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Investing in rural people

## Summary of amendments to the 2018 IFAD Investment Policy Statement and the Internal Control Framework for IFAD Investments

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For: Information

## Summary of amendments to the 2018 IFAD Investment Policy Statement and the Internal Control Framework for IFAD Investments

1. The IFAD Investment Policy Statement (IPS) and the Internal Control Framework (ICF) for IFAD Investments are reviewed yearly by Management and the findings are presented to the Executive Board at its December session.
2. To facilitate review by the governing bodies and as per their suggestion, this addendum has been prepared to summarize the amendments being proposed for approval and the updates presented for information in the IPS and ICF.

### 1. IPS review

#### Callable bonds included as an eligible instrument

3. In order to sufficiently diversify portfolio risk exposure and to enhance returns, approximately US\$184.1 million of IFAD's investment portfolio is invested in bank-issued corporate bonds.
4. A recent change in regulatory requirements sees such investments fall outside of the IPS guidelines. To ensure compliance with the regulatory requirements set for total loss-absorbing capacity, banks are to issue a portion of their bonds in a callable format.
5. The call option is not considered to be a risky addition to a bond's covenants. It implies that the bond may be redeemed sooner than expected and does not increase the likelihood of a realized loss. Therefore, for IFAD's investment universe to remain sufficiently broad and in line with an evolving market, callable bonds have been included as an eligible instrument.

#### Credit rating floor on money market instruments lowered to investment grade

6. The credit rating floor on money market and fixed income investments, with the exception of asset-backed securities, has been aligned to investment grade. In the 2017 IPS, money market instruments had a stricter rating than fixed income securities. By aligning these ratings, more opportunities are created for the euro portion of the investment portfolio to be invested at positive yields without incurring significant credit/interest rate risk.

#### Revision of strategic asset allocation parameters

7. The target ranges for each asset class have been replaced by a maximum allocation. These ranges essentially implied that some of the asset classes that carried more risk, such as emerging market debt, would have a mandatory minimum allocation as prescribed by the minimum value of the band. During times of market stress such an allocation may not be considered prudent. Therefore, any minimum allocation has been removed.
8. In addition, as global government bonds are considered to be the safest of the available asset classes, there is no maximum allocation to this asset class. Similar to the motivation for removing minimum allocations to riskier asset classes, by removing the maximum allocation to a safer asset class, risk can be more prudently managed during times of market stress.

## II. ICF review

9. In addition to the overall annual review/updating of the document, the proposed ICF contains several changes worth noting:
  - (a) As per a change in its terms of reference, the Management team of the Financial Operations Department (FOD) will assist and advise the Associate Vice-President, FOD, in making decisions on financial or investment management matters that are under his/her authority or under specific delegation of authority from the President of IFAD, and make recommendations to the Investment and Finance Advisory Committee (FISCO) for final decision by the President as appropriate.
  - (b) A FOD business continuity plan (BCP) is currently being updated in conjunction with the IFAD corporate-wide BCP.