

IUPAC Finance Committee Meeting

Friday, 2 March 2001, 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. G. Martens, Dr. J. Miyamoto, Dr. H.-L. Senti, Dr. A. Hartmann (Guest, in part), Prof. J. M. Ward (Guest)

Secretary: Dr. J. W. Jost

1. INTRODUCTORY REMARKS & FINALIZATION OF AGENDA

Dr. Przybylowicz welcomed the members of the Committee and noted that Prof. Ward would be participating in the meeting as a guest. Dr. Hartmann would be joining the meeting in the afternoon for a discussion of the IUPAC investment strategy. Dr. Senti asked the Committee consider the issue of IUPAC funding for COCI (Committee on Chemistry and Industry). This item will be considered under Item 8, Allocations to IUPAC Bodies – 2002-3.

2. MINUTES OF 2000 MEETING

There were no issues raised from the Minutes of the 2000 meeting. The Minutes had previously been approved by correspondence.

3. FINANCE COMMITTEE MEMBERSHIP

Dr. Przybylowicz noted that the terms of Dr. Miyamoto and Dr. Senti would end this year on 31 December. He asked if they were willing to serve another term, and both agreed to serve.

4. ITEMS FROM MEETINGS OF EXECUTIVE COMMITTEE AND BUREAU

Dr. Przybylowicz reviewed those items from the Executive Committee and Bureau meetings in 2000 that pertained to the Finance Committee. This item was for information only and no action was required.

5. FINANCIAL REVIEW

5.1. STATEMENTS OF ACCOUNTS – 2000 - AUDITORS REPORT

Dr. Jost noted that the 2000 audit of the IUPAC accounts had been completed the week of 19 February. A draft of the Audit report had been received the previous day by e-mail and copies were distributed to the members. The Auditors had reported no exceptions in their examination of the accounts. The Union's net assets had increased by USD 172 874. This increase was composed of a gain from operations of USD 277,753, a realized gain on investments of USD 141,804 and an unrealized loss on investments of USD 246,683.

5.1.1. New Format for Accounting Reports

Dr. Jost reported that the accounting reports had been changed to allow

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better management of the Project System by the Divisions and Standing Committees. The most significant changes were in the reports showing Division and Standing Committee Expenses and the introduction of a new report called the Project Portfolio Report. These two reports address the need to manage the two separate aspects of project management. The reports of Division and Standing Committee expenses are now labeled Expense and Commitment reports. In the current interim period when Divisions have both Commission activities and Projects to manage, this report shows the actual expenses for the Division Committee (Standing Committee) and the Commissions, as well as the amounts committed to approved projects for the current biennium. The actual expenses for individual projects are shown in the Project Portfolio. This report shows expenses for all currently active projects, including those approved in previous biennia.

These two reports correspond to the two aspects of the project system. The first is the management of the Division budget for expenses and commitments. The second is the management of the performance of the approved projects. After some discussion, the committee agreed that these new reports met the needs of both of these aspects of the project system.

5.2. COMPARISON OF ACCOUNTS TO BUDGET – 2000

Dr. Jost noted that due to the work required to develop the new reports described above, the accounts for the full year 2000 were not available. However, a review of the draft auditors report and the accounts through October indicated no problem areas.

5.3. RESERVES AND SPECIAL FUNDS

Dr. Jost briefly reviewed the four funds that currently comprised the reserves of the Union. These are listed below along with a brief description of each.

1. Reserve Fund: This fund provides two years worth of operating expenses for the Union.
2. Southern Hemisphere Sinking Fund: This fund provides extra funding for the additional expenses associated with General Assemblies held in locations with higher transportation costs for the majority of Titular Members.
3. Endowment Fund: This fund provides income for special projects as approved by the Bureau.
4. Endowment Reserve Fund: This fund provides matching funds for donations made to IUPAC by outside organizations.

A draft policy statement for IUPAC Funds will be discussed in Item 11.

5.3.1. Endowment of IUPAC Prize

Dr. Jost reviewed the proposal described in the circulated report to create a

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new Fund. The income for this fund would be used to fund the IUPAC Prize and the IUPAC travel grants for the Congress. Assuming a 5% rate of return for the Fund, the amount required per year to fund the IUPAC Prize is USD 280 000 and that required to fund the IUPAC travel grants is USD 250 000 for a total of USD 530 000. The Committee agreed in principle to this concept but deferred further discussion to Item 11 on the Agenda.

5.4. FINANCIAL RESULTS FOR SELF-PUBLISHING *PAC* IN 2000

Dr. Jost reviewed the material provided to the Committee. The change to self-publishing had proven financially beneficial. The estimated increase in income to the Union for the 2000 publication year of *PAC* is ~USD 110 000. This does not take into account the revenue foregone by keeping the 2000 subscription price for *PAC* fixed.

The Committee then discussed the projected income from *PAC* based on the continuation of the downward trend in the number of institutional subscribers. It was noted that this trend had continued unchanged in 2000 despite the subscription price being fixed. The Committee recommended that the Executive Committee and the Committee on Printed and Electronic Publications review this projected decrease in income and that the institutional subscription be raised to keep the income to the Union at its current level. The Committee suggested that an increase of 5% might be appropriate.

5.5. CAPITAL BUDGETS

The Committee approved the proposed capital budget of USD 5000 for the Secretariat for 2000.

5.6. AUTHORITY FOR APPROVING EXPENDITURES, INVESTMENTS, AND OTHER FINANCIAL OPERATIONS OF IUPAC

The Committee reviewed the draft schedule of authorities and recommended approval of the proposed schedule by the Executive Committee.

6. SUBSCRIPTIONS

6.1. 2000-1 NATIONAL SUBSCRIPTION PAYMENT STATUS

The Committee noted that there were no problems with arrears other than the special case of Pakistan.

6.2. 2002 AND 2003 NATIONAL SUBSCRIPTION CALCULATIONS

The Committee approved the continued use of the existing formula for the calculation of National Subscriptions. The continued use of UNIDO and CEFIC chemical turnover data as appropriate was also approved. It was noted that the withdrawal of Saudi Arabia and the removal of Pakistan as NAOs would

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increase the National Subscriptions of the remaining NAOs.

6.3. SPECIAL SITUATIONS

6.3.1. Pakistan

The Committee approved a recommendation to the Executive Committee that Council be asked to remove Pakistan as a NAO for nonpayment of its National Subscriptions since 1998 when it was admitted as a member.

6.3.2. Saudi Arabia

The Committee noted with regret the request of the NAO of Saudi Arabia to resign its membership.

6.3.3. ANAOs

The Committee recommended to the Executive Committee that the Associate National Adhering Organizations of Bangladesh, Estonia, and Kenya be removed as ANAOs for nonpayment of their membership fees.

6.4. REVIEW FORMULA FOR CALCULATION OF ALLOCATION OF NATIONAL SUBSCRIPTIONS

The Committee reviewed the background material on the origins of the current formula for calculating National Assessments based on chemical turnover before discussing the proposal for changing the formula presented by the Czech National Committee. It was noted that the current formula was the result of extensive discussion and of long experience with alternative methods for calculating National Subscriptions. The result of these extensive discussions was a formula that reproduced the scale of National Subscriptions at the time the new formula was adopted and that had the additional benefit of being a continuous function of chemical turnover where the previous assessment method had used a discontinuous table of subscriptions versus chemical turnover.

6.5. PROPOSAL FROM CZECH NAO FOR REVISED FORMULA FOR CALCULATING NATIONAL SUBSCRIPTIONS

The Committee had an extensive discussion of the proposal from the Czech National Committee. A number of points were raised during the discussion and these are summarized below.

1. The mention of per capita chemical turnover is misleading because the proposal calls for the multiplication of per capita chemical turnover by population, which is simply chemical turnover.
2. The change in slope of the plot of log National Subscription vs. log chemical turnover from 0.68 to 1.0, results in a situation in which the major contributors to IUPAC (the top five) pay 64.3% of the total National Subscription versus 45.8% in the current system. This would

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lead to an organization dominated by the major contributors. This was a situation that Council wished to avoid in the past and led to the adoption of the scale of National Subscriptions used as the basis for the current system.

3. In many respects, the benefits of IUPAC membership are more important to the smaller NAOs and they should be expected to contribute proportionately more to the Union.
4. The adoption of this proposal poses the very real danger that the larger contributors would no longer feel that the benefits that they received from the Union were commensurate with their expected financial contributions. This would lead eventually to a much smaller and less significant organization, if it survived at all.

The Committee's conclusion is that not only are there no benefits from the proposal, the adoption of this proposal poses a very serious danger to the continued existence of IUPAC.

7. REVIEW OF BUDGETS – 2000 - 1 AND 2002 – 3

Dr. Buxtorf noted that no changes in the budget for 2000-1 were being proposed. The format of the budget will be revised for presentation to Council to take into account the change in publications to self-publishing.

Dr. Buxtorf then reviewed the draft budget for 2002-3. The major change in the format was to show line items for the income for the Young Scientist Awards Fund and the expenses for this activity. It was noted that similar line items should be added for the Endowment Fund. There was then an extensive discussion of how large an increase in the National Subscription should be proposed to Council. The draft budget was based on a 3% increase in each year from the previous year. The Committee concluded that, while OECD inflation was of the order of 3% (without the volatile energy component), the strong financial position of the Union allowed a token increase of only 1% per year. There was some discussion of the desirability of basing the increase in 2002 on the 2001 National Subscription for only the continuing members (that is not including Pakistan and Saudi Arabia). No final decision was reached and it was left to the Treasurer to judge how best to proceed.

The Committee noted again that in its judgment the subscription rate for *PAC* should be increased and asked the Treasurer to include a 5% increase in the draft budget. The Committee also decided not to budget an increase in Affiliate Member Program fees for 2002-3.

8. ALLOCATION TO IUPAC BODIES – 2002 – 3

Dr. Buxtorf presented the proposed allocations to the Divisions and Standing Committees for 2002-3. The proposal was based on the scheme approved by the Finance Committee, Executive Committee and by the Bureau at their 2000 meetings. The only modifications have been the inclusion of a *pro forma* budget for the proposed new Division VIII and the adjustment of the allocation to the Project

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Committee for projects to maintain a balanced budget. The Treasurer was authorized to make the necessary adjustments to the proposed allocations to accommodate the decision of the Executive Committee regarding the proposed new Division and the changes in National Subscription and Publications revenue agreed at this meeting.

Dr. Senti discussed an item that was not on the original agenda. The Committee on Chemistry and Industry has never had a budget and has relied on the willingness of its members employers to pay their travel expenses. COCI feels that this is no longer a viable way of operating in the long term and would like to have a budget allocation to allow it to fund the attendance of certain members at meetings. The request was for USD 20 000 for the next biennium. Dr. Przybylowicz noted that the future terms of reference and membership of COCI would be the subject of a recommendation to the Bureau from the *ad hoc* Committee on IUPAC and Industry. The issue of funding for COCI activities would be part of that recommendation. It was agreed to include a *pro forma* item in the draft budget of USD 20 000 for COCI, subject to the actions of the Bureau on the future of COCI.

9. INVESTMENT PORTFOLIO

9.1. INVESTMENT TRANSACTION HIGHLIGHTS

Dr. Przybylowicz reviewed the major investment transactions since the last Finance Committee meeting. This item was for information only and no action was required.

9.2. PERFORMANCE 2000

Dr. Przybylowicz reviewed the performance of the IUPAC portfolio as compared to various benchmarks. The overall portfolio had shown an unrealized loss of 1% on funds invested. However, the total value of the portfolio had increased because of the investment of money transferred from operations. Compared to the major stock indices, the IUPAC portfolio had done well, due in large part to the 40% of assets invested in fixed income securities. The different equity investments had varied significantly in performance in 2000. The Janus fund had performed well earlier in 2000, but had fallen precipitously at the end of 2000. The Committee approved the Chairman's recommendation to sell the entire Janus position.

9.3. DISCUSSION OF INVESTMENT STRATEGY

There was a general discussion of the various issues related to the investment strategy IUPAC should follow in the current economic climate. The discussion resulted in the following recommendations.

1. The proportion of equity to fixed income investments should be changed from 60%/40% to 50%/50%.
2. The proportion of US to European equity investments would remain at 60%/40%.

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3. No single investment fund should constitute more than 8% of the total portfolio.

To accomplish the above it was agreed that the Chairman would instruct Merrill Lynch to sell the appropriate amounts of the three funds that have values greater than 8% of the portfolio. A new fund would be selected for investment of part of the proceeds from the sales of these funds and the Janus fund. The remaining money would be invested in corporate bonds to achieve the desired 50% equity, 50% fixed income composition for the portfolio. The bonds will be chosen to continue the existing maturity ladder. It was also proposed that since our dealings with the Wachovia Bank on the banking operations side of our activities had been successful, Dr. Jost will get information on their long-term investment program.

10. INVESTMENT POLICY STATEMENT

Dr. Przybylowicz reviewed the draft Investment Policy Statement. Dr. Hartmann commented that the dates used in the first table in section 3.0 were probably not as meaningful as the alternative dates of 1975-1995. It was also agreed to remove the last sentence of the last paragraph of section 2.2, referring to investment in tax-exempt securities. It was felt that this was redundant. The group also felt that the reference to specific portfolio compositions in section 4.1 should be deleted. Portfolio composition targets, that is, the ratio of equities to fixed income and US to European equities, should be left to the Finance Committee to adjust as needed. It was also agreed that since IUPAC primarily invests in equity funds and bonds the policy did not have to give guidelines on ethical stock investments. The policy will be reviewed each year by the Finance Committee and will form the basis of the investment review for the Executive Committee and Bureau.

11. FUND POLICY PROPOSAL

Dr. Przybylowicz reviewed the draft Fund Policy Statement. After some discussion the Committee agreed on the following fund structure:

1. Biennial Operating Reserve Fund: this fund will be set each year at the actual operating expenses for the previous biennium, less publication expenses.
2. Southern Hemisphere Sinking Fund: this will be set at a maximum of USD 250 000. This fund is intended to provide money for General Assemblies in particularly expensive locations and will be replenished as necessary by the Finance Committee.
3. Young Scientists Awards Fund: this will be set at USD 530 000. The income will be used to fund the IUPAC Young Scientists Prize and the Young Scientists travel grants to the IUPAC Congress.
4. Endowment Fund: this is equal to the balance of the amount in the reserve and the income will be used to fund special projects as decided by the Bureau.

The fund structure given above will be reviewed by the finance committee each year and modified as necessary.

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12. INVESTMENT PROCESS DISCUSSION

Dr. Przybylowicz reviewed the performance of the shadow portfolio he had constructed after the 2000 meeting of the Finance Committee. This had been done to study the possible consequences of moving to an equity investment portfolio made up only of index funds. For the period covered, the existing portfolio of both index and managed funds had performed better than the shadow portfolio. It was decided to continue tracking the relative performance of the shadow portfolio. The issue will be discussed again at the 2002 meeting of the Committee.

13. OTHER BUSINESS

Dr. Przybylowicz expressed the appreciation of the Committee for the support provided by the staff of Reber Rechtsanwälte for the meeting.

14. DATE AND LOCATION OF NEXT MEETING

The next meeting of the Finance Committee will be on 25 February 2002 at the Law Offices of Reber Rechtsanwälte, Zürich, Switzerland.