

COUNCIL  
114th session  
Agenda item 4(c)

C 114/4(c)  
20 April 2015  
Original: ENGLISH

## RESOURCE MANAGEMENT

### (c) Report on Investments

#### Note by the Secretary-General

#### SUMMARY

<i>Executive summary:</i>	This document reports on the investment of the Organization's monies during 2014
<i>Strategic direction:</i>	4
<i>High-level action:</i>	4.0.1
<i>Planned output:</i>	No related provisions
<i>Action to be taken:</i>	Paragraph 11
<i>Related document:</i>	C 110/4(c)

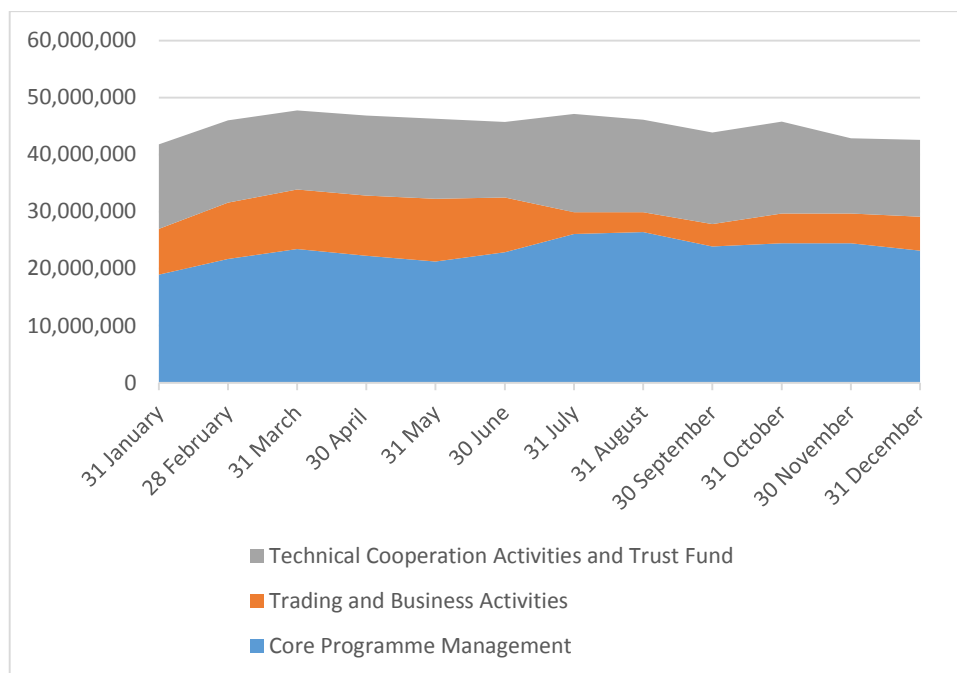
#### Introduction

1 Article IX of the IMO Financial Regulations requires the Secretary-General to report periodically to the Council on the investment of the Organization's monies not needed for immediate use. This document therefore provides the Council with an update on investment levels during 2014 and investment performance over the same year. The Organization's Treasury policy was amended during 2014 to explicitly include a reference to the cash flow forecasting mechanism which is used to identify the cash available for investment. The revised investment policy is attached as annex 1.

#### Level of investments in 2014

2 Figure 1 shows the monthly investment levels over the last year, which also breaks down the overall treasury balance to show the purpose of the funds held, whether for core programme management, trading activities or technical cooperation and related trust funds.

**Figure 1: Level of Treasury Funds for 2014, analysed by nature of funds**

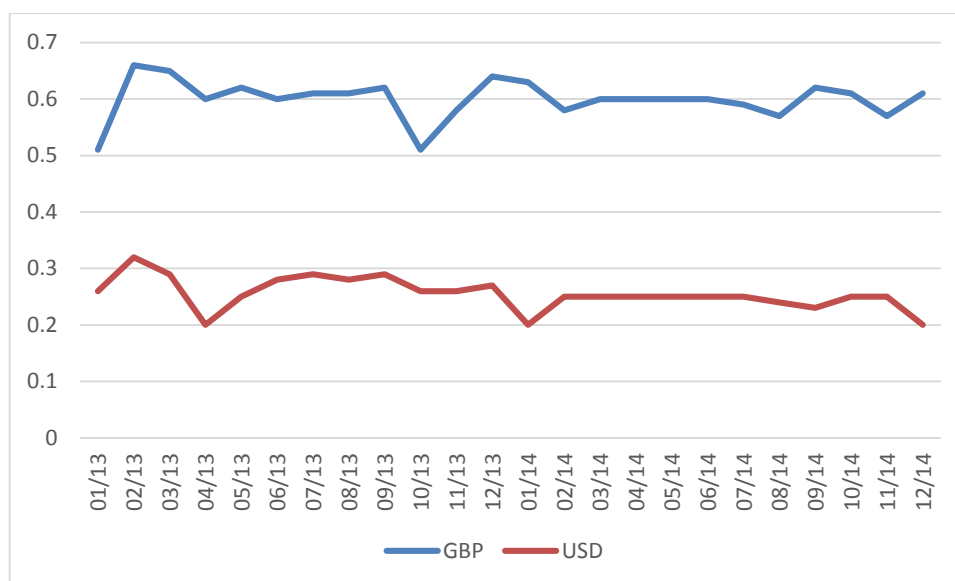


3 Cash balances are held only to the extent considered necessary to meet immediate cash flow needs, taking into account an appropriate level of headroom.

4 The level of funds invested in short-term deposits at the end of each month for the respective Funds is shown in annex 2 to this document, which also shows the interest earned during 2014. The total investments as at 31 December 2014 amounted to £42,587,022.

### **Investment performance**

5 The total Treasury interest income earned for the year to date amounted to £233,126 (2013: £258,397). The highest three-month rate available from counterparties since the start of 2013 is shown in figure 2.

**Figure 2: Indicative rates for the last twenty-four months**

6 The Organization's independent treasury adviser has informed the Treasury Committee that there is little prospect of significant increases in interest rates in the immediate future, with such rises most likely in the first quarter in 2016. The focus of the Organization's investments continues to be capital retention rather than speculative gain, but continued efforts will nevertheless be made to maintain rates of return to the extent possible.

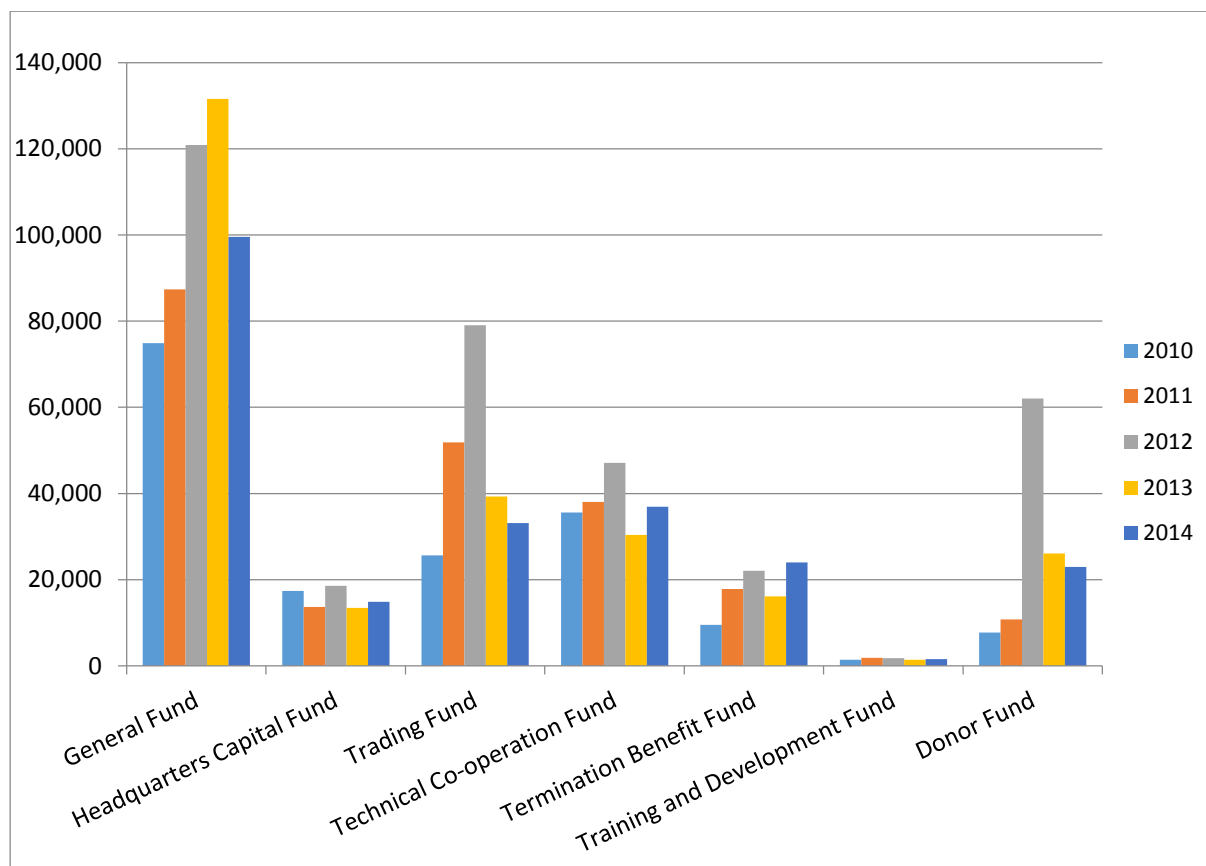
7 The primary factor affecting interest rates in the future is the state of the United Kingdom economy. The Office of Budget Responsibility predicts growth in the region of 2.9% during 2015 and 2016. Whilst available interest rates, particularly on long-term deposits, may increase somewhat early next year in anticipation of a Bank of England rate rise, the Organization should continue to expect low rates of return in the medium term. The major credit agencies are presently conducting a major review of United Kingdom and European financial institutions, including many on the Organization's list of approved counterparties, with a likelihood of downgrades across the industry. Pending the outcome of this review, the Treasury Committee has decided to limit investments with United Kingdom and European institutions to a maximum of three months. This may, in turn, affect future interest income, but is necessary to effectively manage risk.

8 The target rate on investments contained in the Divisional Business Plan for 2014-2015 range from 0.4% or above for excellent performance to 0.2% or below for poor. The annualized rate of return achieved on investments in 2014 was 0.40% which meets the target for excellent performance.

9 Figure 3 below sets out the interest earned by the General<sup>1</sup>, Headquarters Capital, Trading, Technical Cooperation, Termination Benefit, Training and Development and Donor Funds for the last five years.

<sup>1</sup> The General Fund balance includes interest received on investments held on behalf of the Working Capital Fund and interest due to Member States through the Contributions Incentive Scheme.

**Figure 3: Interest earnings by fund**



10 The Contributions Incentive Scheme (CIS), which commenced in 1988, provides for interest earnings on contributions to be returned to Member States in proportion to the timing of payment of their contributions each year. The interest earned on contributions receipts during 2014, of £35,730, will be available for distribution in the year 2016 in accordance with resolution A.1066(28) and will be dependent on the availability of a cash surplus in the General Fund as at 31 December 2015.

**Action requested of the Council**

11 The Council is invited to take note of the information contained in this document.

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## **ANNEX 1**

### **IMO INVESTMENT POLICY**

#### **Introduction**

The investment of the Organization's funds is the subject of Article IX of the Organization's Financial Regulations, attached at annex 1. This document represents the Organization's investment policy, as required by regulation 9.1.

The investment policy is established by the Secretary-General and may only be amended by the Secretary-General. It is the responsibility of the Organization's Treasury Committee to implement the investment policy.

#### **Investment objectives**

The Organization has a low tolerance of risk in the area of treasury management, and consequently the principle purpose when investing surplus funds is the retention of capital, to be achieved through restrictions on appropriate investment instruments, selection of investment counterparties and diversification of investments.

Within these constraints, the Organization's secondary objective is to maximize the level of investment return on placements made.

#### **Appropriate investment instruments**

The Organization will normally invest only in fixed-term deposits for a period of 12 months or less. Investments for a period in excess of 12 months may only be made after consultation with the Council, as required by Financial Regulation 9.2.

The Treasury Committee may consider the use of other investment instruments if it believes them to be consistent with the investment objectives. Any such investments will require the prior written approval of the Secretary-General.

#### **Selection of investment counterparties**

The Organization will maintain a list of major financial institutions, normally banks or building societies, as approved counterparties. These counterparties must have a minimum long-term credit rating of AA-, A+, or A or equivalent from at least one of the three major credit ratings agencies (Standard & Poor's, Fitch and Moody's), and a minimum short-term credit rating of F1+ or F1 or equivalent from at least two of these agencies, with maximum amounts and terms of investments at each rating threshold as set out under "Diversification of Investments" below. Investments may only be placed with counterparties on the approved list.

The Treasury Committee may add new institutions to the approved list at its discretion provided that their credit ratings meet the minimum criteria specified.

Any institutions on the approved list will immediately be removed from that list should their credit ratings no longer satisfy the specified criteria. The Treasury Committee may also, at its discretion, remove institutions from the approved list regardless of their credit ratings.

### **Diversification of investments**

To diversify the risk to its investment portfolio, the Organization will limit its exposure in amount and term limit with any one counterparty or counterparty group according to its credit ratings as below:

<b>Minimum long-term credit rating<sup>2</sup></b>	<b>Maximum amount for each counterparty, £</b>	<b>Maximum term for deposit</b>
AA-	15,000,000	6 months
A+	10,000,000	3 months
A	5,000,000 <sup>3</sup>	1 month

### **Balance available for investment**

The Organization will establish a cash forecasting mechanism to allow the identification of immediate operational cash requirements arising in the coming months, and will use this as the basis to determine the appropriate amount of liquid cash to be retained for that period. The Treasury Committee will consider this cash flow analysis when reviewing the proposed placements for the period.

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<sup>2</sup> As defined in "Selection of investment counterparties", from at least one of the three major credit ratings.

<sup>3</sup> Maximum total exposure to counterparties with an 'A' rating not to exceed £10,000,000.

## **RELEVANT FINANCIAL REGULATIONS**

### **ARTICLE IX**

#### **INVESTMENT OF FUNDS**

REGULATION 9.1 The Secretary-General shall establish an investment policy on the investment of surplus cash and, within the terms of that policy, may make investments for less than one year of cash not needed for immediate requirements and shall inform the Council periodically of such investments.

REGULATION 9.2 The Secretary-General may, within the terms of the investment policy and after consultation with the Council, make investments for longer than one year of cash not needed for that period based on projected cash flow estimates.

REGULATION 9.3 Income derived from investments shall be credited as provided in the rules relating to each fund.

## **IMO Treasury Committee (ITC) – Terms of reference**

### **Purpose of the ITC**

The ITC will:

- review investment performance over the preceding month;
- endorse ad hoc investments placed in that time;
- consider the current cash position, cash flow projections and consequently the balance available to invest; and
- review investments for the upcoming period based on a report presented by the responsible Treasury Officer, which will for each investment show:
  - the amount of the investment;
  - the proposed counterparty;
  - that counterparty's credit rating; and
  - any other information required pertaining to the risk profile of that investment.

The ITC may:

- approve the investments as proposed;
- request additional information on one or more placements; or
- reject one or more proposed investments and request alternative options.

In the latter two cases, the ITC shall reconvene after the necessary information or options have been prepared by the responsible Treasury Officer. The ITC may also make such recommendations as it considers necessary to the responsible Treasury Officer regarding future submissions.

The ITC may also from time to time, review the Organization's Treasury Policy and, if necessary, propose changes to the Secretary-General for consideration.

### **Members**

The ITC will be formed of:

- the Director, Administrative Division
- the Head, Financial Services
- the Head, Management Accounting and ERP Services;
- the Chief, Office of General Services;
- the Finance Officer (Accounts); and
- an external expert adviser with terms of reference as attached.

### **Operation of the ITC**

The ITC will meet monthly, requiring a quorum of three members. The Director, Administrative Division may appoint an alternate to attend any meeting where a quorum may not otherwise be achieved. Reports to the ITC shall be submitted by the responsible Treasury Officer at least 24 hours in advance of the meeting. Decisions of the ITC will be minuted by the responsible Treasury Officer and signed by the attendees.

The ITC may review its own terms of reference from time to time, amendments being agreed by consensus and notified to the Secretary-General in writing.



**Terms of reference for the External Expert Adviser for IMO Treasury Committee (ITC)**

1. Attendance at monthly ITC meetings via conference call but to attend in person at least quarterly and additionally when requested.
2. To provide the following verbal and/or written reports:
  - Overview of financial markets and interest rate environment;
  - Review of credit ratings of IMO's approved counterparties;
  - Make recommendations for additions or deletions of counterparties;
  - Changes or amendments to the regulatory regime;
  - Recommend periods for investment of funds based on prevailing and expected interest rates, subject to cash flow requirements; and
  - Provide advice on the overall risk profile of the Organization's investments.
3. Monitor regularly the credit ratings of the approved counterparties and update the ITC as and when necessary.

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## ANNEX 2

## INVESTMENTS PLACED DURING 2014 BY FUND

	General fund	Headquarters Capital Fund	Trading Fund	Technical Cooperation Fund	Termination Benefit Fund	Training & Development Fund	Donor Fund	Total
2014	£	£	£	£	£	£	£	£
31 January	14,344,933	2,244,224	8,584,262	4,594,336	2,905,850	243,302	10,253,074	43,169,981
28 February	17,426,282	1,944,140	10,436,739	4,095,860	2,904,653	237,749	10,344,024	47,389,447
31 March	18,447,591	1,939,701	10,800,766	3,523,657	2,815,568	238,817	10,371,026	48,137,126
30 April	17,264,603	1,997,734	10,526,460	3,284,314	2,778,266	234,072	10,783,359	46,868,808
31 May	16,392,330	1,927,759	10,981,575	3,261,137	2,734,886	217,236	10,753,876	46,268,799
30 June	16,124,473	1,914,223	9,611,669	2,641,313	4,630,573	202,373	10,587,111	45,711,735
31 July	18,389,782	2,693,998	3,819,565	6,878,004	4,693,844	282,022	10,399,043	47,156,258
31 August	18,910,019	2,695,394	3,523,004	6,852,860	4,518,732	275,009	9,337,629	46,112,647
30 September	15,773,328	2,691,809	3,942,927	6,382,609	5,168,649	263,669	9,666,124	43,889,115
31 October	16,320,887	2,689,913	5,255,499	6,385,154	5,167,728	263,598	9,674,779	45,757,558
30 November	16,320,887	2,689,913	5,255,499	3,227,951	5,167,728	263,598	9,941,791	42,867,367
31 December	15,049,365	2,691,466	5,929,729	3,232,442	5,171,932	263,923	10,248,165	42,587,022
Interest Earnings 2014	99,563	14,839	33,165	36,960	24,010	1,593	22,996	233,126