

IUPAC Finance Committee Meeting

Monday, 17 February 2003, 9:00 AM - 5 PM
Offices of Reber Rechtsanwälte, Dufourstrasse 43
CH-8034 Zurich, Switzerland

Minutes

Present: Dr. E. P. Przybylowicz (Chairman), Dr. C. F. Buxtorf (Treasurer),
Dr. J. Miyamoto, Dr. H.-L. Senti, Dr. A. Hartmann (Guest)

Absent: Dr. G. Martens

Secretary: Dr. J. W. Jost

1. INTRODUCTORY REMARKS & FINALIZATION OF AGENDA

Dr. Przybylowicz welcomed the members to the meeting and noted that Dr. Martens was unable to attend but had sent an e-mail message with comments on agenda items. He also noted with regret the death of Dr. Reber, the condolences of the Committee had been sent to his colleagues by Dr. Buxtorf.

No new items were added to the Agenda.

2. MINUTES OF 2002 MEETING

No corrections or comments were made to the Minutes of the 2002 meeting. The Minutes had been approved by correspondence.

3. FINANCE COMMITTEE MEMBERSHIP

Dr. Przybylowicz noted that a number of members would be retiring from the Committee at the end of 2005. He commented that two possible members had been suggested and asked the members to suggest candidates.

4. ITEMS FROM MEETINGS OF EXECUTIVE COMMITTEE AND BUREAU

This item was for information only.

5. FINANCIAL REVIEW

5.1. STATEMENTS OF ACCOUNTS – 2002

Dr. Jost commented that the official accounts were available for September 2002 but that Division Presidents and Standing Committee Chairmen received a current statement of expenses and commitments at approximately monthly intervals. The auditors had scheduled the audit of the 2002 accounts for the week of 10 March 2003.

5.2. COMPARISON OF ACCOUNTS TO BUDGET – 2002

Dr. Jost reviewed the estimated actual expenditures and commitments for the biennium with the budget. He noted that the expenditures and commitments were expected to show a surplus due to the slow rate of approval new projects by Divisions. Other budget items were expected to be at the approved amounts.

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5.3. RESERVES AND SPECIAL FUNDS

Dr. Przybylowicz reviewed the proposed donation of approximately USD 125 000 from Samsung to the Macromolecular Division. It was agreed that this would be invested as an endowment with an amount equal to the average bond interest received by the IUPAC portfolio available to be used by the Division. The COCI funds would be transferred to IUPAC at the end of 2003 and would be available for use by COCI on request of the Chairman of COCI. It was decided, after brief discussion, that it would be useful to have guidelines for the investment and use of funds generated by IUPAC bodies, other than those for specific projects. The Chairman agreed to draft guidelines according to the discussion.

5.4. FINANCIAL RESULTS FOR SELF-PUBLISHING *PAC* IN 2002

Dr. Jost reviewed the results for *PAC* for 2002. He noted that revenues were up from 2001 due to an increase in Institutional subscriptions in China. An increase in institutional subscription rates for 2003 was expected to help maintain revenues at the current level. Assuming that the long-term trend of subscriptions would continue to be a decline, an increase in the subscription rate for 2004 would be necessary to maintain revenue.

5.5. CAPITAL BUDGETS

There were no capital items for 2003.

6. SUBSCRIPTIONS

6.1. 2002-3 NATIONAL SUBSCRIPTION PAYMENT STATUS

There are still a small number of National Subscriptions still unpaid for 2001 and 2002, however these were expected to be paid in the next few months. The National Subscription of France had been paid in full after the agenda materials were distributed.

6.2. 2004-5 NATIONAL SUBSCRIPTION CALCULATIONS

A preliminary set of calculations was reviewed. Since chemical turnover data for a number of NAOs would not be available until after the publication of the UNIDO *Yearbook of International Industrial Statistics*, these were subject to significant revision. The major change in the calculation procedure from previous years was the use of five years of chemical turnover data to calculate the average chemical turnover rather than two years. This was a recommendation of the Working Party on National Subscriptions and had been approved by the Bureau at its meeting in Paris.

6.3. SPECIAL SITUATIONS

Dr. Jost reviewed a number of cases in which the National Subscription had been reduced by the Treasurer due to special hardships brought to his attention by the

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NAOs.

6.4. PROPOSALS FROM SPECIAL WORKING PARTY ON NATIONAL SUBSCRIPTIONS AND RELATED FINANCIAL MATTERS

6.4.1. Five-year Averaging of Chemical Turnover Data

As was noted in Item 6.3, the Bureau has approved the use of the average of five years of chemical turnover data instead of two years in calculating the National Subscriptions.

6.4.2. Payment of Expenses for One Delegate to the General Assembly

The Bureau approved this recommendation of the Working Party at its meeting in Paris, to take effect at the Ottawa General Assembly. The maximum effect of this program is USD 86 200.

6.4.3. Billing of National Subscriptions in National Currencies

Dr. Jost distributed a new description of this proposal and a model calculation of its effect on IUPAC revenues in the period 1990- 2002. This recommendation of the Working Party is still being considered and has not been approved by the EC or Bureau. If it is approved by these bodies, it will need to be approved by Council in Ottawa. The proposal addresses two concerns of the NAOs. The first is the increase in the amount of the National Subscription, expressed in national currency, from the time it is approved by the Council to the time it is paid. This causes difficulties in budgeting for the NAOs, especially if the National Subscription is paid by the government. The second is the occasional dramatic decrease in the value of a national currency due a major economic catastrophe. The latter has been handled in the past by an ad hoc adjustment by the Treasurer. This proposal would make this adjustment automatic.

The committee discussed this proposal at length and considered a number of techniques the Union might take to mitigate the effects of the proposal on its finances. One suggestion was to sell the major currencies, the Euro and the Yen, forward when the National Subscriptions were approved. This would limit the Union's exposure. An alternative suggestion was to set up a bank account in Euros. This would limit currency risks in Euros by using Euro payments from the NAOs to pay expenses, mainly claims for travel expenses, in Euros. The Executive Director was asked to investigate the latter possibility.

An aspect of this proposal was brought up during the discussion that had not been considered in previous discussions. Since the votes assigned to an NAO at Council meetings are determined by the National Subscription for that NAO in USD, it is possible that an NAO could move into a lower voting range based on the USD value of the National Subscription as paid. The Executive Director noted that in the past when an NAO has paid a reduced National Subscription by agreement with the Treasurer, the votes

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assigned at the Council were based on the actual amount paid. This is an issue that should be addressed as part of the final proposal to Council, if one is made. That is, will votes be based on the National Subscription as calculated in USD or on the amount actually paid in USD.

The Committee felt that this was a matter for discussion by the Executive Committee.

7. REVIEW OF BUDGET –2004-5

Dr. Jost reviewed the draft budget included in the Agenda Book. The key assumptions made in developing the draft budget were:

1. The total National Subscription was increased by 3 % each year.
2. The Division Budgets was increased by 5 % while the total Division Budget was held fixed; this decreased the Divisional Reserve.
3. The Standing Committee budgets were increased 5 %; the Evaluation Committee budget was increased to reflect experience; COCI was given a budget of USD 20 000 in line with previous agreements.
4. An allowance for Foreign Exchange differences of USD 60 000 was included to take into account the proposal to bill National Subscriptions in national currencies.
5. An anticipated increase in the Institutional Subscription rate to *PAC* was included.

After discussion, the Committee felt that, given the low inflation environment and the lack of pressure on the budgets of the Divisions and Standing Committees, the draft budget should be revised based on the following guidelines:

1. The total National Subscription to be increased by 1 % each year
2. The Division and Standing Committee budgets to remain the same as in 2002-3
3. The Project Reserve to be fixed at USD 130 000
4. The Division Reserve to be set at a value to balance the budget, this value was found to be USD 104 400

8. ALLOCATION TO IUPAC BODIES – 2004-5

There was some discussion of alternative methods of determining the allocation to Divisions, other than basing the allocation for current biennium on that for the previous biennium, but it was agreed that there had been too little experience with the project system to change the allocation method for the coming biennium. As was noted in Item 7, the Committee has decided to keep the Division and Standing Committee budgets at the same level as in 2002-3.

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9. INVESTMENT PORTFOLIO

9.1. INVESTMENT TRANSACTION HIGHLIGHTS

Dr. Przybylowicz reviewed the major transactions in 2001. No transactions occurred in the equity portion of the portfolio. Four bonds with a face value of USD 400 000 were purchased. The funds for these purchases came from the redemption of a bond with a face value of USD 110 000 and the accumulated interest in the account plus the transfer of USD 56 000 from operations.

9.2. PERFORMANCE 2002

The overall performance of the portfolio is viewed as excellent given the adverse investment environment. The decision of the Committee to reduce the equity portion of the portfolio in 1999 has proved to have been timely. While the returns available in the bond market are lower than they have been in the past, good quality corporate bonds are still available.

9.3. UPDATE OF INVESTMENT AND FUND STRATEGIES

There was a discussion of the desirability of moving to a still more conservative investment position. The Committee concluded that the equity portion of the portfolio should be decreased from the current target of 40 % to between 20 and 30 %. The current actual position is 36 % equities. This will be done by selling the lowest performing equity fund, the Mercury fund, and by making new investments in corporate bonds. The Committee also agreed that some of the corporate bonds to be purchased should be Euro denominated to hedge the portfolio against currency fluctuations. Ultimately the proportion of Euro denominated bonds should be between 10 and 15 %. Dr. Jost reported that the cash flow position of the Union's operations was strong and that funds were available for transfer to investments from the Wachovia money market fund.

Dr. Przybylowicz reviewed the Investment Policy Statement. The Committee discussed the purpose of this statement and concluded that it should be revised to better serve its purpose of communicating IUPAC's investment policy to its constituents. A revised Statement should be simpler and not include the background discussion of how equity markets perform over time. The Chairman was asked to circulate a revised statement for comment by the Committee.

10. OTHER BUSINESS

There was no other business.

11. DATE AND LOCATION OF NEXT MEETING

The next meeting of the Finance committee will be in Zürich, at the offices of Reber Rechtsanwälte, on 9 February 2004.