



United Nations

United Nations Joint Staff Pension Board

**Report of the United Nations
Joint Staff Pension Board**

**Sixty-seventh session
(16 to 24 July 2020)**

**General Assembly
Official Records
Seventy-fifth Session
Supplement No. 9**

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United Nations Joint Staff Pension Fund

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Pension Board**

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United Nations • New York, 2020

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[26 August 2020]

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Annex XIV

Comments of the Governance Working Group on the report of Mosaic Governance Advisors

1. The Governance Working Group highly appreciates the efforts of Mosaic Governance Advisors in conducting an independent analysis of the governance of the United Nations Joint Staff Pension Board, pursuant to General Assembly resolution [74/263](#), within a limited time and under the current challenges of coronavirus disease (COVID-19).
2. The Working Group views the report with keen interest and notes that a number of the recommendations made by Mosaic are in line with the current thrust of the Working Group to further review participation at sessions of the Board; clarify and harmonize the terms of reference and working methods of committees and working groups of the Board; and develop a code of conduct and appropriate measures to strengthen the integrity and effectiveness of the Board.
3. When Mosaic was selected, the Working Group conveyed, through the Chief Executive for Pension Administration, its opinion that the scope of the governance analysis should closely follow the parameters of paragraph 8 of General Assembly resolution [74/263](#). That opinion was reiterated during an informal dialogue held with Mosaic in June 2020.
4. The Working Group is of the view that the report of Mosaic and some of its recommendations go beyond the scope defined by the General Assembly, in particular in paragraph 8 (c), with regard to the “implementation of a review and rotation scheme for the adjustment of the composition of the Pension Board on a regular basis, to allow eligible member organizations to share rotating seats in a fair and equitable manner”.
5. The best practices and comparative analysis in the report are informative for the Pension Board, but the unique context and background of the United Nations Joint Staff Pension Fund need to be taken into account.
6. The Working Group underscores the need for inclusive reflection on how the governance of the Board can be strengthened. As requested by the General Assembly in its resolution [74/263](#), the views of the Board should be submitted to the Assembly before action is taken on the recommendations contained in the report.
7. A number of the recommendations would alter the fundamental nature, governing principles, size, composition, practices and working culture of the Board. Their implementation would entail making significant amendments to the Regulations and Rules of the Pension Fund. It would therefore be necessary to provide ample time for all Board members and stakeholders to carefully study them, understand their implications and discern their feasibility.
8. **The Governance Working Group recommends that the Board adopt the following language on the item for its report to the General Assembly:**

The Board highly appreciated the efforts of Mosaic Governance Advisors in conducting an independent analysis of the governance of the Board, taking into account best practices, in accordance with General Assembly resolution [74/263](#), in a short amount of time and under difficult circumstances.

The Board took note of the preliminary comments of the Governance Working Group, which it agreed to annex to its report to the General Assembly.

Board members engaged in an initial exchange of views and expressed the following:

(a) **The Board expressed interest in and appreciation for the quality of the report and the information on best practices;**

(b) **The Board noted that the implementation of some of the far-reaching recommendations contained in the report would entail making significant amendments to the Regulations and Rules of the Fund and alter the nature, size and composition, and practices of the Board;**

(c) **The Board noted that a number of recommendations went beyond the specific parameters set forth in the General Assembly resolution;**

(d) **Because the report was received only during the Board session, the Board would have appreciated more time to study the recommendations, and their implications and feasibility, before giving their views.**

Way forward:

(a) **The Board may wish to request Mosaic to conduct further analysis, taking into consideration the initial views provided by the Board.**

(b) **The Board may wish to request the Governance Working Group to further study, in consultation with constituent groups and member organizations, the recommendations made by Mosaic and submit a report to the Board at its next session.**

Enclosure

Letter dated 28 August 2020 from the founder and Chief Executive Officer of Mosaic Governance Advisors addressed to the Secretary of the United Nations Joint Staff Pension Board

Attached herewith is the report of Mosaic Governance Advisors on the comprehensive review of governance of the United Nations Joint Staff Pension Fund, which has been revised based upon feedback received (see attachment).

We respectfully request that you provide a copy of the confidential report to the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

On behalf of Mosaic Governance Advisors we thank the members of the United Nations Joint Staff Pension Board, their alternates and representatives, committees and working groups, and staff for their time and effort in answering questions and providing materials to support the scope of work. Our team relied heavily upon them for historical context and information and received prompt responses to all requests.

(Signed) Amy L. **McDuffee**
Founder and Chief Executive Officer
Mosaic Governance Advisors

Attachment

Comprehensive review of the governance of the United Nations Joint Staff Pension Fund: a confidential report to the General Assembly

Executive summary

1. Pursuant to General Assembly resolution [74/263](#), Mosaic Governance Advisors, an independent external entity with expertise in pension fund governance matters, conducted a comprehensive and objective analysis of the governance of the United Nations Joint Pension Staff Fund from 19 June 2020 to 13 July 2020. The objective of the analysis was to compare the Pension Fund to best practices applied in international public pension organizations and make recommendations regarding:

(a) Governance structure of the United Nations Joint Pension Staff Board and its committees;

(b) Role, responsibilities, and practices of the Pension Board that are relevant for the proper governance of the Fund;

(c) A strategy to transition governance of the Fund to align with best practices.

2. The present report sets out 1 recommendation to the General Assembly and 15 recommendations to the Pension Board from across the scope of work that, if implemented, would make structural and procedural changes to the Board, which would modernize its operations and serve to minimize the gap between the Pension Fund and governance best practices.

Key findings and conclusions

3. Mosaic conducted interviews with Board members, representatives and alternates. The following views were shared by most interviewees: the Pension Fund provides a very important benefit; the relationship between the General Assembly and the Pension Board has changed in recent years; rebuilding trust should be a priority; each constituent group should be represented in the composition of the Board; there are areas of imbalance in various aspects of governance structure, process and practices; there is insufficient clarity, transparency and communication at all levels within the governance structure and with stakeholders.

4. Differing views gathered through the interview process revealed that the following themes need resolution to create better, more effective governance for the Pension Fund: confusion about the roles and mandates of the Board, its leadership, the Standing Committee, and the Bureau; disagreement about which principles are important to the governance of a pension fund; and the level to which improvement to governance is needed to enhance overall effectiveness. Some interviewees believed that minimal change was needed to improve governance. Others held a contrary view. For example, as one interviewee noted: “The Pension Fund is in a political governance framework which is inappropriate for a financial institution.”

5. Mosaic’s review demonstrated that the variance between the governance practices of the Pension Fund and international public pension fund governance best practices is significant in each of the scope areas. The following two overarching themes explain the variance: (a) the Pension Board itself appears to be at a different stage in its life cycle than what is typically observed in best practice public pension fund boards; and (b) the governance structure of the Fund lacks the clear, modern fiduciary framework typically observed not only in best practice public pension funds, but in the vast majority of public pension funds.

6. If the objective is to align the governance of the Fund with pension fund best practices, change is needed to the Fund's governance structure and practices.

7. The recommendations made to the Pension Board appear in table 1. They are best viewed within the context of the findings and analyses set forth herein. A transition strategy is also provided to depict an approach to implementing the recommendations.

Table 1
Recommendations to the Pension Board

<i>Report section</i>	<i>Description</i>	<i>Variance from best practices (minimal/significant)</i>	<i>Recommendation</i>
II.A	Board size	Significant	<p><i>Recommendation 1</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) seek changes to the Regulations to create a smaller, nimbler Board; (b) strive for consensus but adhere to the Rules, which specify that a vote be taken by a majority of the Board members present; (c) limit the use of alternates and non-voting members to strengthen Board accountability and align fiduciary decision-making to those with a Board seat.
II.B	Board composition and allocation of seats	Significant	<p><i>Recommendation 2</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) recommend to the General Assembly that the interpretation of the principle of "fair and equitable" be redefined to one that solely reflects a fiduciary focus; (b) maintain the tripartite structure; (c) seek change to the Regulations to: (i) establish a requirement to hold an annual general meeting; (ii) provide retirees with voting privileges; and (iii) set forth that employees of the Pension Fund may not occupy pension boards.
II.C	Board meeting frequency	Significant	<p><i>Recommendation 3</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) develop and adopt an annual workplan for the Board and its committees; (b) based on the needs articulated in the workplan, schedule a sufficient number of regular Board and committee meetings during the year; (c) schedule a strategic planning session either on a stand-alone basis or coupled with one of the regular Board meetings.

<i>Report section</i>	<i>Description</i>	<i>Variance from best practices (minimal/significant)</i>	<i>Recommendation</i>
II.D	Board terms and rotation	Significant	<p><i>Recommendation 4</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) eliminate the concept of rotation as it relates to Board seats in favour of having Board continuity; (b) seek to amend the Regulations to: (i) establish specific, staggered terms of service for all Board seats; (ii) adopt limits on the number of terms that Board members can serve overall and consecutively; and (iii) establish parameters for Board seat vacancies.
III.A.1	Pension Board purpose and role	Significant	<p><i>Recommendation 5</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) clarify the purpose and role of the Board as one of overall stewardship, oversight and setting strategic direction; (b) establish a long-term, future vision of success for the organization; (c) transform the Board to a stage 4, visionary/ institutional board; (d) commit to making the corresponding governance changes necessary to support the Board in making its transformation.
III.A.2 (a)	Pension Board responsibility: fiduciary responsibilities	Significant	<p><i>Recommendation 6</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) seek changes to the Regulations to clarify its role as a fiduciary to the Fund, and expressly state the duties and standards to which fiduciaries will be held accountable; (b) provide appropriate fiduciary training to Board members, alternates, and representatives, upon initial induction to Board service and periodically thereafter.
III.A.2 (b)	Pension Board responsibility: span of governance responsibilities	Significant	<p><i>Recommendation 7</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) create terms of reference for the Board as a collective body; (b) create terms of reference or a comparable document for the Standing Committee, Bureau, Succession Planning Committee and working groups; (c) seek change to the Regulations to limit the mandate of the Standing Committee to appeals, and allow appeals to be presented before the Standing Committee more frequently;

<i>Report section</i>	<i>Description</i>	<i>Variance from best practices (minimal/significant)</i>	<i>Recommendation</i>
			<p>(d) create a smaller mechanism of the Board that can operate as a consistent decision-making body throughout the year and serve as the Chief Executive of Pension Administration's point of contact;</p> <p>(e) provide the terms of reference to those individuals considering candidacy or appointment to the Board or its committees;</p> <p>(f) rebalance the responsibilities among the Board and its committees and determine whether new committees are needed;</p> <p>(g) ensure that all responsibilities are appropriately fulfilled.</p>
III.A.3	Terms of reference for the Chair of the Pension Board	Significant	<p><i>Recommendation 8</i></p> <p>The Board should:</p> <p>(a) eliminate the cycle of Chair rotation and elect a Chair from its entire membership based on the candidate's ability to satisfy the duties, competencies and time availability;</p> <p>(b) increase the term length to align with the strategic planning cycle, and specify limits for the number of overall and consecutive terms;</p> <p>(c) increase the level of expected responsibility, authority and accountability so that the Board Chair is responsible for Board performance;</p> <p>(d) enhance the Board Chair terms of reference;</p> <p>(e) create terms of reference for all other Board leadership roles.</p>
III.A.4	Terms of reference for all Pension Board members	Significant	<p><i>Recommendation 9</i></p> <p>The Board should:</p> <p>(a) enhance its terms of reference for individual Board members to align with best practices;</p> <p>(b) ensure the terms of reference are used to support the entirety of the Board member life cycle, from candidacy and appointment to induction and onboarding, to self-evaluation.</p>
III.B	Board and Standing Committee restrictions and limitations	Significant	<p><i>Recommendation 10</i></p> <p>The Board should:</p> <p>(a) identify and evaluate the risks present to it in fulfilling its fiduciary responsibilities in the light of constraints;</p> <p>(b) revisit and resolve the intended scope of the Standing Committee versus the scope of the Bureau.</p>

<i>Report section</i>	<i>Description</i>	<i>Variance from best practices (minimal/significant)</i>	<i>Recommendation</i>
III.C	Self-evaluation methodology	Significant	<p><i>Recommendation 11</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) conduct a self-evaluation annually; (b) ensure full Board discussion of the self-evaluation to support the principle of building trust and commitment to continuous governance improvement; (c) codify the Board's principles in a policy that is accessible to all stakeholders; (d) provide the Board Chair with the authority, responsibility and accountability to customize the self-evaluation working methods within the contours of the Board's principles.
III.D	Standards of professional and ethical conduct, including conflicts of interest	Significant	<p><i>Recommendation 12</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) ensure timely completion of the code of conduct as developed by the Governance Working Group; (b) develop a comprehensive policy in accordance with best practice elements; (c) ensure proper resourcing of the ethics and compliance programme to effectively support the policy; (d) subject Board members to the same financial disclosure process as Pension Fund staff.
III.E	Oversight of culture	Significant	<p><i>Recommendation 13</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) set out cultural expectations for the organization in connection with the long-term future vision of success; (b) modify the self-evaluation process to incorporate an assessment of Board culture; (c) enhance the monitoring of organizational culture.
III.F	Executive evaluation	Significant	<p><i>Recommendation 14</i></p> <p>The Board should:</p> <ul style="list-style-type: none"> (a) delegate the responsibility of evaluating the Deputy Chief Executive of Pension Administration to the Chief Executive of Pension Administration; (b) develop a Chief Executive of Pension Administration evaluation process to align with best practice working methods outlined herein; (c) establish a process, consistent with best practice working methods, to annually evaluate the Board Secretary;

<i>Report section</i>	<i>Description</i>	<i>Variance from best practices (minimal/significant)</i>	<i>Recommendation</i>
			(d) codify the evaluation processes in a policy that is made available to stakeholders to underscore the principles of transparency and accountability.
III.G	Succession planning	Significant	<p><i>Recommendation 15</i></p> <p>The Board should:</p> <p>(a) mitigate short-term succession risk at the Board Secretary level through a Deputy Board Secretary position;</p> <p>(b) establish a practice of long-range succession planning for executive positions and the Board Secretary position, consistent with best practice working methods;</p> <p>(c) establish a practice of long-range succession planning for Board member positions, consistent with best practice working methods;</p> <p>(d) conduct long-range succession planning discussions at the full Board level with the support of the Succession Planning Committee.</p>

Transition strategy

8. Mosaic’s recommendation is to establish a new 15-member transition board for the Pension Fund, utilizing candidates from the current pool of 93 Board members, alternates and representatives. All 93 current Board members, alternates and representatives would be expected to evaluate the professional credentials of the candidates and ultimately vote for the new transition board members.

9. The primary and immediate purpose of the transition board is to take the steps necessary to implement the recommendations in the present report. The steps include operating under delegated authority from the Board to draft and recommend changes to the General Assembly pertaining to the Fund’s Regulations. In addition, the Transition Board should evaluate and establish new and necessary Board committees or renew appropriate Board committees. It is recommended that the transition board’s committees be comprised of Board members and outside experts appointed by the Board, as needed. Further information on the transition strategy can be found in section IV of the present report.

Pension Board comments

10. Mosaic presented its report to the Board of the United Nations Joint Staff Pension Fund during its sixty-seventh session. Mosaic observed no clear consensus from the Board during the presentation or ensuing discussion. The Board suspended its discussion on the item prior to attaining resolution.

11. Mosaic later confirmed with the Chief Executive of Pension Administration that the Board, through subsequent discussions, was not prepared to accept or reject Mosaic’s recommendations. Instead, the Board requested that its Governance Working Group study the recommendations in Mosaic’s report and directed the Working Group to provide its recommendations to the Board at the sixty-eighth session in July 2021.

12. During the presentation, Mosaic observed that Board members appeared appreciative of the work performed, along with the quality of work, considering the

time frame provided. Some noted the report’s relevancy and that it appeared overall to be an important tool to improve the governance structure of the Fund. Others characterized the recommendations, if implemented, as very rich in terms of the impact that may be achieved. They noted that the recommendations would support the new Chief Executive of Pension Administration in her strategy and direction and would help the Fund to move towards being best in class.

13. Notwithstanding, most Board members who spoke highlighted that insufficient time was provided to the Board to digest the report and give it due consideration; therefore, it was premature to provide constructive feedback or any decisions.

14. Mosaic captured the following additional themes, without attribution, made by Board members in table 2. The themes do not reflect a consensus of the Board. Mosaic remarks to the comments are also provided.

Table 2
Additional Board comments and Mosaic remarks

<i>Themes from Board member comments</i>	<i>Mosaic remarks</i>
The report went beyond the scope of General Assembly resolution 74/263. One Board member stated that the report did not go far enough. Another Board member stated that the report did not address the distribution of responsibility among the Board, the General Assembly and the Secretary-General.	The scope of the project was contractually established. Mosaic delivered a report that aligns with the contractual scope.
Board members had been given a very limited amount of time for thorough consideration of the report’s far-reaching recommendations.	Mosaic adhered to the timeline specified per the contract scope.
The Pension Fund has no comparable peers, given its geographic, multi-currency, multicultural and multi-linguistic participant and retiree profile. The unique background and context of the Fund should be taken into further consideration.	The United Nations Joint Staff Pension Fund is a pension fund with business objectives similar to other pension funds: to take in contributions, to invest assets and to pay benefits. Therefore, its governance structure may be compared to that of other pension funds. Mosaic acknowledges that all pension funds, like all organizations, have their own unique characteristics. No two pension funds are exactly alike; care is needed when translating and implementing governance standards and best practices.
The Standing Committee should serve as the transition board.	Mosaic does not view the Standing Committee as a tenable alternative to implementing the transition board as recommended. There is a perception among the Board that the Standing Committee is not effective or that its purpose lacks clarity. Mosaic believes that starting anew is necessary to provide for effective change management and successful long-term outcomes.
Mosaic did not address the importance of the staff pension committees to the Fund’s governance within its report.	Mosaic addressed the staff pension committees through the recommended mandate of the transition board.

No change is needed due to the Fund's clean financial audits, its sound investment performance and full funding of liabilities. A radical rebuild may introduce risk to the Fund's stability.

Mosaic acknowledges the Fund's successful performance record but notes that appropriate attribution of the outcomes is warranted. Structural governance changes will serve to enhance, and not increase the risk of, the Fund's performance outcomes.

Many issues raised by the report are not new to the Board. They have been studied by the Governance Working Group or its predecessor working groups over the last decade.

Mosaic agrees, noting that more than sufficient time has been given to their study.

Recommendation to the General Assembly

15. Mosaic's singular recommendation to the General Assembly is as follows:

Recommendation to the General Assembly:

(a) amend the Fund's Regulations in a manner consistent with the recommendations and transition strategy set forth in the present report; and

(b) create the transition board with a mandate consistent with the present report.

Based upon our observations, the following are critical dependencies to a successful outcome:

- A Board election conducted in accordance with the transition strategy set forth in the present report
- A delegation of Board authority for recommending Fund Regulation changes to the transition board
- An accountability mechanism between the General Assembly and the Pension Board to follow progress on the transition strategy, such as an update by the Board to the General Assembly during its seventy-sixth session (2021)

Acknowledgements

16. Mosaic thanks the members of the Pension Board of the United Nations Joint Staff Pension Fund, their alternates and representatives, committees and working groups, and staff for their time and effort in answering questions and providing materials to support the scope of work. The Mosaic team relied heavily upon them for historical context and information and received prompt responses to all requests. Mosaic also extends gratitude to the staff of other public pension funds who agreed to be interviewed for purposes of peer research.

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I. Introduction

Background and introduction

17. Mosaic Governance Advisors is an independent governance consulting firm, located in the United States of America in the Denver, Colorado, metropolitan area. Mosaic has substantial and relevant experience in public pension fund governance. Mosaic specializes in governance evaluation, benchmarking, strategic planning, board self-evaluation, executive evaluation, succession planning, policy review and development, and other pension fund governance-related matters. The team has extensive experience working with public retirement systems within the United States and internationally as governance consultants and as former executive staff of public pension funds. Mosaic's experience also includes working within the private sector at large financial services and investment consulting firms.

18. Mosaic was selected by the United Nations in June 2020 through a competitive bidding process.

Mosaic's philosophy

19. In Mosaic's experience and in accordance with established industry practices, the core purpose of a pension fund is to collect sufficient contributions from its members, to invest the contributions with skill and care, and to provide benefits and services to the fund's participants, retirees and beneficiaries in a timely and accurate manner.

20. The core principles of achieving sound pension plan governance include: (a) those involved in pension fund governance and management embrace a "financial institution" and "fiduciary first" mindset; (b) a diversity of views is valued; however, as fiduciaries, the sole focus of the board is the best interest of all participants, retirees and beneficiaries; (c) strong, well-functioning boards know where they lead, where they oversee, where they partner with management and where they should not be involved.

21. Pension fund practices that are viewed to be optimal among a range of practices are best practices. They may inform but should not solely define governance decisions. The application of best practices should be customized to each organization and its unique circumstances. Best practices are demonstrated by pension fund boards and organizations that are considered by peers to be leaders in their industry. Some best practices reflect an "industry standard", while others reflect an approach or working method that is recognized as optimal or high functioning.

22. Table 3 delineates the scope areas as set forth by the contract between the United Nations and Mosaic, along with corresponding sections of the report where the areas are addressed.

Table 1

Mapping of scope areas to report sections

<i>Scope area</i>	<i>Section of the present report where addressed</i>
(a) Size, composition and frequency of meetings;	II. Board Structure
(b) Allocation of seats;	A. Board size
(c) Implementation of a review and rotation scheme for the adjustment of the composition of the Board on a regular basis, to allow eligible	B. Board composition and allocation of seats C. Board meeting frequency

member organizations to share rotating seats in a fair and equitable manner;	D. Board terms and rotation
(d) Terms of reference for the Chair and all members of the Pension Board, including the issue of conflict of interest;	III. Board role, responsibilities and practices
(e) Self-evaluation methodology and any appropriate restrictions or limitations of the Pension Board and its Standing Committee;	A. Terms of reference for the Chair and all members of the Pension Board
(f) Any other aspects that may be identified as relevant for the proper governance of the Fund, including:	1. Pension Board purpose and role
(i) Development of a code of conduct for Board members;	2. Pension Board responsibilities
(ii) Mechanisms to assess the performance of senior management of pension funds for the purpose of assigning accountability and evaluating results;	3. Terms of reference for the Chair of the Pension Board
(iii) Measures to ensure that integrity and ethical values are ingrained in the culture of the Pension Fund;	4. Terms of reference for all Pension Board members
(iv) Mechanisms and measures to ensure timely and proper succession planning with regards to top Pension Fund officials;	B. Board and Standing Committee restrictions and limitations
(v) Evaluating and assessing the value of Pension Board committees and the criteria for membership in such committees.	C. Self-evaluation methodology
	D. Standards of professional and ethical conduct, including conflicts of interest
	E. Oversight of culture
	F. Executive evaluation
	G. Succession planning
Transition strategy	IV. Transition strategy

Review methodology

23. Mosaic conducted a thorough discovery process, including interviews with Pension Board members, alternates and representatives, in their respective constituency groups, along with supporting Pension Fund staff. Questionnaires were used for consistency across all groups. We attended a meeting of the Governance Working Group to field its questions regarding the scope and timing of the review. We further reviewed relevant documentation, including Pension Board Regulations and Rules, terms of reference and policies. In addition, we performed research on a group of 15 global pension fund peers¹ selected by us and agreed upon by certain members of Pension Fund leadership. Using the results of the discovery process, we analysed aspects of the Pension Fund governance structure, processes and practices, as compared with peer research, interviews, proprietary best practices checklists, and experience and expertise working with pension funds. To maintain accuracy, we performed a fact check of specific aspects of information with Pension Fund leadership. Finally, we summarized findings, analyses and recommendations in the present report and presented it to the Board during its sixty-seventh session.

¹ See appendix 1.1, Peer list.

Report organization: comparing Pension Fund governance practices with best practices

24. To compare Pension Fund governance practices with industry best practices, each section of the report is organized as follows: an overview of Mosaic's understanding of the current situation and historical context of the Pension Fund, as applicable, is provided. A description of best practices based on Mosaic's knowledge, experience and observations follows. Mosaic's analysis of how the Pension Fund varies from best practices in that specific area is provided. The variance is labelled as either of two categories: minimal – the Pension Fund practice essentially aligns with best practices; or significant – the Pension Fund practice differs from best practices. Each section concludes with a recommendation to align the Pension Fund with best practices.

II. Board structure

25. The section addresses the following four scope areas:

- (a) Board size;
- (b) Board composition and allocation of seats;
- (c) Board meeting frequency;
- (d) Board terms and rotation.

A. Board size

Size of the United Nations Joint Staff Pension Board

26. The Board is comprised of 33 members having voting rights, 29 alternates, 25 representatives of the member organizations' staff pension committees, 4 non-voting representatives and 2 alternates of the Federation of Associations of Former International Civil Servants. Attendance at Pension Board sessions typically exceeds 100 people.² Pension Fund rules for the Board³ specify voting; however, in practice, interviewees reported to us that the Board rarely votes and instead relies on a consensus-based approach that takes into consideration the views of non-voting Board members, alternates and others in attendance.

Best practices: board size

27. The average board size for large public sector pension boards is between 9 and 11 members, with most boards having between 5 and 19 members.⁴ The use of alternates is an accepted practice; however, having more than one alternate per board seat and/or providing an alternate for all board seats is uncommon. The use of non-voting board seats is also uncommon. It is difficult to establish a "perfect" board size because of the complexity of pension funds, applicable laws, rules, regulations and members' needs.

² Owing to the attendance of representatives, observers, individual experts, committee members and ex officio members in addition to Board members.

³ United Nations Joint Staff Pension Fund rules of procedure, section A.6; and Regulations, annex III.

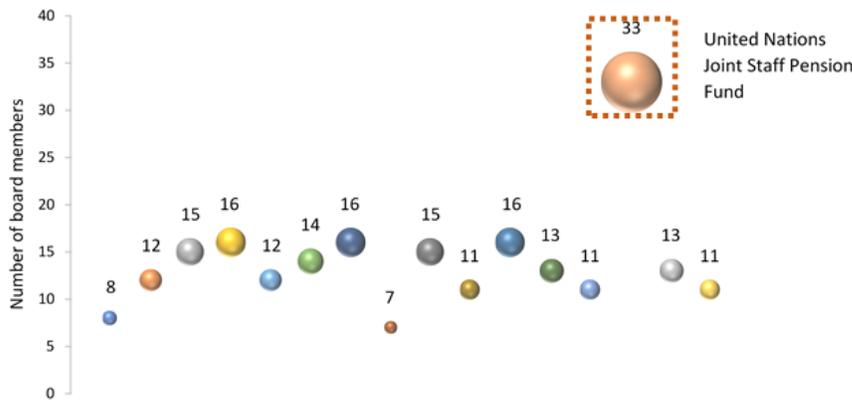
⁴ National Association of State Retirement Administrators, "Overview of public pension plan governance", November 2019.

28. Researchers and sociologists have concluded that, regardless of sector or industry, smaller boards are correlated with better performance.⁵ Board size that allows for a diversity of opinions, proportionality, fairness, transparency, adequate stakeholder representation, sufficient skills and experience, as well as functional effectiveness and efficiency, is viewed as ideal. Attaining consensus is an aim; however, voting in accordance with parliamentary or procedural rules is common.

Board size: variance from best practices – significant

29. The variance between Pension Fund practices and best practices in board size is significant. As depicted in figure I, the size of the Pension Board is an outlier relative to the group of selected peers. Attendance at Pension Board sessions, including members, alternates, observers, ex officio appointees and independent experts, is without peer comparison. Limited use of alternates and non-voting members is seen in other pension funds. Active participation in board deliberations is limited to board members only.

Figure I
Comparison of board size: United Nations Joint Staff Pension Board and selected Pension Fund peers



Recommendation 1

The Board should: (a) seek changes to the Regulations to create a smaller, nimbler Board; (b) strive for consensus, but adhere to the Rules, which specify that a vote be taken by a majority of the Board members present; and (c) limit the use of alternates and non-voting members to strengthen Board accountability and align fiduciary decision-making to those with a Board seat.

⁵ Robert C. Pozen, “What GE’s board could have done differently”, *Harvard Business Review*, July 2018, available at <https://hbr.org/2018/07/what-ges-board-could-have-done-differently>.

B. Board composition and allocation of seats

Pension Fund Board composition

30. The Board's composition, depicted as of 2019 in table 2, was designed to reflect the long-standing principle of "fair and equitable representation". Composition is based on a formula for calculating the number of active participants for each member organization. As the Fund grew (the number of participants grew and more member organizations joined) and matured (the retiree population grew), the options for satisfying the principle of "fair and equitable" became more limited; the concept of rotation was introduced to address the situation. Differences of opinion exist among the Board and its constituent groups as to whether the current composition satisfies the principle of "fair and equitable" and whether the assumptions driving the formula are accurate.

Table 2
Pension Board composition (as of 2019)

<i>Group</i>	<i>Number of members</i>	<i>Composition</i>
I. United Nations	12	United Nations Staff Pension Committee 4 from members elected by the General Assembly 4 from members appointed by the Secretary-General 4 from members elected by the participants
II. FAO	3	FAO Staff Pension Committee 1 from members elected by the governing body 1 from members appointed by the Director General 1 from members elected by the participants
WHO	3	WHO Staff Pension Committee 1 from members elected by the governing body 1 from members appointed by the Director General 1 from members elected by the participants
Staff pension committees in groups III, IV and V (15 members)		
III. UNESCO	2	5 from members elected by the governing bodies
ILO	2	
IAEA	2	
IV. UNIDO	2	5 from members appointed by the Chief Executive Officers
WIPO	1.5	
ICAO	1.5	
ITU	1	
V. WMO	1	5 from members elected by the participants
IMO	1	
IFAD	1	
IOM	1	

Abbreviations: FAO, Food and Agriculture Organization of the United Nations; IAEA, International Atomic Energy Agency; ICAO, International Civil Aviation Organization; IFAD, International Fund for Agricultural Development; ILO, International Labour Organization; IMO, International Maritime Organization; IOM, International Organization for Migration; ITU, International Telecommunication Union; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNIDO, United Nations Industrial Development Organization; WHO, World Health Organization; WIPO, World Intellectual Property Organization; WMO, World Meteorological Organization.

31. The tripartite composition provides representation from member organizations' governing bodies, administration and participants. Representation of a segment of the retiree population occurs through representatives of the Federation of Associations of Former International Civil Servants, but without voting rights. Board members are members of the staff pension committees after being appointed from the General Assembly and from the bodies of other member organizations corresponding to the General Assembly and appointed by the Secretary-General or other chief administrative officers, or elected by staff members of the member organizations.

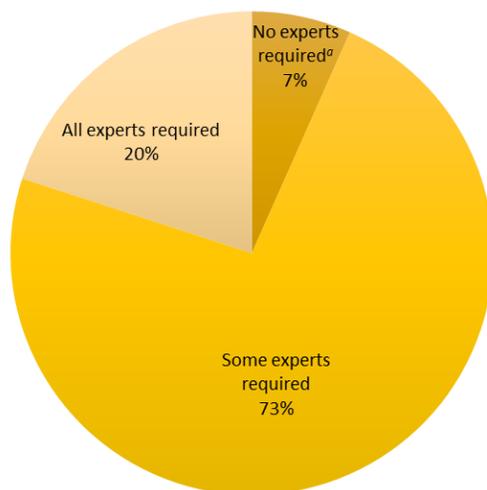
Best practices: board composition

32. A range of practices exist within the international public pension fund community, including the following:

(a) Board composition that provides for “adequate” representation and expertise through a mixture of plan participants (both active and retired), government officials and/or other public members. As depicted in figure II, that reflects 80 per cent of the selected peer group;

(b) Board composition that solely focuses on expertise and skills with appointed representation (“board of experts” model) (20 per cent of the selected peer group).

Figure II
“Experts” representation on the boards of the peer group



Note: “Experts” include external independent experts and/or constituent members required to have expertise. External experts possessed or were required to possess a level of expertise in areas such as accounting, actuarial science, administration of an employee benefit plan, banking, business, climate-related finance, economics, education, fiduciary law, information technology, investment management, public policy, retirement and risk management. The peer group included 15 pension boards.

^a Although no experts are required by governing law, one peer has experts on its board, in practice.

33. The principle of “fair and equitable” is achieved by other pension fund organizations through the application of a modern fiduciary framework, which requires all board members to act in the best interests of all participants, retirees and

beneficiaries, even though the fund may be servicing hundreds of employers and hundreds of thousands of participants.⁶ That holds true even for pension funds in which the concept of constituent representation is expressed through board composition, such as it is with the Pension Fund.

34. Board members individually and collectively possess appropriate skills, experience and pension expertise to execute their fiduciary responsibilities. Taken together, the board's collective expertise and representation provide assurance to participants, employers and sponsors as to the fairness, reasonableness, effectiveness and efficiency of the board as it exercises its fiduciary roles, responsibilities and duties.

35. Best practice pension boards that provide retirees with a board seat also provide voting rights and equal board privileges. To ensure that all constituent voices are infused in the work of the board, best practice peers hold an annual general meeting for participants, retirees or beneficiaries, at which they can ask questions and interact with board members, but not participate in the board's decision-making. To maintain proper independence of the board, non-executive pension fund staff do not occupy a board seat in best practice pension settings.

Pension Board qualifications

36. In the Regulations, there are no specific knowledge or expertise requirements to serve as a Pension Board member. Furthermore, there is no formalized method or documented standard, such as a skills matrix or competencies, for evaluating candidates against the criteria for membership at the full Board level. It was reported to us that the constituent groups informally seek out those from among their ranks who may have the best background to fit the perceived responsibilities of the Board.

Pension Fund committee qualifications

37. A standard process for populating some committees is set forth in the Regulations and Rules; however, the method by which qualifications of potential committee members are considered and evaluated is not standardized or documented. The Committee of Actuaries is comprised of independent actuaries who bring professional skills and expertise to the Board's proceedings; that is a unique structure that appears to be working well, as reported to us by interviewees. The Audit Committee is comprised of two independent experts as well as qualified members from the Board, staff pension committees and retirees. Qualifications are set out in the section 3 of the Committee's terms of reference. That is consistent with best practices and was also reported as working well by interviewees.

38. Interviewees noted that the Board reviews the curricula vitae of all potential members of the Audit Committee prior to approving their appointment. However, we observed no specific process-related documentation to that effect. Similarly, it was reported that the Succession Planning Committee sought members from among the constituent groups possessing background and/or expertise relevant to the business of the committee; however, no formalized or standardized approach was used, and there are no comparable terms of reference for the Committee or documentation of the process for sourcing members. To supplement and further serve to professionalize the Succession Planning Committee's work, an independent executive recruitment firm was retained to assist with the recruitment of the Chief Executive of Pension Administration; it was reported to us that the process worked well.

⁶ See Appendix 1.3, Peers: employers served.

Best practices: qualifications of board members

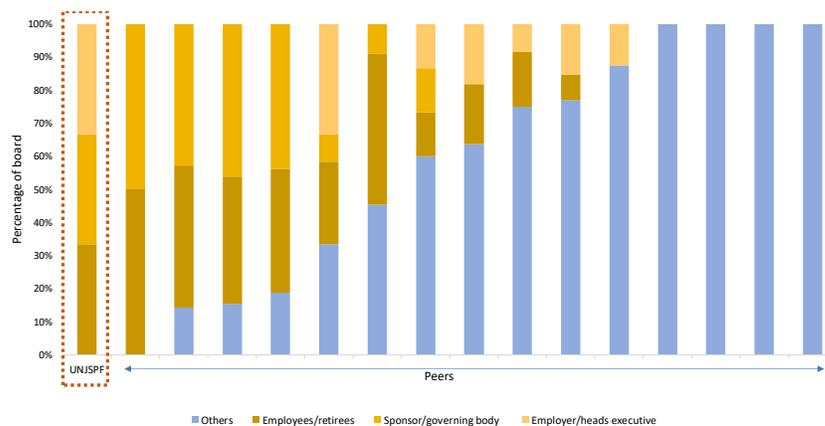
39. In some markets, the regulatory oversight body is involved in establishing the set of foundational skills or competencies required for pension board members and assessing whether candidates satisfy those skills.⁷ Pension board members must sit through training and take a test to demonstrate their competency before they begin their service to the board. That follows the theme of professionalizing boards to ensure they are equipped with the collective set of skills and expertise necessary to fulfil fiduciary functions, independently challenge management and exercise leadership. A variety of methods can be used to “professionalize” a board: a board or committee can retain independent outside consulting expertise, populate committee seats with external experts, require that board and committee members themselves have specific expertise, require that board members receive continuing education and training, or use a combination of those methods. There is a trend in some markets for the pension regulator to require a certain amount of ongoing education and training for pension fund board members, regardless of their backgrounds or expertise.

Board composition and allocation of seats: variance from best practices – significant

40. The variance between Pension Fund practices and best practices in board composition is significant. The current interpretation of the principle of “fair and equitable” for all member organizations creates a representation focus instead of a fiduciary focus. Alternates and non-voting board seats are utilized to an extent that has no comparison among best practice peer pension funds. Retirees represented on the Pension Board are not permitted to vote at Board meetings. The Pension Fund does not currently hold an annual general meeting for all participants, retirees and beneficiaries. Pension Fund Regulations currently permit Pension Fund staff employees to serve on the Board. As depicted in figure III, there are no Board members external to the Pension Fund operating environment that hold Board seats. The Pension Board does not use a skills matrix in assessing Board candidates.

⁷ A sample board and board member skills matrix and competencies was provided to the Pension Board.

Figure III
Peer data: board representation



Note: The “Others” category includes executive staff members of the organization that invest fund assets, members with varying backgrounds chosen by a body that is comprised of a single or mix of constituents, such as employees, employers and sponsors, and members required to have expertise in some manner related to the pension field.

Abbreviation: UNJSPF, United Nations Joint Staff Pension Fund.

Recommendation 2

The Board should: (a) recommend to the General Assembly that the interpretation of the principle of “fair and equitable” be redefined to one that solely reflects a fiduciary focus; (b) maintain the tripartite structure; and (c) seek change to the Regulations to: (i) establish a requirement to hold an annual general meeting; (ii) provide retirees with voting privileges; and (iii) set forth that Pension Fund employees should not be able to occupy seats on the Pension Board.

C. Board meeting frequency

Frequency of Board meetings

41. Per the rules of procedure,⁸ the Board shall meet in sessions not less frequently than once every two years. In practice, Board meetings are held annually as multi-day, in-person events. The rules also specify that special sessions of the Board are held upon the decision of the Board or of the Standing Committee, or at the request of most of the members of the Board. In practice, special meetings of the Board rarely occur.

42. Interviewees reported lengthy sessions and long hours for each day of the Board’s proceedings; however, interviewees’ perceptions are that most decisions are not finalized until the last two days of the annual meeting session. Some found it

⁸ Rules of procedure of the Pension Fund, section A.1.

challenging to dedicate the time and focused energy to Board proceedings given their demanding day jobs.

43. Historically, the Standing Committee met to conduct Board business when the full Board was not in session. It was reported to us that, over time, the practice evolved to meeting once per year, either immediately before or during the annual Board session, to review appeals cases. Current practice is for the Standing Committee to meet immediately before the Board session. Other Committees of the Board, including the Audit Committee, the Fund Solvency and Assets and Liabilities Monitoring Committee and the Succession Planning Committee, meet more frequently. The Audit Committee has embraced the good practice of creating an annual workplan of routine and forward-looking items to guide its work. The Board does not approve the Audit Committee's workplan.

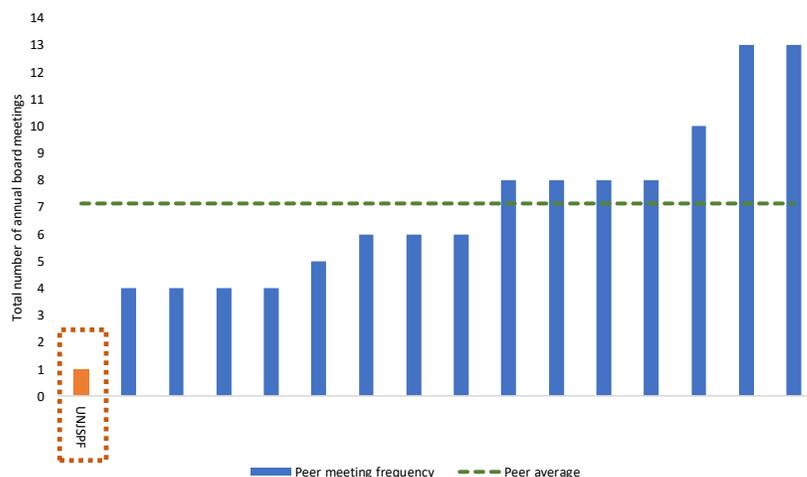
Best practices: board meeting frequency

44. The need for meetings and meeting frequency is determined using a board-approved annual board and committee workplan that reflects the cycle of routine required board action as well as the board's need to be responsive to strategic, forward-looking issues. Single annual board meetings are extremely rare. On average, the selected pension fund peer group boards met 7 times per year; meeting occurrences ranged from 4 times per year to 13 times per year. Generally, the number of meeting days ranges from a one- to three-day board meeting cycle. Lengthier board meeting cycles typically accommodate meetings of the full board and all committees during the same cycle. Many leading pension fund boards earmark an annual planning session to address strategic, forward-looking issues. Special board meetings in addition to the annual meeting calendar are conducted on an as-needed or required basis. Monthly board meetings are becoming uncommon. Consideration is given to the dynamic nature of the external climate within which the fund operates; the board needs the ability to act and react based upon changing circumstances. For example, during the early stages of the COVID-19 pandemic, Mosaic research indicated that 67 per cent of non-United States public pension fund boards reported meeting more frequently to be in a position to address the crisis and the novel risks it posed. Many pension fund peers have temporarily transitioned to an online board meeting format in response to the pandemic.

Board meeting frequency: variance from best practices – significant

45. The variance between Pension Fund practices and best practices in board meeting frequency is significant. As depicted in figure IV, single annual board sessions for a plan the size of the Pension Fund is without comparison in the selected peer group, or in any other large public pension fund of which Mosaic is aware. Board sessions are atypically long, both in number of days and hours per day, minimizing the potential for effectiveness and group productivity. The Board and some committees do not have an annual workplan of routine and forward-looking items from which to evaluate or align meeting frequency.

Figure IV
Board meeting frequency: comparison with peers



Abbreviation: UNJSPF, United Nations Joint Staff Pension Fund.

Recommendation 3

The Board should: (a) develop and adopt an annual workplan for the Board and its Committees; (b) based on the needs articulated in the workplan, schedule a sufficient number of regular Board and committee meetings during the year; and (c) schedule a strategic planning session, either on a stand-alone basis or coupled with one of the regular Board meetings.

D. Board terms and rotation

Pension Fund Board terms and rotation

46. Documentation describing the terms of Board members and the election or appointment processes, including timing, eligibility and the method by which they occur, is not readily accessible to stakeholders. Elected United Nations Staff Pension Committee members (participants’ representatives and members of the General Assembly), according to the Regulations, have a four-year term limit. A cycle of routine annual rotation occurs in alignment with a schedule adopted by the Board. Board members can separate from the post from which they were initially appointed or elected during their term and continue to hold their Board seat.

Board terms: best practices

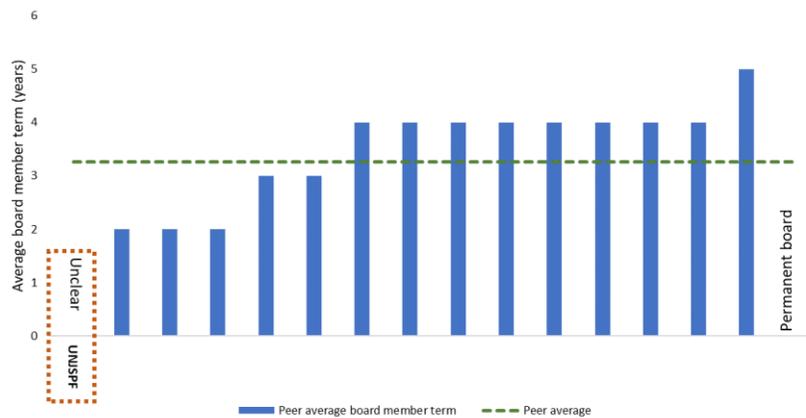
47. It is best practice to seek a blend of tenured and fresh faces on the board to maintain continuity while bringing new thinking to the boardroom. Best practices also prefer an established term of no less than three years, since it takes approximately two to three years for board members to become knowledgeable and comfortable with aspects of the business of the board beyond their area of expertise. Terms are

staggered and term limits are prescribed for the total maximum allowable terms, both consecutive and overall, to balance the principles of board continuity and periodic refreshment. Together, those measures help the board to avoid a situation whereby it has too many “similarly situated” board members. Rotation of board seats is uncommon and is not considered to be best practice.

Board terms and rotation: variance from best practices – significant

48. The variance between Pension Fund practices and best practices in board terms and rotation is significant. There is a lack of clarity and transparency regarding the length of Board tenure (terms) and conditions that trigger a Board seat vacancy. As indicated in figure V, peer funds typically have terms for board members. The Board relies heavily on frequent seat rotation, compromising the principle of board continuity. There is no transparency regarding Board member terms, term limits and Board member replacement processes.

Figure V
Length of term of board members: peer comparison



Note: The length of terms of ex officio board members is not included. The peer fund length of term was averaged. There were varying term lengths for different board members. The peer fund length of term ranged from two to six years.

Recommendation 4

The Board should: (a) eliminate the concept of rotation as it relates to Board seats in favour of having Board continuity; and (b) seek to amend the Regulations to: (i) establish specific, staggered terms of service for all Board seats; (ii) adopt limits on the number of terms that Board members can serve overall and consecutively; and (iii) establish parameters for Board seat vacancies.

III. Board role, responsibilities, and practices

49. The section addresses the following seven scope areas:

- (a) Terms of reference for the Chair and all members of the Pension Board;
- (b) Board and Standing Committee restrictions and limitations;
- (c) Self-evaluation methodology;
- (d) Standards of professional and ethical conduct, including conflicts of interest;
- (e) Oversight of culture;
- (f) Executive evaluation;
- (g) Succession planning.

A. Terms of reference for the Chair and all members of the Pension Board

Context

50. Terms of reference codify the various aspects of governance, including purpose, role, responsibilities and other expectations of the position or body for which they were created. To comprehensively evaluate terms of reference, due consideration must be first given to identifying and comparing underlying governance aspects with best practices. Therefore, the following subsections are addressed herein:

- (a) Pension Board purpose and role;
- (b) Pension Board responsibilities;
- (c) Terms of reference for the Chair of the Pension Board;
- (d) Terms of reference for all Pension Board members.

1. Pension Board purpose and role

Pension Fund Board purpose and role

51. Regulations specify the Board's purpose as one of administration (article 4 (a)). Most interviewees articulated the Board's purpose as being "administration", as specified per the Regulations, but appeared to differ in their understanding of administration. In the aggregate, interviewees presented us with inconsistent and divergent interpretations of the Board's purpose and role, including:

- (a) Strict administration in accordance with regulations and rules;
- (b) Oversight and policymaking;
- (c) Involvement in benefits and investment decision-making.

52. Notwithstanding the different interpretations, the Board's purpose and role were characterized by interviewees as being relatively constant over the past two decades. The General Assembly's recent decisions to override Board recommendations were noted by interviewees as causing confusion among Board members in the clarity of the Board's role and relationship with the General Assembly.

Board purpose and role: best practices

53. Board members of leading pension organizations have clarity about the board's purpose and role. A clear difference is recognized among the legislative body as

pension plan sponsor, the board's governance function and the pension fund executive management's function:

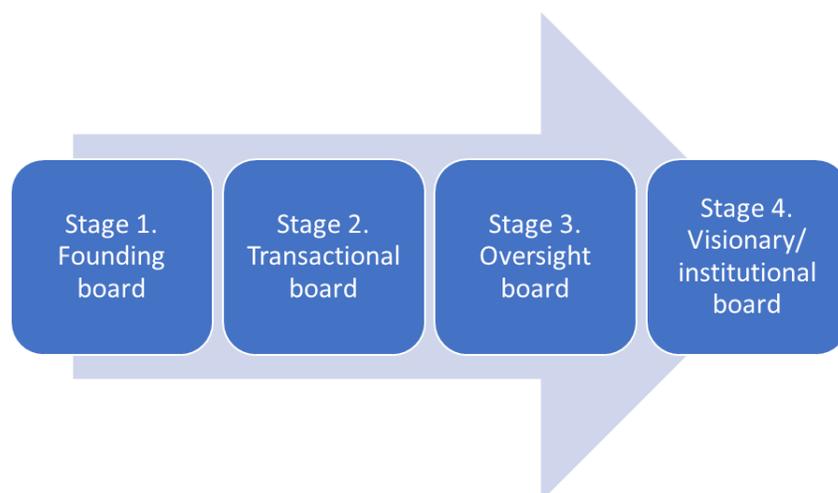
(a) The legislative body is responsible for setting, maintaining and updating the legal framework within which the fund operates;

(b) The board is responsible for overall stewardship, oversight and setting strategic direction;

(c) Pension fund management is responsible for administration.

54. Boards recognize and accept that the line between governance and management evolves periodically with the changing operating climate. Boards and management teams respond by embracing a cultural mindset of continuous improvement to satisfy evolving fiduciary standards of prudence and to optimize governance in alignment with the organization's evolving needs. As pension fund organizations evolve and mature, so too do their governance needs. Pension fund boards tend to evolve through the life cycle stages set out in figure VI.

Figure VI
Board life cycle stages



Note: Appendix 2 describes the four board life cycle stages.

55. Leading pension fund peers have evolved into stage 4, visionary/institutional boards. In that context, the board's purpose and role is to provide oversight of the fund's administration and, as an overall organizational steward, drive towards a future vision of organizational success. The board sets priorities for itself, the organization as an employer and the pension fund, along with its participant programmes and services, and stays focused on their achievement. There is a strong leadership competency within the board that was achieved by transforming the board chair's role from one of facilitating board meetings to facilitating board performance.

Board purpose and role: variance from best practices – significant

56. The variance between Pension Fund practices and best practices in board purpose and role is significant. There is a lack of perceived clarity as to the purpose and role of the Board among the Board members, alternates and representatives. The Board's efforts are focused on achieving annual performance objectives but lack a long-term (e.g. 10-year) organization-wide vision.⁹ Recent Board discussions regarding Board structure, representation and conflicts of interest have reportedly shifted the Board's focus, at times, from fulfilling its purpose and role, or from meaningfully participating in visionary/forward-looking topics. Based on the materials reviewed and interviews, it appears that the Board is functioning between a stage 2, transactional board and a stage 3, oversight board.

Recommendation 5

The Board should: (a) clarify the purpose and role of the Board as one of overall stewardship, oversight and setting strategic direction; (b) establish a long-term, future vision of success for the organization; (c) transform the Board to a stage 4, visionary/institutional board; and (d) commit to making the corresponding governance changes necessary to support the Board in making its transformation.

2. Pension Board responsibility

57. The section addresses:

- (a) Fiduciary responsibilities;
- (b) Span of governance responsibilities.

(a) Pension Fund fiduciary responsibilities

58. Interviewees presented us with divergent and conflicting views about the Pension Fund's legal or organizational status, some of which were untrue, including:

- (a) The Fund is a United Nations department or agency;
- (b) The Fund is a joint venture between the United Nations and its member organizations;
- (c) The Fund is a "trust" and operates for the exclusive benefit of its members and beneficiaries.

59. The lack of clarity has created differing expectations of Board responsibilities, including fiduciary responsibilities. The Regulations on the matter are also unclear. They do not expressly state that the Pension Board and its members are fiduciaries and do not explicitly use the term "trust"; however, the term "fiduciary" is expressly attached to the Secretary-General relative to investing Fund assets.¹⁰ Notwithstanding, the term "fiduciary" appeared in some of the Board-related documents that Mosaic reviewed, such as the Board's self-evaluation.

⁹ The strategic plan was presented by the Chief Executive of Pension Administration at the July 2020 Board session. The strategic plan is predominantly a Chief Executive of Pension Administration-led, versus Board-led, exercise.

¹⁰ Terms of reference of the Investments Committee. Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund, article 20.III.3.

Fiduciary responsibilities: best practices

60. In a best practice setting, the governing law or regulation for pension organizations is clear on the following important aspects:

- (a) Identifies those who are fiduciaries;
- (b) Identifies the duties of fiduciaries;
- (c) Defines the fiduciary standard to which decision makers will be held accountable;
- (d) Expressly provides that the assets of the plan will be held in trust.

61. At a minimum, the relevant fiduciary standard includes the following best practice concepts:¹¹

- (a) Undivided loyalty to the fund beneficiaries;
- (b) The exercise of care, skill, prudence and diligence appropriate to the prevailing circumstances;
- (c) The duty to act in accordance with plan documents governing fund performance;
- (d) The duty to avoid unreasonable favouritism toward one beneficiary group over another;
- (e) The duty to limit fund expenses to amounts that are reasonable and appropriate;
- (f) The delegation of duties, when appropriate, to prudently select, instruct and monitor agents;
- (g) The duty to refrain from prohibited or conflicted actions.

62. Board members of leading pension organizations are clear on their fiduciary responsibilities, the standards to which they are held and any others who may also be acting in a fiduciary capacity to the fund. Board members are clear that they are to make decisions in the best interest of all members and beneficiaries, irrespective of representation or who elected or appointed them to the board.

Fiduciary responsibilities: variance from best practices – significant

63. The variance between Pension Fund practices and best practices in fiduciary responsibilities is significant. The Regulations are unclear as to the status of Pension Board members as fiduciaries and the accompanying standards to which they will be held. Board members, alternates and representatives lack clarity on applicable fiduciary status, standards and responsibilities. That was underscored by the fact that the majority of Board members, alternates and representatives presented to us through the interview process with a representation-focused mindset versus a fiduciary mindset.

¹¹ The Committee on Fund Governance of the Stanford Institutional Investors' Forum, *Clapman Report 2.0: Model Governance Provisions to Support Pension Fund Best Practices Principles* (Stanford Law School Fiduciary College, 2013), available at https://law.stanford.edu/index.php?webauth-document=event/392911/media/slspublic/ClapmanReport_6-6-13.pdf.

Recommendation 6

The Board should: (a) seek changes to the Regulations to clarify its role as a fiduciary to the Fund, and expressly state the duties and standards to which fiduciaries will be held accountable; and (b) provide appropriate fiduciary training to Board members, alternates and representatives, upon initial induction to Board service and periodically thereafter.

(b) Pension Fund span of governance responsibilities

64. Other than some provisions contained in the Regulations and Rules, there are no terms of reference for the Pension Board. Differences in interpretation of the Board's purpose and role have caused a corresponding lack of clarity about the Board's governance responsibilities. Some Board members, alternates and representatives view their most important governance responsibilities as those related to the Fund's benefits. Others have a more holistic view of their responsibilities as they relate to oversight of the business and affairs of the Pension Fund, including benefits. There is a perception among some Board members that recent governance issues have, at times, taken the Board's focus away from meaningfully fulfilling its responsibilities. Since, in practice, the Board only meets once per year, many responsibilities are addressed through committees that consist of a much smaller subset of Board members, including others who are not sitting Board members or, in the case of the Actuarial Committee, no Board members. Committee minutes are not available to Board members. Instead, summary reports of proceedings are provided once per year in connection with the annual Board meeting. Some Board members reported having difficulty staying abreast of Committee work throughout the year. Furthermore, the time spent by the Board revisiting completed committee business has created a perception among some Board members that committee effectiveness is being negatively affected.

Span of governance responsibilities: best practices

65. Members of leading pension fund boards are clear about the breadth of their responsibilities. As depicted in figure VII, responsibilities encompass the governance of the pension plan and its participant programmes and services, the organization as an employer of staff and the board itself. The responsibilities are codified in terms of reference for the board, its members, the chair and its committees, which are made accessible on the website to all stakeholders, in addition to being used in electing and appointing members to the board.

Figure VII

Best practice span of governance decisions for pension fund boards



66. Leading pension boards strike an appropriate balance between the work that is conducted at the committee level and by the full board. Committees are typically non-delegated, meaning that they make recommendations to the full board but do not make decisions on their own. The exception to that approach is for administrative appeals committees or committees of the whole.

67. Committee minutes and materials are available to all board members so that those not serving can fulfil their fiduciary responsibility of staying abreast of topics addressed by the committee.

68. Leading pension boards use a smaller subset of the board, such as an executive committee comprised of the board chair, vice-chair and a small number of other board members, such as committee chairs, to serve as decision makers between board meetings and as the chief executive officer's primary point of contact. The executive committee has a charter that clearly delineates its purpose and responsibilities along with any appropriate delegations of authority.

69. The following, among others, are typical activities in which full board engagement is expected, as they are board-led practices in which buy-in, commitment or full board visibility is needed:

- (a) Chief executive officer evaluation;
- (b) Long-range succession planning for the chief executive officer position;
- (c) Strategic planning;
- (d) Oversight of enterprise risk management;
- (e) Oversight of information security;
- (f) Oversight of technology, including modernization projects;
- (g) Board and committee workplans;
- (h) Review and adoption of actuarial assumptions and reports, such as valuations, asset-liability modelling studies, actuarial experience studies and actuarial audits.

Span of governance responsibilities: pension board terms of reference – best practices

70. Common responsibilities of leading pension fund boards, as provided through the boards' terms of reference, include:

- (a) Appointment of the chief executive officer and succession planning;
- (b) Evaluation of performance;
- (c) Compensation matters;
- (d) Investments;
- (e) Long-range strategic planning;
- (f) Financial oversight and stewardship;
- (g) Organizational culture oversight;
- (h) Plan valuation, experience and administration oversight;
- (i) Identification and management of business risks, including cybersecurity risk and reputational risk;
- (j) Growth, asset or liability transfers, and new products or services;

- (k) Strategic initiatives, including technology modernization projects;
- (l) Compliance with regulatory matters and policies;
- (m) Strategic communications plan;
- (n) Conduct and integrity;
- (o) Board skills and effectiveness;
- (p) Board policymaking.

Span of governance responsibilities: variances from best practices – significant

71. The variance between Pension Fund practices and best practices in the span of governance responsibilities is significant. There are no terms of reference for the Board itself as a collective governing body, or its Standing Committee, outside of the Regulations and Rules, which fall short of the full span of expected board-led activities. There is a lack of clarity among Board members, alternates and constituent groups about what the responsibilities of the Board are and the process for how and in which venue (i.e. committee, Bureau or working group) they are executed. Mixed sentiment about the authority and responsibilities of the Bureau is hampering its ability to be effective. Therefore, there is no consistent, formalized, small subset of the Board, such as an executive committee of the Board, to be responsive to matters that arise in between Board meetings and to serve as the primary point of contact for the Chief Executive of Pension Administration.

72. There is an imbalance between the work of the Board and its committees. Committee reports are submitted to the Board annually, requiring, at times, significant discussion during the annual Board meeting.

73. The Board, either on its own or through its committees, is performing many of the expected oversight responsibilities within its span of governance. However, it does not appear that the following Board responsibilities are being performed:

- (a) Oversight of organizational culture;
- (b) Setting a long-range (10-year) vision and accompanying performance measures;
- (c) Policymaking in areas of responsibility related to the Board's oversight, such as executive evaluation, succession planning, board self-evaluation, funding policy and standards of professional conduct and ethical behaviour;¹²
- (d) Oversight of compliance with the Board's policy framework and standards of ethics;
- (e) Discussion of workforce strategy and technology strategy;
- (f) Oversight of Pension Fund participant satisfaction surveys and levels of participants' retirement readiness.

¹² It was reported to us that a funding policy is currently under development, and that the Board adopted a code of conduct at its sixty-seventh session. The Board's draft code of conduct was not provided to Mosaic for review.

Recommendation 7

The Board should: (a) create terms of reference for the Board as a collective body; (b) create terms of reference or a comparable document for the Standing Committee, Bureau, Succession Planning Committee and working groups; (c) seek change to the Regulations to limit the mandate of the Standing Committee to appeals, and allow appeals to be presented before the Standing Committee more frequently; (d) create a smaller mechanism of the Board that can operate as a consistent decision-making body throughout the year and serve as the Chief Executive of Pension Administration's point of contact; (e) provide the terms of reference to those individuals considering candidacy or appointment to the Board or its committees; (f) rebalance the responsibilities among the Board and its committees and determine if new committees are needed; and (g) ensure that all responsibilities are appropriately fulfilled.

3. Terms of reference for the Chair of the Pension Board

Terms of reference for the Chair of the Pension Board

74. The terms of reference for the Chair of the Board are publicly available to stakeholders on the Fund website. Per Board rules of procedure (sect. A.7 (a)), the Board elects a Chair annually to preside over meetings of the Board. The Board Chair term is for one year, rotating among the tripartite constituent groups. In practice, the constituent group whose turn it is to put forth a board chair brings forth a nomination, which is formally approved by the Board. Interviewees reported that the Board Chair role has evolved significantly in recent years, requiring more time and attention between sessions to address Board matters.

75. Differences in opinion among the Board exist as to the level of authority afforded to the Board Chair role. The terms of reference for the Chair of the Board focus primarily on responsibilities of the Chair during the Board's session; limited responsibility and authority is granted between sessions. In the rules of procedure (sect. A.7 (b)) and in practice, leadership of the Board is exercised through a Bureau comprising the Chair, two Vice-Chairs and the Rapporteur, to act during the Board's session and between sessions. The Regulations and rules of procedure also provide for a standing committee to act for the Board between sessions, which has a different composition than the Bureau. Confusion among interviewees existed regarding the role and authority of the Board Chair, the Bureau and the Standing Committee. Although the Bureau is a common concept within the broader United Nations system, some do not recognize it as a legitimate entity within the Pension Fund governance construct. Inconsistent and conflicting support for the Bureau among the Board's constituency groups and a lack of trust are hampering the ability of the Board to act between sessions.

Board chair role: best practices

76. Best practices for pension fund boards are to elect a board chair from among its members, based upon the candidate's ability to fulfil the terms of reference, possession of the required competencies and ability to dedicate the necessary time to the role.

77. The board chair terms of the peer pension fund group ranged from one to six years; only one peer fund subjected the position to a rotation cycle. Board chair terms of one year exist, but commonly allow for re-election over consecutive terms and have term limits to support the principle of succession planning. Best practice is to align the term of the board chair with the cycle of strategic planning (e.g. three years) to provide continuity for the implementation of board priorities. The role of the board

chair has transitioned from one of facilitating effective board proceedings to one of facilitating effective board performance. The practice of rotating the board chair role is falling out of favour in recognition of the need for the board to have competent and consistent leadership. In leading pension fund organizations, the board chair and vice-chair work as a team to support proper succession planning among board leadership roles. The expectations of the board chair and vice-chair roles, including their terms, responsibilities, authorities and competencies, are set forth in terms of reference that are made available to all stakeholders through the pension fund website.

Terms of reference for the Chair of the Board: variance from best practices – significant

78. The variance between Pension Fund practices and best practices in the area of terms of reference for the chair of the board is significant. Having the Board elect a Chair from among its members is consistent with best practice; however, the annual practice of rotation among constituent groups effectively limits the slate of candidates to a subset of Board members. The terms of reference for the Chair of the Board are silent on critical information contained in best practice documentation, such as the term, term limits, how the cycle of rotation works, accountability mechanisms and desired competencies.¹³ The Board Chair's role is reflective of that of an oversight board model, and not a visionary/institutional board model. The Board Chair's role lacks the broader responsibility, authority and accountability typically found in a best practice setting.

Recommendation 8

The Board should: (a) eliminate the cycle of Chair rotation and elect a Chair from its entire membership based on the candidate's ability to satisfy the duties, competencies and time availability; (b) increase the term length to align with the strategic planning cycle, and specify limits for the number of overall and consecutive terms; (c) increase the level of expected responsibility, authority and accountability so that the Board Chair is responsible for Board performance; (d) enhance the terms of reference for the Chair of the Board; and (e) create terms of reference for all other Board leadership roles.

4. Terms of reference for all Pension Board members

Pension Fund terms of reference for Pension Board members

79. The terms of reference for Pension Board members are publicly available on the Fund website. Although their primary focus is related to conduct, several high-level duties are addressed, including to contribute to the work of the Board and the administration of the Fund, and to become acquainted with Regulations and Rules, and financial principles. There are no required competencies for the role. It is unclear when the terms of reference were adopted or amended. Further, no review cycle is specified.

Terms of reference for Pension Board members: best practices

80. Leading pension fund boards have terms of reference for individual board members that set expectations for board members (responsibilities and conduct) and what they need to know (competencies), including the following:

- (a) Fiduciary responsibility;

¹³ An excerpt of terms of reference for the Chair of the Board was provided to the Pension Board.

- (b) Desired conduct;
- (c) Avoidance of conflicts of interest;
- (d) Expectations for demonstrating leadership;
- (e) Decision-making standards;
- (f) Commitment;
- (g) Specific duties;
- (h) Desired attributes and competencies.

81. The terms of reference support the entire life cycle of board membership, from candidacy, induction and onboarding, ongoing education and development, and regular self-evaluation. The terms of reference are made available on the pension fund's website to facilitate transparency among stakeholders.

Pension Board member terms of reference: variance from best practices – significant

82. The variance between Pension Fund practices and best practices in the area of pension board member terms of reference is significant. The Pension Board's terms of reference do not specifically address many of the elements of best practice terms of reference; the responsibilities that are referenced are not sufficiently specific. It is unclear whether or how the terms of reference support the Board member election or appointment, induction or self-evaluation processes.

Recommendation 9

The Board should: (a) enhance its terms of reference for individual Board members to align with best practices; and (b) ensure the terms of reference are used to support the entirety of the board member life cycle, from candidacy/ appointment to induction/onboarding, to self-evaluation.

B. Board and Standing Committee restrictions and limitations

Pension Fund Board and Standing Committee restrictions and limitations

83. The Pension Board recommends but does not have final approval over key staff, including the Chief Executive of Pension Administration, or external advisors, including the consulting actuary.¹⁴ The Pension Board recommends but does not have final approval over the Pension Fund's operating budget.¹⁵ Administrative expenses incurred by the Board in the administration of the Pension Fund are paid by the assets of the Pension Fund.¹⁶ The Standing Committee has the power to act on behalf of the Board when it is not in session and further delegate certain powers.¹⁷ As mentioned previously, interviewees reported that confusion exists between the Standing Committee and the Bureau. While the powers of the Standing Committee may be appropriate, there is a perception among the Board that they are not being used as intended.

¹⁴ Regulations of the United Nations Joint Staff Pension Fund, articles 7 (a), 9 (a) and 10.

¹⁵ Regulations of the Pension Fund, article 15 (b).

¹⁶ Regulations of the Pension Fund, article 15 (a).

¹⁷ Regulations of the Pension Fund, article 4 (d).

Board and standing committee restrictions and limitations: best practices

84. Best practice pension fund boards have the final approval authority to select or dismiss key staff and independent, appropriately qualified advisers and adopt the fund's annual operating budget. While other pension fund peers may also share similar constraints that limit the board's authority, their boards acknowledge that the constraints do not excuse them from exercising their duty to ensure that necessary expertise is available to administer the fund.

85. Best practice pension fund boards are also aware of their applicable constraints and have policy language specific to their own unique circumstances that sets forth their approach to providing the necessary expertise to enable the pension board to fulfil its fiduciary responsibilities in the administration of the fund. To the extent that the constraints cannot be properly navigated within the broader environment, fiduciaries weigh the benefits and risks of seeking change to the applicable law or regulation.

86. As previously mentioned, pension fund board committees are typically non-delegated committees, except for appeals committees or committees of the whole. Best practices are to have clear lines of authority and documented delegations of authority, irrespective of whether the delegation is to a committee or pension fund executive staff. Delegations of authority are periodically reviewed to ensure their continued prudence and appropriateness.

Board and Standing Committee restrictions and limitations: variance from best practices – significant

87. The variance between Pension Fund practices and best practices in the area of board and standing committee restrictions and limitations is significant. Structural constraints apply to the Board's authority through the Regulations that are not shared by many other pension fund boards. Lack of clarity exists within the Board about its own level of authority and the authority that it has granted to committees or staff.

Recommendation 10

The Board should: (a) identify and evaluate the risks it faces in fulfilling its fiduciary responsibilities in the light of constraints; and (b) revisit and resolve the intended scope of the Standing Committee versus the scope of the Bureau.

C. Self-Evaluation Methodology

Pension Fund self-evaluation process

88. The Pension Board has a process for evaluating its own performance that relies predominantly upon Board member responses to a self-evaluation questionnaire. Past practice has been to administer the survey every other year at the time of the annual Board meeting; all Board members and alternates were asked to participate. The scope of the self-evaluation has evolved over the years to be responsive to the Board's changing set of issues and dynamics. Procedure calls for the results of the survey to be collated, with recommendations for improvement, action and timelines presented to the Board for discussion. It was reported and confirmed through Mosaic's review of the Board's minutes that there was no meaningful discussion among the Board regarding governance improvements. That is consistent with Mosaic's findings that conflict of interest and other governance issues have received significant attention and discussion during Board sessions, taking time away from that reserved for other agenda items.

89. Participation in the self-evaluation process was reported as declining in the recent past owing to a perception that the questionnaire was too lengthy. Only half (53 per cent) of Board members and alternates responded in connection with the 2018 self-evaluation cycle. It was reported to us that the Audit Committee conducts its own self-evaluation. Discussions were reported as being more meaningful than those that occur at the Board level.

Board self-evaluation: best practices

90. Leading pension fund organizations conduct a self-evaluation discussion annually. A questionnaire may be used as a starting point to gather individual anonymous sentiment from board members, but it does not serve as a substitute for a meaningful and interactive board discussion about the findings. During the discussion, the board collectively discusses priority issues, identifies solutions and achieves consensus on implementation actions and timelines. That serves the principle of building trust and gaining collective commitment to embrace and abide by governance improvements.

91. A common self-evaluation scope is to address the overall effectiveness of the board as a whole and individual board members, including whether any education and training is needed to be properly equipped to fulfil their roles. The performance of board committees and board leadership is also evaluated. Terms of reference, including any board values or governance principles,¹⁸ as well as competencies and codes of conduct, serve as a reference point for the evaluation. The process of self-evaluation should be generally consistent, but with working methods that are sufficiently nimble to meaningfully address specific board needs from year to year. The board chair typically has the responsibility and flexibility to identify specific working methods and create a plan for implementing those methods.

92. Leading pension boards do not hesitate to convene an off-cycle self-evaluation discussion to address and resolve specific issues related to board dynamics in a timely manner. It is common practice for boards to use an outside expert to facilitate the process to ensure independence and infusion of contemporary governance practices or to mediate controversial matters. The conclusions from the self-evaluation discussion yield a board development plan that clearly identifies the consensus improvements to be made and individual board member development plans, as necessary. The self-evaluation process is codified in a policy that is made available to stakeholders to demonstrate the board's commitment to the principle of accountability and transparency.

Board self-evaluation: variance from best practices – significant

93. The variance between Pension Fund practices and best practices in the area of board self-evaluation is significant. The Pension Board self-evaluation is not conducted annually. There is limited ability to customize working methods in a matter that is responsive to evolving issues. The process is predominantly a survey-based exercise, without meaningful discussion or interaction by all Board members.

94. Participation in the process has declined, signalling a perceived loss of value in or commitment to the process. Giving governance issues significant attention and discussion during Board sessions seems to indicate that the Board self-evaluation process is not serving as an effective “early warning indicator” of issues for the Board as it is in best practice organizations.

[Redacted]

¹⁸ An excerpt of a sample board values or principles document was provided to the Pension Board.

Recommendation 11

The Board should: (a) conduct a self-evaluation annually; (b) ensure full Board discussion of the self-evaluation to support the principle of building trust and commitment to continuous governance improvement; (c) codify the Board's principles in a policy that is accessible to all stakeholders; and (d) provide the Board Chair with the authority, responsibility and accountability to customize the self-evaluation working methods within the contours of the Board's principles.

D. Standards of professional and ethical conduct, including conflicts of interest**Pension Board current situation**

95. Through the interviews, Mosaic observed differing opinions on the definition of conflicts of interest and how they might present themselves within the governance of the Pension Fund. Observing the highest ethical standards, not seeking to personally benefit from the Fund and acting to prevent any potential, perceived or actual conflict of interest are incorporated into the current Board member terms of reference. However, no Board-approved policy exists to delineate the standards of professional and ethical conduct expected of Board members. The Board's self-evaluation addresses the disclosure of conflicts of interest and the perceived effectiveness of the mechanism in place to address conflicts of interest or conduct issues. In the 2018 self-evaluation, only 15 per cent of responding Board members and alternates agreed that it was effective. The Governance Working Group has revised the terms of reference for members of the Pension Board to include ethical standards and was scheduled to present a code of conduct at the sixty-seventh session of the Pension Board.¹⁹

Standards of professional and ethical conduct, including conflicts of interest: best practices

96. The primary sources of ethics standards and requirements for pension funds are applicable laws, governing regulations, by-laws and board-adopted policies or codes of conduct. Many pension funds have developed effective ethics and conflict of interest policies. Best practice policies address all facets of the ethics and conflicts landscape and are made available online to all stakeholders.²⁰ A strong culture of ethics supported by sound policy serves both to deter harmful conduct and to act as an early warning system before harm occurs.

97. An ethics and compliance programme that supports a culture of integrity and ethical values includes the following elements: a comprehensive board-approved policy, regular training, routine required reporting and disclosure, board monitoring and prompt enforcement of infractions. Individuals covered by the programme periodically affirm and verify compliance with conflict rules, regulatory reporting requirements, as applicable, and other policies intended to protect the pension fund against actual, potential or perceived self-interested transactions and conflicts. They are also required to disclose any attempts of undue influence to a proper compliance authority, as determined by the pension fund board. After a determination through due process, as established by the board, board members who act contrary to the board-approved standards of professional conduct and ethical behaviour face suspension,

¹⁹ It was reported to Mosaic that the Board approved a code of conduct at its sixty-seventh session and that the code would be brought to the attention of the General Assembly at its session in autumn 2020.

²⁰ Three samples of conduct and ethics policies were provided to the Pension Board.

sanction or removal. Boards annually, or more frequently, if necessary, receive a summary of activity of the ethics hotline hosted by an independent third party for pension fund staff. Consistent with staff practices, board members are required to submit to periodic financial disclosure.

**Standards of professional and ethical conduct, including conflicts of interest:
variance from best practices – significant**

98. The variance between Pension Fund practices and best practices in the area of standards of professional and ethical conduct, including conflicts of interest, is significant. The Fund currently lacks a comprehensive Board-approved policy that clearly articulates the standards for professional and ethical conduct expected of Board members and other fiduciaries participating in Board decision-making. While 100 per cent of Board members and alternates that responded to the 2018 Board self-evaluation agreed that they were disclosing potential or actual conflicts of interest, the current mechanism to implement ethical and code of conduct disclosures and monitor and enforce compliance is limited in scope and not viewed by the Board as effective.

Recommendation 12

The Board should: (a) ensure timely completion of the code of conduct as developed by the Governance Working Group; (b) develop a comprehensive policy in accordance with best practice elements; (c) ensure proper resourcing of the ethics and compliance programme to effectively support the policy; and (d) subject Board members to the same financial disclosure process as Pension Fund staff.

E. Oversight of culture

Pension Fund oversight of culture

99. The Pension Fund adopted the Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework to structure its internal control system. The Commission's framework provides certain principles and points of focus relative to the Fund's governance. The principles and points of focus include demonstrating commitment to integrity and ethical values and setting the tone at the top. The Fund is annually assessed against the principles.

100. In 2018, the Office of Internal Oversight Services reported in its comprehensive audit of the governance structure and related processes of the Pension Fund Board that audit committees typically focus on culture and ethics. The terms of reference for the Audit Committee remain silent on culture. The report of the Pension Board on its sixty-sixth session is silent on Board or organizational culture. The Governance Working Group has revised the responsibilities of Board members to include ethical standards and was scheduled to present a code of conduct at the sixty-seventh session of the Pension Board. The Board has experienced recent cultural issues through conflicts of interest and other governance-related matters that have arisen.

Oversight of culture: best practices

101. Leading pension fund boards acknowledge organizational culture as an asset that contributes to superior, long-term organization-wide performance. Boards acknowledge their responsibility to set, shape and monitor the tone at the top; culture is inextricably linked to reputational risk and the pension fund's brand among stakeholders, the marketplace and the general public. Cultural values are explicitly stated in the strategic plan within the 10-year future vision for the organization.²¹ Boards embrace their leadership role, in partnership with management, to establish and monitor culture.

102. Oversight of organizational culture and modelling of appropriate behaviour as part of the tone at the top is an ongoing concern and not just a one-time or once-per-year activity. The boards and senior management of leading pension fund boards adopt clear standards and live by them. The responsibility is embraced by the full board; the audit committee may assist the board in monitoring, as appropriate. Boards set an example by dedicating time and commitment to developing and nurturing their own board culture. Boards hold themselves accountable for their role in organizational culture through their annual self-evaluation process. Attention to organizational culture is threaded through other governance practices, including the evaluation of the chief executive officer and others who report directly to the Board, long-range succession planning and investment beliefs, along with ensuring that the chief executive officer has appropriately incorporated cultural accountability within performance evaluations for all staff.

Oversight of organizational culture: variance from best practices – significant

103. The variance between Pension Fund practices and best practices in the area of organizational culture oversight is significant. It is unclear on the Pension Fund's website if the organization has core values; best practice pension fund organizations publish their strategic plan, including core values, on their websites. The Board's self-evaluation questionnaire does not specifically address culture. The Board does not have a long-term (10-year) future vision for success, which sets out expectations on cultural values. The Board has not routinely received reports from management on organizational culture, such as employee engagement or leadership style assessment studies.

Recommendation 13

The Board should: (a) set out cultural expectations for the organization in connection with the long-term future vision of success; (b) modify the self-evaluation process to incorporate the assessment of Board culture; and (c) enhance monitoring of organizational culture.

F. Executive evaluation

Pension Fund executive evaluation

104. There is no documented process by which the Board conducts performance evaluations of the Chief Executive of Pension Administration or Deputy Chief Executive of Pension Administration. Interviewees reported to us that the Succession Planning Committee had been tasked with developing an executive evaluation process. The Succession Planning Committee reported a primary focus of assisting the Board

²¹ Mosaic provided two excerpts of cultural values and future vision documents to the Pension Board.

in the search for executive-level candidates. The work of the Committee has been viewed favourably and the hiring of the Chief Executive of Pension Administration is considered by many Board members to be a key accomplishment of the Board. Owing to the need to promptly fill vacancies, the Succession Planning Committee has not had time to devote to developing an evaluation methodology for the Chief Executive of Pension Administration but indicated to us its intent to do so. Interviewees reported that, in addition to evaluating the Chief Executive of Pension Administration and the Board Secretary (once the post is permanently filled), the Board had indicated its intention to evaluate the Deputy Chief Executive of Pension Administration. Currently, the Succession Planning Committee does not have terms of reference that are consistent with the documentation of other Board committees; therefore, there was no formal documentation available to review to support interviewees' perspectives.

Executive evaluation: best practices

105. Best practice peer boards approve and periodically refresh executive performance evaluation standards and communicate expectations to those being reviewed. Performance evaluations for all executives that report to the board are conducted annually by the full board, with the support of the appropriate committee. Other positions that report to the chief executive officer but have visibility to the board are evaluated by the chief executive officer, with the board having awareness of the general outcomes. Midyear "check-ins" are conducted by the board leadership to provide alignment with the board's consensus direction in between annual evaluations. The evaluation process is codified in a policy that is available to stakeholders to support the principle of providing accountability and transparency.

Executive evaluation: variance from best practices – significant

106. The variance between Pension Fund practices and best practices in the area of executive evaluation is significant. There are no formalized executive evaluation processes or standards. The Board currently plans to evaluate the performance of the Deputy Chief Executive of Pension Administration, who will, once hired, report to the Chief Executive of Pension Administration.

Recommendation 14

The Board should: (a) delegate the responsibility of evaluating the Deputy Chief Executive of Pension Administration to the Chief Executive of Pension Administration; (b) develop a Chief Executive of Pension Administration evaluation process to align with best practice working methods outlined herein; (c) establish a process, consistent with best practice working methods, to annually evaluate the Board Secretary; and (d) codify the evaluation processes in a policy that is made available to stakeholders to underscore the principles of transparency and accountability.

G. Succession planning

Pension Fund succession planning

107. The Chief Executive of Pension Administration and Deputy Chief Executive of Pension Administration are appointed by the Secretary-General on the recommendation of the Board.²² Short-term succession planning for the Chief Executive of Pension Administration has been addressed through organizational design.²³

108. The Board created a Succession Planning Committee in 2018. As previously referenced, there are no terms of reference for the Succession Planning Committee. It was reported to us that the purpose of the Succession Planning Committee was to assist the Board in selecting a Chief Executive of Pension Administration, Deputy Chief Executive of Pension Administration and Board Secretary; to develop evaluation methodologies for those roles; and to take a long-term strategic approach to succession planning at the senior levels of the Fund.

Succession planning: best practices

109. Two types of succession planning exist within the public pension fund environment as it relates to top pension fund officials: for management positions and for board member positions. Succession planning practices address both unexpected and longer-term or planned transitions in the executive management positions that report to the board. Succession planning is conducted at the full board level and in alignment with the strategic planning cycle.²⁴ Committees are used to support a search or recruitment process.

110. Succession planning at the board level ensures that boards can acquire the talent needed, both in recruiting board members and developing board leadership. Even public pension fund boards that cannot select their own board members provide mechanisms to better set expectations for those considering candidacy to the board, whether elected or appointed, and provide for individual board development and board leadership once on the board.

111. Viewed as a group, a board should comprise individuals with a portfolio of skills that allows it to make responsible, informed decisions and to discharge its fiduciary obligations to fund beneficiaries. In a best practice setting, such practices are typically conducted at the full board level and not through a committee.²⁵

Succession planning: variance from best practices – significant

112. The variance between Pension Fund practices and best practices in succession planning is significant. Some elements of succession planning are addressed in a way that align with best practices, including the following:

- (a) Short-term succession planning for the Chief Executive of Pension Administration is addressed through organizational design;
- (b) The Succession Planning Committee focuses on the search and recruitment process;
- (c) Short-term succession planning is provided for Board leadership within the annual Board cycle through the use of Vice-Chairs.

²² Regulations of the Pension Fund, article 7 (a).

²³ Regulations of the Pension Fund, article 7 (c).

²⁴ A sample of management succession best practice working methods was provided to the Pension Board.

²⁵ A sample of board succession best practice working methods was provided to the Pension Board.

113. Other important elements of succession planning have not been addressed. For example, there is no short-term succession plan for the new Board Secretary role. The Board also does not have a process by which to engage in long-range succession planning for the Chief Executive of Pension Administration, Deputy Chief Executive of Pension Administration or Board Secretary. Furthermore, the Board does not have a process to gain visibility into the succession risk for the overall organization or to engage in succession planning activities for its own Board members.

Recommendation 15

The Board should: (a) mitigate short-term succession risk at the Board Secretary level through a Deputy Board Secretary position; (b) establish a practice of long-range succession planning for executive positions and the Board Secretary position, consistent with best practice working methods; (c) establish a practice of long-range succession planning for Board member positions, consistent with best practice working methods; and (d) conduct long-range succession planning discussions at the full Board level with the support of the Succession Planning Committee.

IV. Transition strategy

Transition considerations

114. It is an acknowledged fact that changes that are adequately planned, organized and transparent have a higher potential for success. Transitioning the current 33-member Board of the Pension Fund to a smaller board will require significant communications to the members, the leadership of the Fund, the General Assembly and stakeholders.

115. A transition of that nature is the equivalent of and deserves the same level of time, attention and executive and Board sponsorship as one would see with a significant strategic planning project.

Transition board recommendation

116. Mosaic's recommendation is to establish a new 15-member transition board for the Pension Fund, utilizing candidates from the current pool of 93 Board members, alternates and representatives. The recommended approach is to hold an internal election to establish the 15-member transition board. Successful board candidates would be those who receive the greatest number of votes elected from their respective groups until the appropriate number of seats are filled. Candidates interested in and able not only to make the time commitment but also possessing the enthusiasm and professional capacity to address the workplan of the transition board would be able to provide a resume or curriculum vitae and candidate statement document to be distributed before the vote would be held. All 93 current Board members, alternates and representatives would be expected to evaluate the professional credentials of the candidates and ultimately vote for the new transition board members.

117. That approach supports the principles of maintaining the tripartite structure while utilizing the existing institutional knowledge of the Board and establishes a level of continuity as the Board progresses through the recommendations presented in the present report.

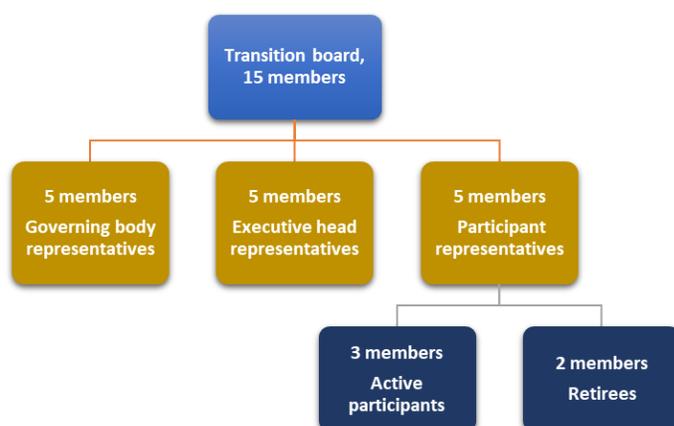
118. The transition board would be composed as follows:

- (a) Five members elected from the governing body representatives;
- (b) Five members elected from the executive head representatives;
- (c) Five members elected from the participant representatives (three active participants and two retirees).

Figure VIII provides a graphical depiction of the proposed structure.

Figure VIII

Proposed structure of the transition board



119. The newly elected transition board members would then establish their own board leadership (chair, one vice-chair and rapporteur) from among themselves through a subsequent election process. There would be no alternates or non-voting board members on the transition board. In order to provide adequate time for the transition board to prioritize and address the recommendations included in the present report, the transition board's mandate would be for a two-year term.

120. Successful governing body and executive head members will initially serve terms as follows:

- (a) Four-year term: two candidates with the first and second highest number of votes;
- (b) Three-year term: two candidates with the third and fourth highest number of votes;
- (c) Two-year term: one candidate with the fifth highest number of votes.

121. Successful participant and retiree group members will initially serve terms as follows:

- (a) Four-year term: one participant with the highest number of votes and one retiree with the highest number of votes;
- (b) Three-year term: one participant with the second highest number of votes and one retiree with the second highest number of votes;
- (c) Two-year term: one participant with the third highest number of votes.

122. Any tie would be resolved by an approach agreeable to the full group.

123. The primary and immediate purpose of the transition board is to take the steps necessary to implement the recommendations in the present report. The steps include operating under delegated authority from the Board to draft and recommend changes to the General Assembly pertaining to the Fund's Regulations. In addition, the transition board should evaluate and establish new and necessary board committees or renew appropriate board committees. Since the transition board is to be elected from the current 93 Board members, alternates and representatives, it will be in the best position to know what committees and advice it needs to fulfil its purpose, role and responsibilities. It is recommended that the transition board's committees be comprised of board members and outside experts appointed by the board, as needed. When the first term of each elected board member expires, all board member terms would transition to a four-year term.

Transition board: additional considerations

124. The responsibilities required in implementing the recommendations in the present report include the following:

(a) Operating under the delegated authority of the Board, draft and recommend Fund Regulation changes to the General Assembly, consistent with the recommendations in the present report, to do the following:

(i) Support the authority and operations of the transition board;

(ii) Create the Fund Regulation framework to support the authority and operations of the permanent Board:

a. Develop and undertake a review of the compensation philosophy for recommendation to the General Assembly;

b. Study and recommend to the General Assembly a method by which new permanent Board seats are appointed or elected;

(b) Draft and adopt relevant rules of procedure, terms of reference and policies in support of the recommendations and Fund Regulation changes;

(c) Establish or enhance governance practices in support of the recommendations in the present report;

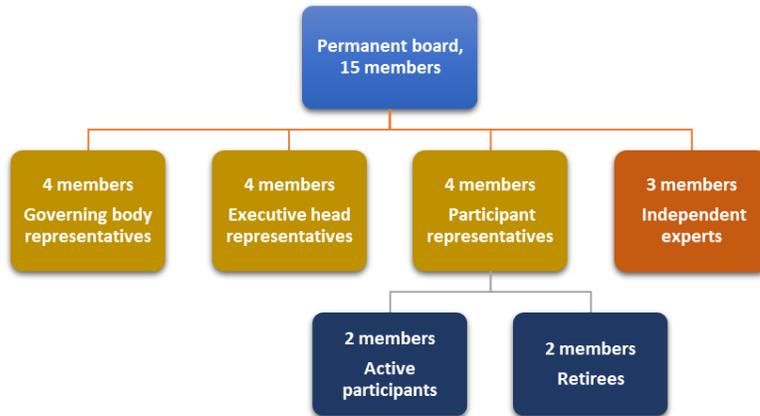
(d) Determine and establish committees that would best support the Board during its transition period and continuing through to the new permanent Board;

(e) Define the ongoing relationship between the new Board and the General Assembly.

Permanent Board structure

125. When the initial two-year transition board members' terms expire, it is recommended that independent experts from the outside with specific qualifications identified by the transition board should be selected by each of the three constituent groups to fill those seats. In total, that reflects three seats. Those three Board seats will be permanently filled by independent external experts. Figure IX graphically depicts the proposed permanent structure of the Pension Board.

Figure IX
Proposed permanent structure of the Pension Board



126. When the three-year and four-year Board member terms expire, the pool of candidates would be expanded to include all individuals from the tripartite constituent groups, with the exception of Pension Fund staff.

127. In order to establish a process that supports continuity and focus, all Board members elected or appointed to the new permanent Board would serve a term of four years.

128. After completion of the two-year transition board term, Board leadership positions (Chair, Vice-Chair and Rapporteur) will be elected from within the Board to serve a three-year term to coincide with the Board's strategic planning cycle.

V. Appendices

Appendix 1 Peers

Appendix 1.1 Peer list

1. The following peers²⁶ were selected for purposes of analysis and comparison within the present report:

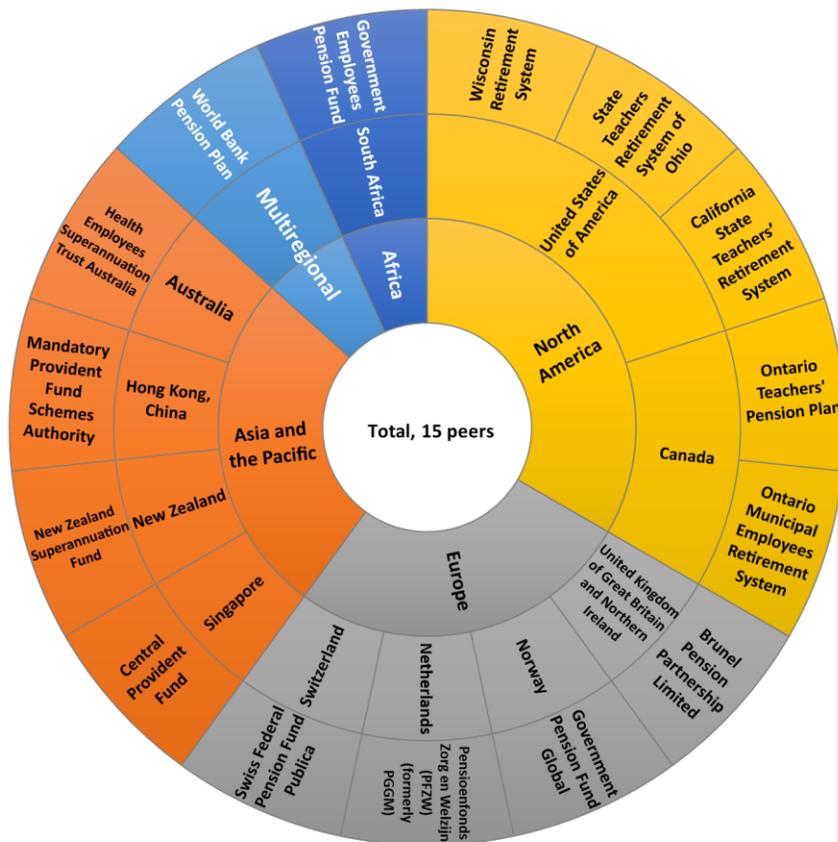
- (a) Brunel Pension Partnership Limited;
- (b) California State Teachers' Retirement System;
- (c) Central Provident Fund;
- (d) Government Employees Pension Fund;
- (e) Government Pension Fund Global;
- (f) Health Employees Superannuation Trust Australia;
- (g) Mandatory Provident Fund Schemes Authority;
- (h) New Zealand Superannuation Fund;
- (i) Ontario Municipal Employees Retirement System;
- (j) Ontario Teachers' Pension Plan;
- (k) Pensioenfonds Zorg en Welzijn (PFZW) (formerly PGGM);
- (l) State Teachers Retirement System of Ohio;
- (m) Swiss Federal Pension Fund Publica;
- (n) Wisconsin Retirement System;
- (o) World Bank Pension Fund.

²⁶ The peer list development took into consideration several factors, including reputation, market leadership, progressive governance practices, defined benefit offerings, number of employers, asset size, number of members and beneficiaries, and geographical diversity.

Appendix 1.2
Peer geographical representation

2. The geographical representation of peers is depicted in Figure X.

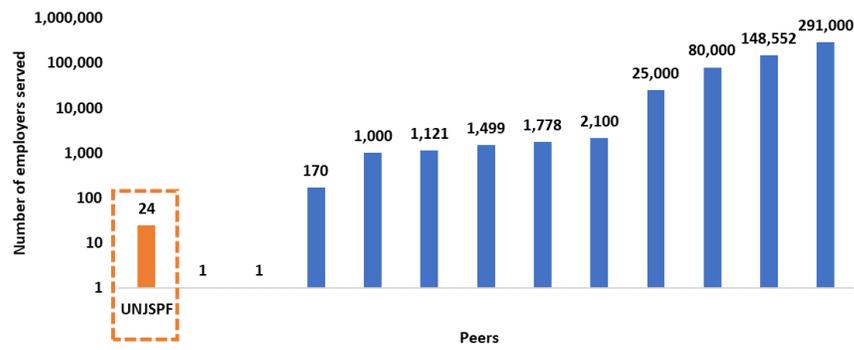
Figure X
Peer geographical representation



Appendix 1.3
Peers: employers served

3. Figure XI depicts the number of employers served by peer entity.²⁷

Figure XI
Peers: employers served



²⁷ Number of employers served was not available for three peers.

Appendix 2

Stages in the public pension board life cycle

1. Pension fund boards are dynamic. To be effective, they must change and evolve as their organizations change and grow. The following briefly describes four predominant board maturity models that are associated with contemporary large public pension funds. The descriptions offer a snapshot of board behaviour in alignment with each stage of maturity and are not intended to be all-encompassing. Many variations of the four models exist, based on the unique characteristics of each pension fund. A board's progression through the models is not necessarily uniform and linear across all aspects of its governance. Pension funds develop and grow differently and, given their long-term horizon, may spend years at one stage or straddle two or more stages at the same time.

2. **Stage 1: founding board.** The board's focus is on ensuring that all the parameters of the applicable governing law, by-laws or regulations are implemented for contributions to begin to be collected and assets invested. There are minimal benefits to pay out in the founding years. The board takes a largely task-oriented approach to hire initial pension fund staff to establish functions as well as essential policies and practices to guide the organization's future growth. Routine required actions are identified and addressed to support the proper operations of the pension fund, such as approval of pension and disability benefits, and selection of investment managers to implement the asset allocation strategy.

3. **Stage 2: transactional board.** The pension fund experiences growth in all areas, including the assets and liabilities, participants, retirees, beneficiaries and number of employers. The external environment is also ever-changing, with increased complexity in investing, actuarial matters, and benefits and services operations requiring the addition of dedicated pension fund staff. Even as the number of professional staff grows, the board may still hold onto decision-making routines and rhythms of the founding board, including the selection of investment managers and approval of some or all pension or disability benefits and staff human resources-related matters.

4. **Stage 3: oversight board.** As pension fund growth and maturity progresses, and the number of professional staff grows under the chief executive officer's direction, the board more clearly defines the line between governance and management. Its focus gradually shifts to making prudent, clear delegations of authority, monitoring routine matters pertaining to actuarial, investment, financial and operational matters, and monitoring organizational performance objectives. Although the board makes long-range strategic decisions on actuarial and investment matters, organization-wide strategy and future direction are predominantly performed by the chief executive officer, with minimal board input. The board sees its role as that of a monitor or overseer of organizational objectives and outcomes, and policymaker. In turn, the balance of power between the board and the chief executive officer is more heavily weighted toward the chief executive officer as the "leader" of the organization.

5. **Stage 4: institutional/visionary board.** The board's view of itself transforms to not only that of a monitor and overseer, but a body that creates value for the organization by exercising leadership in partnership with the chief executive officer and management. The board develops its own leadership competency and source of power to champion board priorities through the role of the chair. It embraces a broad responsibility set for strategy, performance, risk

and people, embraces its role in setting the tone at the top in partnership with management and adopts a mindset for itself and the organization of continuous self-improvement. The balance of power between the board and the chief executive officer is appropriately redistributed. It is weighted towards the board in areas in which the board leads, in particular with respect to long-range succession planning. It is shared between the chief executive officer and the board when they act as partners, such as when providing essential input to the long-term organizational vision and strategic plan. It is weighted towards the chief executive officer when the board monitors to support the principle of independence.