

IUPAC Finance Committee

Monday, February 22, 1999, 9:00 AM – 5 PM

Offices of Merrill Lynch International Inc.

Stockerhof, 23 Stockerstrasse

CH-8003 Zürich, Switzerland

Minutes

Present: Dr. E. P. Przybylowicz (Chairman), Prof. J. M. Ward (Treasurer), Dr. J. Miyamoto, Dr. H. -L. Senti, Dr. A. Hartman (Guest, in part), Mr. H. Kiebler (Guest, in part), Dr. J. W. Jost (Secretary)

1. Introductory Remarks & Finalization of Agenda

Dr. Przybylowicz welcomed the members of the Committee and especially thanked Dr. Hartman for joining the group. Since Dr. Hartman could only stay for an hour items 5 and 9 were discussed out of order to allow Dr. Hartman to participate. Mr. Kiebler of Merrill Lynch joined the group for a discussion of investment strategy after lunch. The minutes will show the order of items as they appear on the agenda rather than in the order in which they were discussed. There were no changes to the agenda from that circulated to the Committee.

2. Approval of Minutes of 1998 meeting

It was noted that the minutes of the 1998 meeting should be changed to reflect the change in location of the 1999 meeting. The Minutes of the 1998 meeting were approved as presented.

3. Finance Committee Membership

Prof. Ward briefly discussed his efforts to recruit new members for the Committee. The group asked Prof. Ward to contact Dr. G. Martens to determine his interest in becoming a member of the Committee. Prof. Ward will also prepare a letter for distribution to the National Adhering Organizations requesting candidates for membership on the Committee.

4. Items from Meetings of Executive Committee, Bureau and Council

Dr. Przybylowicz briefly reviewed the items from the Minutes of the Executive Committee, Bureau, and Council that were relevant to the work of the Finance Committee. The change to a project based system for the management of the Union's scientific work led to a request to the Committee to provide a draft budget for 2002-3 for discussion by the EC. The Treasurer's draft of two alternative proposals will be discussed in item 8.

5. Financial Review

Dr. Jost reviewed the operations of the Secretariat related to the financial activities of the Union. The main points were:

- The change in auditors to Batchelor, Tillery & Roberts, LLP of Raleigh, North Carolina, USA.
- The completion of the 1997 audit in November 1998 and the 1998 audit in February 1999.

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- Monetary activities, incoming and outgoing are now done using Wachovia Bank. This change has been trouble free since its inception in August 1998.
- Payments can now be accepted using all major credit cards.

Chemistry International is now being printed by Cadmus Journal Services and edited by a free lance copy editor.

5.1. Statements of Accounts-1997-Auditors report

There was some discussion about the change in Auditors. This was the result of ATAG Ernst & Young resigning by being completely nonresponsive to requests to schedule an audit. The Committee was grateful to Merrill Lynch International for agreeing to the use of the address of their Zürich office as the official address of the Union. The question was then discussed as to whether or not it would be prudent to arrange for a more independent method to establish the official address of the Union. The two possibilities discussed were a local law firm or an office at the ETH. Dr. Senti agreed to investigate these alternatives.

Dr. Hartman commented that the Auditor's report (Attachment 1) is intended for professional use and not for use to explain the Union's operations to the membership. The Committee agreed with this assessment.

Dr. Hartman noted that the Statement of Accounts (Attachment 2), with some small modifications, was a suitable format for conveying the Union's financial position to the membership. He pointed out that the inclusion of unrealized gains in the income of the Union could be misleading to someone not familiar with Generally Accepted Accounting Principles. Thus, while the proper application of GAAP requires that unrealized gains on the investment portfolio be shown, the financial situation would be more readily understood by nonprofessionals if the unrealized gains were separated from the operating income. The Committee agreed with this proposal and requested the Executive Director to have the Accounting Statements modified accordingly.

5.2. Statement of Accounts-1998

This will be modified in the same way as the 1997 statement (Attachment 3). Dr. Jost noted that the Bureau expenses included the costs associated with the joint AAPAC-IPAC meeting in Durban, South Africa. These will be taken out and charged against the Royal Society Development Fund.

5.3. Comparison of Accounts to Budget-1998

Expenses in 1998 were below budget, mainly due to lower than expected costs for the Secretariat, while revenues were higher due to greater than planned revenues from publications.

5.4. Reserves and special funds

Prof. Ward described the purpose of each of the special Funds. The Southern Hemisphere Fund is to be used to offset the higher transportation costs associated with a General Assembly held outside of Europe or North America. The Endowment Matching Fund is to be used to match contributions from other organizations for the

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funding of IUPAC Projects. The income on the Endowment Fund is to fund special projects, as designated by the EC or Bureau. The income of the Franzosini fund is used to support the travel of a young scientist to a meeting of the Commission on Solubility Data (V.8).

The Committee approved the following proposals by the Treasurer:

- Increase the Southern Hemisphere Fund by USD 50 000.
- Increase the Franzosini Fund by 6%, equivalent to the Union's return on its fixed income investments.

Increase the Endowment Fund and the Endowment Matching Fund by 12.3%, the amount of the increase in the Union's investments.

5.5. Capital Budgets

Capital requirements for 1999 are expected to be USD 6 500.

6. Subscriptions

6.1. 1998 National Subscription payment status

Six NAOs had not paid their 1998 Subscriptions at the time of the meeting: Brazil, France, Japan, Pakistan, Puerto Rico, Spain, and the USA. Payments were subsequently received from France and Spain. The situation as of 23 March 1999 is shown in Attachment 4. Brazil, Japan, and the USA have informed the Secretariat that they will make their payments shortly. The Committee requested that the Executive Director to write to Pakistan and Puerto Rico to inform them that they will not be able to vote at the Berlin Council unless they pay their arrears by 1 April 1999.

6.2. 1999 and 2000 National Subscription calculations

Less than 10% of the 1999 National Subscriptions had been paid as of 20 February 1999 (Attachment 5).

The group reviewed the draft 2000 table of National Subscriptions, based on the proposed 2000-1 budget and the 1993-4 Chemical Turnover Data (Attachment 6). Dr. Senti suggested that it would be helpful to provide a summary of the basis for the formula used to derive the National Subscriptions based on the Chemical Turnover; as well as a definition of the data used to calculate Chemical Turnover. The Executive Director agreed to provide such a summary.

6.3. Special situations

Dr. Jost reviewed the three Special Situations described in the circulated material.

The Czech Republic had asked for a reduction in the 1998 subscription due the large and unexpected increase in their subscription due the new Chemical Turnover data now available for the Czech Republic. The previous National Subscription, for 1997 had been based on an estimate using data for the former Czechoslovakia.

The Japan Science Council had informed the Union that due to the budget cycle for the Japanese government they were unable to obtain the additional USD 7 600 above the preliminary estimate they had used to request funds in 1997 for the 1998 subscription.

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The Chemical Society of Japan has agreed to pay this from its own funds.

The Korean Chemical Society had requested a reduction in the 1997 and 1998 Chemical Subscription due to the sudden change in the value of the Korean Won.

6.4. Handling of Company Associates fees

Dr. Jost reviewed the various ways in which Company Associate fees are handled. He proposed that the Committee recommend to the EC a discussion on this subject. The main issue is the retention by the Union of Company Associate fees paid directly to the Union. It is not clear that the NAOs involved have explicitly agreed that these fees should not be counted towards their National Subscriptions. The Committee agreed that this issue should be discussed by the EC with a view to ensuring equitable treatment.

7. Review of Budgets -1998-9 and 2000-1

Prof. Ward reviewed the draft budget for 2001-2 (Attachment 7). The draft budget contains an operating reserve of USD 548 900 to accommodate the transition to the project based system.

8. Allocation to IUPAC Bodies-2002-3

Prof. Ward reviewed the two schemes (Attachment 8) developed by himself in discussions with the Secretary General. The Committee approved the forwarding of this discussion paper to the EC.

9. Investment portfolio

9.1. Performance 1998

Dr. Przybylowicz reviewed the performance of the portfolio. The fixed income portfolio had a return of 5.99% and the equity portfolio had a return of 17.16%. The composite portfolio resulted in a return of 12.31%. The equity to fixed income ratio was changed to 60/40 and the ratio of US to European equities was changed to 60/40 in 1998.

9.2. Discussion of near term investment strategy

Mr. Kiebler noted that Merrill Lynch recommended that growth portfolios have a ratio of 70/30, equity to fixed income. After some discussion, the Committee decided to maintain the current asset allocation.

Mr. Kiebler reviewed the Merrill Lynch Consults program as an alternative to investing in Mutual Funds. This program uses well known portfolio managers to provide managed portfolios of investments that are smaller than the large funds managed by Mutual Funds. The two portfolio managers suggested were BEA Associates and Lazard Asset Management.

Prof. Ward noted that that three of the bonds held by the Union would mature this year and early next year for a total of USD 250 000. The Committee needed to decide how the resulting funds should be reinvested. There was also USD 100 000 of cash available for investment above the current needs of operations.

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After some discussion, the Committee decided to make the following investments:

- July 1998: USD 100 000 in a new bond to mature in 2006.
- Immediately: USD 50 000 in the Janus 20/20 Fund.
- Increase Aetna Fund from current (USD 98 838 @ 18 February) to USD 150 000.
- Sell GAM Select European (USD 287 258 @ 18 February).
- Invest USD 250 000 in Lazard Portfolio in Merrill Lynch Consults.
- November 1999: USD 200 000 in two new bonds to mature in 2007 & 2009.
- January 2000: USD 100 000 in new bond to mature in 2010.

10. Any other business

There was no other business.

11. Date of Next Meeting

The next meeting will be on 21 February 2000 in Zürich at the offices of Merrill Lynch International.