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The Acting Chair's Summing Up
2009 Report on Risk Management
Executive Board Meeting 09/24
March 6, 2009

Executive Directors welcomed the opportunity to discuss the 2009 Report on Risk Management. They noted that the environment and the profile of risks facing the Fund have changed significantly since the interim update in mid-2008, and are still evolving. With the global economic and financial crisis becoming deeper and more widespread, the demand for the Fund's services has been rising sharply, testing its capacity to respond and adapt in many ways. Accordingly, Directors stressed the need to monitor and evaluate the risks inherent in this conjuncture on a regular basis, and continue to refine the Fund's risk management framework, with a view to mitigating these risks and safeguarding the financial integrity and reputation of the Fund. They emphasized that the Executive Board has a crucial role to play in this regard.

Directors broadly concurred with the Advisory Committee on Risk Management's assessment of the main risks and the mitigation measures presented in the report. At the strategic level, the Fund faces the challenges of helping its membership effectively through the current crisis and contributing to the fundamental reform of the international financial system, while at the same time making meaningful progress with governance reforms and completing the refocusing process. Directors recognized that the focus now is primarily on crisis management. At the same time, they underlined the importance of also addressing longer-term issues such as governance to buttress the Fund's legitimacy.

Directors noted with concern the risks emanating from the sharply increasing workload in combination with temporary staff shortages and the departure of experienced staff. In this context, they called for further streamlining to eliminate low-priority activities. The introduction of an activity-based costing system could provide a good basis for such decisions.

Directors broadly agreed that lending and surveillance are the two key areas of core mission risk. They cautioned that, while timely and flexible response to the needs of the membership is of paramount importance, lending operations need to be underpinned by appropriate conditionality, strong country ownership, and equality of treatment, with great prudence in the use of emergency procedures. Most Directors viewed the package of reforms of Fund facilities and conditionality currently under consideration as a significant step in the right direction. In this context, Directors also looked forward to reviewing the adequacy of our concessional resources to support low-income members through the crisis.

Directors observed that the current crisis and the uncertainty surrounding it have highlighted the importance of making further progress with strengthening surveillance in an evenhanded manner, with several Directors pointing to the challenges of implementing the 2007 Surveillance Decision and the Statement of Surveillance Priorities. At the same time, the phasing-in of the new cost-sharing mechanism for technical assistance provision calls for particular vigilance, in order to sustain adequate capacity building in countries with urgent needs. Directors also emphasized the need for an effective communications strategy in the current environment.

Directors agreed that the near-term balance of financial risks facing the Fund has shifted from income risks toward credit and liquidity risks. The recent increase in Fund lending will raise income in the short term, while the implementation of a new income model to put the Fund's income on a sustainable footing will significantly reduce income risks over the longer term. In this regard, Directors underscored the urgency of securing the legislative approvals to allow full implementation of the new income model as early as possible.

Directors noted that a large number of recent arrangements with exceptional access—concentrated in a few large borrowers—have exposed the Fund to significant credit risks. They agreed that the Fund has put in place a comprehensive set of measures to mitigate these risks. They welcomed the rigorous application of the Fund's safeguards policy in countries using Fund resources, and emphasized the central role of precautionary balances in providing an essential buffer against credit risks. Directors stressed that recent developments have again highlighted the need for a forward-looking approach to assessing the adequacy of precautionary balances.

Noting that the current crisis has also increased the liquidity risks facing the Fund, Directors welcomed the recent progress in mobilizing additional financing to ensure adequate resources to meet the needs of the membership, notably the bilateral borrowing agreement with Japan. They urged continued efforts to address near-term liquidity needs and explore all possible medium-term options to augment the Fund's resources.

Directors took note of the finding that, while the overall level of operational risks is perceived as broadly unchanged, the profile has shifted, with greater risks associated with inadequate staffing and outdated business processes. They recognized that the conjunction of reduced budgets, a temporarily weakened staff capacity, and rising (and still uncertain) work pressures has posed a significant operational challenge. Directors broadly supported the steps that are being taken to help departments meet that challenge, including getting staff of the right caliber quickly in place; redeploying resources to priority areas; further streamlining; and advancing the delivery of new information technology systems, which will improve the Fund's internal working processes.

Given the rapidly changing environment, Directors emphasized the importance of remaining vigilant about the Fund's risk landscape. A number of Directors called for more frequent briefings to the Board on the evolving risk situation at the Fund, with some seeing a role for a Board committee. Directors looked forward to a review of the modalities of the Fund's risk management framework next year. Some Directors emphasized the need to ensure that the value added of this process is optimized, including by reducing reliance on survey methodology. Several suggestions were made regarding the possible use of more advanced risk management techniques, including a more dynamic risk assessment, the use of risk indicators, and the identification of concrete measures to address each specific type of risk. There was also some interest in a clearer statement from management of its assessment of the balance of risks, the linkages and trade-offs among risks, the efficacy of mitigation measures in place, and the appropriate degree of risk tolerance for the Fund.