



EN

GENERAL ASSEMBLY
79th session
Rome, 17 December 2020

UNIDROIT 2020
A.G. (79) 8
Original: English
November 2020

**Item No. 11 on the Agenda: Report of the Secretary-General on the
implementation of the new compensation and social security scheme applicable
to UNIDROIT staff**

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Update regarding the implementation of the new compensation and social security package offered to UNIDROIT staff</i>
<i>Action to be taken</i>	<i>To take note of the update regarding the implementation of the compensation and social security reforms and next steps</i>
<i>Related documents</i>	UNIDROIT 2019 – F.C. (87) 7 ; UNIDROIT 2019 – F.C. (87) 9 ; UNIDROIT 2019 – C.D. (98) 15(b) ; UNIDROIT 2019 – A.G. (78) 10 ; UNIDROIT 2019 – A.G. (78) 12

INTRODUCTION

1. Following an extensive review, at its 83rd session (Rome, 21 September 2017), the Finance Committee recommended the adoption of important compensation and social security reforms, which would improve UNIDROIT's sustainability by enhancing staff mobility and ensuring that UNIDROIT was an attractive workplace.¹ At its 76th session (Rome, 7 December 2017), the General Assembly adopted those reforms, together with the necessary revisions to the UNIDROIT Regulations. The General Assembly further provided the Secretariat with flexibility in the timing of their implementation, which would be reviewed by the Finance Committee. Since that session, the Secretariat implemented the compensation reforms in February 2018 and implemented the social security reforms in September 2019.

2. The Secretariat has delivered updates in these respects to the Finance Committee at its 84th and 85th sessions (Rome, 15 March 2018 and 4 October 2018), as well as to the General Assembly at its 77th session (Rome, 6 December 2018). Additional updates were delivered to the Finance Committee in April and October of 2019 (86th and 87th sessions) as well as to the Governing Council at its 98th session (Rome, 8-10 May 2019) and to the General Assembly at its 78th session (Rome, 12 December 2019).

¹ [UNIDROIT 2017 – F.C. \(83\) 9, Item No. 9.](#)

3. Since the 78th session of the General Assembly, the Governing Council, at its 99th session (Rome and via Zoom, 23-25 September 2020) and the Finance Committee at its 90th session (Rome, 22 October 2020), have been apprised of the developments in the implementation of the reform.

I. IMPLEMENTATION OF THE COMPENSATION AND SOCIAL SECURITY REFORMS

A. Compensation

4. Since the 76th session of the General Assembly, the Secretariat has continued to keep the Finance Committee, General Assembly, and the Governing Council apprised of the procedure used to implement the reform.

5. At the Finance Committee's 86th session (Rome, 4 April 2019), the Secretariat provided the Finance Committee with a chart comparing net salaries for all categories and grades across common family situations. At that session, the Finance Committee requested a detailed explanation of the methodology which had been utilised in the preparation of the Chart, including the date on which the currency rates had been calculated, and the applied multiplier for post adjustment payments.

6. Regarding compensation for General Service Staff, the Secretariat notes that the chart calculations are based on the net salaries provided by the United Nations applicable to General Service Staff posted in Rome, as published on 1 April 2019 (available at the following link: https://www.un.org/Depts/OHRM/salaries_allowances/salaries/salaryscale/gs/rome/rome95.xls). As the salaries are already provided in Euro, no post adjustment multiplier applies.

7. Regarding compensation for Professional Staff and higher categories, the Secretariat would recall that the table was prepared on the basis of the net salaries provided by the United Nations applicable to Professional Staff and Higher Categories provided by the International Civil Service Commission (ICSC) as of 1 January 2019 (available at the following link: https://www.un.org/Depts/OHRM/salaries_allowances/salaries/salaryscale/professional/base01-2019.xls). The post adjustment multiplier for duty station Rome, along with the applicable official UN rate of exchange (from USD to EUR), were likewise taken as at 1 January 2019 from the ICSC website (available here: https://icsc.un.org/Resources/COLD/PostAdjustmentReports/History/pah_frm.htm), respectively 34.6 and 0.871.

8. Further details regarding the United Nations methodology for surveys at duty stations other than Headquarters is available on the ICSC website (https://www.un.org/Depts/OHRM/salaries_allowances/salaries/icsc2012.pdf).

B. Social Security Reforms

9. In September 2019, the Secretariat completed the process of implementation of the new pension plan and health coverage, and hereby provides the following updates:

- *Pension Fund*: The Secretariat held several calls with the International Service for Remunerations and Pensions (ISRP)² to negotiate the annual administration fee of the fund, which, in its original proposal, was quoted at a minimum of €23,000.³ In light of UNIDROIT's unique position in terms of number of staff and initial contributions, the ISRP proposed terms that would ensure sustainability of the fund, based on conservative assumptions, as well as a lower rate of

² ISRP is a common service platform for both the six Co-ordinated Organisations (NATO, ESA, EUMETSAT, ECMWF, Council of Europe, OECD) and Associated Organisations), providing services for their pension schemes and remuneration policies.

³ In addition to that fee, there would also have been an annual asset management fee of 0.20-0.25% of the managed assets.

administration fees. At a first stage, the ISRP proposed to place the incoming contributions in a collections account, yielding a low return but bearing no financial risk (i.e. preservation of capital). In its second phase of implementation, when the fund reaches a threshold amount (estimated at €500,000.00), expected to occur by Year 3 according to projections, the assets would move towards a full Strategic Asset Allocation (SAA), implemented through selected mutual funds, and expected to return 5.05% per year (nominal) over the long term. In light of the limited reporting costs this sort of arrangement would entail, the ISRP offered to waive those costs and retain only an annual fee reflecting 0.5% of the assets (minimum of €12,000), plus the fees owed to the Secretariat of the Committee for the Administration of Funds (equal to €6,461.60) for the first three years. In light of these important developments, the Secretariat, as reported at the 87th session of the Finance Committee, signed the Memorandum of Agreement with the ISRP, effective as of 1 September 2019.

- *Report of the CAF*: Further details regarding the management of the pension fund were submitted in the Report of the ISRP – CAF (Committee for the Administration of Funds) to the Governing Council (Annexe I). The Report covers access to investment vehicles (mutual funds and saving accounts), simulation of fund flows and methodological aspects, investment recommendation, and procedures for treasury management during the first investment period, and also contained a proposal that the Governing Council authorise the CAF to proceed with the investment of the Fund in two stages, i.e. to initially invest the incoming contributions to the Fund in treasury until the Fund reaches EUR 500k, and in a second stage move the assets towards a portfolio invested in financial markets. The strategy to adopt in this second stage will be presented for approval in due time and in case before this change is implemented.
- At its 99th session (Rome and via Zoom, 23-25 September 2020) the Governing Council took note of the update regarding the implementation of the new compensation and social security scheme applicable to Unidroit staff and approved the proposal made in the Report of the International Service for Remunerations and Pensions (ISRP) – CAF (Committee for the Administration of Funds).
- At its 90th session (Rome, 22 October 2020), the Finance Committee took note of the above information (F.C. (90) 9, para. 51).
- *Health Insurance*: Having obtained a favourable quote from AXA, an insurance provider that has improved coverage compared to the Allianz “Silver” quotation adopted by the General Assembly, at a lower cost, and not having obtained any update or counter offer from Allianz, the Secretariat finalised the conditions of coverage for those staff members that have chosen to opt into the new system with AXA. The final Insurance Policy, in effect as of September 2019, was presented to the Finance Committee at its 87th session and approved by the General Assembly at its 78th session. The policy has been renewed and extended to 2021.

II. ACTION TO BE TAKEN

10. *The Secretariat requests that the General Assembly take note of this update regarding the implementation of the new compensation and social security scheme applicable to UNIDROIT staff. The General Assembly is also requested to take note of the proposal made in the Report of the ISRP – CAF (Committee for the Administration of Funds) (Annexe I).*

ANNEXE I

**ISRP – CAF (COMMITTEE FOR THE ADMINISTRATION OF FUNDS)
UNIDROIT – ANNUAL REPORT 2020 TO THE GENERAL ASSEMBLY**

CONFIDENTIAL

CAF/WD(2020)21

13 November 2020

**COMMITTEE FOR THE ADMINISTRATION OF FUNDS
UNIDROIT – ANNUAL REPORT 2020 TO THE GENERAL ASSEMBLY**

ACTION:

The Committee for the Administration of Funds is invited to approve this document.

COMMITTEE FOR THE ADMINISTRATION OF FUNDS
UNIDROIT – ANNUAL REPORT 2020 to the general assembly

INTRODUCTION

1. UNIDROIT has fully externalised the administration of its Pension Reserve Fund (PRF) assets to the International Service for Remunerations and Pensions (ISRP), and joined the Committee for the Administration of Funds (CAF) on 1 September 2019.

2. UNIDROIT's PRF is a new Fund with no assets at inception and a very limited number of participants to the Plan. UNIDROIT's staff, the beneficiaries of UNIDROIT's pension scheme, hold three-year renewable contracts in the Organisation (with exception of the Secretary-General who has a five-year renewable contract). This implies that the evolution of the PRF's assets during the very first years could be sensitive to staff turnover, and hence might be subject to relatively important outflows in the form of leaving allowances.

3. Therefore, the CAF proposed to the General Assembly of UNIDROIT to proceed with the investment of the Fund in two stages, i.e. to initially invest the incoming contributions to the Fund in treasury until the Fund reaches EUR 500k, and to then move the assets towards a portfolio invested in financial markets in a second stage¹. Investing the incoming contributions in treasury prevents the Fund from the risk of depleting by avoiding market exposure during its very first years of existence, hence giving more certainty to the Fund to reach its projected size. The strategy to adopt in the second stage will be presented for approval when the change comes due.

4. Pursuant to Article 3.4 of the Statute of the PRF, the Director of UNIDROIT shall report annually to the General Assembly on the status of the Fund. The Organisation decided to present a separate Report to the Governing Council. This document represents the Annual Report for 2020 to the General Assembly. It shows the situation of the performance of the PRF at 30 September 2020 and summarizes the work carried out by the CAF since its creation.

PRF ASSETS AT 30 SEPTEMBER 2020

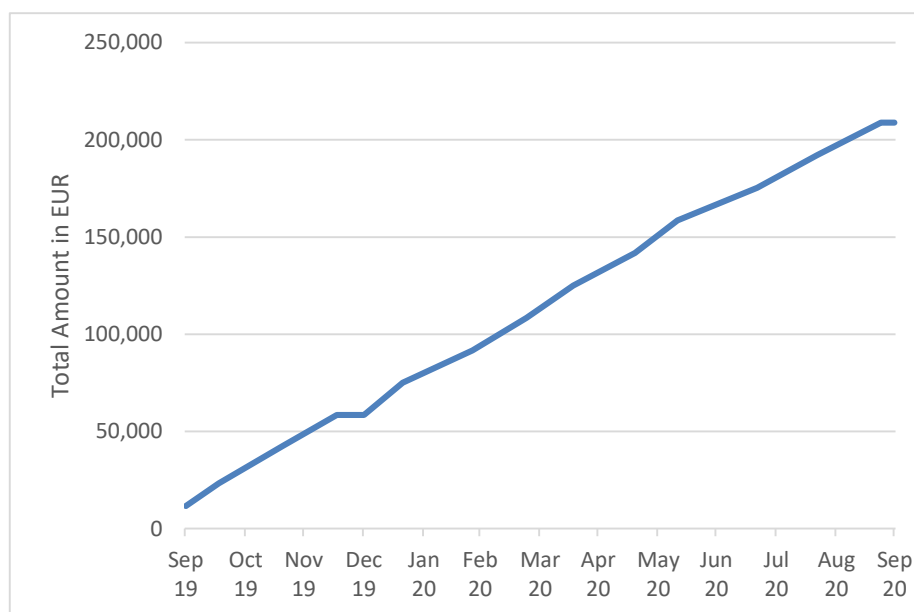
5. Starting out with zero assets, the ISRP progressively put the PRF's staff and employer contributions, which had started to be paid on 30 September 2019, in the CIC saving account. CIC is a French bank that allows non-profit organisations to open a saving account called "*Compte sur Livret Association*", which guarantees the deposited capital and pays a discretionary interest rate. CIC's current rating by S&P, Fitch Ratings and Moody's is 'A', 'A+' and 'Aa3', respectively.

6. At 30 September 2020, the value of the PRF's total assets in the "*Compte sur Livret Association*" (CLA) at CIC amounted to EUR 208 841. Seven officials are currently making monthly contributions to the Fund. In total, the pension contributions represent 37% of UNIDROIT's payroll, 16.7% of which are staff

¹ The EUR 500k threshold is the level of assets for which the long-term expected return of a Strategic Asset Allocation would start to offset all administrative costs. At this level, costs and returns would be roughly equivalent and despite a still low level of assets, the Fund would benefit from favourable terms and conditions when selecting mutual funds, allowing a proper diversification and faster development of its asset base. According to the projections for the first three years, the PRF is expected to reach the EUR 500k threshold in the third year.

contributions and 20.3% contributions made by UNIDROIT. These contributions are transferred to the saving account on a monthly basis.

7. The graph below shows the evolution of the Fund's assets, held at CIC, from inception of the operations on 30 September 2019, up to 30 September 2020:



Source: ISRP, CIC.

INVESTMENT PLAN

8. UNIDROIT's General Assembly approved to initially invest the incoming contributions in a CLA that yields a low return but bears no financial risk.

9. In a second stage, when the Fund will have reached a total amount of at least EUR 500 000, the assets may be moved towards a portfolio invested in financial markets according to a Strategic Asset Allocation (SAA) meeting the objectives of UNIDROIT and implemented through selected mutual funds.

10. This investment plan was approved in September 2019 and is still in force on the reporting date.

PERFORMANCE OF THE PRF

11. When the saving account at CIC was opened in September 2019, the interest rate was 0.30%. The interest rate was reduced to 0.15% starting 1 November 2019, and to 0.10% from 1 February 2020 onwards to date. The account is currently remunerated at a discretionary interest rate of 0.10%. Interest earnings are calculated on balances every fifteen days, and only funds deposited on the first day of the period are entitled to remuneration. Interests are accrued during the year and effectively credited at the end of the year.

12. The historical nominal interest rates that applied to the PRF's investment are presented in the table below.

In % (annualised)	2019				2020									
	Oct.	Nov.	Dec.	Average (at 31/12)	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Average (at 30/09)
Performance PRF investments	0.30	0.15	0.15	0.20	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Benchmark: €STR	-0.55	-0.54	-0.54	-0.54	-0.54	-0.54	-0.53	-0.54	-0.54	-0.55	-0.55	-0.55	-0.55	-0.54
Difference vs. benchmark	0.85	0.69	0.69	0.74	0.69	0.64	0.63	0.64	0.64	0.65	0.65	0.65	0.65	0.65
Short-term money market funds					-0.48									
Difference vs. Short-term money market funds					0.68									

Source: ISRP, CIC and Morningstar for data on the short-term money market funds' average performance.

13. The benchmark or performance reference for UNIDROIT's investment at this stage is the €STR (Euro Short-Term Rate). It is the new benchmark for interbank interest rates and is widely used in the financial industry to assess the return of money-market instruments with low-risk and high liquidity. The €STR is calculated on the basis of interest rates obtained directly by the European Central Bank. Since 2 October 2019 it gradually replaces the EONIA, which will be abandoned on 3 January 2022. Since October 2019, only the €STR is published; the EONIA is calculated as the new reference rate increased with a fixed spread of +8.5 bps.

14. The nominal performance of the PRF is also measured *including* the impact of the timing of the investments of net contributions on the evolution of the Fund's performance, in order to get the actual or effective return of the Fund, the so-called Internal Rate of Return (IRR). Taking into account accrued interests in 2020, the nominal IRR since the beginning of investments is 0.10%.

ACTIVITIES OF THE CAF

15. The CAF is composed of representatives of five Organisations: the Residual Administrative Tasks Unit of the former Western European Union (RATU), the European Union Satellite Centre (EU SatCen), the European Union Institute for Security Studies (EUISS), The Hague Conference on Private International Law (HCCH) and the International Institute for the Unification of Private Law (UNIDROIT). A qualified person acts as Chair of the Committee, while the ISRP serves as the Committee's Secretariat.

16. Since its creation in September 2009 and until the reporting date, the CAF has held 21 meetings in which it made recommendations on:

- the Strategic Asset Allocations of EU SatCen, EUISS, HCCH and RATU, and the Investment plan of UNIDROIT
- the respective Funds' Investment Procedures
- the selection of custodian bank and asset managers
- the Funds' treasury management plan
- the reporting.

17. The CAF has also monitored the performance and costs of the Funds, reviewed their financial statements, met the asset managers and discussed the following topics:

- the risk management framework of the Funds
- socially responsible investments
- the real estate sector
- the euro area sovereign debt crisis

- exchange-traded funds
- late payment of contributions (the CAF noted the importance of the timely payment of Member state contributions for the correct functioning of the Funds' activities)
- performance measurements
- review of fixed-income portfolios - corporate bonds and global government bonds
- review of euro area listed real estate funds
- selection of global equity, emerging markets equity and global government bonds funds
- comprehensive Reviews of the PRFs for EU SatCen, HCCH and EUISS. These reviews examined the evolution of the respective Funds over the last (usually) five years and defined their investment policy and strategy for the future. They allow the Organisations to have a clear picture of their pension debt and Fund, and to question and decide on several pension and asset management-related topics
- portfolio protection measures
- the change in performance calculation provider
- review of benchmarks
- diversification into corporate bonds.

18. In light of the preceding information and in accordance with the provisions in the Statute of the PRF, the Secretary-General of UNIDROIT invites the General Assembly:

- to take note of the information presented in this document.