IUPAC Finance Committee Meeting

10th February 2014

Minutes

Members Present: Dr. Christoph F. Buxtorf (Chair), Dr. Pat N. Confalone, Prof. John Corish, Prof. Wolfram Koch, Dr. Nobuyuki Kawashima.

Guest: Dr. Mark Cesa, President.

1. INTRODUCTORY REMARKS & FINALIZATION OF AGENDA

Dr. Buxtorf welcomed those present to the meeting, especially the President and the new member Dr. Confalone, and thanked Reber Rechtsanwälte for the excellent arrangements and facilities. He reported that unfortunately Dr. Terry Renner, former Executive Director, would be unable to attend the meeting because of a recent illness and he thanked Dr. Renner and the Treasurer for the excellent work that they had done putting the Detailed Agenda and Agenda Book together for the meeting. All present joined in sending their best wishes for a speedy recovery to full health to Dr. Renner. The Treasurer reported that Dr. Renner would be contactable by telephone and available if required through the meeting.

Dr. Buxtorf suggested that in view of the rather difficult year that had passed it would be helpful to first hold a broad discussion on the financial situation and the general state of the Union before delving into the Agenda items. The Treasurer reported that there had been problems during 2013 with the accounting processes at the Secretariat that these had eventually resulted in a contamination of the QuickBooks software package used. Indeed outside IT assistance had been required to correct these problems which had led to unreliable results being produced. This as well as other failures in procedures had greatly delayed matters and the year-end Financial Report for 2013 prepared by Leslie Davis and usually available for the Finance Committee meeting would not now be ready until later in February. The resignation of the Executive Director appointed to take over in January after such a short time had effectively highlighted the vital importance of the ED in the financial affairs of the Union. Dr. Buxtorf confirmed this from the perspective of the Finance Committee. The Treasurer reported that the absence of financial control at the Secretariat had aggravated spending beyond the budget provisioned in a number of areas, especially on the General Assembly, and it would emerge that it had been necessary to use a considerable sum of money from the investment portfolio to pay for this, for other overspends and for day to day operations.

The President outlined the steps that he had taken to allow the Secretariat to continue to function in the interim before the appointment of a new Executive Director. A system had been put in place that divided the essential duties between the two most senior staff and each staff member was also assigned to an appropriate officer who would provide advice and support as required. The President and Colin Humphris, a member of the Executive Committee requested by the President to recommend actions to improve the operations at the Secretariat, had visited the Secretariat during the previous week and had further progressed the appointment of a new Executive Director by preparing a job description, and interviewing executive search firms with a view to their possible use in the appointment process which was now, after considerable preparative work including an outside review, ready to commence.

The Treasurer summarized how the budget for the 2014/2015 biennium which would be considered later had been drawn up and agreed by Council. He reported that the audit of the 2013 outturn would commence in March and that in anticipation of that audit and with the agreement of our auditors he was currently providing the second signature – in addition to that of the Accounting Manager – on all expenditures.

There were no changes to the Agenda.

2. MINUTES OF 2013 MEETING

There were no comments on the minutes of the 2013 meeting. They were accepted as written and distributed. The Treasurer drew the attention of members to the fact that the expectation of the expense of the General Assembly had been noted in the minutes as had the failure to find suitable bonds in which to reinvest matured funds. These considerations had led to a decision to hold sufficient liquidity for the remainder of that year.

3. FINANCE COMMITTEE MEMBERSHIP

Prof. Corish reported that the terms of service of the current members were as follows:

Dr. Christoph Buxtorf, 2012-2015 (Second Term);
Prof. Dr. Wolfram Koch, 2012-2015 (Second Term);
Dr. Nobuyuki Kawashima, 2012-2015 (First Term); and
Dr. Pat Confalone, 2014-2017 (First Term, New Member).

The Treasurer and the Executive Director of IUPAC are *ex officio* members of the Finance Committee without voting power.

Dr. Buxtorf drew attention to the need to appoint a new Chairman and recruit a new member for 2016 to replace himself and Dr. Koch who would leave the Committee at that time having completed two terms.

4. ITEMS FROM MEETINGS OF EXECUTIVE COMMITTEE AND BUREAU

Dr. Buxtorf noted that the minutes of the most recent Executive Committee and Bureau meetings were, in contrast to the usual case, not in the Agenda Book. The President said that the minutes of the Bureau were almost ready and that there were no items that required consideration by the Finance Committee. Prof. Corish reported that one of the action items from the meeting of the Executive Committee was to initiate a systematic review of the project portfolio and terminate the projects recorded with a proposed end date prior to December 2013 and that had not spent any funds to indicate that they had been initiated.

5. FINANCIAL REVIEW

5.1. AUDITED ACCOUNTS – 2009

There were no comments on the Financial Statement for 2012 and the Auditors report thereon.

5.2. ACCOUNTANTS REPORT – 2012 AND 2013

There were no comments on the external Accountant's final report for the full calendar year 2012. Unfortunately, for the reasons reported earlier by Prof. Corish, it had not proved possible to complete the Accountant's report for 2013 in time for it to be included in the Agenda Book.

5.3. REVIEW OF EXPENSE VS. BUDGET – 2012-2013

Prof. Corish reported that there had been unusually high expenditures associated with the General Assembly in Istanbul with the total cost exceeding the planned budget of USD 325,000 by in excess of USD 100,000. The additional costs were for travel and subsistence since the costs for facilities had been less than those incurred for the previous General Assembly. The lack of financial control at the Secretariat had also resulted in overspends on other items, noticeably the Prize for Young Chemists, and unavoidable additional expenditures were incurred during the biennium in the search for and overlap of the new Executive Director. As a consequence the proceeds from matured bonds had been required to fund normal operations in both 2112 and 2013. These proceeds would normally have been reinvested after maturity.

The self-publication operation had returned income in line with expectations in 2013, cf. Section 5.5, but starting in January 2014 the publication of PAC and CI would be published by the De Gruyter publishing house following the signing of agreements aimed at stopping the decline in income and increasing circulation. These new arrangements would have major consequences for our cash-flow starting in 2014. Prior to this the subscriptions for PAC, which even with the substantial decrease in sales evident in the latter years amounted to at least USD 600,000 annually, had been collected by the Secretariat during the last two months of each year. The publication costs, on the other hand, were spent only gradually over the following twelve months and this resulted in there being a substantial 'cushion' in place to sustain any cash-flow difficulties that might arise due to the tardy receipt of National subscriptions or other income. These subscriptions were now going directly to De Gruyter. This problem had been foreseen and an up-front payment negotiated in the contract but even this might not be sufficient to avoid difficulties. Whereas the cash currently in our operational account was sufficient it was not possible to be predict whether or at what time cash-flow problems requiring use of our reserves might arise during the year ahead because this depended on the rate of receipt of National subscriptions, which is beyond our control, and the rate and extent of our expenditures.

Consideration of these factors led to a comprehensive and wide ranging discussion by members on how best to manage within the budget available to us as well as how we might improve our ability to generate new additional income. The Committee examined each of the three principal streams currently producing income, National Subscriptions, Publishing Operations and our Investment Portfolio along with the main areas in which our expenditures occurred. During these discussions members made use of a series of graphs available in the Agenda Book (prepared for Section 9 below) which illustrated the rates at which our three revenue streams were changing with time since 2008 and, where feasible, with predictions up to 2015. A comparison of the resultant combined revenues with expenditures up until 2012 was also made but, as has been previously noted, the outturn for the 2103 expenditure was not available. It was, however, likely to follow the recent trend for years in which a General Assembly was held and so to exceed the annual income for that year.

The following series of decisions and suggestions followed from these discussions.

1. Control of its expenditures was the only financial factor over which the Union had complete control. Particularly during the biennium just commenced the Union should exercise maximum financial restraint and reserve its funds wherever possible.
2. The project system should be examined and consultations held with Division Presidents and Chairs of Standing Committees to seek their advice as to how projects might be carried out more economically. It was necessary to be able to exercise control over budget expenditures and to halt projects if necessary.
3. Economies should also be sought in administration costs with the present changes at the Secretariat providing an opportunity for review.
4. The organization of the General Assembly should be timetabled to economise on the length of time for which members were required to attend and make other savings.
5. The Union should adopt a more aggressive stance in its investment policy and set an objective of a 6% annual return after all costs had been paid. Capital preservation and risk tolerance considerations should remain part of our policy.
6. The Finance Committee should begin negotiations with firms that provide financial expertise to arrange that our portfolio be actively managed in future. In current market conditions this was likely to require a change to increase the ratio of equities to bonds in the holding.
7. The basis on which the National Subscriptions are calculated should be re-examined to ensure that it is equitable and a value proposition prepared for our present NAOs and to attract prospective new members.
8. That the outcome of the new publishing arrangements be carefully monitored over the coming years. The Committee noted that the contract could be terminated after three years if it proved to be unsatisfactory for either party.

5.4 RESERVES AND SPECIAL FUNDS

A table summarizing the Reserve Funds and Special Funds was not available for inclusion in the Agenda Book. The Finance Committee agreed to the request to set rate to be used for Special Funds for 2014. This decision was assisted by a table of annual income and yield by investment type included in the Agenda Book. In 2013, the average income from bonds denominated in USD was 4.43%, while the average income from bonds denominated in both USD and EUR was 3.98%. The interest rate for Special Funds was therefore set at 4% for the year 2014.

In reaching this decision the tables of Annual Income and Annual Yield by Investment Type for the years 2010 to 2013 inclusive included in the Agenda Book were examined in detail and the meeting accepted that the returns on equities for 2013 had been in line with market norms for that year.

5.5 FINANCIAL RESULTS FOR THE SELF-PUBLISHING OF PAC AND CI IN 2013

The Agenda Book contained a detailed updated financial summary for *PAC* and *CI*. During *2013 PAC* remained a source of net income for IUPAC, but this revenue exhibited the same steady decline that had been evident in each of the preceding years due to the ongoing decrease in the number of institutional subscribers and the switchover of many from print to the lower-cost E-only subscription. *CI* generates an ongoing annual net cost. The total cost of production of *CI* had remained relatively constant at about USD 172,000 per year since 2008. For 2013 the net income from publication of *PAC* and *CI* was approximately USD 133,600.

As mentioned above the Executive Committee had in 2013 taken the decision to partner with an established outside scientific publishing house, DeGruyter of Berlin, Germany, for the production of both publications. The Committee noted that the actual partnership and final transfer of operations to DeGruyter had become effective as of 1 January 2014, after a preparatory transition period during 2013.

6. NATIONAL SUBSCRIPTIONS

6.1. 2013 NATIONAL SUBSCRIPTION PAYMENT STATUS

The Treasurer reported that as of 14 January 2014, National Subscription payments from 12 NAOs were overdue, amounting to USD 103,554 in missing revenue for the year 2013. The Secretariat is pursuing payment from these NAOs, among which most have indicated that they intend to make payment in the first quarter of 2014. Indeed some had been received since the detailed Table in the Agenda Book giving details had been drawn up.

6.2 2014 NATIONAL SUBSCRIPTION PAYMENT STATUS

The Treasurer reported that as of 17 January 2014, 11 NAOs have already paid their

National Subscriptions for 2014. The details of the total amount paid by these members, USD 98,946, was available in a Table in the Agenda Book for details: again some additional subscriptions had been received since this Table had been drawn up.

Dr. Kawashima asked how the National Subscriptions were calculated saying that it seems as if excessive burdens were being placed on countries that were substantially developing their chemical outputs. It was agreed that the basis on which the calculations were made should be re-examined to ensure that it was as equitable as was possible. Dr. Confalone stated that in addition to having a mission statement and a vision the Union also needed a value proposition which could be used to answer frequently posed questions as to what benefits ensued from membership and to attract new members. The President said that this question was one of those being examined in the strategy review that was currently under way.

7. INVESTMENT PORTFOLIO

7.1. INVESTMENT TRANSACTION HIGHLIGHTS 2013

The Treasurer stated that the calendar year 2013 closing statements for our two investment accounts were included in the Agenda Book. As was our standard practice, dividends received from mutual funds were reinvested, while interest received on bonds was used for operations. Major investment transactions for 2013 are summarised in the table below:

Date	Activity	Description	Net Amount (USD)
15-Jan-13	Redemption	Federal Home Loan Mortgage Corp	133,125
15-Feb-13	Redemption	General Electric Capital Corporation	125,000
18-Mar-13	Purchase	Mutual Fund Dividend Reinvestment	5,364
08-May-13	Redemption	JP Morgan Chase 5.875%	150,000
17-Jun-13	Purchase	Mutual Fund Dividend Reinvestment	6,601
23-Sep-13	Purchase	Mutual Fund Dividend Reinvestment	5,401
27 Dec-13	Purchase	Mutual Fund Dividend Reinvestment	22,528

<u>Investment portfolio transactions for 2012 are itemized in the table below:</u>

Date	Activity	Description	Net Amount (USD)
17-Jan-12	Redemption	Credit Suisse Global Notes	100,000
15-Feb-12	Sale	Fidelity Overseas Europe Fund	200,817
15-Feb-12	Sale	Fidelity Europe Capital Appreciation	123,679
15-Feb-12	Sale	Growth Fund of America	231,966
15-Feb-12	Sale	T. Rowe Price International Funds	87,293
15-Feb-12	Purchase	Income Fund of America	231,966
17-Feb-12	Redemption	DEPFA ACS Bank	129,906
17-Feb-12	Purchase	AT&T Senior Unsecured	101,052
17-Feb-12	Purchase	Procter & Gamble Senior Unsecured	149,425
19-Mar-12	Purchase	Hewlett Packard Unsecured	100,645
19-Mar-12	Purchase	Mutual Fund Dividend Reinvestment	5,020
14-Jun-12	Purchase	Mutual Fund Dividend Reinvestment	6,296
27-Aug-12	Redemption	Citigroup Inc. Subordinated Notes	100,000
24-Sep-12	Purchase	Mutual Fund Dividend Reinvestment	5,150
26-Dec-12	Redemption	Wyeth Notes	101,141
27-Dec-12	Purchase	Mutual Fund Dividend Reinvestment	16,490

Summary of Transactions by Type Combined for 2012 and 2013:

Transaction Type	Number of Transactions	Net Amount (USD)
Redeem Bond	7	839,172
Sell Mutual Fund	4	643,755
Purchase Bond	3	351,122
Purchase Mutual Fund	9	304,816
Total Redeem/Sell	11	1,482,927
Total Purchase	12	655,938
Net Cash for Reinvestment		**826,989**

The Treasurer reported that during the 2012-2013 biennium, IUPAC's Wells Fargo Investment Advisors regularly monitored the market for suitable opportunities to reinvest the excess cash from bond redemptions and mutual fund sales. Unfortunately, only three such identified opportunities resulted in the actual purchase of new bonds. Due to continuously declining revenues from publications and investment interest and higher than previously budgeted expenses, essentially all of the USD 826,989 had eventually been used for operations of the Union during the biennium.

7.2. PORTFOLIO PERFORMANCE 2013

Tables summarising the changes in the investment portfolio as well as the distribution of the portfolio by investment type were provided in the Agenda Book. The meeting noted that the average yield for the portfolio in 2012 was 11.4%, a decline of 0.8% relative to 2012. A chart showing the value of the combined portfolios versus time since the year 2001 is also included in the Agenda Book.

7.3. REVIEW OF INVESTMENT PERFORMANCE AND STRATEGY

The Treasurer reported that the ratio (based on USD value) of equities to bonds in the portfolio for 2012 was about 44 to 56, compared with the 34 to 66 ratio of the previous year. In 2013 the ratio of US to non-US equities was 58 to 42 and the ratio of US to non-US fixed-rate investments was 64 to 36.

An annual review of the investment portfolios with Mr. Guy Guidry (IUPAC's advisor from Wells Fargo Investment Advisors) normally scheduled at the Secretariat in January of each year had not taken place in 2013 and was not scheduled for 2014 because of the vacancy in the Executive Director position. The purpose of the review is to assess past performance and to identify new ways to improve the overall yield of the investments that are held. It has been difficult to find high-quality bonds to replace those that have matured during the past two years. Yields on new corporate bonds are now far less than half of what was earned from the bonds that have been redeemed.

7.4. UPDATE OF INVESTMENT AND FUND STRATEGIES

The current Investment Policy Statement and Fund Policy Statement which date back, respectively, to 2005 and 2003, and which had been adopted by the FC committee in previous meetings were in the Agenda Book. Following discussions it was decided that these statements should be revised as in some aspects they had become outdated and are in part irrelevant to the current financial environment. However this revision was postponed until after decisions had been taken as to the optimum investment policy had been worked out after discussions with financial advisors. The revision will be carried out by the Chairman, Dr, Buxtorf and the Treasurer.

8. REVIEW OF APPROVED BUDGET FOR 2014 - 2015

The Treasurer reported that at the start of 2013 several budget proposals had been developed for the upcoming biennium 2014-2015. The ultimate objective was to develop a realistic budget for presentation to and approval by the IUPAC Council at the General Assembly in Istanbul, Turkey, in August of 2013. To that end several possible scenarios were examined.

Scenario 1 was called the Status Quo budget. It remained essentially as the budget for the 2012-2013 biennium. That is, no increase in National Subscription revenue was assumed. Income from the investment portfolio and from publication of our journals was estimated based on historical data through 2012. This budget projected a deficit of USD 608.3K for the new biennium.

Scenario 2 was called the E-only budget. In this case, it was assumed that both *PAC* and *CI* would be published only in electronic format, thus saving sizable printing and distribution costs. In the end, this budget would, if adopted, have resulted in a biennial deficit of USD 388.3K.

Scenario 3 was called the De Gruyter budget. In this case the assumption was made that IUPAC would enter into a publication partnership with the De Gruyter publishing house of Berlin, Germany. De Gruyter would guarantee IUPAC an income stream (at least for the first three years of the agreement), collect the subscription revenue for *PAC*, and carry the costs of publication. IUPAC would continue to send free copies of *CI* to sponsored conferences. This budget would also have resulted in a biennial deficit of USD 506.9K.

Scenario 4 was called the De Gruyter with no *CI* budget. Again it was assumed that De Gruyter would publish our journals, but we would not send any free copies of CI to sponsored conferences. Even though the savings would be significant, the biennial deficit would still have been USD 438.5K.

Due to significantly reduced revenues from investments and from publications, as was evident in realistic predictions made from updated best estimates, it was not possible to produce a balanced budget for any of the original four scenarios.

To produce a balanced budget, a fifth scenario (Balanced Budget) was developed for consideration with additional input from the officers. This case involved a number of assumptions, all of which were fully annotated in the Agenda Book. Funding allocated for Divisional and Standing Committee budgets was reduced by 12% overall. Budgets for the Project Committee and for funding scientific conferences (FSC) were also reduced. Additionally, it was assumed that National Subscriptions for NAOs would be increased by 3% each year of the new biennium with respect to the levels in 2013.

It was possible with these changes to develop a balanced budget for 2014-2015. However, this result was achieved only by reducing expenditures significantly across a broad range of normal activities. It was deemed to be the best option for IUPAC at this time. The balanced budget was presented to the IUPAC Council in Istanbul as required by the Statutes and Bylaws and the budget was ratified by Council without amendment. It requires that in the current biennium IUPAC manages its financial resources very carefully and seeks to develop new sources of additional operating revenue. The Committee noted the budget as adopted by the Council a copy of which was in the Agenda Book. Given the financial situation it regarded the budget as a step in the right direction although it might be necessary to implement more radical changes in the future.

9. FUNDING STRATEGIES AND NEW SOURCES OF INCOME

The Committee reviewed the income and expenditures over time as displayed in a set of graphs prepared for the purpose and shown in the Agenda Book. The overall income from National Subscriptions could not reasonably be increased by more than the rate of inflation: a number of countries were already finding it difficult to meet their payments. As argued earlier, Section 6.2, a review of the method of calculation of these contributions to ensure their equity would be undertaken. The income earned from investments could be increased if a more aggressive policy was adopted and the portfolio was entrusted to expert investment advisors for active management. The Committee suggested an aspirational target of a 6% yield *per annum* after all charges. The ratio of securities to bonds would likely have to be increased to better profit from current market conditions. This objective was unlikely to be attained immediately and the Committee noted the need to preserve our capital and control the levels of risk to which our funds were exposed. The outcome of the outsourcing of our publications would require stringent monitoring to maximise the return from De Gruyter. The single factor over which we had direct control was our expenditure and this must be minimised in as far as was possible to prevent the necessity for more damaging cuts in the future.

The opportunities to develop new sources of income were limited as we had to exercise care not to come into competition with the National and Regional Associations on whom we relied for membership and goodwill. IUPAC should seek to develop better relationships with the Chemical Industry and to seek sponsorship for such activities as the World Chemistry Leadership Meeting (WCLM) at our General Assembly. It might also be feasible to seek secondment of potential senior executives from industry to act as our Executive Director. IUPAC could also examine the opportunities to organise meetings on emerging topics with expert speakers from industry.

10. ANY OTHER BUSINESS

There was no other business

11. DATE AND LOCATION OF NEXT MEETING

The date of the next meeting was set for 16th February 2015 at the offices of Reber Rechtsanwälte in Zurich.