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**FINANCE COMMITTEE**  
**91<sup>st</sup> session**  
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**Item No. 4 on the Agenda: Update on the implementation of the new 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>	<a href="#">UNIDROIT 2020 – F.C. (90) 7</a> ; <a href="#">UNIDROIT 2020 – C.D. (99) B.20</a> ; <a href="#">UNIDROIT 2020 – A.G. (79) 8</a> ;

**INTRODUCTION**

1. Following an extensive review, at its 83<sup>rd</sup> session (Rome, 21 September 2017), the Finance Committee recommended the adoption of important compensation and social security reforms, with a view to improve UNIDROIT's sustainability by enhancing staff mobility and ensuring that UNIDROIT was an attractive workplace.<sup>1</sup> At its 76<sup>th</sup> 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 up until its 90<sup>th</sup> session, in which it was invited to recommend the adoption of the proposal in the report provided by the Committee for the Administration of Funds (CAF) to the General Assembly at its 79<sup>th</sup> session (remote, 17 December 2020). The proposal having been approved, the attached document is a further update provided by the CAF in respect of the developments since November 2020 (see Annexe 1).

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

**II. ACTION TO BE TAKEN**

3. *The Secretariat requests that the Finance Committee take note of this update regarding the implementation of the new compensation and social security scheme applicable to UNIDROIT staff and make its recommendation to the Governing Council accordingly.*

**ANNEXE I**

**ISRP – CAF (COMMITTEE FOR THE ADMINISTRATION OF FUNDS)  
UNIDROIT – REPORT TO THE GOVERNING COUNCIL**

CONFIDENTIAL

CAF/WD(2021)4

March 25 2021

**COMMITTEE FOR THE ADMINISTRATION OF FUNDS  
UNIDROIT – BI-ANNUAL REPORT TO THE GOVERNING COUNCIL**

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**COMMITTEE FOR THE ADMINISTRATION OF FUNDS  
UNIDROIT ANNUAL REPORT 2020 TO THE GOVERNING COUNCIL**

## **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. UNIDROIT's staff, the beneficiaries of UNIDROIT's pension scheme, hold three-year renewable contracts in the Organisation (with the 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 few 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 that the General Assembly and Governing Council of UNIDROIT proceed with the investment of the Fund in two stages: initially invest the incoming contributions to the Fund in treasury until the Fund reaches EUR 500k, and then move the assets towards a portfolio invested in financial markets in a second stage<sup>1</sup>. Investing the incoming contributions in treasury prevents the Fund from the risk of depletion 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 Governing Council. It shows the situation of the performance of the PRF at 31 December 2020 and summarizes the work carried out by the CAF since its creation.

## **PRF ASSETS AT 31 DECEMBER 2020**

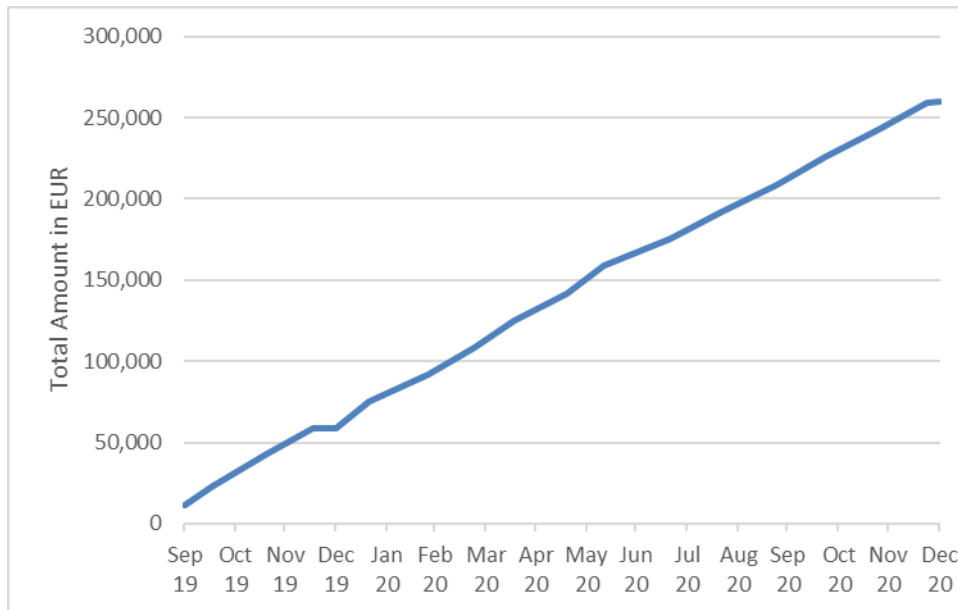
5. Starting out with zero assets, the ISRP progressively invested the PRF's staff and employer contributions, which started being paid on 30 September 2019 in the CIC saving account. CIC is a French bank that allows non-profit organisations to open a savings account called "*Compte sur Livret Association*", 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 31 December 2020, the value of the PRF's total assets in the "*Compte sur Livret Association*" (CLA) at CIC amounted to EUR 259 458. 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 contributions, and 20.3% contributions made by UNIDROIT. These contributions are transferred to the saving account on a monthly basis.

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<sup>1</sup> 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.

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 31 December 2020:



Source: ISRP, CIC.

**INVESTMENT PLAN**

8. UNIDROIT’s General Assembly and Governing Council approved initially investing the incoming contributions in a CLA that yields a low return but bears no financial markets 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 by being implemented through select mutual funds.

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

**PERFORMANCE OF THE PRF**

11. When the savings 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 then 0.10% starting 1 February 2020 onwards. 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. Interest is 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.	Oct.	Nov.	Dec.	Average (at 31/12)	
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	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	-0.55	-0.56	-0.56	-0.55	
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	0.66	0.66	0.65	
Short-term money market funds				-0.48														-0.49
Difference vs. Short-term money market funds				0.68														0.59

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 has gradually replaced the EONIA, which will be abandoned on 3 January 2022. Since October 2019, only the €STR has been 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. This leads to 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 has been 0.10% since the start of the investment.

15. The PRF return has not been impacted by the Covid-19 crisis. The counterparty risk (of CIC) has remained stable, and there has not been any disruption in the activity of the ISRP nor the counterparties involved in the management of the Fund.

#### ACTIVITIES OF THE CAF

16. 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.

17. Since its creation in September 2009 and until the reporting date, the CAF has held 22 meetings during 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

18. 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 and the Covid-19 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 five years (normally) 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
- procedure for asset managers' monitoring and termination of contracts
- stress tests.

19. 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 Governing Council:

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