

Update on ITTO financial impairments (as at 28 June 2016)

Beginning in 2012 and extending until February 2015, ITTO management took several decisions to invest funds pledged to implement projects in mutual funds that were outside the scope of approved investments authorized by the International Tropical Timber Council (ITTC) and/or its Committee on Finance and Administration (CFA). In March 2013, ITTO was informed that one of these funds (the LM Managed Performance Fund - LMMPF) had gone bankrupt and that ITTO was likely to lose all or most of its \$6 million investment. While the impairment of this investment was noted in ITTO's audited financial statements for 2013, neither Council nor the CFA recognized the significance of the note indicating the impairment when they approved the 2013 audit in late 2014 and ITTO management failed to draw attention to the issue.

In late 2015 a senior ITTO staff member who was about to assume the duties of Officer-in-Charge of the Organization became aware of the impairment in the \$6 million LMMPF investment and brought it to the ITTC's attention at its 51st session in Kuala Lumpur, Malaysia. It was also discovered that in addition to the lost \$6 million, ITTO management had invested an additional \$12.2 million of project funds in a fund group called Ardent that was based in the Cayman Islands with links to Barbados. All of these investments were promoted and facilitated by an investment advisor based in Tokyo.

At its 51st Session in November 2015 the ITTC approved a decision establishing an oversight committee (OC) to oversee an independent investigation into the investments, to suggest approaches to deal with the lost \$6 million investment and to recommend corrective and preventative measures. A request to redeem the Ardent investment was made in early 2016. However at the end of April 2016 ITTO was informed that the Ardent fund was being placed into liquidation.

The loss of funds will inevitably put severe pressure on ITTO's project funding. The ITTC continues to monitor the situation closely. Legal action is proceeding through the liquidation process of the Ardent fund, and is also being considered against the investment advisor. All ITTO management personnel involved in the decisions to make these investments and to withhold information on their failure from Council have left the Organization, with the former Executive Director retiring in early November 2015 before Council was made aware of the problem and two other senior management staff subsequently dismissed from the Organization for their roles in facilitating the investments and covering up the loss of the initial \$6 million. The Council, through a procedure for taking decisions without a meeting, is currently deciding on some of the OC's recommendations regarding revision of ITTO's financial rules and procedures and possible further legal actions. The process of identifying recommendations and solutions on how to deal with the significant loss of funds and the impact on ITTO's work is still underway and being discussed, with a decision or decisions dealing with this expected to be taken by the ITTC at its 52nd session in November 2016.