



## Security Council

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### Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolutions [1958 \(2010\)](#) for the period from 1 January to 31 December 2013.



## Letters of transmittal

### **Letter dated 31 March 2014 from the Secretary-General addressed to the Chair of the Board of Auditors**

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow account established pursuant to Security Council resolution [1958 \(2010\)](#) for the period from 1 January to 31 December 2013, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

*(Signed)* **BAN** Ki-moon

**Letter dated 30 June 2014 from the Chair of the Board of Auditors  
addressed to the President of the Security Council**

I have the honour to transmit to you the report of the United Nations Board of Auditors on the United Nations escrow account established under the provisions of Security Council resolutions [1958 \(2010\)](#) for the period from 1 January to 31 December 2013.

*(Signed)* Sir Amyas C. E. **Morse**  
Comptroller and Auditor General  
United Kingdom of Great Britain and Northern Ireland  
Chair of the United Nations Board of Auditors

**Report of the Board of Auditors on the audit of the  
United Nations escrow account established under the  
provisions of Security Council resolutions **1958 (2010)** for  
the period from 1 January to 31 December 2013**

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## I. Report of the Board of Auditors (audit opinion)

### Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2013, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves and fund balances (statement II) and the statement of cash flows (statement III), as well as the notes to the financial statements.

#### *Management's responsibility for the financial statements*

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or to error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted the audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement in the financial statements, whether due to fraud or to error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements of the escrow account present fairly, in all material respects, the financial position of the account as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the United Nations system accounting standards.

### Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the escrow account that have come to our notice, or which we have tested as part of our audit, have in all

significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also examined the management issues and concluded that there are no material managerial issues to draw to the attention of the Security Council. Therefore, we did not issue a long-form audit report. The two recommendations made for the period from 1 January to 31 December 2012 have been fully implemented.

*(Signed)* Sir Amyas C. E. **Morse**  
Comptroller and Auditor General of the  
United Kingdom of Great Britain and Northern Ireland  
Chair of the Board of Auditors

*(Signed)* **Liu Jiayi**  
Auditor General of China  
Lead Auditor

*(Signed)* Ludovick S. L. **Utouh**  
Controller and Auditor General of the  
United Republic of Tanzania

30 June 2014

## II. Certification of the financial statements

The financial statements for the United Nations escrow account established pursuant to Security Council resolution [1958 \(2010\)](#) for the period from 1 January to 31 December 2013 have been prepared in accordance with financial rule 106.1.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information on and clarification of the financial activities related to Security Council resolution [1958 \(2010\)](#) undertaken by the Organization during the period covered by the statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations escrow account established pursuant to Security Council resolution [1958 \(2010\)](#), numbered I to III, are correct.

(Signed) Maria Eugenia **Casar**  
Assistant Secretary-General, Controller

28 March 2014

### III. Financial statements

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)<sup>a</sup>

#### I. Statement of income and expenditure and changes in reserves and fund balances for the period from 1 January to 31 December 2013

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total 2013</i>	<i>Total 2012</i>
<b>Income</b>				
Interest income	126	981	1 107	996
<b>Total income</b>	<b>126</b>	<b>981</b>	<b>1 107</b>	<b>996</b>
<b>Expenditure</b>				
Staff and other personnel costs	640	–	640	931
Travel	–	–	–	74
Contractual services	174	–	174	186
Operating expenses	19	18	37	50
<b>Total expenditure</b>	<b>833</b>	<b>18</b>	<b>851</b>	<b>1 241</b>
<b>Excess (shortfall) of income over expenditure</b>	<b>(707)</b>	<b>963</b>	<b>256</b>	<b>(245)</b>
Cancellation of prior-period obligations	–	–	–	4
Other adjustments to reserves and fund balances	(8)	–	(8)	–
Reserves and fund balances, beginning of period	17 704	133 830	151 534	151 775
<b>Reserves and fund balances, end of period</b>	<b>16 989</b>	<b>134 793</b>	<b>151 782</b>	<b>151 534</b>

<sup>a</sup> See note 1.

The accompanying notes are an integral part of the financial statements.



**United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)<sup>a</sup>**

**II. Statement of assets, liabilities and reserves and fund balances as at 31 December 2013**

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total 2013</i>	<i>Total 2012</i>
<b>Assets</b>				
Cash and term deposits	40	41	81	93
Cash pool	16 953 <sup>b</sup>	134 752 <sup>c</sup>	151 705	151 541
Accounts receivable	87	–	87	30
Deferred expenditure	24	–	24	26
<b>Total assets</b>	<b>17 104</b>	<b>134 793</b>	<b>151 897</b>	<b>151 690</b>
<b>Liabilities</b>				
Unliquidated obligations — current year	40	–	40	57
Accounts payable	75	–	75	99
<b>Total liabilities</b>	<b>115</b>	<b>–</b>	<b>115</b>	<b>156</b>
<b>Reserves and fund balances</b>				
Operating reserves <sup>d</sup>	211	–	211	202
Cumulative surplus	16 778	134 793	151 571	151 332
<b>Total reserves and fund balances</b>	<b>16 989</b>	<b>134 793</b>	<b>151 782</b>	<b>151 534</b>
<b>Total liabilities and reserves and fund balances</b>	<b>17 104</b>	<b>134 793</b>	<b>151 897</b>	<b>151 690</b>

<sup>a</sup> See note 1.

<sup>b</sup> Represents the share of the United Nations main cash pool and comprises cash and term deposits of \$3,543,249, short-term investments of \$6,756,115, long-term investments of \$6,630,209 and accrued interest receivable of \$23,230.

<sup>c</sup> Represents the share of the United Nations main cash pool and comprises cash and term deposits of \$28,164,123, short-term investments of \$53,702,144, long-term investments of \$52,701,359 and accrued interest receivable of \$184,650.

<sup>d</sup> Represents reserves for end-of-service and post-retirement benefits. See note 4.

The accompanying notes are an integral part of the financial statements.

**United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)<sup>a</sup>**

**III. Statement of cash flows for the period from 1 January to 31 December 2013**

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total 2013</i>	<i>Total 2012</i>
<b>Cash flows from operating activities</b>				
Net excess (shortfall) of income over expenditure (statement I)	(707)	963	256	(245)
(Increase) decrease in accounts receivable	(57)	–	(57)	(7)
(Increase) decrease in deferred expenditure	2	–	2	(6)
Increase (decrease) in unliquidated obligations	(17)	–	(17)	(34)
Increase (decrease) in accounts payable	(24)	–	(24)	27
Less: interest income	(126)	(981)	(1 107)	(996)
<b>Net cash from operating activities</b>	<b>(929)</b>	<b>(18)</b>	<b>(947)</b>	<b>(1 261)</b>
<b>Cash flows from investing activities</b>				
Interest income	126	981	1 107	996
<b>Net cash from investing activities</b>	<b>126</b>	<b>981</b>	<b>1 107</b>	<b>996</b>
<b>Cash flows from financing activities</b>				
Cancellation of prior-period obligation	–	–	–	4
Other adjustments to reserves and fund balances	(8)	–	(8)	–
<b>Net cash from financing activities</b>	<b>(8)</b>	<b>–</b>	<b>(8)</b>	<b>4</b>
<b>Net increase in cash and term deposits and cash pool</b>	<b>(811)</b>	<b>963</b>	<b>152</b>	<b>(261)</b>
Cash and term deposits and cash pool, beginning of period	17 804	133 830	151 634	151 895
Cash and term deposits and cash pool, end of period	16 993	134 793	151 786	151 634

<sup>a</sup> See note 1.

The accompanying notes are an integral part of the financial statements.

**United Nations escrow account established under the provisions of  
Security Council resolution 1958 (2010) (statements I, II and III)  
Notes to the financial statements**

**Note 1**

(a) The Security Council, in its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities of the oil-for-food programme. The Council authorized the Secretary-General to establish an escrow account and retain \$20 million in it until 31 December 2016 for the expenses related to the orderly termination of the residual activities, including the Organization's support to Member State investigations and Member State proceedings related to the programme, as well as the expenses of the office of the High-level Coordinator created pursuant to its resolution 1284 (1999).

(b) In the same resolution, the Security Council authorized the Secretary-General to retain in the escrow account up to \$131 million for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the oil-for-food programme since its inception, for a period of six years.

(c) Also in the same resolution, the Security Council requested that all funds remaining in the escrow account after six years be transferred to the Government of Iraq by 31 December 2016.

(d) The activities described in (a) and (b) above are shown in the "Administration" and "Indemnification reserve" columns, respectively, in these financial statements.

**Note 2**

**Summary of significant accounting and financial reporting policies of the United Nations**

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations, adopted by the General Assembly, the rules formulated by the Secretary-General as required under the Regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the Chief Executives Board, as follows:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;
- (ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period for the escrow account established under the provisions of Security Council resolution 1958 (2010) is one year, from 1 January to 31 December. The financial period of the Organization for all other funds is a biennium and consists of two consecutive calendar years, except for peacekeeping operations, which are on annual cycle.

(d) Generally, income, expenditure, assets, and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions

made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iii) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(iv) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments and investment income earned in the cash pools. All gains and losses on investments and foreign exchange differences relating to the cash pools are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;

(v) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, net gains on currency fluctuations other than for the current year's obligations, monies accepted for which no purpose was specified and other sundry income;

(vi) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph k (iii) below.

(i) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from the evaluation of current-period obligations;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in paragraph (k) (iv) below.

(j) Assets:

(i) Cash and term deposits represent funds in demand-deposit accounts and interest-bearing bank deposits;

(ii) Cash pools comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools are stated at their fair value and include marketable securities and other negotiable instruments acquired to produce income. The share in the cash pools is reported separately in each participating fund's statement and the composition of its investments is disclosed in the footnotes to the statements. Currently, the escrow account participates only in the main cash pool, see note 3;

(iii) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending on the availability of cash resources;

(iv) Provision for delays in collection of receivable balances is not made;

(v) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 105.2. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vi) For purposes of the statement of assets, liabilities and reserves and fund balances only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred expenditure. The full amount of the advances is maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the expenditures are charged and the advances are settled;

(vii) Maintenance and repair of capital assets are charged to expenditure. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged to expenditure in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(k) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits. Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current, and future financial periods are shown as unliquidated obligations. Current period obligations remain valid for 12 months following the end of the financial period to which they relate;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Organization to the Pension Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund.

Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the date of the current financial statement, the Assembly has not invoked this provision;

(vii) The United Nations is transitioning from the use of the United Nations system accounting standards to the International Public Sector Accounting Standards (IPSAS), which will guide the presentation of the financial statements of the United Nations, including those of the escrow account, commencing from the 2014 financial year. Hence, the present financial statements are the last statements to be prepared on the basis of the United Nations system accounting standards. The International Public Sector Accounting Standards are based on full accrual accounting, which means that all assets and liabilities are presented on the face of the financial statements and expenses and revenues are recognized when incurred or earned, irrespective of the cash flows. Also, under IPSAS, significantly more note disclosures are required in the financial statements. Under the United Nations system accounting standards, financial accounting and budgetary accounting are aligned. With the adoption of IPSAS, the financial statements will be presented on a full accrual basis, whereas budgetary expenditure will continue to be recorded on a modified cash basis. There will be a reconciliation between budget implementation and the financial statements, which will be presented in the notes to the financial statements. IPSAS requires annual financial statements; commencing from the 2014 financial year, IPSAS-compliant financial statements will be prepared and audited annually.

### **Note 3**

#### **Cash pool**

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the United Nations Secretariat, including the escrow account established under the provisions of Security Council resolution 1958 (2010). Such surplus funds are combined in one of two internally managed cash pools, which invest in major segments of the money and fixed-income markets. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and through the ability to spread yield curve exposures across a range of maturities;

(ii) The investment activities of the cash pools are guided by the principles contained in the Investment Management Guidelines. An Investment Committee periodically assesses compliance with the Guidelines and makes recommendations for updates thereto, and also reviews performance.

(b) Investment management objectives: further to the Guidelines, the investment objectives of the cash pools, in order of priority, are the following:

(i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations and participating entities to readily meet all operating requirements. Only assets

which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return taking into account investment risk constraints and the cash flow characteristics of the pool. Benchmarks determine whether satisfactory market returns are being achieved in the cash pool.

(c) Cash pools:

(i) The United Nations Headquarters Treasury manages investments in two cash pools — the main cash pool and the euro cash pool:

a. Effective 1 July 2013, the United Nations Headquarters and the United Nations offices away from Headquarters cash pools were combined to form the main cash pool. The main cash pool now comprises operational bank account balances and investments in United States dollars;

b. The euro cash pool comprises investments in euros. The fund participants are mostly offices away from Headquarters that may have a surplus of euros from their operations;

(ii) The escrow account participates in the main cash pool only, which is invested in a variety of securities. Such securities may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments, asset-backed, mortgage-backed or equity products;

(iii) Investment transactions are now accounted for on a trade date basis, reflecting a change from settlement date to trade date; the 2012 figures have not been restated, as the impact of the change has been deemed to be immaterial. Investment income is recognized on the accrual basis; transaction costs that are directly attributable to the investment activity of the cash pools are expensed as incurred in the cash pools, and the net income is distributed proportionately to the funds participating in the cash pools; operational bank account fees are not netted but are distributed to cash pool participants. The unrealized market gains and losses on securities and foreign exchange gains and losses are distributed proportionately to all participants on the basis of their end-of-year balances;

(iv) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the cash pool participants;

(v) Investments have been recorded at fair value. The 2012 comparative figures represent the book value of investments. The 2012 figures have not been restated, as the impact of the change in valuation has been deemed to be immaterial.

(d) Financial information pertaining to the main cash pool:

(i) As at 31 December 2013, the main cash pool held total assets of \$9,548.7 million; of this amount, \$151.7 million was due to the escrow account, as reflected against the cash pool line in statement II, Statement of assets, liabilities and reserves and fund balances;



(ii) Financial information of the main cash pool as at 31 December 2013 is summarized in table 1.

Table 1  
**Main cash pool summary as at 31 December 2013**

(Thousands of United States dollars)

**Assets and liabilities**

	<i>Main pool</i>
<b>Assets</b>	
Short-term investments <sup>a</sup>	5 687 907
Long-term investments <sup>a</sup>	3 734 459
<b>Total investments</b>	<b>9 422 366</b>
Cash	113 200
Accrued investment income	13 084
<b>Total assets</b>	<b>9 548 650</b>
<b>Liabilities</b>	
Payable to escrow account	151 705
Payable to other funds participating in the main cash pool	9 396 945
<b>Total liabilities</b>	<b>9 548 650</b>
<b>Net assets</b>	<b>–</b>
<b>Net income</b>	
<b>Income</b>	
Investment revenue	43 684
Realized gains on sales of securities	13 367
Foreign exchange adjustments	4 241
Unrealized gains	4 811
<b>Net income from investments</b>	<b>66 103</b>
Bank fees	(1 083)
<b>Net income from operations</b>	<b>65 020</b>

<sup>a</sup> Fair value.

(e) Composition of the main cash pool: a breakdown of investments held in the main cash pool by type of instrument is shown in table 2.

Table 2  
**Investments of the main cash pool, by type of instrument, as at  
31 December 2013**

(Thousands of United States dollars)

	<i>Book value</i>	<i>Fair value<sup>a</sup></i>
<b>Bonds</b>		
Non-United States agencies	2 073 122	2 077 421
Non-United States sovereigns	670 963	674 773
Supranationals	250 075	250 246
United States agencies	555 494	556 492
United States treasuries	1 597 161	1 592 050
<b>Subtotal</b>	<b>5 146 815</b>	<b>5 150 982</b>
Discounted instruments	2 138 208	2 138 849
Certificates of deposit	250 000	250 003
Term deposits	1 882 532	1 882 532
<b>Total investments</b>	<b>9 417 555</b>	<b>9 422 366</b>

<sup>a</sup> Fair value is determined by the independent custodian on the basis of valuations of securities that are sourced from third parties.

(f) Financial risk management: the main cash pool is exposed to a variety of financial risks, including credit risk, liquidity risk, currency risk and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk: the Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Viability Rating is used to rate bank term deposits. The credit ratings of the issuers whose securities were held in the main cash pool are shown in table 3;

Table 3  
**Investments of the main cash pool, by credit rating, as at 31 December 2013**

(Thousands of United States dollars)

	<i>Total<sup>a</sup></i>	<i>Ratings</i>
<b>Bonds</b>	5 150 982	S&P: 32.3% AAA and 63.1% AA+/Aa; 4.6% not rated by S&P; Moody's: 81.9% Aaa and 18.1% Aa1/Aa3
Discounted instruments	2 138 849	S&P: 71.7% A-1 and 24.1% NR; 95.8% A-1+; Moody's: 95.8% P-1; Fitch: 4.2% aa-
Certificates of deposit	250 003	S&P: 40% A-1+; Moody's: 40% P-1; Fitch: 60% a+/a-
Term deposits	1 882 532	Fitch: 58.6% aa- and 41.4% a+/a-a-
<b>Total investments</b>	<b>9 422 366</b>	

<sup>a</sup> Represents the fair value of securities as at 31 December 2013.

(ii) Liquidity risk: the main cash pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet commitments as and when they fall due. The major portion of the pool's cash and cash equivalents and investments are available within one day's notice to support operational requirements. Hence, the main cash pool is able to respond to withdrawal needs in a timely manner, and liquidity risk is considered to be low;

(iii) Currency risk: currency risk is the risk that the value of investments denominated in currencies other than United States dollars will fluctuate owing to changes in foreign exchange rates against the dollar. The main cash pool has no currency risk for its investments that are in United States dollars. The main cash pool has currency risk for operational bank balances;

(iv) Interest rate risk:

a. Interest rate risk is the risk of variability in investments' values due to change in interest rates. In general, as interest rate rises, the price of a fixed-rate security falls, and vice-versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk;

b. The main cash pool is exposed to interest rate risk as their holdings comprise interest-bearing securities. As at 31 December 2013, the main cash pool invested primarily in securities with shorter terms to maturity, with the maximum term being less than four years. The average duration of the main cash pool was 0.92 years, which is considered to be an indicator of low interest rate risk;

c. Table 4 shows how fair value of the main cash pool as at 31 December 2013 would increase or decrease should the overall yield curve shift in response to changes in interest rates. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative;

**Table 4**  
**Sensitivity of the main cash pool to interest rates as of 31 December 2013**

<i>Shift in yield curve (Basis points)</i>	<i>Change in fair value (Millions of United States dollars)</i>
-200	174.0
-150	130.0
-100	87.0
-50	43.0
0	0.0
50	-43.0
100	-87.0
150	-130.0
200	-174.0

- (v) Other price risk: the main cash pool is not exposed to significant other price risk, as the cash pool does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

#### Note 4

##### Operating reserves

Operating reserves comprise estimated liabilities for end-of-service and post-retirement benefits for applicable staff members. The benefits comprise those for after-service health insurance coverage, repatriation benefits and commutation of unused vacation days. All these liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm.

The estimated liabilities as at 31 December 2013 were \$211,000 (\$119,000 for after-service health insurance, \$63,000 for repatriation benefits and \$29,000 for unused vacation days). Operating reserves are included in the total for reserves and fund balances.

#### Note 5

##### Non-expendable property

The non-expendable property valued at historical cost is shown below.

(Thousands of United States dollars)

2013	2012
10	10

#### Note 6

##### Contingent liabilities

Further to Security Council resolution 1958 (2010), the Secretary-General took all actions necessary to terminate all residual activities under the oil-for-food programme, including the closure of all letters of credit with outstanding claims of delivery for which no confirmation of arrival would be provided by the Government of Iraq, without prejudice to any rights or claims that the suppliers with claims of delivery may have for payment, or otherwise, against the Government of Iraq under their respective commercial contracts with the Government of Iraq.

In accordance with Security Council resolution 1958 (2010), the Secretariat is negotiating an agreement with the Government of Iraq under which the Government would provide appropriate indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception. Under that agreement, the Government would also agree to provide a waiver of any future claims that the Government of Iraq may have against the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception.

**Note 7**  
**Escrow account activities**

Escrow account activities during fiscal year 2013 were as follows:

(Thousands of United States dollars)

<i>Project</i>	<i>Expenditure</i>
IRAQ-1958-ADMIN	595
IRAQ-1958-HLC	49
IRAQ-1958-IIC	207
<b>Total</b>	<b>851</b>

IRAQ-1958-ADMIN. In accordance with Security Council resolution [1958 \(2010\)](#) the Secretariat continued to negotiate the agreement with the Government of Iraq.

IRAQ-1958-HLC. The Office of the High-level Coordinator continued its activities pursuant to Security Council resolution [1284 \(1999\)](#).

IRAQ-1958-IIC. The Office of Independent Inquiry Committee continued to support Member States investigations and Member States proceedings related to the programme.