



## Assembly Council

Distr.: General  
12 July 2013

Original: English

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**Nineteenth session**  
Kingston, Jamaica  
15-26 July 2013

### **Report of the Finance Committee**

1. During the nineteenth session of the International Seabed Authority, the Finance Committee held five meetings, between 10 and 12 July 2013.
2. The following members of the Committee participated in the meetings during the nineteenth session: Frida Armas-Pfirter, Aleksey P. Bakanov, Trecia Elliott, Han Thein Kyaw, Duncan M. Laki, Olav Myklebust, Reinaldo Storani, Chris Whomersley, David C. M. Wilkens and Shinichi Yamanaka.
3. The following members informed the Secretary-General that they would be unable to attend the session: Pradip Choudhary, Francesca Graziani, Pavel Kavina, Serge Segura.
4. Following past practice, Chen Changxue also participated in the meetings of the Committee prior to his formal election by the Assembly.
5. The Committee re-elected Olav Myklebust as Chair and Duncan M. Laki as Vice-Chair.

#### **I. Agenda**

6. The Committee discussed and modified its agenda contained in document ISBA/19/FC/1, by adding the item entitled “Study for the purpose of better describing and accounting for the use of fees for the processing of applications for approval of plans of work for exploration”.

#### **II. Cost of administration and supervision of contracts between the Authority and contractors**

7. The Committee considered document ISBA/19/FC/CRP.3, entitled “Supervision and administrative support to contracts” in conjunction with a document submitted by Brazil, entitled “Cost of administration and supervision of contracts of exploration with the International Seabed Authority.”



8. The Committee reviewed a detailed analysis, provided by the secretariat, of the annual costs of administering and supervising the contracts, on the basis of which the Committee concluded that the annual standard cost for each contract amounted to \$47,000. After receiving legal advice, the Committee concluded that, for legal reasons and as a matter of principle, overhead charges should not be applied retroactively.

9. The Committee decided to recommend to the Council the attached draft decision for adoption by the Assembly.

### **III. Audit report on the finances of the International Seabed Authority for 2012**

10. The Committee considered the report of PricewaterhouseCoopers on the audit of the accounts of the Authority for the year 2012. The Committee took note of the report and the opinion of the auditors that the financial statements of the Authority presented fairly, in all material aspects, the financial position of the Authority, as at 31 December 2012, and its financial performance and the cash flows for that year, in accordance with the United Nations system accounting standards.

11. The Committee requested the Secretary-General to ensure that the auditors use the correct terminology as used in the Financial Regulations.

12. The Committee noted that, following and in accordance with, the 2012 authorization by the Assembly (ISBA/18/A/7, para. 8), the Secretary-General applied application fees recognized as miscellaneous income to meet part of the expenditure incurred in the financial period 2011-2012 for processing plans of work for exploration.

### **IV. Status of the International Seabed Authority Endowment Fund and Voluntary Trust Fund**

13. The Committee took note of the balance of the Endowment Fund in the amount of \$3,428,932, as at 30 June 2013, including accrued interest of \$36,984 intended to be utilized to support the participation of qualified scientists and technical personnel from developing countries in marine scientific research and approved programmes. The Committee expressed its gratitude to the Government of Mexico for the contribution of \$5,000 made on 8 November 2012.

14. The Committee expressed its appreciation at the fact that, during 2012, the Endowment Fund had gained more interest than in previous years, as a result of the Fund's capital having been invested in short-term time deposits in Scotia Investments Jamaica Ltd.

15. The Committee took note of the balance of the Voluntary Trust Fund in the amount of \$144,452, as at 3 July 2013. It expressed its gratitude to the Government of Norway for the contribution of \$150,000, made on 17 October 2012, and to the Government of China for the contribution of \$20,000 made on 3 July 2013.

16. The Committee requested the Secretary-General to seek advice on the possibility of considering advances from the Endowment Fund to the Voluntary Trust Fund as grants.

## **V. Working Capital Fund**

17. The Committee took note of the status of the Working Capital Fund as at 30 June 2013, with advances of \$526,870 out of a ceiling of \$560,000.

## **VI. Budget performance**

18. The Committee expressed its appreciation to the Secretary-General for the report on implementation of the budget and for the efforts being made to effect savings in the budget of the Authority during the financial period 2013-2014.

19. The Committee noted that filling the secretariat posts had been difficult, as some qualified candidates had rejected job offers, primarily because spouses were not allowed to seek employment outside diplomatic missions and international organizations in Jamaica. The Committee invited the Secretary-General to initiate discussions on the issue with the Government of Jamaica and to report to it thereon at the twentieth session.

## **VII. Appointment of an independent auditor**

20. In considering the appointment of an independent auditor for the financial period 2013-2014, the Committee examined the bids from KPMG and PricewaterhouseCoopers to undertake the audit for 2013 and 2014. After discussion, the Committee decided to recommend to the Assembly that KPMG be appointed, in accordance with past practice, for two years to audit the 2013 and 2014 financial statements of the Authority.

## **VIII. Cost-saving measures**

21. The Committee expressed its gratitude to the Secretary-General for the efforts being made to effect savings in the budget of the Authority. It welcomed the report on potential cost-saving measures presented by the Secretary-General and expressed its full support for the proposed initiatives outlined in the document.

22. The Committee welcomed the intention of the Secretary-General to reflect the results of cost-saving measures in the next budget period, including the cost reductions resulting from the Authority's membership in the International Civil Service Commission and the United Nations system in Jamaica.

## **IX. Report on the banks in which the funds of the Authority are maintained**

23. The Committee took note of the document ISBA/19/FC/CRP.4, entitled “Banks in which the funds of the Authority are maintained.”

24. The Committee requested the Secretary-General to prepare, for its next session, a report on the transfer costs and the potential interest gains that would arise from transferring funds from the Voluntary Trust Fund into short-term time deposits in Scotia Investments Jamaica Ltd.

## **X. Presentation of the Authority’s income resources in the budget**

25. The Committee continued its study to better describe and account for, in the budgetary document, the different income resources of the Authority (ISBA/18/A/4-ISBA/18/C/12, para. 16).

26. The Committee requested the Secretary-General to include in the income section of the next budget proposal a statement of estimated miscellaneous income in the course of the next financial period in accordance with regulation 6.3. (b) of the Financial Regulations. As a starting point, the Secretary-General was requested to include in that estimate the expected income stemming from the overhead charges to be payable by the contractors should the Assembly adopt the proposed decision.

27. The Committee requested the Secretary-General to produce a draft budget proposal for the biennium 2015-2016 and circulate it to members of the Committee at least three months in advance of its official submission in 2014.

## **XI. Other matters**

28. The Committee considered the note by the Secretary-General, entitled “New members of the Authority” (ISBA/19/FC/2). The Committee recommended that Ecuador, Swaziland and Timor-Leste, which had become members of the Authority during 2012 and 2013, pay the amounts shown below as their contributions to the general administrative budget of the Authority for 2012 and 2013, as well as advances to the Working Capital Fund. Such contributions should be credited as miscellaneous income, in accordance with regulation 7.1 of the Financial Regulations of the Authority.

<i>New member State</i>	<i>Date membership began</i>	<i>United Nations scale of assessment (percentage)</i>		<i>Adjusted International Seabed Authority scale (percentage)</i>		<i>Contributions to the general administrative budget (United States dollars)</i>		<i>Advances to the Working Capital Fund (United States dollars)</i>	
		<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>
Ecuador	24 October 2012	0.04	0.04	0.053	0.053	630.1	3 541	125	62.5
Swaziland	24 October 2012	0.003	0.003	0.01	0.01	119.4	671	25	12.5
Timor-Leste	7 February 2013		0.001		0.01		602		37.5
<b>Total</b>						<b>749.5</b>	<b>4 814</b>	<b>150</b>	<b>112.5</b>

29. The Committee expressed its concern about the outstanding contributions from members for prior periods (1998-2012) in the amount of \$267,686 and requested the Secretary-General, at his discretion, to continue his efforts to recover those amounts.

30. The Committee welcomed the recent membership of the Authority in the International Civil Service Commission, as recommended in the 2012 report.

## **XII. Recommendations of the Finance Committee**

31. In the light of the foregoing, the Committee recommends that the Council and the Assembly of the Authority:

(a) Adopt the attached draft decision which would, inter alia, make amendments to the Regulations on Prospecting and Exploration in order to institute a fixed overhead charge that will cover the expenditures related to the administration and supervision of contracts between the Authority and contractors;

(b) Appoint KPMG as independent auditor for 2013 and 2014;

(c) Urge the members of the Authority to pay their assessed contributions to the budget on time and in full;

(d) Appeal to the members of the Authority to pay outstanding contributions to the budget of the Authority from previous years as soon as possible and to request the Secretary-General, at his discretion, to continue his efforts to recover those amounts;

(e) Strongly encourage members to make voluntary contributions to the Endowment Fund and Voluntary Trust Fund of the Authority.

## **Draft decision of the Assembly of the International Seabed Authority concerning overhead charges for the administration and supervision of exploration contracts**

*The Assembly of the International Seabed Authority,*

*Taking into account* the recommendations of the Finance Committee<sup>1</sup> and the decision of the Council,<sup>2</sup>

*Further taking into account* section 8 of the annex to the Agreement relating to the implementation of Part XI of the United Nations Convention on the Law of the Sea,<sup>3</sup>

1. *Decides* to institute a fixed overhead charge of \$47,000 (or such sum as may be fixed in accordance with paragraph 4 below) to be payable in accordance with the present decision annually by each contractor in respect of each of its contracts with the Authority to cover the costs of the administration and supervision of the contract and of reviewing its annual report provided in accordance with the contract;

2. *Decides* to amend the standard clauses for exploration contract<sup>4</sup> by the addition of sections 10.5 and 10.6 set out in the annex to the present decision, which shall apply to contracts entered into by the Authority as a result of applications made after the date of adoption of the decision;

3. *Urges* the secretariat to consult as soon as possible all contractors whose contracts were entered into as a result of applications made before the date of adoption of the present decision, with a view to renegotiating those contracts, in accordance with section 24.2 of the standard clauses for exploration contract, in order to include the provisions set out in the annex to the present decision;

4. *Decides* that the Council, upon the recommendation of the Finance Committee, shall review the amount of the overhead charge every two years to ensure that it continues to reflect the costs actually and reasonably incurred by the Authority and may in particular consider in due course whether to substitute a variable sum for each contract which is dependent upon the level of administrative costs actually and reasonably incurred by the Authority in relation to that contract;

5. *Decides* that the overhead charges shall be classed as miscellaneous income for credit to the general administrative fund.

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<sup>1</sup> ISBA/19/A/7-ISBA/19/C/11.

<sup>2</sup> ISBA/19/C/14.

<sup>3</sup> See General Assembly resolution 48/263, annex.

<sup>4</sup> Regulations on prospecting and exploration for polymetallic nodules in the Area (ISBA/6/A/18), annex 4, Standard clauses for exploration contract; Regulations on prospecting and exploration for polymetallic sulphides in the Area (ISBA/16/A/12/Rev.1), annex 4, Standard clauses for exploration contract; Regulations on prospecting and exploration for cobalt-rich ferromanganese crusts in the Area (ISBA/18/A/11), annex 4, Standard clauses for exploration contract.

## Annex

10.5 The contractor shall pay at the time of submission of the annual report an annual overhead charge of \$47,000 (or such sum as may be fixed in accordance with section 10.6 hereof) to cover the Authority's costs of the administration and supervision of this contract and of reviewing the reports submitted in accordance with section 10.1 hereof.

10.6 The amount of the annual overhead charge may be revised by the Authority to reflect its costs actually and reasonably incurred.

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