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WTO PENSION PLAN**REPORT OF THE INDEPENDENT EXTERNAL AUDITOR ON THE AUDIT OF THE FINANCIAL
STATEMENTS OF THE WORLD TRADE ORGANIZATION PENSION PLAN (WTOPP)
FOR THE YEAR ENDED 31 DECEMBER 2019**

The Report of the Independent External Auditor on the Audit of the Financial Statements of the WTO Pension Plan for 2019 is attached. "The Auditor's Report includes 16 pages (excluding this cover note) plus an Annex "List of Recommendations".

**REPORT OF THE INDEPENDENT EXTERNAL AUDITOR
ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF THE WORLD TRADE ORGANIZATION
PENSION PLAN (WTOPP)
FOR THE YEAR ENDED 31 DECEMBER 2019**

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1 Executive Summary

My team and I have audited the financial statements of the WTO Pension Plan remotely.	1. My team and I have audited the financial statements of the World Trade Organization (hereinafter “WTO”) Pension Plan for the financial period from 1 January to 31 December 2019. I conducted the audit remotely due to the special circumstances of COVID-19.
Responsibility of Management	2. The Management Board of the WTO Pension Plan is responsible for preparing the financial statements in accordance with the Financial Regulations of the Plan.
Responsibility of the External Auditor	3. My responsibility is to express an opinion on these financial statements based on my audit.
Scope of the audit	4. The audit included the examination of evidence supporting the amounts and disclosures in the financial statements. It also included an assessment of the underlying accounting principles and significant estimates made by the Management Board.
I conducted my audit in conformity with the International Standards on Auditing.	5. I conducted my audit in conformity with the International Standards on Auditing (ISAs) as adopted and amended by the International Organization of Supreme Audit Institutions (INTOSAI) and issued as International Standards for Supreme Audit Institutions (ISSAI). These standards oblige me to comply with ethical requirements and to plan and carry out the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
The financial statements present fairly the financial position.	6. As a result of my audit, I am of the opinion that the financial statements present fairly, in all material respects, the financial position as of 31 December 2019.
I placed an unqualified opinion on the financial statements.	7. The audit revealed no weaknesses or errors which I considered material to the accuracy, completeness and validity of the financial statements as a whole. I have placed an unqualified audit opinion on the financial statements of the WTO Pension Plan for the year ended 31 December 2019.
Areas covered by this report	8. My report includes observations and recommendations intended to contribute to the improvement of financial management. For 2019, my audit work has mainly covered the areas described in the following paragraphs.
Acknowledgement	9. I wish to convey my appreciation for the cooperation and assistance extended by the Management Board, Management and staff of the Secretariat. I am very grateful for their assistance during the entire external audit process.

2 Scope and Approach of the Audit

2.1 Scope of the Audit

Principles governing
my audit

10. My staff and I have audited the financial statements of the WTO Pension Plan for the financial period from 1 January to 31 December 2019.

Responsibility of
Management

11. The Management Board of the WTO Pension Plan is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Regulations of the Plan, and with such internal controls as Management determines are necessary to permit the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the External Auditor	<p>12. My objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report with audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect each and every material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.</p> <p>As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:</p> <ul style="list-style-type: none"> • identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control; • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the WTO Pension Plan's internal control; • evaluate the appropriateness of underlying accounting policies and the reasonableness of accounting estimates and related disclosures made by Management; • evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in conformity with the principles of fair presentation. <p>My team communicated with those charged with governance the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.</p>
Audit of the financial statements	<p>13. The financial statements of the WTO Pension Plan, together with my audit report and the audit opinion, were discussed with the Management Board. The Board took note of the contents of my report.</p>

2.2 Audit Objective and Approach

Objective of financial audit: Forming the audit opinion	<p>14. The objective of the audit was to enable me to form an opinion on whether the expenditures recorded for the year had been incurred for the purposes approved, whether expenses were properly categorized and recorded in accordance with Financial Regulations; and whether</p>
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Testing convinced me of the correctness of the financial statements.

I conducted the audit remotely due to the special circumstances of COVID-19.

I conducted the audit without major restrictions or delays.

the financial statements present fairly the financial position as of 31 December 2019.

15. My audit opinion is based on the testing of transactions recorded in the financial statements. The examination was carried out to ensure that the financial statements accurately reflect the accounting records and present fairly the financial situation of the WTO Pension Plan.

16. On 11 March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 a global pandemic. Since mid-March WTO staff, including the WTO Pension Plan Secretariat, was requested to work from home. WTO Pension Plan Secretariat staff accessed WTO premises at least on a weekly basis to collect and process physical mail. The Secretary and most Secretariat staff were back in office on voluntary basis and part time since mid-May. Subsequently, I cancelled our planned presence for the audit on the WTO Pension Plan in April and May 2020. I conducted the audit remotely based on requested documents and information provided by the WTO Pension Plan as well as numerous calls and videoconferences. Further, my team held a number of videoconferences and calls with WTO Pension Plan Secretariat staff to discuss significant transactions, processes, evaluations as well as interpretations more detailed and to verify evidence. In addition, WTO provided the audit team with IT equipment which enables my team directly access to the WTO ERP system and intranet as well as to a share drive to exchange confidential documents and information needed.

17. My audit on the WTO Pension Plan 2019 financial statements took longer than originally planned because of the COVID-19 restrictions at WTO Geneva and remote audit activities. However, despite these special circumstances, I conducted the audit without major restrictions or delays.

2.3 Audit Conclusion

I found no material weaknesses. I placed an unqualified opinion on the financial statements.

18. Notwithstanding the observations in this report, my examination revealed no weaknesses or errors which I considered material to the accuracy, completeness and validity of the financial statements as a whole. In accordance with normal practice, my team reported additional findings to the Management of the Secretariat in the course of the audit. I have placed an unqualified audit opinion on the financial statements of the WTO Pension Plan for the year ended 31 December 2019.

3 Comments / Audit Findings

3.1 General Overview of the Plan's Financial Situation

The result of income over expenditure as at 31 December 2019 is a profit of CHF 72.5 million.	19. The Income and Expenditure Statement shows a profit (result of income over expenditure) of CHF 72.5 million as at 31 December 2019 (2018: CHF -31.3 million), thus an increase of CHF 103.8 million.
Investment income totalled CHF 71.9 million in 2019.	20. This is a result of significant profits on securities of CHF 71.9 million in 2019.
Total income increased to CHF 102.8 million in 2019.	21. The total income (investments, contributions and refunds from insurances) increased to CHF 102.8 million (2018: CHF -3.6 million), an increase of CHF 106.4 million.
Income from contributions increased to CHF 30.6 million.	22. The income from contributions slightly increased to CHF 30.6 million (+ CHF 0.5 million). The regular contributions by the organization and by participants amounted to CHF 29.1 million (2018: CHF 28.7 million).
WTO paid additional contributions of CHF 1.5 million for early retirement.	23. In 2019, WTO paid additional contributions of CHF 1.5 million to the WTO Pension Plan as compensation for the impact of early retirement.
Periodic benefits in 2019: CHF 24.2 million.	24. Benefits paid out consisted of periodic benefits and totalled CHF 24.2 million in 2019; this amount included benefits for retirement of CHF 14.2 million (58.7 per cent), early retirement benefits of CHF 7.5 million (31.0 per cent), disability benefits of CHF 1.5 million (6.2 per cent) and surviving spouse and child benefits of CHF 1.0 million (4.1 per cent).
Lump sum benefits in 2019: CHF 4.0 million.	25. In addition, the WTO Pension Plan paid out lump sum benefits amounting to CHF 4.0 million in 2019; commutations of CHF 3.7 million (2018: CHF 2.4 million) and withdrawal settlements of CHF 0.3 million (2018: CHF 0.8 million).
Total expenditure increased to CHF 30.4 million.	26. Total expenditure in 2019 increased to CHF 30.4 million (2018: CHF 27.9 million) and was almost covered by the yearly contributions (2019: CHF 29.1 million).
Negative interests totalled CHF 104,237 in 2019.	27. CHF 104,237 (2018: CHF 96,631) losses on investment incurred due to negative credit interests, owing to the policy of the Swiss National Bank (SNB). In 2019, negative interests slightly increased because of higher cash balances.
Administrative expenses slightly increased to CHF 897,808.	28. Investment and other administrative expenses increased to a total of CHF 897,808 (2018: CHF 836,280), mostly because of higher management fees (CHF 49,443) and actuarial expenses (CHF 23,000).

Securities increased
by CHF 66.3 million.

As at
31 December 2019,
the Pension Plan
served 393
beneficiaries.

Audit findings and
recommendations.

Actuarial rate of
return:
12.4% per cent.

29. Total assets increased from CHF 564.8 million (as at 31 December 2018) to CHF 637.3 million (as at 31 December 2019), mainly due to the increase in securities by CHF 66.3 million and increased refunds of withholding taxes by CHF 1.4 million.

30. As at 31 December 2019, the Pension Plan served 393 beneficiaries (2018: 369) and accounted for 718 active participants (2018: 702).

31. These 393 beneficiaries comprise 175 retirees (44.5 per cent), 126 persons who took early retirement (32.1 per cent), 27 beneficiaries of deferred retirements (6.9 per cent), 24 beneficiaries of survivor's pensions (6.1 per cent), 19 children of beneficiaries and orphans (4.8 per cent), and 22 persons receiving partial or total disability benefits (5.6 per cent).

32. The following paragraphs contain audit findings and recommendations and provide further background information.

33. The actuarial rate of return on investment, net of inflation (12.4% per cent) was positive.

Table 1: Calculation of the actuarial rate of return, net of inflation (in CHF)

Actuarial rate of return	2015	2016	2017	2018	2019
a. Value of assets as of 1 st January	486,697,204	495,898,233	535,529,801	596,165,379	564,847,436
b. Value of assets as of 31 December	495,898,233	535,529,801	596,165,379	564,847,436	637,325,896
i. <i>Adjusted</i> ¹ Investment income	-930,196	33,792,675	59,947,702	-35,026,625	71,161,636
Average assets = (a+b-i)/2	491,762,817	498,817,680	535,873,739	598,019,720	565,505,848
Actuarial rate of return in nominal terms = i/average assets	-0.19%	6.77%	11.19%	-5.86%	12.58%
Consumer Price Index for Switzerland ²	-1.30%	0.00%	0.80%	0.70%	0.20%
Actuarial rate of return, net of inflation	1.11%	6.77%	10.39%	-6.56%	12.38%

Source: External Auditor, on the basis of information provided by the WTO Pension Plan Secretariat.

Table 2: Trend in actuarial rates of return in nominal terms (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
+3.52%	-1.10%	+9.70%	+8.33%	+8.19%	-0.19%	+6.77%	+11.19%	-5.86%	+12.58%

Source: External Auditor, on the basis of information provided by the WTO Pension Plan Secretariat.

¹ Investment income according to the Income and Expenditure Statement - including negative interests and currency revaluation - minus management fees and bank charges.

² Rate of variation in the Consumer Price Index (CPI) for December compared to December of the previous year, as reported by the Swiss Federal Office of Statistics (+0.2%).

3.2 Investment Policy and Breakdown of Assets

Management Board defined an investment policy for asset allocation.

Asset allocation: equities, CHF bonds, real estate and cash.

Asset allocation as of 31 December 2019 is close to the targets.

34. Asset allocation is the main source of portfolio returns. Therefore, the WTO Pension Plan's Management Board defined and implemented an investment policy for the Plan. The WTO Pension Plan assigned an advisor to give monthly performance reports about the funds. In the financial statements, the WTO Pension Plan gives only a brief overview of the performance of the classes of assets.

35. The Management Board of the WTO Pension Plan adopted the following portfolio breakdown:

- equities: 40 per cent (of which 32 per cent in developed market securities and 8 per cent in emerging market securities);
- CHF bonds: 31 per cent (bonds hedged in CHF);
- real estate: 20 per cent;
- other investments (insurance linked securities) 5.0 per cent
- cash: 4 per cent.

36. The asset allocation as of 31 December 2019 of the Plan's portfolio is close to the targets:

- 41.2 per cent in equities (of which 33.4 per cent in developed markets and 7.8 per cent in emerging markets);
- 30.6 per cent in CHF bonds;
- 19.0 per cent in real estate;
- 4.8 per cent insurance linked securities, and
- 4.3 per cent in cash.

**Table 3: Breakdown of assets and investment performance
(in nominal terms) of the classes of assets in 2019**

Assets	<u>Value of assets end of 2018 (CHF millions)</u>	<u>Value of assets end of 2019 (CHF millions)</u>	<u>Asset allocation (strategy)</u>	<u>Performance (in nominal terms over 1 year)</u>	<u>Performance (in nominal terms over 3 years)</u>
Equities	214.3 (38.0%)	261.4 (41.2%)	40%	22.1%	10.1%
Developed markets	173.6 (30.8%)	212.0 (33.4%)	32%	23.7%	
Emerging markets	40.7 (7.2%)	49.4 (7.8%)	8%	15.6%	
CHF bonds³	211.7 (37.6%)	194.4 (30.6%)	31%	7.9%	2.3%
Investment grade bonds USD	86.1 (15.3%)	57.8 (9.1%)	9%	6.8%	
Emerging countries bonds	80.6 (14.3%)	89.0 (14.0%)	14%	10.9%	
Senior loans	45.0 (8.0%)	47.6 (7.5%)	8%	3.8%	
Real estate	114.4 (20.3%)	120.4 (19.0%)	20%	5.9%	3.8%
Other Investments		30.6 (4.8%)	5%	-0.5%	n/a
Cash	23.1 (4.1%)	27.5 (4.3%)	4%	n/a	n/a
Total	563.5 (100%)	634.2 (100%)	100%	12.6%	5.7%

Source: External Auditor, on the basis of information provided by the WTO Pension Plan Secretariat.

Note: Numbers may not add precisely to totals provided due to rounding.

WTO Pension Plan may show more information to individual investments.

37. To improve transparency, I would appreciate more information on the performance of the individual investments (performance of funds). At least the WTO Pension Plan may show the opening and ending balances as well as the yearly inflows and outflows (in total) for all funds invested, as recognized in the asset accounts.

³ Bonds hedged in CHF.

3.3 Losses from Hedging

WTO Pension Plan realized losses of CHF 5.6 million from currency hedging in its portfolio.

WTO Pension Plan is hedging 80 per cent of its non-CHF debt investments: USD 143.1 million.

WTO Pension Plan reviewed the hedging process based on its long-term investment strategy.

In 2020, the WTO Pension Plan is reducing its investments in USD.

WTO Pension Plan did not state cost from hedging separately.

38. The WTO Pension Plan realized losses because of currency hedging of its bond portfolio managed by Northern Trust (WTO 08 and WTO 11) and Pictet (WTO 02). The realized loss as of 31 December 2019 totalled CHF 5,6 million (2018: CHF 5.1 million).

39. The WTO Pension Plan was assigning Northern Trust and Pictet to hedge USD against CHF on a quarterly basis to minimize foreign exchange risks for its bond portfolio (US Bonds, Emerging Market Bonds). At the end of the FY 2019 the amount hedged by the WTO Pension Plan totalled USD 143.1 million. WTO Pension Plan is hedging 80 per cent of its non-CHF fixed income investments.

40. The WTO Pension Plan has reviewed the hedging strategy in collaboration with its investment adviser⁴ as recommended in our last report. As a result, the WTO Pension Plan is confident that the implemented hedging strategy is effective as well as efficient to avoid currency losses from investments in USD and compliant with the long-term investment strategy of the Plan.

41. In the past, the return of the USD bonds net of hedging cost was expected to be higher than the CHF bonds return with comparable risk profiles. Reducing volatility is a goal of hedging international bonds. Over the medium to long term, hedging has the effect to equalise returns across markets.

42. Currently, the WTO Pension Plan is significantly reducing its investments in USD bonds because the yield spreads have dropped below the level where they provide more attractive returns than comparable CHF bonds.

43. In its Statement I: Income and expenditure statement 2019, the WTO Pension Plan stated profits on securities of CHF 71.9 million under the position "Income" (as at 31 December 2018, WTO Pension Plan stated losses on securities of CHF -34.2 million under the position "Expenditure"). Whereas, WTO Pension Plan stated losses on currency revaluation of CHF 133,446 (2018: CHF 268,024) under the position "Expenditure".

44. The WTO Pension Plan did not state any cost from hedging separately. Moreover, WTO Pension Plan did not recognize any "not hedged" losses from investments in USD under currency revaluation (20 per cent of non-CHF fixed income investments). The WTO Pension Plan has recorded these losses under the position "Income" (profit on securities).

45. I note that the WTO Pension Plan should state profits and losses on securities, currency revaluation or other income from its

⁴ MBS Capital Advice.

I recommend that the WTO Pension Plan create a note due to its hedging activities.

investments under the position “Investment income” to ensure better comparability and to show the effective return on investments.

46. I recommend that the WTO Pension Plan create a note about all investments with foreign exchange risks hedged. The WTO Pension Plan should explain in this note the total amount hedged, the cost of hedging and the impact of hedging to its long-term investments.

3.4 Cash and Cash Equivalents

Overall cash situation with a total of CHF 27.5 million is sufficient.

47. The overall cash situation of the WTO Pension Plan is sufficient. Compared to the balance in the previous years, total cash and cash equivalents increased by CHF 4.5 million from CHF 23 million in 2018 to CHF 27.5 million as at 31 December 2019. This cash situation enables the Pension Plan to cover more than 90 per cent of the yearly payments to beneficiaries as well as investment (management and consultancy fees) and administration expenditures.

Cash at bank accounted: CHF 22,3 million.

48. As at 31 December 2019, the WTO Pension Plan showed CHF 22.3 million of cash at own bank accounts and CHF 5.2 million of cash balances in invested funds. The WTO Pension Plan has direct access only for its own bank accounts. The cash balance in investments shows the total cash balances of 13 invested funds as at 31 December 2019.

49. Credit Suisse is the main bank of the WTO Pension Plan and managing almost all payments of the Pension Plan. The WTO Pension Plan maintains accounts in CHF, in EUR, and in USD. The bank account in CHF is used for payments to beneficiaries and all investments in CHF. The bank accounts in EUR and USD are used for payments to beneficiaries as well as for investments in EUR and USD.

Table 4: Breakdown of bank accounts Credit Suisse

<u>Credit Suisse</u>	<u>31/12/2019</u> (base currency)	<u>31/12/2019</u> (in CHF)
CHF	17,508,543.42	17,508,543.42
EUR	4,316,277.13	4,696,843.28
USD	54,941.22	54,226.98
Total at Bank	n/a	22,297,812.53

50. Besides, the WTO Pension Plan maintains an additional account at Post Finance (31.12.2019: CHF 38,288.85). This account is of minor importance and currently used to reduce negative interests and monthly payments to one beneficiary.

WTO Pension Plan was charged with a total of negative interests: CHF 104,237.	51. In 2019, the WTO Pension Plan paid a total of negative interests amounting to CHF 104,237 (2018: CHF 96,631).
I recommend that the WTO Pension Plan state cash at bank and cash in investments separately.	52. I recommend that the WTO Pension Plan state its cash at own bank accounts and cash in investments separately.
Further, I recommend that the WTO Pension Plan create a note showing its cash situation in detail.	53. Further, I recommend that the WTO Pension Plan create a note to explain the cash balances in detail due to every single bank account as well as the cash balances in all single investments as at 31 December.

3.5 Withholding Taxes

WTO/WTO Pension Plan tax status.	54. Due to the Marrakech agreement establishing WTO (Article VIII, Status of WTO), WTO is as a Specialized Agency exempt from most direct taxes. Therefore, WTO as well as the WTO Pension Plan - as its related Pension Plan - should not pay any income taxes and are generally entitled to reclaim all taxes paid.
Withholding taxes not yet refunded: CHF 2.5 million	55. The WTO Pension Plan generates income from investments in various countries. Due to the national tax regulations the WTO Pension Plan has paid withholding taxes in a number of these countries. These withholding taxes are recoverable because of the tax exempted status of WTO/WTO Pension Plan. In its financial statements as at 31 December 2019, the WTO Pension Plan stated CHF 2.5 million of "Withholding taxes to be recovered" under the position "Current Assets". CHF 1.4 million of the total amount relate to recoverable withholding taxes in Switzerland; CHF 1.1 million relate to recoverable withholding taxes in other countries.
Refunds for previous years.	56. In most cases, the Pension Plan already has applied for a refund of the paid withholding taxes and has recognized the correspondent reimbursement claims as receivables "Withholding Taxes to be recovered". A portion of these receivables (CHF 0.6 million) relates to (withholding) tax payments in 2014, 2015, 2016, and 2017. 57. In its tax regimes most countries have implemented deadline regulations as to the reimbursement of withholding taxes. Hence, the WTO Pension Plan should check earlier reimbursement claims due to their intrinsic value and correct its receivables accordingly.
WTO Pension Plan adjusted the	58. In 2019, the Plan's Secretariat has reviewed the process for monitoring of withholding taxes paid. As a result, the WTO Pension

monitoring of withholding taxes paid and the correspondent reimbursements.	Plan adjusted the relevant procedures starting in 2020. Now, all withholding taxes paid are separately recorded by a service provider outside the accounting. The application for a reimbursement is noted in each individual case. This seems to be an appropriate way for monitoring and managing reimbursements of withholding taxes.
I recommend that the WTO Pension Plan revalue its earlier reimbursement claims.	59. I recommend that the WTO Pension Plan check its earlier reimbursement claims from withholding taxes paid and revalue the applicable receivables regarding their true value and recoverability.

3.6 Administrative Costs

Expenditure for investment and other administrative expenses: CHF 897,808.	60. In the income and expenditure statement, the WTO Pension Plan stated the following costs under investment and other administrative expenses: management fees: CHF 492,175 (2018: 442,732); cost for the accounting company TRIANON and other administrative cost: CHF 208,134 (2018: CHF 199,780); consultancy fees: CHF 120,000 (2018: CHF 120,000); actuarial expenses: CHF 53,000 (2018: CHF 30,000); and bank charges: CHF 24,499 (2018: CHF 24,492). According to the WTO Pension Plan, the administrative cost incurred in the general administration of the Pension Plan.
Costs incurred by the WTO in providing a Secretariat in support of the Plan shall be excluded.	61. They do not include the costs for the Plan's Secretariat, which are borne by WTO (Article 5 (f) of the Plan Regulations). Pursuant to Article 5 (f) of the Regulations, the costs incurred by WTO in providing a Secretariat in support of the Plan are excluded. This treatment of costs was clarified in an amendment to the Regulations in November 2015. All other expenses incurred in administering the Plan, investing Plan assets, and employing the services of provisional advisers shall be borne by the Plan. Each element of these expenses borne by the Plan shall be identified separately in the annual report.
In 2019 the costs of providing a Secretariat totalled CHF 623,725.	62. In 2019, WTO funded 3.5 staff positions to manage the Pension Plan and to provide client services to staff and retirees of WTO as well as to supervise external service providers and consultants supporting the Pension Plan in accounting, advisory and actuary services. The remunerations (salaries and entitlements) for these 3.5 staff, including the employer charges, totalled CHF 596,557 in 2019. In addition, the WTO Pension Plan estimated the cost for office space, equipment, trainings and other support with CHF 27,168 based on the WTO cost accounting methodology. We consider these costs to be additional contributions from WTO to the Pension Plan, which also have an impact on the performance evaluation of the Plan and its long-term returns. All costs borne by the Plan's Secretariat should be reported separately by WTO and the Pension Plan on an annual basis.

3.7 Early Retirement

WTO Pension Plan stated 126 beneficiaries in early retirement.

63. In 2019, the WTO Pension Plan stated nine new beneficiaries in early retirement; this included two deferred benefits that commenced being paid in 2019. In total, the WTO Pension Plan shows the number of 126 beneficiaries in early retirement as at 31 December 2019. This represents 38.4 per cent of the retired WTO staff⁵. Between 2015 and 2018 the Pension Plan stated 46 new early retirement cases (average 11.5 beneficiaries per year).

WTO Pension Plan received CHF 1.5 million from WTO as compensation for early retirement.

64. In 2019, the WTO Pension Plan received additional contributions of CHF 1.5 million from WTO to compensate the impact from early retirement of five WTO staff members (beneficiaries). These early retirement cases were combined with the separation of a select group of WTO staff effective 31 December 2019. The impact for the Pension Plan was calculated by an actuary.

65. For the remaining four cases on early retirement the WTO Pension Plan did not calculate the impact on the Pension Plan and did not receive any compensation from WTO.

66. I also detected in former years additional payments by WTO to the Pension Plan as compensations due to early retirement⁶. In all these years WTO paid compensations only for a part of the early retirement cases.

WTO management finally decides on compensation payments due to early retirement.

67. The decision to compensate any impact of early retirement was based on “a long-established practice agreed between the Management Board of WTO Pension Plan and WTO Directors General”. In this context WTO has agreed to compensate the Pension Plan when it takes management decisions artificially elevating the rate of early retirements. The final decision to compensate is exclusively reserved to WTO management.

68. The WTO Pension Plan argued: “If actual early retirements remain relatively close to assumed probabilities the Pension Plan will remain in actuarial balance. However, if the level of early retirements is artificially elevated through the actions of WTO management to incentivize early retirement, there is a material risk of disrupting the Pension Plan’s actuarial balance. Therefore, it seems appropriate for these unanticipated elevated costs to be factored into the decision making of the Organization and compensated when such decisions are implemented.”

I note that early retirement always has

69. I note that all cases of early retirement have an impact on the actuarial balance of the Pension Plan. Therefore, the WTO Pension

⁵ At 31 December, 328 retired WTO staff members were stated: thereof normal retirement 175 beneficiaries, early retirement 126 beneficiaries, and deferred retirement 27 beneficiaries.

⁶ 2015: CHF 2.3 million; 2016: CHF 2 million; 2017: CHF 0.2 million.

an impact on the actuarial balance of the WTO Pension Plan.	Plan should review the effective impact of early retirement for the last years based on actuarial calculations by case. This allows the WTO Pension Plan an applicable estimation for compensation payments needed.
I note that there is no formal arrangement in place for compensation payments due to early retirement.	70. Further, I note that there is no formal arrangement in place for compensation payments by WTO due to early retirement. But a formal arrangement is essential to determine acceptable terms, obligations and justifications for compensation payments and an applicable calculation method as well as the process itself, including requests, responsibilities, timelines and documentation.
I recommend that the WTO Pension Plan review the impact of early retirement to the Plan.	71. I recommend that the WTO Pension Plan review the impact of early retirement on the Pension Plan for all cases based on an actuarial calculation.
I recommend that the WTO Pension Plan enter into an arrangement with WTO due to the impact of early retirement.	72. In addition, I recommend that the WTO Pension Plan enter into a separate arrangement with WTO due to compensation payments for early retirement.

3.8 Internal Auditor's Comment

No internal auditor's comments in 2019.	73. WTO's internal audit service has not conducted an audit of the WTO Pension Plan in 2019.
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4 Acknowledgement

I am grateful for the support received during the audit.	74. I wish to express my appreciation for the cooperation and assistance extended by the Secretariat of the Pension Plan, the Management and staff of WTO/WTO Pension Plan. I am very grateful for their assistance during the entire external audit process.
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Annex:

List of Recommendations

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
1	Value of pension commitments	3.2 / 2014	I recommend that the financial statements of the WTOPP include the value of pension commitments (liabilities) as this is an essential element in assessing the situation of a pension plan.	The WTOPP Secretariat accepted the recommendation and amended the notes and added a footnote.	Closed
2	Reserve / provision for operating costs	3.3 / 2014	I recommend that some further detail on the WTO costs be provided and a more up-to-date estimate be made. Furthermore, I recommend that the regulations be reviewed with the intention of clarifying the situation and, if necessary, specifying a procedure for settlement or waiver.	In November 2015, the General Council adopted revised regulations for the Pension Plan. According to the regulations, the expenses borne by the Plan exclude "costs incurred by the WTO in providing a Secretariat in support of the Plan".	Closed
3	Reimbursement of withholding tax	3.4 / 2014 and 3.4 / 2015	I reiterate the recommendation that the Secretariat make further efforts to recover debts related to withholding tax not reimbursed by the tax authorities of the countries concerned.	Efforts to recover withholding taxes are on-going. A follow-up table of the process for recovering such taxes is available. In recent years, the Plan's investments have not been subject to further unrecoverable withholding taxes. However, all withholding taxes considered unrecoverable refer to taxes paid prior to	Overtaken by events Also see my findings and recommendations No. 10 & 11 (2018 report No. 3.5.)

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
				2011 and chances to obtain a refund are very limited.	
4	Market value / securities	3.3 / 2015	<p>We noted that the current market value of one position was approx. CHF 0.5 million higher than stated.</p> <p>The Secretariat agreed and amended the financial statements during our audit.</p> <p>I recommend reviewing and aligning the reporting and documenting process of WTO and funds to avoid misunderstandings or different results concerning market value of positions in the financial statements.</p>	<p>The financial statements were corrected to consider the most recent valuation of the position concerned. Most of the other WTOPP assets are invested in funds for which market valuations are promptly available at year-end: They are less likely to be affected by similar discrepancies.</p> <p>Nonetheless, the Secretariat will reinforce reviewing reports prepared by the WTOPP's service providers against reports received directly from fund managers.</p>	Closed

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
5	Withholding taxes	3.3 / 2016	<p>The 2016 financial statements of the WTO Pension Plan include a position "Withholding taxes to be recorded" with an amount of CHF 615,662 as "Current Assets". On the liability side, WTOPP states as "Reserves" a position "Unrecoverable withholding taxes" with an amount of CHF 396,000.</p> <p>Related to my recommendation concerning withholding taxes, I recommend writing off the positions "Withholding taxes to be recorded" and "Unrecoverable withholding taxes" with the same amount of CHF 396,000. Possible tax refunds by political means or other agreements should be considered as miscellaneous income in the respective year of the effective payment.</p>	The WTOPP Secretariat accepted the recommendation and implemented it in its 2017 financial statements.	Closed
6	Withdrawal settlement	3.3 / 2017	I recommend that the WTO review its Pension Plan Regulations regarding the withdrawal settlement for staff not entitled to benefit from the Pension Plan (less than five years). In this context, the WTOPP should compare the regulations regarding all repayments from the Pension Plan as part of a benchmarking.	<p>The WTOPP Secretariat looked at similar provision schemes of the OECD, the EU institutions, the IMF and the BIS and found that in all cases the withdrawal settlement was significantly higher than the participant's own contributions.</p> <p>The Management Board reviewed the audit recommendation as well as the Secretariat's survey results and confirmed</p>	Closed

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
				that the withdrawal settlement calculation was deliberately discussed when designing the Plan.	
7	Investment Policy and Breakdown of Assets	<u>3.2 / 2018</u>	I recommend that the WTOPP state the breakdown of its main assets in a more detailed way. In this context, WTOPP should state the value and the performance of each invested fund.	The Management Board monitors the performance of individual investments but is of the view that the publication of investment performance by asset class rather than individual investment vehicles is the appropriate level of detail in the context of reporting to the general public through the annual report. The investment strategy is based on asset classes, and the performance of individual investments, taken out of context, can be easily misinterpreted.	Ongoing I reiterate my recommendation to state a breakdown of the main investment assets. This enables better comparability over years and a general risk disclosure as well as a better understanding of the investment decisions by the investment management and the Board. At least WTOPP should state the opening and ending balances as well as the yearly inflows

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
					and outflows (in total), as recognized in the asset accounts.
8	Gains and Losses	<u>3.3 / 2018</u>	I recommend that WTOPP state profits and losses on securities, currency evaluation or other income from its investments under the position "Investment income".	<p>In the interest of reporting consistency, the Management Board would prefer not to change the general recording principle in place for many years in the income and expenditure statements in the last year of the auditor's mandate. Under this approach, investment profits are recorded in the income section, and losses are recorded as expenditure. Investment performance reports showing gain and loss analysis are available in other sections of the report, such as schedule E and F of the financial statements.</p> <p>For consistency of presentation over time, we maintain the presentation this year and we will discuss with the next Auditor in the context of a broader review of the presentation of our financial statements.</p>	<p>Ongoing</p> <p>I state the recommendation as under implementation.</p>

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
9	Commission Fees	<u>3.4 / 2018</u>	I recommend that the WTOPP negotiate special conditions with Credit Suisse to avoid normal fees on Credit Suisse investment funds.	Further discussions with Credit Suisse clarified that the "Commission Suisse" relates to brokerage fees that are more favourable for Credit Suisse own funds than other funds. We are further discussing and exploring ways to reduce fees paid to Credit Suisse in relation to payment traffic and expect to reduce this amount by about CHF 5000 per year.	Closed
10	Withholding Taxes	<u>3.5 / 2018</u>	I recommend that the WTOPP promptly recognize and reclaim all withholding taxes paid for recent years (as much as possible). A limitation of claims should be avoided.	The WTOPP Secretariat accepted the recommendation and engaged an in-depth review with its custodian bank on the status of all withholding tax claimable per country. The Secretariat considers to take actions commensurate to the claimable amount, such as resorting to the services of local lawyers when appropriate.	Closed
11	Withholding Taxes	<u>3.5 / 2018</u>	I recommend that the WTO Pension Plan implement an effective monitoring of all realized income subject to tax and all withholding taxes paid by country. WTO Pension Plan should ensure that all taxes paid will be completely claimed in time (full tax recovery).	The WTOPP Secretariat accepted the recommendation. See No. 10 above.	Closed

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
12	Administrative Costs	<u>3.6 / 2018</u>	I recommend that WTOPP additionally report the activities and costs of the Pension Plan Secretariat on an annual basis.	The Management Board accepts the recommendation and proposes to include an estimate of the costs of the Pension Plan Secretariat in the notes to the financial statements even though it is not a direct cost to the Pension Plan.	Closed
13	Losses from Hedging	<u>3.3/2019</u>	I recommend that the WTO Pension Plan create a note about all investments with foreign exchange risks hedged. WTO Pension Plan should explain in this note the total amount hedged, the cost of hedging and the impact of hedging to its long-term investments.	The WTOPP agrees to put an explanation in the glossary of terms ("currency hedging") and as footnotes to schedule D and schedule E.	
14	Cash and Cash Equivalents	<u>3.4/2019</u>	I recommend that the WTO Pension Plan state its cash at own bank accounts and cash in investments separately.	The WTOPP agrees to add a footnote to the balance sheet showing that information.	
15	Cash and Cash Equivalents	<u>3.4/2019</u>	I recommend that the WTO Pension Plan create a note to explain the cash balances in detail due to every single bank account as well as the cash balances in all single investments as at 31 December.	The WTOPP proposes to provide the following elaboration which has been included in the above-mentioned footnote: "Cash held on investment accounts for extended periods of time is normally immaterial. However, since 2019 the Plan has started to use investment accounts to	

No.	Issue	Reference: Chapter, Year	Recommendation	WTO's Comment / Implementation	Status
				shelter operating cash from negative interests."	
16	Withholding Taxes	<u>3.5/2019</u>	I recommend that the WTO Pension Plan check its earlier reimbursement claims from withholding taxes paid and revalue the applicable receivables regarding their true value and recoverability.	The WTOPP agrees to review the situation with its custodian during 2020 and write off as relevant in next year's financial statements.	
17	Early Retirement	<u>3.7/2019</u>	I recommend that the WTO Pension Plan review the impact of early retirement to the Pension Plan for all cases based on an actuarial calculation.	The WTOPP agrees to include a detailed review of the impact of early retirement in the context of the next formal actuarial valuation.	
18	Early Retirement	<u>3.7/2019</u>	I recommend that the WTO Pension Plan enter into a separate arrangement with WTO due to compensation payments for early retirement.	The WTOPP agrees to explore potential conditions for a separate agreement.	