub-paragraph 6(a) will change as shown below (the new proposed text is underlined):

current: “(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.”

proposed: (a) All Swiss franc investments for WIPO and for Funds in Trust (FITs) will be held with sovereign and AAA/Aaa¹ related institutions provided that these can be identified and will accept such investment monies.

12. The National Bank of Switzerland (BNS) clearly needs to be replaced in this sub-paragraph. If WIPO can identify sovereign and AAA/Aaa¹ rated institutions (not excluding the National Bank of Switzerland, BNS) which will accept the Organization’s investments and those relating to FITs, it will place these with such institutions in order to reduce counter-party risk. In an environment of negative rates, the Organization will give preference to holding its monies available for investment with sovereign and AAA/Aaa¹ rated institutions, unless such institutions charge a significantly higher level of negative interest rate than commercial banks. In such circumstances, the Organization will consider whether it would be better to place investments with other banking counter-parties which have acceptable credit ratings. The evaluation will involve discussions with the banking partners involved and a review of risk factors in light of market information and analysis.

Changes to sub-paragraph 6(b)

13. Sub-paragraph 6(b) will change as shown below (the new proposed text is underlined):

current: “(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.”

proposed: (b) Investments other than those made with sovereign and AAA/Aaa¹ rated institutions shall be limited to money market funds and time deposits held by banks with a long-term credit worthiness rating of A-/A3 or higher or a short-term credit rating of A-2/P-2, medium grade government bonds rated A-/A3 or higher and medium grade corporate bonds rated BBB/Baa2 or higher.

14. These changes are necessary to reflect prevailing market conditions. The Organization’s current banking partners, with which monies will be held once the relationship with the Swiss authorities comes to an end, are rated below the AA-/Aa3 level stipulated by the current policy. Including short-term credit ratings for banking institutions is appropriate as most of WIPO’s investments are currently made for periods of less than 12 months. The inclusion of BBB/Baa2 as an acceptable rating for corporate bonds is based on advice received from banking partners which have stated that positive returns would only be possible from corporate bonds by accepting this level of risk. It is to be noted that the rating BBB/Baa2 is still classed as “investment grade”.

Changes to sub-paragraph 6(c)

15. Sub-paragraph 6(c) will be amended as shown below:

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

proposed: (c) Sub-paragraph is removed.

16. This sub-paragraph has been removed as investments for FITs will be treated in the same way as those for WIPO (paragraph 11 indicates the proposed change).

Changes to paragraphs 7 and 8

17. In paragraphs 7 and 8, a few small editorial changes are required.

- (a) Paragraph 7 will change as follows.

current: “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.”

proposed: 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 Controller, after consultation with the Advisory Committee on Investments established internally by the Director General.

(b) In paragraph 8, the first sentence will change.

current: “The investments shall be managed internally by Finance Services of the Organization with the approval of the Chief Financial Officer/Controller.”

proposed: The investments shall be managed internally by the Finance Division of the Organization with the approval of the Controller.

18. The following decision paragraph is proposed.

19. The Program and Budget Committee (PBC), recognizing the need for an Investment Policy to be effective December 1, 2015, recommended to the Assemblies of the Member States of WIPO to approve the revised Policy on Investments contained in document WO/PBC/23/6, Annex II.

[Annexes follow]

LETTER FROM THE SWISS FEDERAL DEPARTMENT OF FINANCE

[translated from the French]

Schweizerische Eidgenossenschaft
Confédération Suisse
Confederazione Svizzera
Confederaziun svizra

Federal Department of Finance OFF
Federal Finance Administration AFF

A CH-3003 Berne
AFF, dwi

World Intellectual Property
Organization
Director General
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1211 Genève 20

Your reference :
Reference / File no. :
Our reference: dwi
File processed by: Daniel Wittwer
Berne, 9 April 2014

Closure of deposit accounts: 1011507007, 1011507008, 1011507009, 1011507014, 1011507015

Director General,

On January 1st, 2013, the Federal Finance Administration (AFF) implemented new provisions relating to the opening and keeping of deposit accounts with the AFF. The new conditions governing the opening and keeping of deposit accounts are henceforth clear and uniform.

In parallel, AFF has verified if existing deposit accounts are in compliance with the legal bases governing the keeping of an account.

According to Article 61, para. 1, of the Law on the Finances of the Confederation (LFC; RS 611.0), decentralized units of the Federal Administration having their own accounting structure may open deposit accounts with the AFF. In addition, certain organizations can also entrust the Federal Treasury with their assets according to specific legal provisions. Annex 1 of the Ordinance of November 25, 1998 on the Organization of Government and Administration (OLOGA; RS 172.010.1) provides a list of all decentralized units of the Federal Administration.

WIPO is not part of the decentralized Federal Administration and no specific legal provision entitles it to have a deposit account. For this reason, AFF is obliged to close deposit accounts: 1011507007, 1011507008, 1011507009, 1011507014, 1011507015.

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We are aware that your Organization has held one or more deposit accounts with the AFF for numerous years. However, the legal conditions for this are no longer fulfilled under the current legal framework. The verifications that we are currently carrying out will result in the closure of these accounts due to an absence of required legislation.

We are also aware of the fact that such a closure could cause problems for your Organization. In view of our long-standing collaboration and in order to facilitate this process in the best possible manner, we are prepared to grant you a significant transitional period until the end of 2015.

According to Chapter 6, letter c, of the provisions of January 1st, 2013 relating to the opening and keeping of deposit accounts with the AFF, we inform you herewith that we will clear the deposit accounts 1011507007, 1011507008, 1011507009, 1011507014, 1011507015 on December 15, 2015.

We will provide you with payment instructions relating to the closure of the accounts by December 1st, 2015. The accounts in question will no longer bear interest from December 15, 2015.

Should you have any further questions, please do not hesitate to contact the team at the Federal Treasury (tresorerie@efv.admin.ch).

Kindest regards

[Signed by Serge Gaillard
Director

Annex:

- Provisions relating to the opening and keeping of deposit accounts at the AFF

Copies (via e-mail):

- Jürg Lauber, EDA
- STS/EDA Caroline
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- Susanne Kaufmann
- EFV AP Samuel
- Trauffer, EFV AP
- Claudio Hug, EFV AP
- Jacqueline Zaugg, EFV BT

[Annex II follows]



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POLICY ON INVESTMENTS EFFECTIVE DECEMBER 1, 2015

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 (to the extent possible if prevailing interest rates are negative); (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 with the aim of dividing investment monies amongst a minimum of four institutions, if possible. All of the Organization's investments may be placed with a single institution which enjoys 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/Aaa¹ rating, for which there are no restrictions or limit.

¹ Details of credit ratings shown in the Annex.

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 3-month Swiss Libor rate for Swiss francs ~~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.

Categories of Investments

6. Investments will be made as follows:

(a) All Swiss franc investments for WIPO and for Funds in Trust (FITs) will be held with sovereign and AAA/Aaa¹ related institutions provided that these can be identified and will accept such ~~WIPO's investment monies, 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 sovereign and AAA/Aaa¹ rated institutions ~~the Swiss National Bank~~ shall be limited to money market funds and time deposits held by banks with a long-term credit worthiness rating of AA-/A3a3 or higher or a short-term credit rating of A-2/P-2, medium grade government bonds rated A-/A3 or higher and medium and to high-grade corporate ~~or government~~ bonds rated BBB/Baa2 or higher. ~~AA-/Aa3 or higher.~~

~~(c) Monies held for funds in trust will only be placed in money market funds and time deposits with banks meeting the required credit rating and whose interest rates are positive.~~

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

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

Ethical Considerations

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

[Annex follows]

ANNEX

| 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 | | High grade |
| Aa3 | | AA- | AA- | High grade | | |
| A1 | | A-1 | A+ | A-1 | A+ | F1 |
| A2 | A | | A | | | |
| A3 | P-2 | A- | A-2 | A- | F2 | Lower medium grade |
| Baa1 | P-3 | BBB+ | A-3 | BBB+ | F3 | |
| Baa2 | | BBB | | BBB | | |
| Baa3 | | BBB- | | BBB- | | |
| Ba1 | Not prime | BB+ | B | BB+ | B | Non-investment grade speculative |
| Ba2 | | BB | | BB | | |
| Ba3 | | BB- | | BB- | | |
| B1 | | B+ | | B+ | | Highly speculative |
| B2 | | B | | B | | |
| B3 | | B- | B- | | | |
| Caa1 | | Not prime | CCC+ | C | CCC | C |
| Caa2 | CCC | | Extremely speculative | | | |
| Caa3 | CCC- | | In default with little prospect for recovery | | | |
| Ca | CC | | | | | |
| C | C | | | | | |
| | | D | / | DDD | / | In default |

[End of Annex II and of document]