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Summary of amendments to the 2024 IFAD Investment Policy Statement and the Control Framework for IFAD Investments

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Action: The Executive Board is invited to approve the summary of amendments to the 2024 IFAD Investment Policy Statement and the Control Framework for IFAD Investments contained in this document.

Technical questions:

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Summary of amendments to the 2024 IFAD Investment Policy Statement and the Control Framework for IFAD Investments

I. Introduction

1. IFAD's Investment Policy Statement (IPS) and the Control Framework for IFAD Investments (CFI) are reviewed annually by Management.

II. Changes to the IPS

2. The proposed changes to the IPS include the following:

Item	*Current IPS*	*Proposed IPS*	*Rationale*
Harmonization of credit rating requirements across investment instrument/ issuer/counterparty/ credit support provider	The current IPS requires the average credit rating to be based on the Bloomberg Composite Credit Ratings subject to a minimum of two out of Standard & Poor's (S&P), Moody's or Fitch.	The proposed IPS removes any reference to individual credit ratings from S&P, Moody's or Fitch as these all form part of the Bloomberg Composite Credit Ratings, whose methodology already requires two credit ratings.	The proposed amendment is intended to harmonize credit rating requirements, streamline processes and facilitate data extraction for compliance systems in a more cost-efficient manner.
Addition of short-term credit rating requirements for short-term instruments	Money market instruments and short-dated securities – which result in short-term exposure and are invested in for the purpose of liquidity – are currently being monitored for credit risk based on long-term credit ratings, the focus of which is solvency rather than liquidity.	The proposed amendment is to add short-term credit rating requirements for money market instruments and short-dated securities.	The aim is to allow for the liquidity aspect of short-term instruments to be analysed and monitored in a way that is appropriate to the risk profile of such instruments.
Clarification of the definition of government bonds	The current IPS indicates that government bonds include fixed-income instruments at the national or subnational level.	The proposed IPS provides further clarification that bond issuances of regions, states, provinces, cities and municipalities are eligible for investment in addition to government agencies.	The purpose is to ensure clarity and consistency in the definition of government bonds based on market standards.
Addition of agency discount notes under money market instruments	The current IPS is silent on the inclusion of agency discount notes commonly issued by AAA-rated supranational organizations such as the World Bank.	The proposed amendment is to include agency discount notes as part of the eligible investment universe for short-term instruments.	The proposed amendment enables IFAD to expand its universe to include other high-quality short-term investment instruments.
Specification of rating requirements for securities lending counterparties	There is no reference to a minimum rating floor for securities lending in the current IPS.	The credit rating requirement for securities lending is aligned with that for transactions with a similar risk profile in the current IPS.	The aim is to facilitate clear and consistent treatment of securities lending transactions for risk management purposes.
Clarification on the use of credit support providers for non-rated dealers traded with on the basis of delivery versus payment (DvP) transactions	The current IPS makes no reference to the use of group or parent company credit ratings for non-rated dealers.	The proposed amendment is to specify that trading with non-rated dealers for DvP transactions is allowed provided that the group or parent company is rated and the minimum rating is investment grade (Baa3/BBB-).	The proposed amendment is intended to achieve clarity and consistency in the management of credit risk for non-rated dealers transacted with on a DvP basis.

III. Changes to the CFI

3. The proposed changes to the CFI include the following:

Item	*Current CFI*	*Proposed CFI*	*Rationale*
Harmonization of credit rating requirements across investment instrument/ issuer/counterparty/ credit support provider	The current CFI requires the average credit rating to be based on the Bloomberg Composite Credit Ratings subject to a minimum of two out of Standard & Poor's (S&P), Moody's or Fitch.	The proposed CFI removes any reference to individual credit ratings from S&P, Moody's or Fitch as these all form part of the Bloomberg Composite Credit Ratings, whose methodology already requires two credit ratings.	The proposed amendment is intended to align with the change in IPS.