

# WIPO



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**WORLD INTELLECTUAL PROPERTY ORGANIZATION**  
GENEVA

## **WIPO GENERAL ASSEMBLY**

### **Twenty-Third (10th Extraordinary) Session** **Geneva, September 7 to 15, 1998**

#### **POLICY ON RESERVE FUNDS**

*Memorandum by the Director General*

1. The Assemblies of the Member States of WIPO, at their thirty-second series of meetings on March 25 to 27, 1998, approved the program and budget of the 1998-99 biennium, and noted the Director General's announcement to make a strategic, long-term proposal on the utilization of the budget surplus and the reserve funds for consideration at their next session in September 1998 (A/32/7, paragraph 93 (ii)). This document contains, in the first part, the summary of the current situation and practice concerning the reserve and working capital funds and, in the second part, the proposals on the long-term strategy on the utilization of the reserve and working capital funds. The proposals on the policy on the budget surplus are contained in document WO/GA/23/2.

#### **Part 1: CURRENT SITUATION OF RESERVE AND WORKING CAPITAL FUNDS**

##### **Reserve Funds**

2. The financial situation of the reserve funds of WIPO and the Unions administered by WIPO as of December 31, 1997, is as follows:

<u>Reserve Funds</u>	<u>Swiss francs</u>
Contribution-financed Unions	14,857,401
PCT Union	16,768,171
Madrid Union	24,526,113
Hague Union	1,095,952
Special Reserve Fund for Additional Premises and Computerization	242,186,457
Separation Reserve	13,588,319
<u>Total Reserve Funds</u>	<u>313,022,413</u>

3. The reserve funds of the Unions administered by WIPO, and in particular the Special Reserve Fund for Additional Premises and Computerization, largely increased over the last years as a result of the transfer of substantial surpluses of income at the end of each biennium, especially from the Fee-financed Unions, giving the following end of biennium results:

<i>Reserve Funds</i>	(in thousands of Swiss francs)					
	<i>Dec. 1987</i>	<i>Dec. 1989</i>	<i>Dec. 1991</i>	<i>Dec. 1993</i>	<i>Dec. 1995</i>	<i>Dec. 1997</i>
Contribution-financed Unions	4,523	6,008	6,460	7,605	9,075	14,858
PCT Union	1,991	21,019	17,019	16,768	16,768	16,768
Madrid Union	16,260	21,345	24,204	26,246	26,177	24,526
Hague Union	129	1,119	1,119	1,096	1,096	1,096
Special Reserve Fund for Addit. Premises & Computerization	-	-	33,366	80,624	125,992	242,186
Separation Reserve	787	1,815	3,489	5,890	9,170	13,588
<u>Total Reserve Funds</u>	<u>23,691</u>	<u>51,306</u>	<u>85,657</u>	<u>138,230</u>	<u>188,277</u>	<u>313,022</u>

4. *The reserve funds of the Paris, Berne, IPC, Nice, Locarno and Vienna Unions* are presented in the Financial Management Report for the 1996-1997 biennium as a merged reserve fund of the Contribution-financed Unions as of the end of the 1996-1997 biennium. The maintenance of one merged reserve fund followed the introduction of the unitary contribution system (see document A/33/3), which had the consequence that in the 1996-1997 biennium there were no separate budgets of the Contribution-financed Unions. Since there was a sole budget of the Contribution-financed Unions, the surplus of the Contribution-financed Unions could not be attributed to individual Unions.

5. The purpose of the reserve funds is to receive surpluses of income and to cover any deficit of the Unions administered by WIPO in accordance with WIPO Financial Regulation 8. The reserve funds of the Contribution-financed Unions have not been drawn down in the last four years since these Unions did not have a deficit after approval of the final accounts and no special projects were proposed to be financed from these Unions in the last four years. The reserve funds of the Contribution-financed Unions increased over the last ten years from 4.5 million francs to

14.9 million francs. The reserve funds of the Contribution-financed Unions (14.9 million francs), which were established to cover deficits, are in fact utilized, along with the working capital funds of these Unions (4.1 million francs), to cover the arrears in contributions of Member States (16.2 million francs).

6. *The reserve funds of the PCT, Madrid and Hague Unions* were established in accordance with WIPO Financial Regulation 8 in order to provide for a reserve to cover any deficit which might arise in case of a sudden decline in the demand for global protection services, fluctuations in fee income or exchange rate variations. It should be noted that WIPO is obliged to cover the ongoing maintenance costs of the international register for registrations under the Madrid system for ten years (previously for twenty years) and deposits under the Hague system for five years, which the reserve funds of these Unions would have to cover in case of a downturn of activities. The reserve fund of the Madrid Union has also served the purpose of financing specific extrabudgetary projects, such as the Madrid optical system and the development of ROMARIN (MM/A/XXII/1 and MM/A/XX/2, paragraph 25). The PCT, Madrid and Hague reserve funds have remained at about the same level since the 1990-1991 biennium due to the transfer of surpluses of income of the PCT, Madrid and Hague Unions to the Special Reserve Fund since that biennium.

7. The reserve funds of *all the Unions* administered by WIPO have also been used for projects of interest to all Unions administered by WIPO, such as the "Façade Fund" for the replacement of the defective windows of the facade of the WIPO building, which was carried out during the 1990-1991 biennium, and the financing of the extension of interpretation facilities for Conference Room A (AB/XXII/11 and AB/XXII/22, paragraph 109), which was effected in the 1992-1993 biennium.

#### Special Reserve Fund for Additional Premises and Computerization

8. It is recalled that the Assemblies of the Member States of WIPO, at their twentieth series of meetings on September 25 to October 4, 1989, decided (AB/XX/20, paragraph 199 and AB/XX/2, paragraph 29), that the surpluses of the PCT, Madrid and Hague Unions in future be used especially for the purpose of "constituting a special reserve fund for the additional premises needed to accommodate the increased number of staff and additional equipment required to handle the ever-increasing level of activity of the Registration Unions, and for the investments needed in connection with a fuller computerization of Registration Union operations." Pursuant to this decision, the surpluses from the PCT, Madrid and Hague Unions have since the 1990-1991 biennium been fully credited to the *Special Reserve Fund for Additional Premises and Computerization*, resulting in its large increase from 33.4 million francs to 242.2 million francs as of December 31, 1997. It should be noted that the interest earned by the Special Reserve Fund is also credited to that Fund.

9. At present, an amount of 145 million francs has been committed from the Special Reserve Fund for Additional Premises and Computerization, and 10 million francs are invested in the CAM building, for the following projects:

<u>Present extrabudgetary project commitments/allocations</u>	<u>Budget</u> (million Swiss francs)	<u>Utilization</u>
1. Purchase of WMO building (AB/XXIII/6)	34.3	1999
2. Mezzanine conversion at WIPO main building (WO/GA/22/2, para. 9b)	1.0	1998
3. Purchase of Steiner lot (WO/BC/19/5 - WO/PC/9/5)	13.5	1998
4. Renovation, modernization, connection and extension of WMO building (WO/GA/22/2, para. 9c)	30.4	1999-2001
5. Information technologies projects (A/32/4, A/32/7, para. 102)		1998-1999
- Global Information Network and Int. Prop. Information Services	24.9	
- Automation of the Madrid system	0.9	
6. Automation of the Patent Cooperation (PCT) system (A/32/5, A/32/7, para. 99)	40.0	1998-2003
7. Construction loan to FCIG for CAM building	10.0	1991
<u>Total present commitments</u>	<u>155.0</u>	

10. A further amount of between 74.5 and 82.5 million francs of the Special Reserve Fund has been allocated for planned extrabudgetary projects in the period 1999 to 2003, including an international architectural competition, the development of detailed building specifications, the construction of a new office building and provision of office furniture and equipment, the connection of the new office building, the construction of a larger main conference room and additional parking spaces. The funds in the Special Reserve Fund (242.2 million francs) have thus been largely committed for six major projects of WIPO approved by the Assemblies of the Member States of WIPO, invested in the CAM building occupied by WIPO or earmarked for planned new projects. The total amount of such commitments is between 229.5 and 237.5 million francs.

#### Separation Reserve

11. The *Separation Reserve* was established in 1983 as part of the program and budget of the 1984-1985 biennium (AB/XIV/2, Annex B, Note) and reflects the net result of a 6 per cent credit of the gross staff costs of all regular staff of WIPO recruited after January 1, 1984, less costs for staff entitlements on separation from service. In view of the rapidly increasing number of staff and the high costs for separation in case of a sudden downturn in activities, it was considered prudent to accumulate a separation reserve to cover the estimated costs of such separations. The Separation Reserve has increased over the last years to the amount of 13.6 million francs, as of December 31, 1997, due to the continued increase in WIPO staff and because there has been no need so far to utilize this reserve for large-scale separations of staff. In view of the current high level of the Separation Reserve, the accumulation rate, which is based on the budgeted gross staff costs, was significantly reduced for the 1998-1999 biennium, resulting in considerable savings in staff costs and contributing to the budgeted zero-cost increase in staff costs in the current budget. The actual lower rate is expected to keep the level of the Separation Reserve at approximately its current level. The present level of the Separation Reserve ensures that sufficient funds are

available for the separation of a large number of staff as a result of expected automation benefits (A/32/5, paragraph 17) and of senior staff nearing retirement age.

### Working Capital Funds

12. The financial situation of the working capital funds of the Unions administered by WIPO as of December 31, 1997, is as follows:

<u>Working Capital Funds</u>	<u>Swiss francs</u>
Paris Union	1,592,894
Berne Union	1,300,000
IPC Union	1,000,000
Nice Union	160,000
Locarno Union	29,494
PCT Union	2,000,000
Madrid Union	2,000,000
Hague Union	260,000
FRT Union	4,823
<u>Total Working Capital Funds</u>	<u>8,347,211</u>

13. The working capital funds of the Unions administered by WIPO increased to a total of 8.3 million francs in 1991, as a result of assessments of Member States for payments to these funds over a number of years, and has since remained at that level. It should further be noted that the working capital funds of all Unions administered by WIPO are held in trust by WIPO for the Member States of the respective Unions. Accordingly, the Financial Management Report for the 1996-1997 biennium lists each State with the total amount invoiced for the working capital fund of each Union of which it is a member. The evolution of the working capital funds of the Unions administered by WIPO is as follows:

<u>Working Capital Funds</u>	(in thousands of Swiss francs)								
	<u>Dec. 1972</u>	<u>Dec. 1978</u>	<u>Dec. 1985</u>	<u>Dec. 1987</u>	<u>Dec. 1989</u>	<u>Dec. 1991</u>	<u>Dec. 1993</u>	<u>Dec. 1995</u>	<u>Dec. 1997</u>
Paris Union	-	667	817	1,593	1,593	1,593	1,593	1,593	1,593
Berne Union	-	433	1,300	1,300	1,300	1,300	1,300	1,300	1,300
IPC Union	-	-	-	333	667	1,000	1,000	1,000	1,000
Nice Union	-	53	160	160	160	160	160	160	160
Locarno Union	9	33	29	29	29	29	29	29	29
"Contribution-financed Unions"	9	1,186	2,307	3,416	3,749	4,082	4,082	4,082	4,082
PCT Union	-	-	1,000	2,000	2,000	2,000	2,000	2,000	2,000
Madrid Union	-	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Hague Union	-	87	260	260	260	260	260	260	260
FRT Union	-	-	-	-	-	2	5	5	5
<u>Total Working Capital Funds</u>	<u>9</u>	<u>1,273</u>	<u>5,567</u>	<u>7,676</u>	<u>8,009</u>	<u>8,344</u>	<u>8,347</u>	<u>8,347</u>	<u>8,347</u>

14. The working capital funds of the *Contribution-financed Unions* (4.1 million francs) served in the past to cover the arrears (16.2 million francs) in contributions of Member States, in the same manner as the reserve funds of these Unions (14.9 million francs). There has been virtually no need to utilize the working capital funds of the *PCT, Madrid and Hague Unions* in the last years since there has always been sufficient liquidity to finance the expenditure budgeted for the Fee-financed Unions, due to the demand for global protection services being higher than budgeted. Moreover, the fees of these Unions have consistently been budgeted at a level to provide sufficient income to cover the estimated expenses. There was a deficit for the Madrid Union for the 1996-1997 biennium and a deficit is budgeted for the 1998-1999 biennium as a result of the one-time Madrid fee reductions by 25 per cent in connection with the reduction of the registration period for trademarks from 20 to 10 years, effective April 1, 1996. Those deficits are and will be covered, during the biennium, by the working capital fund of the Madrid Union and, at the end of the biennium, by the reserve fund of the Madrid Union, in accordance with WIPO Financial Regulations 7 and 8.3.

## Part II: LONG-TERM STRATEGY ON RESERVE FUNDS

15. The multitude of a total of 20 different reserve and working capital funds of the Unions administered by WIPO, the utilization of the same funds for different purposes or of different funds for the same purpose, the rapidly increasing volume of all funds, corresponding to 80 per cent of the total budgeted income of the adjusted 1998-1999 budget, clearly indicate that there is an urgent need to develop a long-term strategy on the structure, size and utilization of WIPO's reserve funds. Moreover, the policy on the reserve funds needs to be closely linked to the policy on the budget surplus and the future budgetary practice to ensure a coherent and consistent approach to the future strategic program budget planning and financial management of the Organization (see WO/GA/23/2). Experience over the last years has shown that the large number of 20 different reserve and working capital funds of WIPO and the Unions administered by WIPO is unnecessary, impractical and, in terms of the new budget structure and current financial situation of WIPO, no longer seems to be justifiable. Most of these funds were established for clearly defined purposes to ensure the financial solvency of each individual Union administered by WIPO in case of insufficient liquidity, or a deficit, to finance a special project of one single Union or, more recently, to finance major premises and computerization projects of WIPO. This large number of funds for the same or different purposes is no longer in line with the financial situation of the Organization, the rapidly increasing demand for global protection services, particularly under the PCT system, and is also inconsistent with the largely increasing program activities and expenditure of WIPO to the benefit of all Unions administered by WIPO. There is therefore a need to adjust the current 20 reserve and working capital funds to the present financial situation and growing demands of the Organization and to streamline and simplify the structure of these funds in a more effective, manageable and transparent manner.

### Reserve Funds

16. Considering that there has been only one budget of the Contribution-financed Unions since the 1996-1997 biennium and that the surplus of the Contribution-financed Unions has not therefore been attributed to individual Unions, the reserve funds of these Unions are already presented as the merged reserve fund of the Contribution-financed Unions. Moreover, it is recalled that the *Special Reserve Fund for Additional Premises and Computerization* was constituted with the net financial results of the PCT, Madrid and Hague Unions of the 1990-1991 biennium and has, since that date, received all the surpluses of the Fee-financed Unions. It is

being financed from the surpluses of the PCT, Madrid and Hague Unions and is also being used to finance projects of these Unions. In view of the utilization of the Special Reserve Fund for activities and major projects related to the PCT, Madrid and Hague systems, by funds generated by these Unions, it would be consistent with current policy and practice to merge the reserve funds of the PCT, Madrid and Hague systems with the Special Reserve Fund. Considering that the Special Reserve Fund serves the purpose of financing all extrabudgetary activities and major projects of the Organization for the benefit of all Unions administered by WIPO and consists of 77 per cent of all reserves of the Organization, it would also be consistent with current practice and effective financial management to merge the Special Reserve Fund with all other reserve funds into one single WIPO Reserve Fund. This would allow the Director General, in conjunction with the Member States, to develop and apply a coherent and consistent long-term policy with regard to the size, utilization and investment of all reserve funds of WIPO, to improve effective financial management in streamlining the structure of the reserve funds, to make the financial situation of the Organization more transparent and to enhance oversight by the Member States. The merger of the reserve funds of WIPO would recognize the fact that the activities and projects of the Organization financed from these funds are for all Member States of WIPO and all users of the global protection systems. It would be impractical and inconsistent to charge in future any project, such as global electronic commerce and arbitration of domain name disputes, to one particular Union since such projects cover all fields of intellectual property and are to the benefit of all users of the global intellectual property system without distinction between the Unions. *It is therefore proposed to merge the reserve funds of the Unions administered by WIPO and the Special Reserve Fund into one single WIPO Reserve Fund.*

17. The legal implications of the merger of the reserve funds of the Unions administered by WIPO and the Special Reserve Fund are minimal. The reserve funds are not established by treaty provisions and thus no procedure for treaty amendment is needed. The reserve funds result from the application of Regulation 8 of the WIPO Financial Regulations<sup>1</sup>. If the Member States approve the proposal to create a consolidated WIPO Reserve Fund, Regulation 8 would need to be amended to reflect that decision. It is suggested that that amendment be effected at the same time as a proposed general revision of the WIPO Financial Regulations and Rules which will be proposed to the Member States in 1999 in order to reflect the new program and budget format and, in particular, the devolution of authority to program managers and the implementation of greater transparency and accountability in the financial management of the Organization.

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<sup>1</sup> Regulation 8. Surpluses and Deficits; Reserve Funds

8.1 If, after the approval of the final accounts, the accounts of any of the Unions shows a surplus of income, such surplus shall be paid into the reserve funds, provided that, as concerns the Special Union for the International Registration of Marks (Madrid Union), such surplus, after retention of the authorized amounts for the reserve fund, shall, in conformity with the provisions of the Madrid Agreement Concerning the International Registration of Marks, be distributed among the Member States of the said Union.

8.2 If, after the approval of the final accounts, the accounts of any of the Unions shows a deficit, not coverable out of reserve funds, the General Assembly of WIPO, or the Assemblies of the interested Unions, as the case may be, shall decide upon measures to redress the financial situation.

8.3 The use, other than for the covering of any deficits, of any of the reserve funds is a matter for the decision of the General Assembly of WIPO or the Assembly of the Union concerned, as the case may be.

18. The current 11 reserve funds of WIPO, totalling 313 million francs, represent 78 per cent of the budgeted income of the 1998-1999 biennium. Of this amount, as noted above, between 229.5 and 237.5 million francs have been committed or earmarked for approved or planned major projects. While the major part of the current reserve funds of WIPO are at present committed, the Director General is of the view that the total amount of uncommitted reserve funds of 268.7 million francs which were accumulated as of December 31, 1997 (less commitments for the purchase of the WMO building and loan to the FCIG for the CAM building), corresponding to 21 months of budgeted income of the adjusted 1996-1997 budget, or 16 months of the budgeted income for the 1998-1999 biennium, was too high compared to the size of the current program and budget of WIPO. There is therefore a need to establish a long-term policy on the reserve funds, taking into account WIPO's operational and financial needs with large fluctuations in demand for its services, and ensuring that the reserve funds of the Organization will not exceed an agreed justifiable level.

19. The reserve funds of other international organizations, which are also subject to large fluctuations in demand from the market sector, such as the European Patent Organization (EPO), correspond to about one year or more of their budgeted income. A long-term policy on WIPO's reserve funds has to take into account the possibility of significant variations in the activity level of the PCT, Madrid and Hague systems, which may decrease due to a change in user trends, economic developments in countries of major users or a decline in the market. In this respect, it is recalled that WIPO's current program and budget is financed as to 84 per cent by fee income and the Organization relies heavily on this vital source of income. It is crucial for the continued success and relevance of the PCT, Madrid and Hague systems that the users of these systems may fully rely on the same effective and efficient service within the established time limits in case of a downturn or steep rise in demand for these services, thus maintaining the high level of confidence in the global protection services provided by WIPO. WIPO has legal obligations to ensure that these activities are carried out in compliance with the statutory rules of these systems, irrespective of the level of demand. Moreover, the Secretariat is being called upon by the Member States of WIPO, as in the current biennium, to undertake additional program activities and to meet emerging needs of the users of the global intellectual property system in accordance with its mandate.

20. There is, therefore, a need to be prudent and conservative in maintaining an adequate level of WIPO's reserve funds to ensure, at all times, the financial solvency and effective functioning of the Organization. The Director General is of the view, after careful examination of all aspects of the financial situation of the Organization, that *the uncommitted funds in the WIPO Reserve Fund should be at least six months and not more than one year of budgeted income*. This will provide sufficient funds to cover any deficits and allow the continued financing of major extrabudgetary projects, such as the global information network and automation, at the request of Member States and the users of the global protection systems.

21. The proposed consolidated WIPO Reserve Fund will serve the purpose of receiving surpluses of income, covering deficits of the Unions administered by WIPO and arrears of contributions of Member States, as well as financing any extrabudgetary activities or projects of the Organization. The Director General will keep Member States informed on the level of the WIPO Reserve Fund in the context of the Annual Program Implementation Report and the Financial Management Report for the biennium, and propose adjustments, as appropriate, to keep the reserve funds at the appropriate level. Any proposed activity or project to be financed from

the WIPO Reserve Fund will be submitted with cost estimates and justification to the Budget Committee for consideration before the authorization of any commitment. The proposed policy on the reserve funds is closely linked to WIPO's policy on the budget surplus to contain any surplus, to the extent possible, and to keep WIPO's reserve funds at an appropriate level:

*“The Secretariat will in future propose adjustments to the level of fees of the PCT, Madrid and Hague systems with a view to bringing the estimated income and expenditure of each system in future draft programs and budgets into balance. The Director General will keep Member States informed of demands for new activities or emerging needs during the biennium and may propose to utilize part of a budget surplus, up to one per cent of budgeted income for a biennium, to finance additional activities or fee reductions, if justified. In this connection, it is recalled that the Director General may only utilize a budget surplus following authorization by the Budget Committee and/or the Assemblies of the Member States. The Director General will keep Member States also informed on the actual program implementation and financial situation of the Organization in the context of the mid-term review based on the annual program implementation report. In case of a significantly higher demand for WIPO's global protection services during a biennium, and related higher income and expenditure, the Director General intends to submit proposals for additional activities and further fee reductions in the interest of Member States and to the benefit of the users of the global protection services.”* (WO/GA/23/2, paragraph 28).

22. The *Separation Reserve* serves the distinctly different purpose of financing the costs of staff separations and is not linked to program activities and extrabudgetary projects. Because of its inherently different nature and in order to ensure transparency and accountability in the utilization of this reserve, *it is proposed to maintain the Separation Reserve as a separate reserve fund* and to report on its utilization in the financial management report of WIPO for each biennium. It should be noted that the Separation Reserve is being used throughout the biennium to cover the ongoing costs of staff separation. It is recommended to keep this reserve at its current level of about one and a half months of budgeted staff costs pending the outcome of the PCT automation and other computerization projects, which are expected to result in large staff savings (see A/32/5, paragraph 17), and other expected separations of staff.

### Working Capital Funds

23. The individual *working capital funds* were established under the various treaties constituting Unions with budgets. Their purpose is to finance expenditure budgeted, but not covered by available liquidity, in accordance with Financial Regulation 7. Pursuant to the establishment of the unitary contribution system since the 1994-1995 biennium and the adoption of the budget of the Contribution-financed Unions for the last two biennia, it would be consistent and justified to merge the working capital funds of the Paris, Berne, IPC, Nice and Locarno Unions, similar to the proposed merger of reserve funds of the Contribution-financed Unions. Moreover, WIPO has consistently maintained a consolidated treasury and, therefore, the working capital funds of all Unions administered by WIPO have been *de facto* managed as one. It would be consistent with current practice and effective financial management *to merge the working capital funds of the Unions administered by WIPO into one WIPO Working Capital Fund* while maintaining the same share held in trust for each Member State.

24. The WIPO Working Capital Fund would, on this basis, continue to serve the same purpose of financing “expenditure budgeted but not covered by available liquidity” in accordance with

Financial Regulation 7. The merger of the working capital funds of the Unions administered by WIPO would also provide the Unions a wider financial base to cover possible insufficient liquidity of one Union.

25. The merger of the working capital funds of the Unions administered by WIPO in one WIPO Working Capital Fund would require, in due course, adjustment to the financial provisions of the WIPO treaties that establish Unions with budgets. The implications and means of effecting the requisite treaty amendments are examined in document A/33/3 ("Constitutional Reform").

26. With regard to the size and utilization of the proposed *WIPO Working Capital Fund* (8.3 million francs), which is about half a month of the budgeted expenditure of the 1998-1999 biennium, it should be noted that the contingency or working capital funds of other international organizations which are also subject to fluctuation in demand from the market sector, correspond to one to three months of their budgeted income. Since there has been no need to utilize the working capital funds of the Unions administered by WIPO over the last ten years to cover insufficient liquidity, WIPO did not increase the level in view of the utilization of the larger reserve funds of the Unions administered by WIPO to cover fluctuations in fee revenues and downturns in the level of registration activities. The Director General considers that the current level of the working capital funds is therefore appropriate to cover insufficient liquidity for financing expenditure budgeted. The Secretariat will keep under review the level and utilization of the WIPO Working Capital Fund and inform Member States in the Financial Management Report, including proposals for adjustments, as appropriate.

27. As to the working capital fund of the FRT Union, the External Auditor recommended in the 1994-1995 Audit Report that the balance of 4,823 francs be repaid to the Austrian Government, and thus dispense with this working capital fund. It appears appropriate to implement the above recommendation of the External Auditor to repay the balance of the working capital fund of the FRT Union and to close that fund accordingly. This measure would be in accordance with the fact that the activities of the FRT Union were discontinued at the end of the 1994-1995 biennium and would recognize that the FRT Union has been frozen.

#### Investment policy on placement of funds

28. At present, all reserve and working capital funds are deposited with the Banque Nationale Suisse, which is the central bank of the Swiss Confederation, at an annual interest rate of at present 2.875 per cent corresponding about to the 4 to 5-year Swiss Government Bond rate and allowing WIPO to make withdrawals at any time. It has been the investment policy and practice of WIPO to deposit all funds with the Swiss Confederation since it provides the highest available rate of interest on the market for absolutely secure deposits and allows short-term withdrawals.

29. As indicated in the program and budget of the 1998-1999 biennium, the objectives of the new Investment Service and Management of Funds (sub-program 17.2) are to strengthen the capability of the Secretariat for the investment of its funds and to obtain the maximum returns consistent with the need to safeguard WIPO's financial resources. In order to achieve the expected results of obtaining higher return on capital invested, budgeted at 23 million francs for the 1998-1999 biennium, the Secretariat will develop an investment strategy with the independent expert advice on appropriate investments by an Investment Advisory Committee, consisting of representatives of major banks and WIPO officials. It is also planned to use the services of a consultant as a Treasury/Investment Officer to assist in the investment of WIPO's funds. The

interest income of the WIPO Reserve Fund will be credited to this fund in accordance with the current practice of crediting interest to the Special Reserve Fund. The Director General will report on these activities and the results of the new WIPO Investment Service and Management of Funds in the context of the Annual Program Implementation Report for 1998 and propose WIPO Investment Policy Guidelines to the Budget Committee, at its March 1999 session, for consideration and adoption.

30. The WIPO General Assembly is invited:

*(i) to approve the merge of the reserve funds of the Unions administered by WIPO and the Special Reserve Fund into a single WIPO Reserve Fund (paragraph 16, above);*

*(ii) to request the Director General to maintain a policy keeping the uncommitted funds in the WIPO Reserve Fund at least at six months and not more than one year of budgeted income and to propose appropriate adjustments during the biennium (paragraph 20, above);*

*(iii) to approve the merger of the working capital funds of the Unions administered by WIPO into one single WIPO Working Capital Fund, on a provisional basis pending the amendment of the corresponding WIPO treaties, and to keep it at its current level (paragraphs 23 to 26, above);*

*(iv) to approve the repayment of the balance of 4,823 francs in the working capital fund of the FRT Union to the Austrian Government and the closure of that working capital fund (paragraph 27, above).*

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