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Agenda item 4(c)

C 110/4(c)
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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 2012 |
| <i>Strategic direction:</i> | 4 |
| <i>High-level action:</i> | 4.0.1 |
| <i>Planned output:</i> | 4.0.1.2 |
| <i>Action to be taken:</i> | Paragraph 9 |
| <i>Related documents:</i> | C 108/5(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 governance arrangements including treasury policy, investment levels during 2012, and investment performance over the same year.

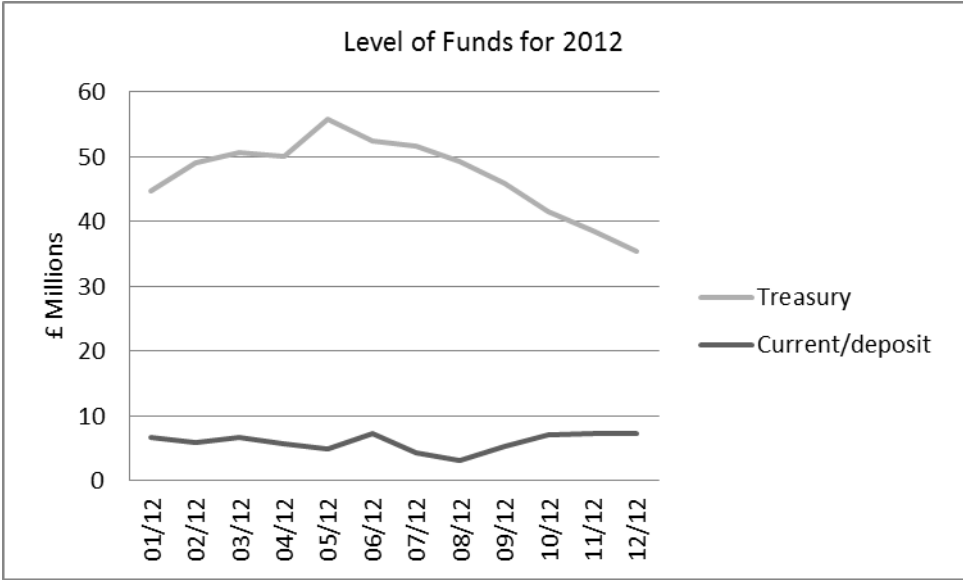
Governance Structure – establishment of a Treasury Committee

2 While the Organization has, through a risk-averse Treasury Policy and careful management, avoided loss of capital during the upheaval in the financial markets initially arising in 2008, in view of the ongoing challenging financial situation it was felt appropriate to strengthen the governance arrangements in place around the management of the Organization's treasury portfolio. Consequently, in January of 2012, the Secretary-General formally established a Treasury Committee which now meets monthly to receive reports from the Organization's independent financial adviser, review treasury policy, review present cash and investment positions and projected future cash flows, and formally consider investment proposals made by the responsible Treasury Officer.

3 The Organization has also, on the advice of the Treasury Committee, refined its existing Investment Policy during the year. This now clearly defines IMO's investment objectives, establishes more specific controls over placements than those defined in Article IX of the Financial Regulations and establishes a tiered structure for treasury counterparties to take account of their long-term credit ratings. The Investment Policy, which incorporates as an annex both the Terms of Reference of the Treasury Committee itself and the Terms of Reference of the expert external adviser, is attached in annex 1 for the information of the Council (and, therefore, in English only). The Treasury Committee will continue to keep the Investment Policy under review as the situation in the financial markets evolves, and will make recommendations to the Secretary-General as appropriate.

Level of investments in 2012

4 The graph below shows the monthly trend for cash and investment levels over the last year.

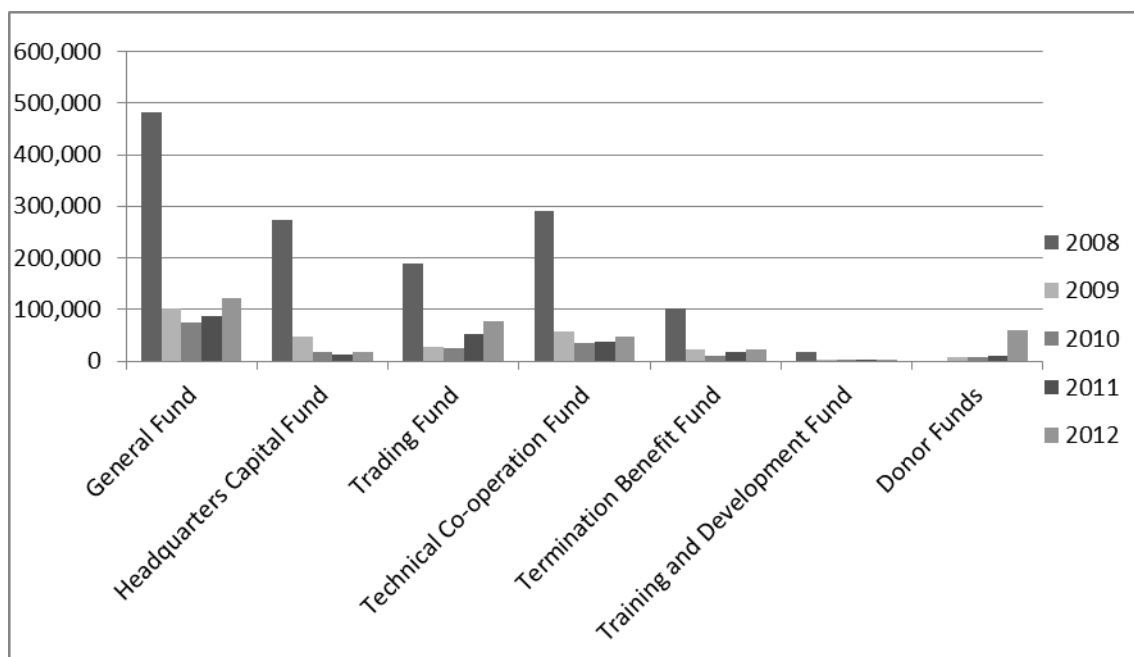


5 The level of funds invested in short-term deposits at the end of each month for the respective Funds is shown in annex 2 to this document, which also shows the interest earned during 2012. The total investments as at 31 December 2012 amounted to £35,444,408.

Investment performance

6 The Bank of England base interest rate was maintained at 0.50% throughout the year and the rates offered for short-term deposits were often lower than the base rate. Nevertheless, interest income earned for 2012 exceeded that for 2011 in an environment where underlying rates have continued to fall. This is primarily as a result of the improvements introduced in cash forecasting and enhanced governance through the introduction of the IMO Treasury Committee, which has allowed the Organization to put more funds on deposit for a longer term thereby achieving better rates of return without significantly increasing exposure to risk. The Organization's independent Treasury Adviser has informed the Treasury Committee that there is little prospect of significant increases in interest rates in the medium term and, consequently, investment returns are expected to remain low in 2013.

7 The chart below sets out the interest earned by the General¹, Headquarters Capital, Trading, Technical Co-operation, Termination Benefit, Training and Development and Donor Funds for the last five years.



8 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 2012, of £73,764, will be available for distribution in the year 2014 and will be dependent on the availability of a cash surplus in the General Fund as at 31 December 2013. Further information on the CIS is reported in document C 110/4 (e).

Action requested of the Council

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

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

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 in annex A. 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 – Terms of Reference for the Treasury Committee are attached in annex B.

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 twelve months or less. Investments for a period in excess of twelve 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+ and F1 or equivalent from at least two of these agencies, with maximum amounts and terms for investment 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:

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

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

² As defined in "Selection of investment counterparties", from at least one of the three major credit ratings

³ Maximum total exposure to counterparties with an "A" rating not to exceed £10,000,000.

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 of Administration
- the Head, Financial Services
- the Senior Financial Control and Accounts Officer; and
- an external expert adviser with terms of reference as given below.

Operation of the ITC

The ITC will meet monthly, requiring a quorum of three members. The Director of Administration 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 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.

ANNEX 2

INVESTMENTS PLACED DURING 2012 BY FUND

| | General Fund⁴ | Headquarters Capital Fund | Trading Fund | Technical Co-operation Fund | Termination Benefit Fund | Training & Development Fund | Donor Fund⁵ | TOTAL |
|--------------------------|---------------------------------|--------------------------------------|---------------------|--|-------------------------------------|--|-------------------------------|--------------|
| 2012 | £ | £ | £ | £ | £ | £ | £ | £ |
| 31 January | 9,229,444 | 2,237,235 | 9,066,316 | 4,459,858 | 2,524,574 | 296,412 | 16,645,578 | 44,459,417 |
| 29 February | 15,549,939 | 2,237,235 | 10,595,802 | 4,231,628 | 2,524,574 | 296,412 | 16,746,251 | 52,181,841 |
| 31 March | 13,498,967 | 2,406,219 | 10,609,293 | 4,238,783 | 3,116,874 | 296,706 | 16,255,748 | 50,422,590 |
| 30 April | 15,605,730 | 1,787,663 | 10,545,947 | 3,580,198 | 3,449,618 | 296,706 | 14,729,349 | 49,995,211 |
| 31 May | 20,547,251 | 1,790,624 | 10,555,604 | 3,419,211 | 3,452,576 | 296,716 | 14,383,343 | 54,445,325 |
| 30 June | 23,751,440 | 425,856 | 8,670,093 | 2,247,502 | 3,124,943 | 296,716 | 13,963,343 | 52,479,893 |
| 31 July | 15,890,228 | 1,783,900 | 12,216,397 | 3,130,472 | 3,453,267 | 297,399 | 14,809,708 | 51,581,371 |
| 31 August | 13,078,534 | 1,784,510 | 12,715,743 | 3,131,470 | 3,459,054 | 297,405 | 14,734,453 | 49,201,169 |
| 30 September | 10,530,665 | 1,787,391 | 13,129,874 | 1,135,530 | 3,460,356 | 297,405 | 13,682,771 | 44,023,992 |
| 31 October | 12,519,394 | 2,435,736 | 4,629,681 | 6,465,863 | 3,178,006 | 95,163 | 12,214,330 | 41,538,173 |
| 30 November | 13,349,938 | 1,073,919 | 2,751,660 | 6,465,863 | 2,848,986 | 95,163 | 12,019,890 | 38,605,419 |
| 31 December | 7,144,040 | 2,233,097 | 6,498,390 | 4,285,211 | 2,979,905 | 239,152 | 12,064,613 | 35,444,408 |
| Interest Earning 2012 | 120,882 | 18,544 | 77,807 | 47,023 | 22,056 | 1,819 | 60,879 | 349,010 |

⁴ The General Fund maintains all investments in respect of the regular budget and the Working Capital Fund.

⁵ Dollar and Euro Investments are converted at the United Nations Exchange rate applicable in the respective month.