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Investing in rural people

Summary of Amendments to the 2019 IFAD Investment Policy Statement and the Internal Control Framework for IFAD Investments

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For: Information

Summary of Amendments to the 2019 IFAD Investment Policy Statement and the Internal Control Framework for IFAD Investments

I. Introduction

1. The IFAD Investment Policy Statement is reviewed annually by Management. The 2020 Investment Policy Statement (IPS) seeks to better align IFAD's practices with those observed at other development finance institutions (DFIs). Particular attention is paid to IFAD's risk tolerance levels to ensure prudence and adherence to best practice.

II. Changes to the IPS

2. The following changes are proposed:
 - (i) Clarification of the scope of the policy to ensure that it is only applicable to management of liquid assets and treasury activities and not to development-related financing (para. 3).
 - (ii) Exclusion of equity, emerging market debt and inflation-linked bonds from the eligible asset classes as they are deemed to fall outside IFAD investment portfolio's level of risk tolerance (para. 22).
 - (iii) Inclusion of repurchase and reverse-repurchase transactions as new investable instruments. These transactions allow for optimal liquidity management and align IFAD's practices with those observed at other DFIs (para. 23).
 - (iv) Elevation of the rating floor of investments from triple B minus (BBB-) to single A minus (A-). This change will reduce the overall level of credit risk in the portfolio and preserve its value against adverse market conditions. The change is not expected to cause significant disruptions in the current investment portfolio, as the allocation to BBB debt has been steadily decreasing since 2018, in anticipation of the removal of the rating category's eligibility (para. 33).
 - (v) Usage of long-term, as opposed to short-term, ratings to assess the credit risk of derivative counterparties. As IFAD's derivative transactions are typically longer than one year, the long-term rating is deemed more appropriate. In addition, a rating floor of investment grade is placed on trading counterparties and operational banks. These limits were absent in previous versions of the IPS (para. 34).
 - (vi) Adjustments to the wording throughout the document to ensure alignment between the IPS and the Asset-Liability Management Framework and as the Liquidity Policy.

III. Changes to the Internal Control Framework (ICF)

3. The proposed changes to the ICF document will ensure alignment with the IPS:
 - (i) Investment-related limits are now referred to in the IPS document only to avoid redundancy.
 - (ii) Updates to the roles and responsibilities of the relevant organizational units.