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FINANCE COMMITTEE

Hundred and Fortieth Session
Rome, 10 - 14 October 2011
Staffing of the Treasury Function
ADDENDUM

Staffing Level Comparison

- Treasury functions comprise three general categories:
 - Investment Management and foreign exchange operations
 - Global banking operations, daily liquidity management and foreign exchange settlement
 - Risk Management
- These three functions are currently carried out at FAO by two treasury professionals. Both posts are funded by investment income as approved by the Finance Committee. Given the Organization's mandate to safeguard assets under its management and the significant increase in market volatility over the past 4 years, the third function, proactive risk management, has become appreciably more important.
- A brief review of comparable posts at other UN agencies indicates that FAO staffing for the treasury function is lower in terms of posts.

	Investments	Banking Operations	Risk Management	Policy Management	Total Prof. Staffing
WFP	1	2	1	1	5
WHO	1	1	1	1	4
UNESCO	0.5	2		0.5	3
FAO	0.5	1		0.5	2

- The Advisory Committee on Investments highlighted its concern about existing capacity and recommended that FAO reinforce treasury staffing in line with comparable peers. It was also stressed that the Organization needed to dedicate more effort to identification and management of risk in all areas: investments, banking, foreign exchange and liquidity management. Over the past 12 months,

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we have witnessed, for example, the following sovereign and banking downgrades that affect FAO's financial risk and need to be managed proactively:

- Downgrading of US sovereign debt :
Exposure of up to USD 900 million in short-term portfolio with majority holdings in US government or government backed securities
- Downgrading of Italian sovereign debt :
Exposure of USD 5 million holdings in long-term portfolio
- Downgrading of Wells Fargo Bank :
Exposure of USD 300 thousand through banking operations in Latin America and the Caribbean
- Downgrading of Société Générale :
Foreign exchange counterparty and source of USD 30 million external borrowing in the past
- Downgrading of Banca Intesa:
Exposure of up to USD 8 million by the Organization and its Credit Union. Also, at least 50% of staff have accounts with this bank
- Downgrading of Bank of America :
Exposure of up to USD 200 thousand through banking operations in Asia Region

5. The risk of further downgrades for these and other banks can be expected in the near future. The proposal in FC 140/10 stems from the recommendation by the Advisory Committee on Investments to properly manage these and other types of risks. In addition, the Secretariat believes that the newly created risk management post should not be limited to one year initially, subject to review, as this would limit the Organization's ability to attract qualified candidates.

Operating Costs Comparison

6. In further support of the proposal, a review of treasury operation costs as a percentage of assets under management highlights the below-average resourcing of FAO's treasury function. A recent study requested by the Investment Management Division of the UN Joint Staff Pension Fund evaluated overall operating costs to enable an effective comparison of investment costs as a percentage of assets (stated in 'basis points') under management. This is discussed in FC 140/INF/8, paragraph 81. The study showed that while global pension funds tend to be managed at a cost of 33 to 57 basis points, the UNJSPF, with over USD 42 billion of assets, was managed at only 15.7 basis points. Meanwhile, FAO's investments are managed at a cost of only 12 basis points. While a direct comparison to a global pension fund is difficult, the Advisory Committee on Investments pointed out that FAO's treasury operating costs were very low compared to other UN agencies and similar organizations and indicated a potential serious risk to the Organization's growing portfolio if staffing wasn't reinforced. The proposal to the Finance Committee would raise the expense ratio by only an estimated 0.03%.

Banking and payment functions funded from Investment Income

7. As indicated above, the banking and payment functions are an integral part of the treasury function. Due to increasing complexities in decentralized liquidity management and banking operations, and to further extend efficiencies to the disbursement operations, the banking operations and daily liquidity management were moved to a newly created unit of Banking and Payments, to be headed by one of the Treasury professionals. The Finance Committee approved the creation of a post to carry out these duties and its funding from Investment Income at its 104th Session in September 2003. The fact that for reasons of organizational efficiency the post will now be located in the new Banking and Payments Group does not undermine the logic for charging the related costs to investment income. Reference is made to FC 140/10 paragraph 10 where the treasury functions of this post are detailed.

8. It should be noted that as part of cost saving measures, the Organization has outsourced the routine payment functions that constitute the traditional accounts payable function to the Shared Service Centre in Budapest. These functions remain funded under the Regular Programme PWB.

9. The Banking and Payments officer fulfils a treasury value-added service to further reduce risk and costs associated with global liquidity management by routing each payment according to the bank:

- showing the lowest risk criteria
- offering best execution in term of execution time and fees
- offering the best economic foreign exchange rate where applicable

10. The Organization's short-term investments are managed under strict, very low risk guidelines considering FAO's official sector status and its zero risk tolerance to financial losses for trust fund assets. The largest risk facing the Organization today stems from the banks that execute its thousands of daily payments across the world. The Organization's global decentralized banking operations necessitate relationships with numerous banks that would not be part of a traditional zero risk investment profile.

11. In order to properly safeguard the Organization's assets, these banks and the payments that are made with them, must be closely monitored by a qualified treasury specialist applying the best possible investment criteria for banking services. The proposal to fund the Treasury Officer, currently heading Banking and Payments, and paid out of investment income, should be viewed in this investment risk management context.