

SU/22/159

CONFIDENTIAL

December 7, 2022

The Chair's Summing Up
Enterprise Risk Management Policy, Framework, Road Map and Risk Tolerance
Executive Board Meeting 22/96
December 1, 2022

Directors welcomed the opportunity to discuss the Fund's approach to Enterprise Risk Management (ERM). They agreed that the scope of the Fund's ERM framework and role of the Office of Risk Management (ORM) as the "Second Line" should be enhanced as a strategic priority. While emphasizing the importance of bringing ERM capabilities in line with levels found in other IFIs, Directors underscored that the ERM policy should also take into consideration the Fund's unique characteristics. Directors endorsed the proposed ERM policy, which should be reviewed every five years, or more frequently if warranted by developments.

Directors underscored that the scope of the Fund's ERM policy should encompass all enterprise risks confronting the Fund, including those relating to its core activities—lending, surveillance, and capacity development—and financial risks. They considered that ORM should build on existing practices and seek to avoid duplicating the work of other Departments.

Directors endorsed ORM's role in aggregating risks to build an enterprise-wide understanding of the Fund's risk exposure and its evolution over time. They stressed that while the First Line provides the risk information and assessment, including risks from actions taken or not taken, it would be important for ORM to provide an independent view from the First Line and challenge their information and assessment of enterprise risks. For lending, ORM will initially focus on exceptional access cases and programs that may generate material enterprise risk. Most Directors recommended the development of clear criteria to guide ORM involvement in country items, to be shared with the Board, and some suggested Board endorsement of the criteria. Directors viewed that, alongside the Fund's existing risk management processes, ERM will help the Fund to enhance risk-based decision making and align risk taking with strategic objectives. Noting the importance of periodic performance reviews of ERM effectiveness, many Directors called for the translation of strategic objectives of the new ERM framework into key performance indicators and quantifiable and output-driven goals.

Directors considered that creating a shared vision and clear allocation of the ownership of risk across the entire Fund will be essential and recognized that this would

likely take several years. They considered that an enhanced ORM should employ a risk-based approach to work prioritization. Directors recognized that the development of ERM will require significant resources for ORM and other Departments, which would take time to quantify and require careful consideration of how these costs can be accommodated.

Directors considered that the proposed ERM Framework Roadmap provides an appropriate time-bound work program and looked forward to regular reports on its progress. While recognizing the need to introduce the new risk assessment tools and staff training on a pilot basis, Directors underscored the importance of full Fund-wide implementation as soon as possible. They looked forward to the discussion of the plans for operationalizing and resourcing ERM implementation, planned for late 2023. Directors noted that the ERM Administrative Policy would be issued when sufficient staff capacity has been developed and recommended that it be updated periodically. Many Directors saw merit in making the key aspects of the Fund's ERM Framework public, when appropriate, to increase transparency.

Directors looked forward to considering in early 2023 the proposed framework for Risk Tolerance Statements, and related operational procedures, which will support better monitoring, management, and governance of critical enterprise risks. They underscored that the Statements should encompass all the Fund's core activities—including lending, surveillance, and capacity development—and financial and other major risks.

Directors agreed that the proposed approach provides a comprehensive and measured plan for addressing the issues raised in the recent OIA audit. They agreed with the ERM Policy interim objective of bringing the Fund's risk management capability close to the low end of "Sophisticated" risk management maturity and striving to continuously improve it beyond this state. Directors viewed that the proposed policy should apply consistently to all Fund staff and all parts of the Fund. They also viewed the policy should apply to the staff in the Offices of Executive Directors. Recognizing the critical role of the Board, Directors looked forward to considering the appropriate modality of Board governance of risk management.