FEDERATION OF ASSOCIATIONS OF FORMER INTERNATIONAL CIVIL SERVANTS
FÉDÉRATION DES ASSOCIATIONS DES ANCIENS FONCTIONNAIRES INTERNATIONAUX
FEDERACION DE ASOCIACIONES DE EX-FUNCIONARIOS INTERNACIONALES

Report on the 63rd session of the United Nations Joint Staff Pension Board

The 63rd session of the United Nations Joint Staff Pension Board was held at the International Atomic Energy Agency in Vienna, Austria, from 14 to 22 July 2016. Mr. V. Yossifov, representative of the Governing Body of WIPO, was elected Chairperson.

FAFICS was represented by Linda Saputelli, FAFICS President, Katia Chestopalov, Luis Dominique Ouedraogo, Warren Sach, Gerhard Schramek and Marashetty Seenappa.
The Pension Board considered 39 agenda items. Those items of particular interest and concern to FAFICS member associations are covered in this report.

Actuarial valuation

The actuarial valuation as at 31 December 2015, showed that the contribution rate required to achieve actuarial balance was 23.54 per cent of pensionable remuneration, as compared with the current contribution rate of 23.70 of pensionable remuneration; resulting in an actuarial surplus of 0.16 per cent as against a deficit of 0.72 per cent of pensionable remuneration revealed in the valuation as at 31 December 2013.

The Board noted the favourable trend in the valuations results reporting a surplus of 0.16 per cent. It also noted the importance of continuing to earn the necessary 3.5% annual real rate of return on both a long-term basis for the future solvency of the Fund and a short-term basis so as to not reverse the upward trend in valuation results.

Management of investments

In respect of the Fund's investments, the Board received the usual reports from the Representative of the UN Secretary-General for Investments (RSG) Ms. Carol Boykin, and from members of the Investment Committee.

The RSG reported that as of 31 December 2015, the Fund was valued at USD 52,114 million. This represented a modest decline from the Fund's year-end record high of USD 52,820 million as of 31 December 2014. For the calendar year 2015, the Fund achieved a nominal return of -1.0 per cent, slightly outperforming the Policy Benchmark of negative 1.10 per cent by 10 basis points (bps) yet below the 3.5 per cent real return target. While the Fund's performance was down last year, the Fund's value and return are now higher.

As of 13 July 2016, the Fund's year-to-date nominal return was 3.89 per cent, and the Fund's market value of assets was USD 54,080 million. The RSG noted that those figures represented good progress in 2016 towards the Fund's 3.5 per cent real rate of return objective.

The RSG reported that, in 2016, the Fund had abandoned the strategy that had been classified as a hedge fund for accounting purposes. Proceeds had since been re-allocated to equity until such time as they could be redeployed into private equity.
The Fund was also diversified in terms of country exposure, with direct investments in 40 countries, and a total of 100 countries including both direct and indirect investments.
The RSG concluded her presentation by noting that the Fund had weathered the market volatility of 2015, thanks to a disciplined approach of adhering closely to the Fund's Strategic Asset Allocation targets. The Fund's conservative and risk-adverse approach had resulted in capital preservation in a challenging period.

The RSG's presentation was followed by comments by the Investments Committee.
The Chair of the Investments Committee stated that the Fund's global, widely diversified and multicurrency portfolio made it a truly complex organization. The Fund's size and complexity entailed contradictory and difficult objectives. The Fund's investment performance was good despite difficult market conditions. The UNJSPF's internal management model results that this pension fund has an investment expense ratio, which is one of the lowest in the world.
In the discussion in the Board, many questions were raised about the underperformance versus the policy benchmark for the first half of 2016.

The FAFICS representative expressed his concern over the Fund's underperformance in 2015, and the first six months of 2016 relative to the policy benchmark. He also noted that the 30 March 2016 performance data showed that all equity and fixed income portfolios had underperformed versus benchmarks for the quarter. If the Fund continued to have bad short-term returns, performance might not prove sustainable in the long term.

FAFICS felt that there was not significant time spent during the Investments Committee meetings on tactic asset allocation in the portfolio. Indeed, it was difficult to identify in the minutes the specific recommendations that the Investments Committee had made.

In her reply, the RSG acknowledged the Fund's underperformance versus policy benchmark over the first six months of 2016. She pointed out that performance relative to benchmark tended to vary from one quarter to the next. Performance should be viewed on a long-term rather than a near-term basis.

In response to the FAFICS question about who was monitoring the Fund's performance, and particularly, whether the Investments Committee was the monitor, the RSG clarified that the Investments Committee was an advisory body, and monitoring was not part of the Committee's mandate. She confirmed that she would provide monitoring and attribution reports on the Fund's performance to the Board.

The Participants Group raised questions regarding the Fund's investment in exchange traded funds (ETFs), its associated costs and its value added to the Fund. The RSG responded that exposure could perhaps be reduced as further staff was added to IMD. The cost of internal management could in fact be lower than that of investing in ETFs. She explained that ETFs had been used periodically to access certain markets, if needed quickly, because the potential profits of the investment could outweigh the higher cost of ETF utilization. Over time, investment in ETFs, as a portfolio management tool, might be used less.

The RSG further clarified that existing ETF investments may have modest exposure to stocks that the Fund was restricted from owning, i.e. tobacco and armaments. Those restrictions were

one of the reasons for the Fund is being internally managed; and offered even more reason to reduce the use of ETFs over time.
On the issue of vacant positions in IMD, several Board members, FAFICS and the Governing Bodies urged the RSG to fill immediately all vacancies in IMD y, since a low occupancy rate represented a risk to the Fund.

In her response, the RSG briefed the Board on the status of IMD's senior vacancies, especially the five senior positions. Of those five posts, the D2 post, Director, was filled; the D1Chief Operating Officer was currently filled with a TA Officer, while the D1 Deputy Director Risk, D1, Deputy Director and P5, Senior Investment Officer were currently advertised.

Membership of the Investment Committee

The RSG informed the Board that the Secretary General proposed to extend the appoint of the current regular members of the Investments Committee for a three-year term, beginning 1 January 2017. The Board also noted the proposal to appoint Ms. Luciane Oliveros (Brazil) aa a new regular member of the Committee for a three-year term beginning 1 January 2017.

Investment Policy

The purpose of the Investment Policy is to place on record the principles that guide the RSG and the IMD in the management of the investments of the UNJSPF. Those principles include the Fund's return objective, risk measures and its Strategic Asset Allocation policy which constituted the basis for the policy statement before the Board.

FAFICS supported the adoption of the Investment Policy Statement document. Recognising that the Investment policy had thus been clarified. FAFICS hoped that similar clarity could also be obtained in respect of Tactical Asset Allocation.

The Board took note of the 2016 Investment Policy Statement document.

IMD Anti-Fraud Policy

The Pension Board was informed that the Investment Management Division Anti-Fraud Policy has been drafted by IMD to lend further support to IMD policies and procedures in the prevention, detection and reporting of fraud., i.e., corruption and other irregularities against the UNJSPF.

The Board took note of the draft of the Anti-Fraud policy.

UNJSPF Draft Financial Rules

By resolution 69/113 (2014), the General Assembly approved an amendment to Article 4 of the UNJSPF Regulations in order to establish clears authority and reference to the Financial Rules of the Fund. Moreover, in the same resolution the General Assembly emphasised the importance of the Board promulgating financial rules that would govern the financial management of the Fund.

After consultations with the United Nations Office of Legal Affairs, a streamlined version of the draft UNJSPF Financial Rules was prepared by that Office, in close consultation with the Fund secretariat and Investment Management Division. The draft Financial Rules incorporated comments received from the Fund's external auditors as well as the internal auditors (The Office of Internal Oversight Services). Furthermore, the Fund had also consulted the United Nations Offices of the Controller and the Department of Management and their comments were also included in the draft Financial Rules.

FAFICS welcomed the proposed financial rules and expressed appreciation for the work done to reach this point. The FAFICS representative indicated that the rules as proposed did not appear to change policies but rather represented a codification of existing practices. A number of detailed observations were made on the proposed rules including the need for the new rules to cover the lacuna existing as a result of the absence of any rule requiring investment performance reporting. It was suggested that the industry standard Global Investment Performance Standard (GIPS) should be used.

After discussion, the Board approved the draft Financial Rules as presented, as part of the Fund's Administrative Rules. In order to respond to concerns expressed, the Board decided that all Board members should provide further comments and feedback via the Secretary/CEO to the Audit Committee of the Board. The Audit Committee would review the Rules on the basis of the comments received and submit any possible revision to the Board in 2017.

Report on the implementation of the Integrated Pension Administration System (IPAS)

The Board considered the status report on the implementation of the integrated pension administration system (IPAS), which was a complex, large scale, enterprise-wide undertaking. It involved the simultaneous replacement of all legacy systems (including the pension entitlement, pension payroll, financial, and content manager accounting systems) with a fully integrated system solution capable of supporting the Fund's full range of operational, financial, and management functions.

The new system had been deployed on 3 August 2015 in a controlled environment with the legacy systems operating in parallel and IPAS becoming the primary system of record. The Fund achieved the primary objective of deploying a fully functioning, complete, accurate, and consistent payroll covering 72,000 beneficiaries in 190 countries.

As was to be expected with the implementation of a large and complex system, the initial processing rate of new benefits had started slowly, but the Fund swiftly achieved higher processing rates than those achieved under the legacy systems. The Board was informed that the Fund was currently processing a significantly higher number of benefits than under the legacy environment. In May 2016, the Fund reached the highest ever number of benefits processed and paid in one month.

However, the CEO admitted that owing to the scale and complexity of the project, there had been a temporary slowdown in benefit processing times and the related performance measures had not been met during the initial months following IPAS going live.

The Board took note of the status report and the successful implementation of the IPAS project. The Board also commended the management and staff of the Fund for their hard work on the complex project and recommended that the Fund's management intensify its efforts to forecast, plan and manage the Fund's caseload in light of current and anticipated separations. The Board also welcomed the management's proposal to establish a new Task Force to complement specific measures to address the backlog, and to conduct a review of the end-to-end process in cooperation with UNJSPF Member Organizations.

Provisional monthly payment option

When considering the revised budget estimates for the biennium 2016-2017, the Board requested the Secretary/CEO to consider possible measures in response to the request by the Executive Heads' representatives and Participants' Group, including a provisional payment measure as well as those contained in CRP.5 submitted by the Participants' Group to accelerate and simplify benefit processing procedures. The Secretary/CEO considered and determined that the adoption of a short-term measure to pay a provisional amount would alleviate some of the hardship that former participants were experiencing. The CEO proposed that the measure could be implemented in the following circumstances:

a) The provisional payment option would be available in exceptional cases and apply to monthly periodic benefits only. Such payment shall be initiated in cases where the Fund has received all required documentation and the case is considered an "actionable case" in the workload database, but the Fund has not been able to process the benefit within three months from the date that all documentation has been received;

b) No payment would be made until the entitlement to a pension benefit under the Fund's Regulations has been duly verified by the Fund;

c) The Fund shall inform the former participant and his/her employing organization that all required documents have been received and that an advance payment will be made;

d) The Fund shall also inform the former participant and employing organization when his/her benefit has been reconciled and re-calculated.

The Board recognized that, while the above measure would alleviate the hardship caused to former participants on account of the delays in receiving their pension benefits on time, it entailed significant additional work for the Fund. All such cases would require at least double-calculation of the benefits, reconciliation at the time of recalculation, reversal of accounting entries as well as possible questions and legal challenges in respect of foreign exchange fluctuations, cost of living adjustments, etc. Moreover, it could have resource implications in the medium term (after 2017) depending on the implementation modalities and usage.

In accordance with article 7(c), the Board authorized the CEO to implement a measure for provisional payment by early November 2016. The measure shall be applicable to periodic benefits only that have not been put into payment within three months of receipt of all documentation required for processing the benefit. The payment shall be limited to 80% of the estimated monthly periodic benefit payable. The Board requested that the Secretary/CEO submit a report at its 64th session in 2017 on the implementation of the measure and usage, in order to determine the status and any resource implications.

Emergency Fund

The Board established the Emergency Fund in 1973 during its 18th session in Vienna. It had been established on the basis of voluntary contributions from member organizations, staff associations and individual contributors, to alleviate the distress of recipients of small pensions caused by unforeseen hardship. The Emergency Fund, which was not an integral part of the UNJSPF pension benefit system, was financed from assets of the UNJSPF (and voluntary contributions) by an appropriation of US$200,000 each biennium, as approved by the United Nations General Assembly.

During the biennium under review, (1 January 2014 to 31 December 2015), the total amount paid out from the Emergency Fund had been US$ 73,824.36 representing 49 disbursements. The majority of disbursements during that reporting period were one-time payments to beneficiaries who had proven hardship owing to illness, infirmity or for funeral expenses. The largest single payment made during the two-year period was to a beneficiary to cover medical expenses in the amount of US$ 5,774.34.

For the period 1 January 2014 to 31 December 2015, 103 new cases had been received, with 77 cases brought forward from prior years. A total of 180 cases was still to be considered for eligibility during the current period. There were 85 cases that the Fund had not been able to process due to the failure by the pensioner concerned to submit appropriate documentation despite several follow-ups actions taken over a period of more than a year. 39 cases were under review during the period and the Fund had rejected 7 cases as they had not met the Emergency Fund's criteria. The 85 cases that had been closed for want of sufficient documentation would be re-opened again should the requisite documentation be provided at a later date.

In his statement the FAFICS representative noted that whereas the reaction to emergency situations and requests from the fund had improved, the actual response and the speed at which requests were processed called for further attention. Insufficient documentation, was considered one of the main reasons for the long delay in processing. In that regard, there was a need to enhance and speed up the Fund's communication with the applicant more proactively. The Fund should not hesitate to call on the intervention of local AFICS contacts. That would be especially useful when dealing with applications from countries where the language spoken was not English.

The Fund's initial reaction to the flood in Chennai, India, in December 2015 had been overwhelming. For the first time, the application process and the procedure for seeking assistance had been simplified. The local AFICS association had been involved in the initial stages, but the association had not been kept abreast of the assistance provided and a number of applicants still complained of the Fund's failure to communicate. The local AFICS association would like to be kept informed of the number of applicants received, as well as the number of cases still pending and those that had been successful.

The Fund secretariat agreed to continue its efforts to increase awareness of the Emergency Fund both on its website and in the CEO's annual letter. The Fund also agreed to continue to collaborate with the AFICS offices as an effective means of facilitating the process for retirees and other beneficiaries. It was noted that the retiree associations could assist the retirees and beneficiaries in the application and follow-up processes related to claims from the Emergency Fund.

The Board took note of the activities related to the Emergency Fund.

Application of paragraph 26 of the Pension Adjustment System

At its 61st session in 2014, the board had requested that:

> *"considering the complexity of the Two-Track feature, the change in the global economic environment relative to the US dollar since the inception of this feature and the difficulty of consistent administration, the Board requested the CEO to develop possible economic and administrative parameters and updated language for the Pension Adjustment System to assist in the administration of paragraph 26, to be presented for consideration of the Board at its 63rd session."*

Document JSPB/63/R.32 presented by the Secretary/CEO provided an analysis of the application of paragraph 26 and recommendations for the administration of that paragraph. Furthermore, the Secretary/CEO proposed an amended to paragraph 26 for the suspension of the Local Currency benefits. The Secretary/CEO further proposed new provisions for the reinstatement of the Local Currency Track in countries where it had been suspended.

The FAFICS representative stated that while the Federation appreciated the improvement in the administration of aberrant results under paragraph 26, the Federation noted that the new paragraph 26 (a) did not include consultation with the local AFICs or FAFICS prior to suspending the local currency track. FAFICS thus once again requested that the communication procedures for suspension and reinstatement of the local currency track include communication with the local AFICS or, in those countries without an AFICS, with FAFICS.

Furthermore, FAFICS questioned the deletion of sub-paragraph 26 (b)(i) as it specifically described a common form of economic aberrance. Document R.32 provided no rationale for the deletion of that sub-paragraph in the proposed paragraph 26 (b). FAFICS requested that sub-paragraph be retained in the new paragraph 26 (b).

FAFICS also noted that Document R.32 also failed to address the proposal that FAFICS had made at previous sessions of the Board. At that time, FAFICS suggested that the option of freezing local currency track benefits should be explored as an alternative to the full suspension of the local currency track. In the view of FAFICS, freezing pension benefits could avoid a situation, such as that which had occurred in Kenya, when pensioners had their pension benefits reduced by up to 40 per cent. FAFICS requested that the Fund consider that option. The Federation stands ready to cooperate with the Fund in that exercise.

FAFICS welcomed the proposed procedure for the reinstatement of the local currency track in countries where it had been suspended. FAFICS fully supported the proposed text on the understanding that when reinstating the local currency track, retirees and other beneficiaries would be allowed to choose between remaining on the dollar track or returning to the local track.

In its response to the FAFICS statement, the Fund secretariat agreed that additional study must continue regarding the consideration of the alternative of freezing rather than suspending the Local Currency Track benefit under certain circumstances.
With regard to FAFICS' request that the local AFICS and/or FAFICS be consulted before suspension was announced, the secretariat stated that those considerations had already been made part of the Fund's administrative procedures.

After discussion, the Board approved the reinstatement procedures and specifically amended the Pension Adjustment System to provide for a new Local Currency Track benefit to be established as of the date of reinstatement using the 36-month average of exchange rates ending as of that date. The Board also approved the revised language of paragraph 26 of the Pension Adjustment System.

Review of the UNJSPF Appeals Procedures

The Board considered Document R.29 which presented improvements to the Fund's appeal procedures, including the working methods of the Standing Committee. FAFICS had been closely consulted on the document in response to the Board's request in 2014 and consideration had been given to issues raised by appellants in cases before the United Nations Appeals Tribunal (UNAT).

The document proposed that the working methods of the Standing Committee be improved and the role and independence of the Committee be strengthened. Reinforcing and further professionalizing the work of the Standing Committee would enhance accountability and fully reflect the principles on the basis of which the reform of the UN System of Administration of Justice had been undertaken.

The Chairman of the 198th meeting of the Standing Committee briefed the Board on the informal discussions that the Committee had held on the document during its meeting. He noted that all Committee members had supported the concepts of strengthening the Fund's appeals process and further professionalizing the working methods of the Standing Committee so as to increase transparency and reinforce due process rights. However, several members of the Committee had felt that some of the proposals in the document appeared to have more far-reaching consequences, particularly in respect of governance in the period between the Board sessions, should the role of the Standing Committee be limited solely to considering appeals. Those members were thus not ready to support the changes, in particular those to article 4 of the Fund's Regulations.

Many Committee members confirmed that they were satisfied with the way the Legal Office of the Fund had presented the cases to the Committee and noted that the existing practice in that regard should continue. The Committee also noted that several members had been serving on the Standing Committee for many years, thus the requisite continuity**,** and expertise needed, to decide on cases were given.

FAFICS welcomed the proposed changes regarding the appeals procedures, which had been worked out in close consultation between the Fund secretariat and FAFICS. The Federation appreciated the openness that the secretariat had shown throughout the process. FAFICS supported the proposals for improving the appeals process and welcomed in particular the greater degree of fairness accorded to the appellant, and the provision made for more transparency throughout the appeal process.

In response to reservations expressed by some Board members on the proposed changes, the FAFICS representative reminded the Board members that they should review the existing Rules of Procedure and, as the first step, ensure that they were correctly implemented. He referred in particular to Rules B.2, B.3 and B.7, with regard to the term of the members of the Standing Committee, as well as the two Vice Chairs and the approval of the records by the Committee itself.

After discussion, the Board supported a gradual implementation of the proposed changes to the Fund's appeals procedure. It decided that those modifications concerning the proceedings of the Standing Committee that could be implemented without any changes to the Regulations and Rules, should be implemented on a trial basis next year, when the Board meets for a shorter period of time. This means, for example, that the Standing Committee, with the same composition until the new one is appointed by the Board, would meet in 2017 before the Pension Board's 64th session and receive the documentation at least three weeks before the meeting.

In order to increase efficiency, the members of the Committee should receive the records of the meeting soon after the meeting and those should be approved by the Committee, in accordance with the Rules of Procedure B.7.A report would be submitted to the Pension Board for information. Meetings would continue to be confidential and held in private, and all records and correspondence of the Committee would also continue to be private and kept in the care of the Secretary of the Board (Rule B.11 of the Rules of Procedure).

CEO evaluation

The Board considered the evaluation of the CEO's performance presented in the report of the Bureau of the 62nd session. The performance evaluation procedure was in line with the decision of the Board taken in 2012 following the proposal made by the Search Committee that had been mandated with the selection of the Fund CEO in 2012.

A number of representatives from the Governing Bodies, the Participants' Group, Executive Heads Group, and FAFICS, commended the Board the Board on establishing a best practice of a periodic formal evaluation of the CEO, expressed their appreciation to the Bureau for engaging in the CEO evaluation and noted it was an important governance tool.

On the substantive aspects of the CEO's performance, various representatives echoed the Panel's assessment that the CEO's overall performance has been effective and successful and emphasized the importance to the Fund's success of the CEO's leadership during the period of evaluation. It was also noted by various representatives from all Groups that despite a number of challenges, including the limited human resources in the Secretariat and the demands on staff time arising from technology initiatives (including the implementation of IPAS), the Fund's secretariat was well poised with a clear vision for the "way forward". In that respect, several members of all three constituent groups and FAFICS commended the CEO and his staff and expressed confidence in his leadership for the continued management of the Fund.

The Board took note of the result of the CEO performance evaluation and approved the evaluation panel's conclusions and recommendations.

Gerhard Schramek
Chair, FAFICS Standing Committee on Pension Issues
15 August 2016