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FINANCE COMMITTEE

Hundred and Fortieth Session

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Staffing of the Treasury Function

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EXECUTIVE SUMMARY

- The Treasury Investment unit is responsible for monitoring, developing and overseeing implementation of policy for management of FAO's investment portfolios which total USD 1,351 million. The Finance Committee last reviewed, and provided guidance on the staffing of the Treasury function at its 104th Session in September 2003. The staffing structure has remained unchanged whilst size, complexity and oversight requirements have increased very substantially.
- At its annual session in May 2011, the (external) Advisory Committee on Investments commented on the increasing size and complexity of FAO's investment portfolios and noted that the staff cost component of the overall investment expense was especially low considering that Finance Division's Treasury function also comprised liquidity and foreign exchange management for HQ and field locations. The ACI recommended that FAO review its overall Treasury staffing capacity and grading structure to ensure it meets the requirements for its investment risk control, foreign exchange and other activities in an adequate manner.
- The paper sets out a proposal to reinforce the staffing capacity of Finance Division's Treasury function in line with the recommendation of the ACI. The proposed reinforcement of the staffing structure with one P-4 position will have no budgetary impact on the Programme of Work and Budget of the Organization as all associated costs would be funded from investment income.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to review and endorse the proposal to reinforce the staffing structure of Finance Division's Treasury function and approve the charging of related costs against investment income, in line with the recommendation made by the Advisory Committee on Investments at its 37th Session in May 2011.

Draft Advice

- **Having considered the views of the Advisory Committee on Investments as expressed at its 37th Session in May, 2011, the Finance Committee approves the proposal to reinforce the staffing of the Treasury function in Finance Division through the addition of one professional officer at the P-4 grade and, in line with past practice, approves charging of the related costs to investment income.**

Introduction

1. Finance Division's Treasury Investment unit is responsible for monitoring, developing and overseeing implementation of policy and risk profiles for management of FAO's investment portfolios which total USD 1,351 million.
2. The Finance Committee last reviewed, and provided guidance on, the staffing of the Treasury function at its 104th Session in September 2003 at which time the total investment holdings of the Organization amounted to some USD 580 million. The staffing structure has remained unchanged since then while, as noted in Table 1 below, both the short-term and long-term portfolios have grown significantly and now total some USD 1,351 million, which represents a 133% increase over the equivalent 2003 figure.
3. At its annual session in May 2011, the external Advisory Committee on Investments (ACI) commented on the increasing size and complexity of FAO's investment portfolios and noted that the staff cost component of overall investment expense was especially low considering that the Treasury function also comprised liquidity and foreign exchange management for HQ and field locations. The ACI members stressed that the staffing pool, capacity and skills should be at a level to ensure appropriate delivery of functions and recommended that FAO review its overall Treasury staffing capacity and grading structure to ensure it meets the requirements for its investment, foreign exchange and other activities in an adequate manner.

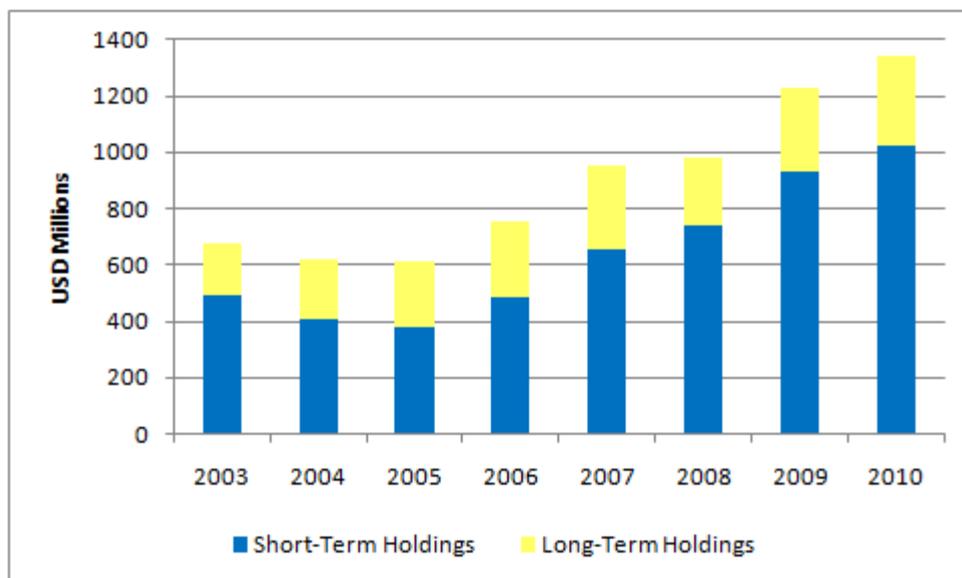
Increased Size and Complexity of FAO's Investments

4. FAO's investment holdings include a short-term portfolio which consists primarily of Trust Fund balances held pending disbursements on project implementation and a long-term investment portfolio which represents the accumulated assets set aside to help fund the Organization's share of staff-related liabilities.
5. It is the responsibility of the Treasury function within the Finance Division to review, develop and monitor effective and efficient implementation of the policy for management of these investments in line with the Organization's underlying objectives and risk appetite, as well as within the context of prevailing market conditions and developments.
6. Existing investment governance arrangements of the Organization foresee review and monitoring by the internal Investment Committee (IC), and, in line with Financial Regulation 9.1, by the external Advisory Committee on Investments (ACI) which provide recommendations to the Director-General. In addition, the Finance Committee plays a fundamental oversight role within the scope of its mandate, including by review of the annual Report on Investments¹.
7. In line with advice from the ACI, and guidance from the Finance Committee, the Secretariat takes an extremely low risk approach for its short-term investments with a focus on preservation of capital; and for its long-term investments uses a liability driven strategic asset allocation framework, based on specialized Asset and Liability studies (ALM), to obtain a target return consistent with industry standards. The strategic actions arising from this overall approach have enabled the Organization to negotiate through the various stages of the global financial crisis since 2008 with better results than many peer organizations.
8. However, as recognized both by the Finance Committee and the ACI, the conditions of the global financial markets over the past three years have demonstrated the need for continuous focus on risk management analysis and timely actions. Accordingly, it is imperative for FAO to be able to monitor effectively its portfolios' exposure to risk arising from interest rate and currency volatility, asset concentration, investment products, as well as sensitivity to market movements.
9. At its 37th Session in May 2011, in light of the increased complexity and size of the Organization's investment holdings, and the requirement for greater oversight and monitoring of market conditions, foreign exchange and other risks inherent in global financial markets, the ACI

¹ e.g. 2009 and 2010 Report on Investments (docs. FC 132/5 and FC 138/INF/2 respectively)

recommended that FAO review its overall Treasury staffing capacity and grading structure to ensure appropriate and effective delivery of its functions.

Chart 1 - FAO Investment Holding 2003 to 2010



Proposed Staffing of the Treasury Function

10. Until now, the Treasury Group within Finance Division has covered banking, liquidity and cash-flow activities as well as all investment related matters. As of September 2011, Treasury related activities at FAO are now being split between two groups within Finance Division, the Investments Group and the newly constituted Banking and Payments Group. One of the two officers currently funded by investment income will take over the management of the Banking and Payments Group which, following a re-organisation of the Accounts Payable function and taking advantage of synergies related to the R12 upgrade, now deals with all operational activities relating to banking and payments. This established post had originally been graded as P4, but with the significant additional responsibilities assigned it is to be graded as a P5. The duties transferred under the responsibilities of this officer include:

- Management of the Organization's global banking services and relationships of more than 100 banks;
- Monitoring cash flow and liquidity requirements in multiple currencies for all FAO locations;
- Control over all bank account signatories worldwide;
- Processing daily liquidity transactions with an annual value of more than USD 3 billion;
- Foreign Exchange Back office – processing settlements in more than 20 different currencies; and
- Preparation of reports to governing bodies and senior management.

11. In terms of staff resources dedicated to investment matters, it is noted that in addition to the growth in size of the portfolio, since the Finance Committee last reviewed Treasury staffing in 2003, the issues involved in managing the Organization's investments have increased in complexity and the nature of international financial, currency and debt markets has been proven to possess additional elements of risk not evident before the 2008 financial crisis. In line with the recommendation of the ACI to meet the requirements commensurate with FAO's investment holdings, and stay abreast of ongoing market conditions, it is proposed that the post of Investment Officer, P4 be created. As such, the Investment Group would be staffed as follows:

- 1) **Head Investments Group, P-5** – with main responsibility for implementation of investment policy, including:
 - recommending any required changes to policy to the Investment Committee and Advisory Committee on Investments;
 - managing day to day relations with FAO’s advisors;
 - implementing strategic asset allocation;
 - organizing the selection, implementation and oversight of external asset managers, custodians and other financial service providers, the negotiation of the investment management agreements and the detailed guidelines;
 - monitoring and regular follow-up including face-to-face discussions and on-site compliance visits with investment counterparts;
 - monitoring of conditions in the global financial markets;
 - analysing findings of asset liability management studies and recommending related actions;
 - liaising with experts from world-renowned institutions, and heads of Treasury functions within the UN Common System; and
 - reporting to internal and external stakeholders (including the Finance Committee).
- 2) **Investment Officer (Risk Management Analysis), P4** – to support Head of Group and prepare and maintain an overall risk management strategy for FAO’s investments and including:
 - analysing and monitoring interest rate and currency risk, liquidity risk, and market risk within the context of the Organization’s objectives and risk appetite;
 - making recommendations on acceptable risk levels in investment policy and portfolio composition;
 - Co-ordinating with other units and divisions in the assessment of the Organization’s currency exposure and the measurement of associated risk and making recommendations regarding appropriate strategy and instruments to reduce/hedge such risk;
 - Ensuring best practice execution of all financial transactions related to foreign currencies at HQ and decentralized offices considering financial and regulatory requirements; and
 - Participating as required in all other activities of the Branch, including those relating to liaison with other UN agencies.

12. As explained above, the two posts in the Investment Group together with that of the Head of the Banking and Payments Group would constitute the professional staffing of the Treasury function. Accordingly, the new professional staffing of the entire Treasury structure will include two senior officers at the P-5 level and one officer at the P-4 level.

13. Such proposed staffing structure is considered to be fully in line with the recommendation of the ACI and represents the baseline capacity required to enable FAO to conduct its important investment policy and risk management responsibilities within the context of ongoing uncertainty and volatility of global financial markets. The capacity and grading levels proposed are also in line with those currently in place at other UN agencies (including the Rome-base agencies) and other comparable multi-lateral organizations.

Funding of Treasury Staffing

14. In recommending that FAO reinforce its overall Treasury function staffing capacity and grading structure to ensure it meets the requirements for its investment, foreign exchange and other activities in an adequate manner, the ACI noted that this would be justified in view of the very low level of the Organization’s “expense ratio”. The latter is commonly defined as the sum of actual investment related expenses expressed as a percentage of the total investment asset. The current investment expenses of FAO include all external management, custodial and advisory fees, the two existing Professional Treasury Officers, fees for financial information systems, and all expenses related to the ACI and regular annual investment compliance meetings.

15. The ACI observed that FAO's expense ratio at 0.12% was very low compared to that at other UN agencies and similar organizations, and that it had fallen steadily from 2006 (see table 2 below). The staffing structure proposed in this paper would increase the expense ratio by an estimated 0.03% only.

Table 2 - Decline of FAO's expense ratio

Year	Total Investments (USD million)	Expense ratio (%)
2006	754.01	0.24
2007	955.68	0.21
2008	984.20	0.17
2009	1,227.78	0.16
2010	1,340.76	0.12

16. At present, the cost of two Treasury officers is charged against investment income rather than funding from PWB appropriations. At its 32nd Session in October 1974, the Finance Committee first established the principle of charging various expenses related to the generation of interest income to Miscellaneous Income rather than to the Regular Programme budget of the Organization. In May 1998, the Committee approved expenses relating to the cost of an Investment Officer (and related staff costs in the Treasury) to be charged to investment income. At its 104th Session in September 2003, the Committee approved charging the costs of a second Investment Officer to investment income.

17. Accordingly, based on the recommendation of the ACI, the Finance Committee is being requested to approve the proposal to reinforce the staffing of the Treasury function as described above and for the costs of the three professional officers to be funded by investment income.