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May 20, 2008

Statement by Ms. Lundsager and Mr. Kaplan on IEO Report on the Evaluation of Aspects of IMF Corporate Governance--Including the Role of the Executive Board (Preliminary)
Executive Board Meeting 08/44
May 21, 2008

We welcome a serious critique of IMF governance, including in particular the role of the Board. We agree that there are major shortcomings in the way that the Board operates, and we believe it would be useful for the Governors to review what they wish their Directors, and the Board as a whole, to accomplish on their behalf at the Fund. We urge prompt publication of all the documents.

The Council

The informal nature of the IMFC does not detract from its political legitimacy and provides an opportunity for Governors to hear concerns from all parts of the globe. Also, the evolution of Ministers' informal groupings in such fora as the G-20 has been supportive of the Fund, and has helped facilitate a more effective conduct of the international monetary system.

We noted IEO's finding that many Governors see the greatest utility of the IMFC meetings as the opportunity for informal consultations with their peers. The formal IMFC session tends not to attract the same degree of Ministerial attention and participation. As an intellectual matter, we see the IEO's argument that a Council could increase members' ownership of the IMF. As a practical matter, however, we presume that Governors will devolve their formal responsibilities to their senior officials, given Governors' critical responsibilities in their home governments.

We see a tension in the IEO's simultaneous recommendations for a Council and a resident – and more strategic -- Executive Board. It appears their responsibilities would overlap. We would expect that if Governors establish a Council, most discussions will be held among capitals' senior officials, and the Executive Board would evolve into a lower level body relaying information to capitals.

Board Processes

Strategic Role of the Board in Surveillance

Directors should be dismayed that a large percentage of the staff believes that the Board's value added in surveillance is modest, at best. The Managing Director's suggestion to explore streamlining Board documentation and review time following a staff mission also reflects the impression that many authorities apparently consider Board review as an afterthought to Fund surveillance.

We could support proposals to streamline our surveillance process, and have made suggestions regarding regional surveillance. We strongly agree with the IEO on the essence of its recommendation that Directors should concentrate on true priorities. In our view, this does not mean a retreat from surveillance, but a refocusing on critical issues.

We reaffirm that the Board review process is an integral element of Fund surveillance and the use of Fund resources. However, Directors' own revealed preference, judging by the infrequency with which Directors or Alternates attend the Board, is that many Article IV reviews do not warrant their direct attention. Directors recently explored, but rejected, the option of surveying some countries on a multi-year cycle. The Board needs to find a way to distill priorities from the deluge of paper that crosses our desks, and to galvanize Directors' participation in Board meetings. We could consider a rethink of the role and function of the Secretary's Department, or experiment with some form of sub-committee.

Colleagues will recall that we have made a proposal to review how the Board performs its surveillance function. The Dean has already agreed to instigate work, which the Managing Director has supported. We look forward to this task with enthusiasm.

Accountability for Board and Management

We agree on the need to clarify ethical guidelines for the Board and management. We suggest installing a requirement for all members of the Board and management to receive an annual briefing, and we should revisit whether financial disclosure remains best practice. The work on whistle blowing protections is long overdue. The Board needs to make clear its own ethical responsibilities.

Committees, in Particular the Audit Committee

We appreciate the comments of the Legal Department on Executive Board Committees. For our part, we are not opposed to committee work, but do not consider it a panacea, given that committee work can be very time consuming and ultimately, only the Executive Board takes decision. We are nonetheless willing to consider options, depending on how we reform our surveillance work.

The Board has debated extensively on the question of whether to constitute an Audit Committee. Our view remains that there is an inherent tension between Directors' decision making responsibilities and their ability to simultaneously function as a properly constituted audit committee. We also note that Directors do not typically have the formal expertise to exercise informed technical oversight over audit operations.

However, Directors' experience with the alternatives to an audit committee have not been altogether satisfactory. We are continually concerned that information, such as with reference to internal audit, is not brought to the Board's attention in a timely and transparent manner. We also have concerns that risk management issues raised in Board meetings may not receive sufficient follow up from the staff. At this juncture, we are willing to consider forming a Board audit committee, but see the need for careful consideration on how Directors can retain the advice and counsel of the EAC.

We support the EAC's comments on management's staffing decisions for critical finance positions.

Summings Up

We see scope for improvement in how Directors' views are captured for discussions of Article IV and the use of Fund resources, which frequently reiterate the Staff Report more than capture Directors' discussion.

Directors' Terms

We would be willing to explore an extension of Directors' terms from two years to three, and a limit on the number of times a Director can be re-elected or re-appointed. Given the steep learning curve of internal Fund vocabulary, procedures, and precedents, there is utility in Directors having more time at peak performance before rotation.

Development Committee

We could agree to clarify the mandate of the Development Committee to focus explicitly on World Bank issues. The formal role of the IMF in that body contributes to continuing confusion over the core mandate of the Fund. Incidentally, the formal mandate of the Council to "review developments in the transfer of real resources to developing countries" may create problems of overlap with the Development Committee that would need to be reconciled, were a Council to be created.

Board Size

Colleagues will recall that Secretary Paulson's statement to the 2008 Spring IMFC called "…on other IMF members to join us in supporting a smaller, more strategically focused Board. The Board is simply too costly and a smaller and more streamlined Board could focus more strategically on the management of the institution and less on the voluminous crush of papers. In this regard, we favor reducing the number of Board chairs from 24 seats presently to 22 seats by 2010 and 20 seats by 2012. To facilitate consolidation of seats, we also favor eliminating the current practice of permitting the five largest shareholders to appoint their own directors, and instead believe all Board chairs should be elected." My authorities are also on public record that, as the Board size is reduced, the number of developing and emerging market country chairs should be preserved.

The Board addresses most issues with an emphasis on Directors' arguments, rather than their voting power. We therefore believe that a smaller Board will enhance the reform of quota shares, and in this regard we welcome the ongoing European discussion regarding representation in international financial institutions.

Members ultimately will decide how they should organize themselves. The Fund ought not to have unlimited patience, however, and we believe it would be wise to take steps now to allow the largest members to join constituencies. Our reading of the Articles is that election procedures may need to be revisited in order to facilitate consolidation. The current limits on the maximum size of a constituency could, for example, prohibit larger members from sharing a seat. We invite the staff to come back to the Board with a paper on preliminary considerations for how consolidation could be accommodated by the Fund.