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June 9, 2020

**Statement by Mr. Trabinski and Mr. Djokovic on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

We thank staff for a comprehensive yet concise set of documents. This update on enterprise risks is essential to keep the Board informed, especially in the context of the COVID-19 crisis, which has already heightened the Fund's risk profile and warrants regular reporting. **We underline risks from lending, risks to financial assets and income, as well as human resources, information security and budget risks.** We are of the view that the mitigation efforts should focus on those key immediate risks in the short-term.

The high risks related to Fund lending call for continued and broad-based risk mitigation. The overall risks of the Fund programs are very high, which translates into higher credit and financial risks. The spike in emergency financing has resulted in changes to the lending portfolio, with risks related to a higher share of disbursements involving limited or no ex-post conditionality. To mitigate those risks, we reiterate our call for a consistent application of DSAs in all lending decisions, as an important ex-ante safeguard. Further, access limits remain a crucial mitigating element. Also, additional scrutiny in high access cases is important to allow a robust ex ante discussion of risks. Further, we see clear merit in enhanced use of prior actions. Last but not least, special attention should be paid to fiscal transparency and accountability, including for COVID-related spending, to foster appropriate use of Fund resources. In this regard, we fully support independent audits of spending and attention to governance considerations.

Increased risks to financial assets and income and the further deterioration of credit buffers relative to credit outstanding are also a concern. The bunching of repurchases in the coming years will exceed the current level of precautionary balances. Further, the burden sharing mechanism is limited relative to the scheduled charges coming due. Also, the uncertain economic and financial environment heightens risks to the Fund's credit exposure and returns on investment activities. It is important to monitor developments closely. In

particular, the long-overdue discussion on the adequacy of precautionary balances, now planned for July, should not be postponed further. Finally, we emphasize the continued risk to the Fund's income associated with the volatility of pension-related IAS-19 gains and losses.

The large number of financing requests puts significant pressures on human resources as well as on the budget. **We are concerned that staff and management deem a supplement to this year's budget likely, including to mitigate work pressure.** Any proposed supplementary budget would have to be well justified. Also, any increase in the budget should be temporary. To mitigate staff work pressure, **we highlight the crucial importance of continued work prioritization and swift reallocation of resources.**

The GRA resources appear to be adequate at least in the near term and once the potential lending capacity is fully secured. That said, we agree that the NAB will likely need to be activated to bolster the Fund's quota resources.

The current shift to a digital business model requires closer attention to information security (IS) and related risks. Work-from-home (WFH) arrangements exacerbate IS risks that were already significant prior to the crisis. Moreover, the Fund has taken on increased operational risks resulting from conducting a large number of financing requests in an expedited manner while cybersecurity risks are heightened. We regret the delays in implementing the information security roadmap and call on the staff to step up efforts to ensure implementation. Also, risk mitigation is needed in high risk areas of third-party management, as the recent incident involving payment instructions underlines. *Could staff please give further details on this incident? Also, could staff offer their view on the ITD's human capacity to respond to existing challenges?*

We welcome continued advancements to the risk management framework. At this juncture we consider that the formal review of institutional risk acceptance should be postponed in favor of a more flexible approach.