BUFF/14/75

July 23, 2014

The Acting Chair's Summing Up
2014 Report on Risk Management
Executive Board Meeting 14/69
July 18, 2014

Executive Directors welcomed the opportunity to discuss the 2014 Report on Risk Management, which provides an overview of the key risks facing the Fund and the actions taken to manage them, notably including a new risk management framework in line with the recommendations of the 2011 high-level external panel and the Working Group on Risk Management. They broadly concurred with the overall risk assessment and welcomed the improvements in this year's report, including spelling out the links between risks, institutional consequences, and mitigating actions.

Directors noted that strategic risks have intensified as a result of the delay in the implementation of the 2010 quota and governance reforms. Moreover, the Fund's reliance on borrowed resources to fund its lending continues to pose operational risks. In particular, maintaining the Fund's forward commitment capacity around its current level requires regular six-month activations of the New Arrangements to Borrow and the 2012 borrowing agreements will mostly expire by 2017. Directors reiterated the IMFC's call on the membership to promptly ratify the 2010 reforms and on the Fund to develop options for next steps, if the reforms are not implemented by year-end.

Directors acknowledged that perceptions of lack of evenhandedness in the treatment of members pose an ongoing risk, and could affect the Fund's legitimacy and effectiveness. They noted that the implementation of the 2010 quota and governance reforms may contribute to mitigate these perceptions.

Directors agreed that risks related to Fund-supported programs have declined, mainly owing to a reduction of tail risks in the euro area, but challenges remain to a strong, sustained recovery. They noted that geopolitical tensions in Eastern Europe and the Middle East, compounded by set-backs in the political transition, represent additional challenges and underscored the importance of a proactive role by the Fund in communicating the need for adjustment under strong country ownership.

Directors noted the increase in risks associated with volatile political and security conditions in some members. Despite the mitigation measures put in place in high-risk locations, the possibility of serious incidents remains, affecting the Fund's ability to field missions or staff permanent postings. In this context, Directors looked forward to the adoption of new proposals arising from the findings of the Working Group to Review Operations in High-Risk Locations.

Directors recognized that strategies followed by departments to cope with the increased crisis-driven workload in a tight budget environment have led to an inconsistent use of employment categories, giving rise to perceptions of unfair treatment and weakening staff's morale. They looked forward to proposals to address associated risks with a new employment framework that takes into account the need to attract top-quality professionals and ensure staff diversity. A few Directors thought, however, that human resource risks are overstated by the report.

Directors noted the persistence of risks to the Fund's information security. They welcomed the measures taken to mitigate these risks, including continued progress on the Enterprise Information Security program. Considering other non-core operational risks, a few Directors underscored the importance of managing the operational and financial pressures associated with the HQ1 renewal project.

Directors noted that actions to mitigate all the risks identified in the staff report may have budgetary implications. In this context, a number of Directors stressed the importance of streamlining other activities to remain within the current budget envelope, while some other Directors supported an increase of resources in some critical areas.

Directors welcomed the new risk management architecture, including the responsibilities set out for the new Risk Management Unit (RMU) and Risk Committee (RC). Directors considered that the terms of reference could be further clarified with a view to ensuring the independence of the RMU and an effective role for the RC. Recognizing that Fund risk management will continue to evolve, Directors underscored the importance of being consulted on the design of the risk management framework, including on the modalities for periodic reporting and the next steps in its implementation and, in this respect, looked forward to a future Board discussion. In this context, a number of Directors saw merit in strengthening the role of the Board in providing strategic direction in the area of risk management. Directors agreed that the gradual implementation of the new architecture will provide an opportunity to develop a quantitative analysis of risks and comprehensive risk indicators where applicable.

Directors thanked the Advisory Committee on Risk Management for its service and recognized the important contributions of the high-level external panel and the Working Group on Risk Management in setting up the new framework.