



Summary on the Implementation of Decisions Dealing with the Impairment of ITTO Funds

November 2017, Lima, Peru

INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO)

Introduction



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- The Oversight Committee established by Council made several recommendations at the November 2016 Council Session, which formed the basis for key Council Decisions to deal with impairment of ITTO funds
 - Decision 6(LII) was adopted to establish guidelines for addressing ITTO's financial shortfall and authorized the Secretariat to utilize internal reserves, request members to contribute additional resources, and administer a budget cut or close certain projects/activities, in order to immediately resume the operation of as many projects as possible.

Addressing ITTO's Financial Shortfall



Before the Financial Impairment



Addressing ITTO's Financial Shortfall



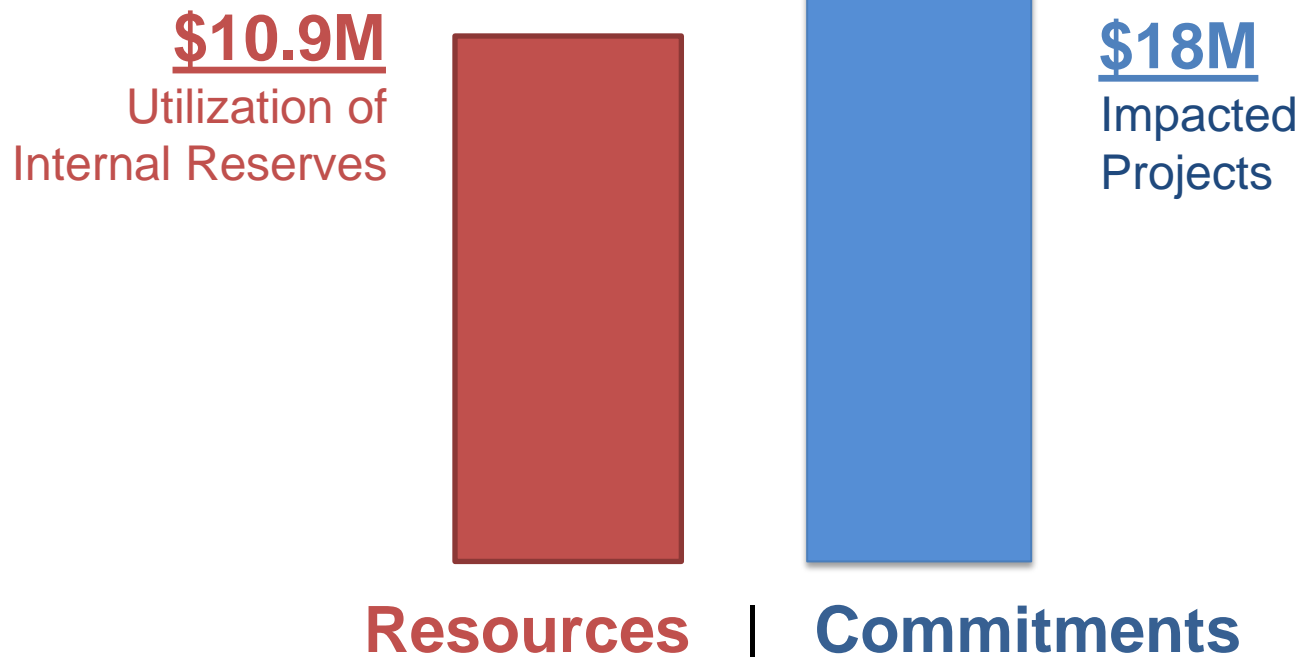
April 2016: After the Impairment of Funds



Addressing ITTO's Financial Shortfall



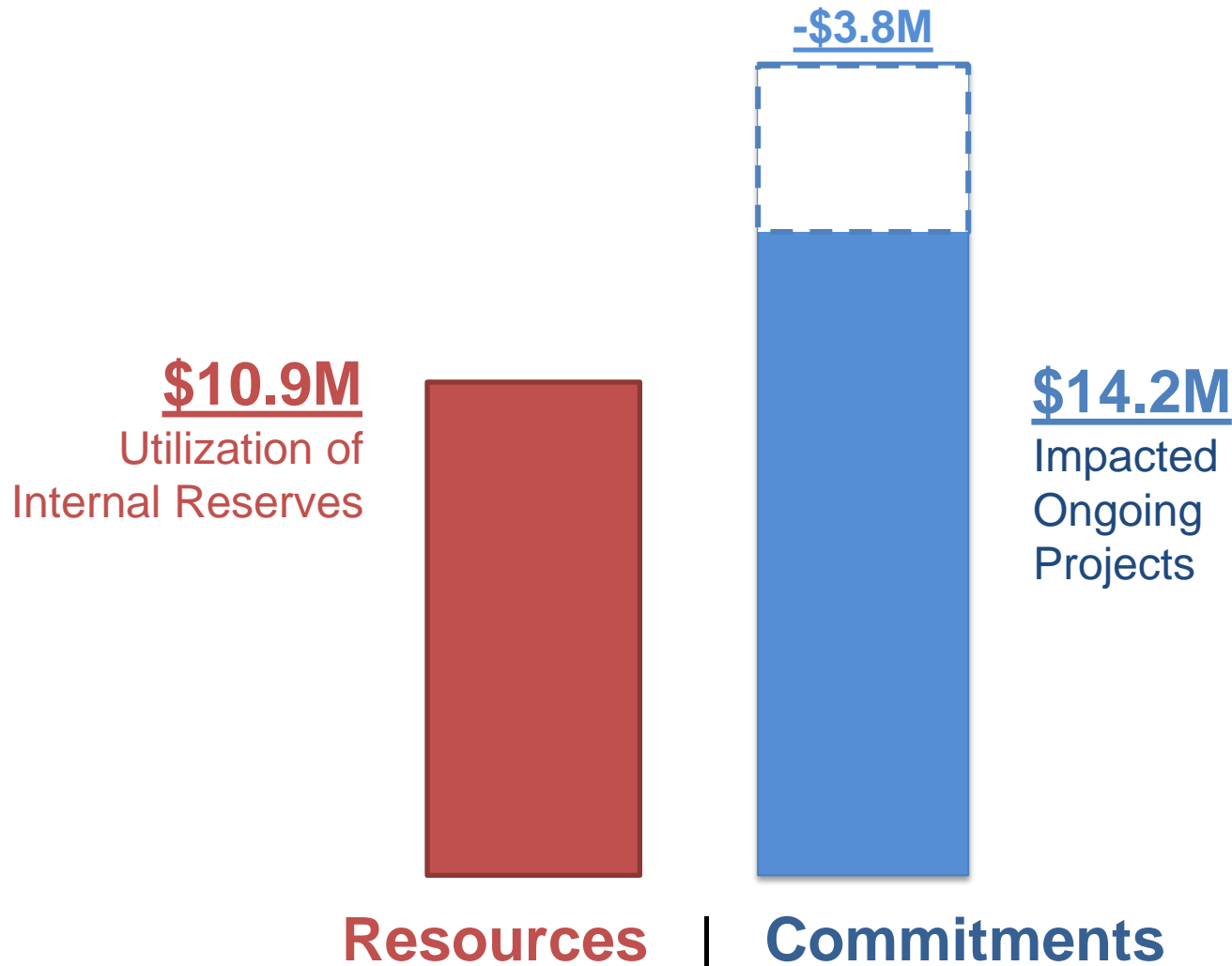
Dec. 2016: Utilization of Internal Reserves



Addressing ITTO's Financial Shortfall



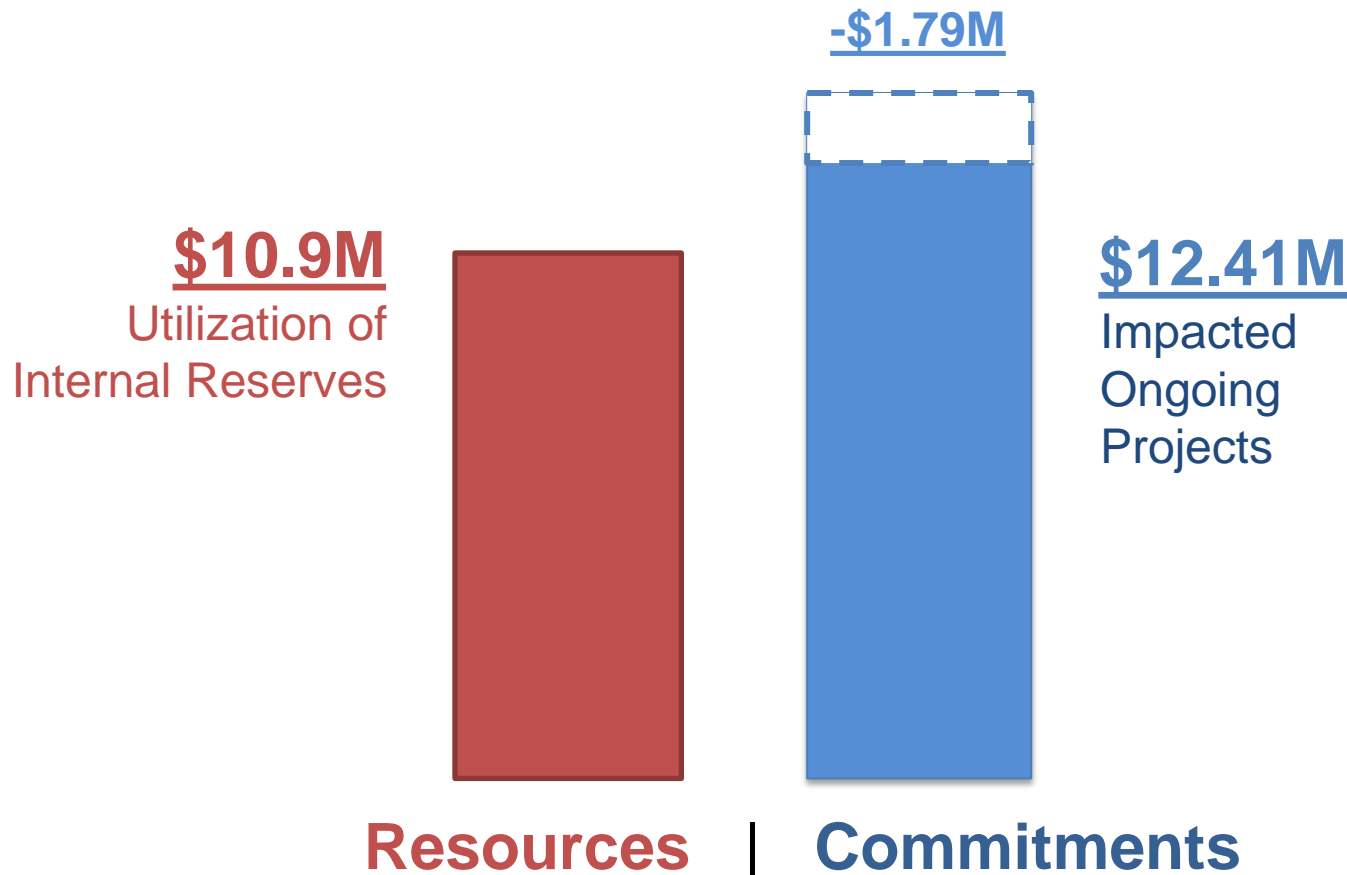
Dec. 2016: Write-off of Completed projects



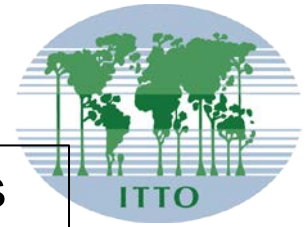
Addressing ITTO's Financial Shortfall



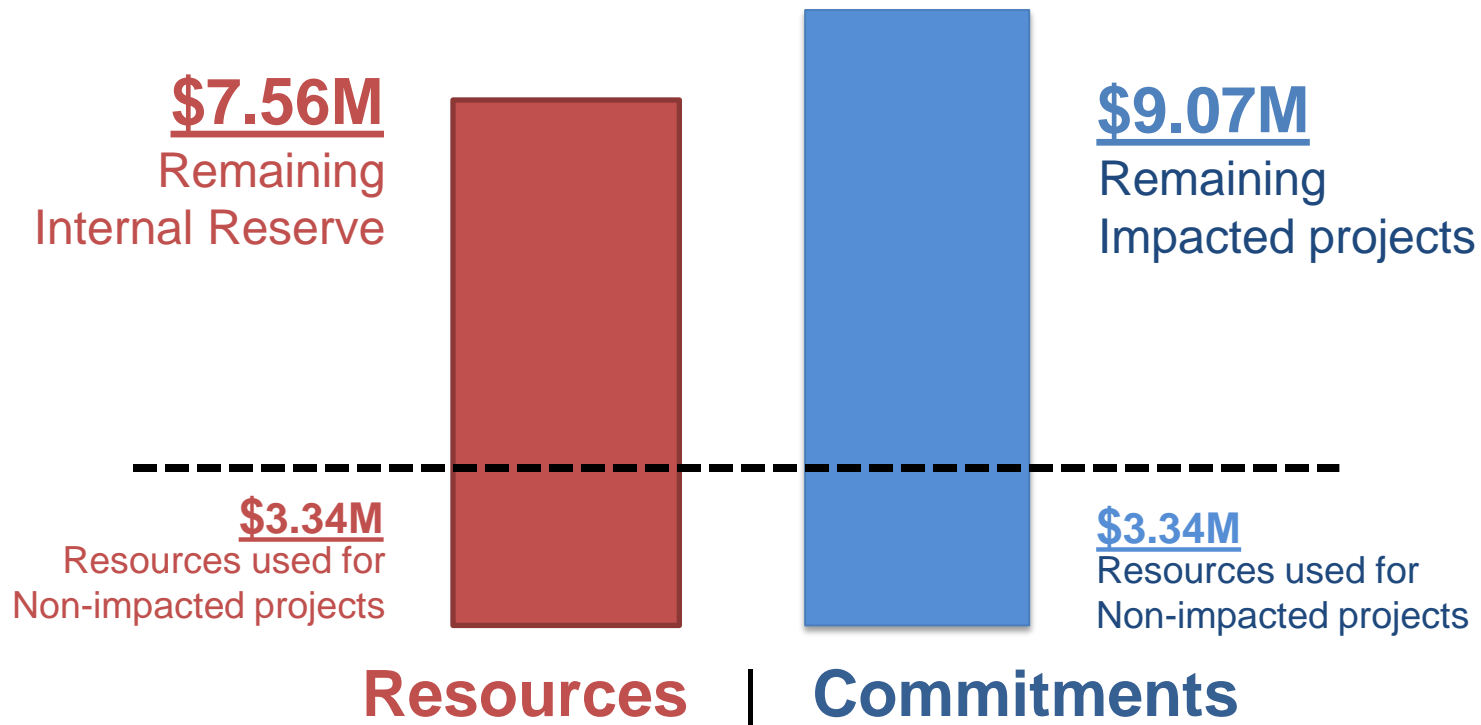
Dec. 2016: Terminating Projects and Closing Activities



Addressing ITTO's Financial Shortfall



Dec. 2016: Allocation of resources to non-impacted projects

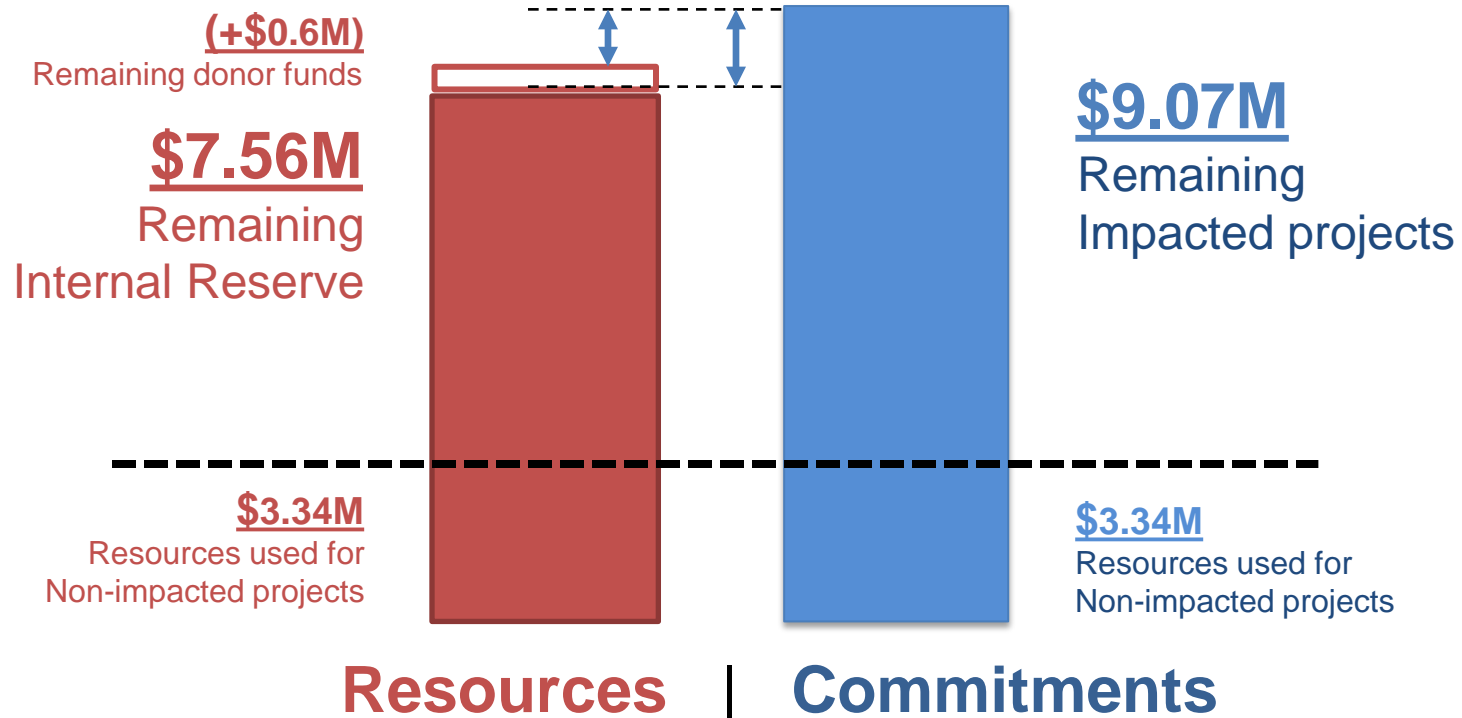


Addressing ITTO's Financial Shortfall



Dec. 2016: Projection of haircut and recommencing projects

Projected haircut: 10-17% of remaining impacted project commitments

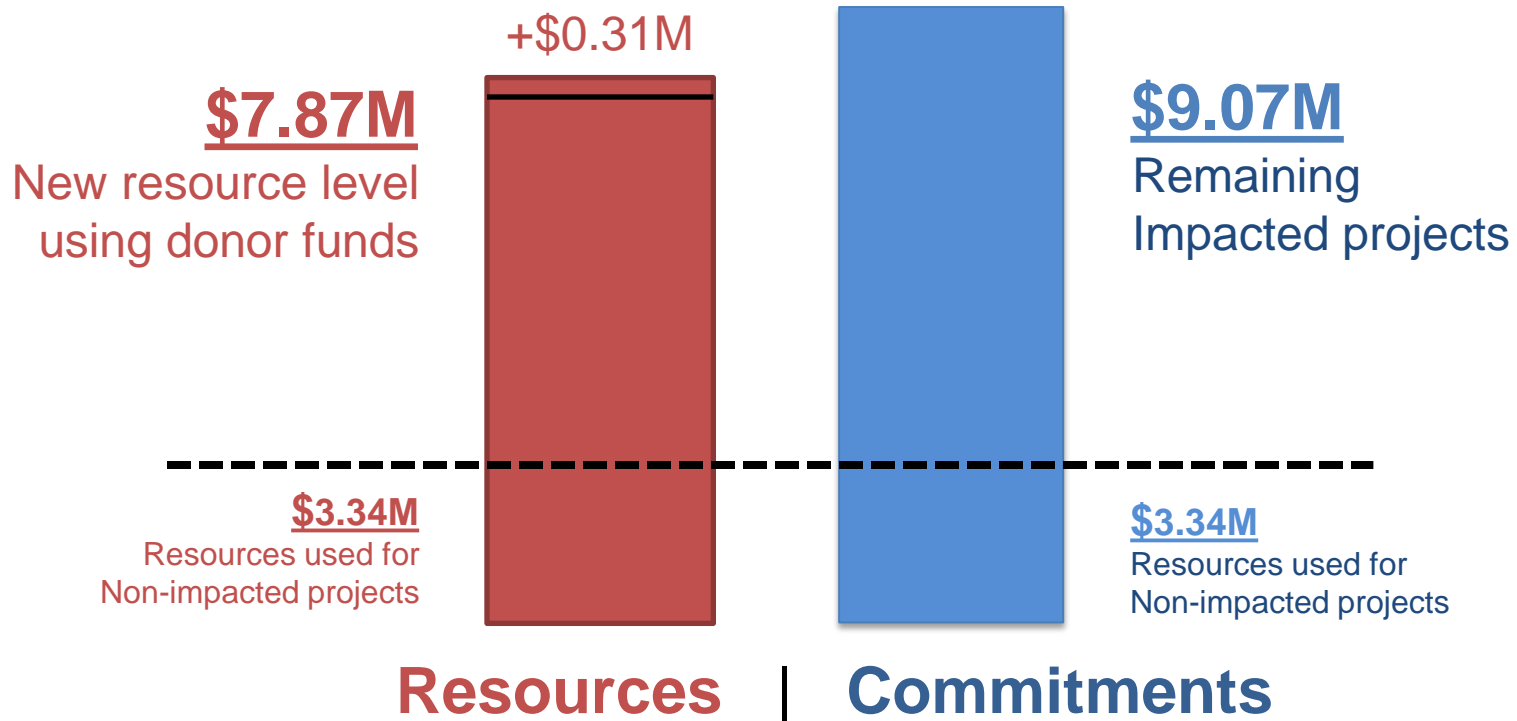


Addressing ITTO's Financial Shortfall



Jan. 2017: Instructions by Donors

Donor fund utilization authorized by
Australia, Japan, New Zealand,
Sweden and USA

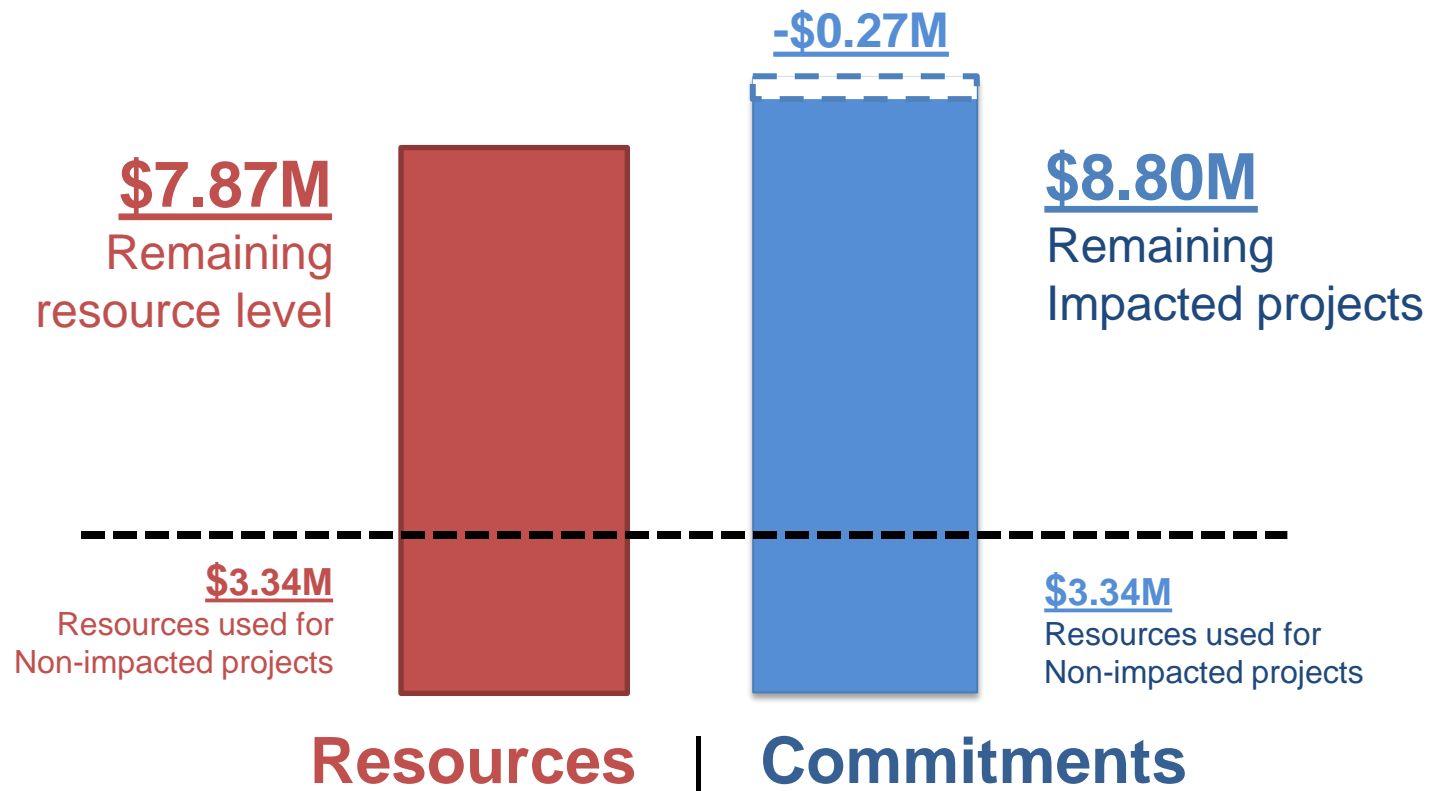


Addressing ITTO's Financial Shortfall



Jan. 2017: Additionally terminated project

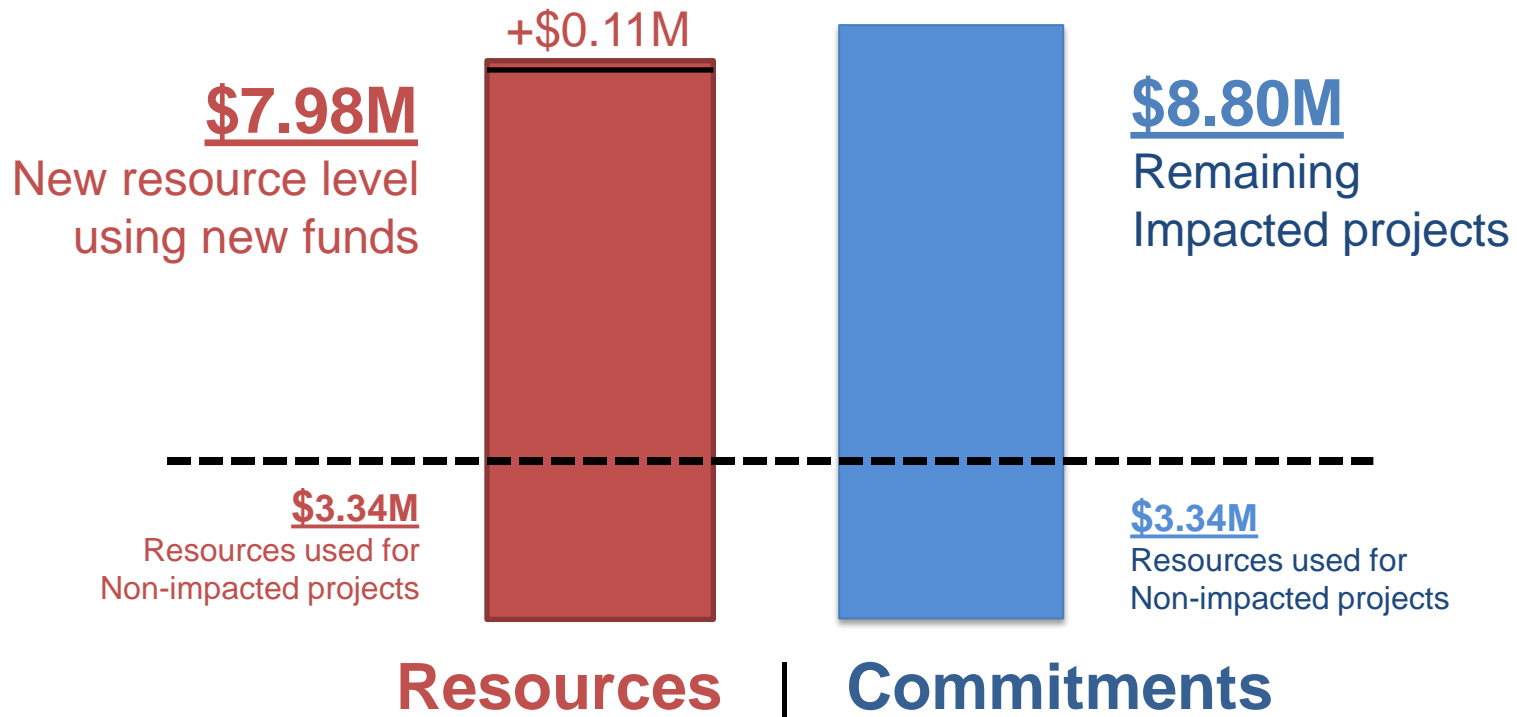
Preliminary report sent in
Feb. 2017



Addressing ITTO's Financial Shortfall



March 2017: Refund from CFC

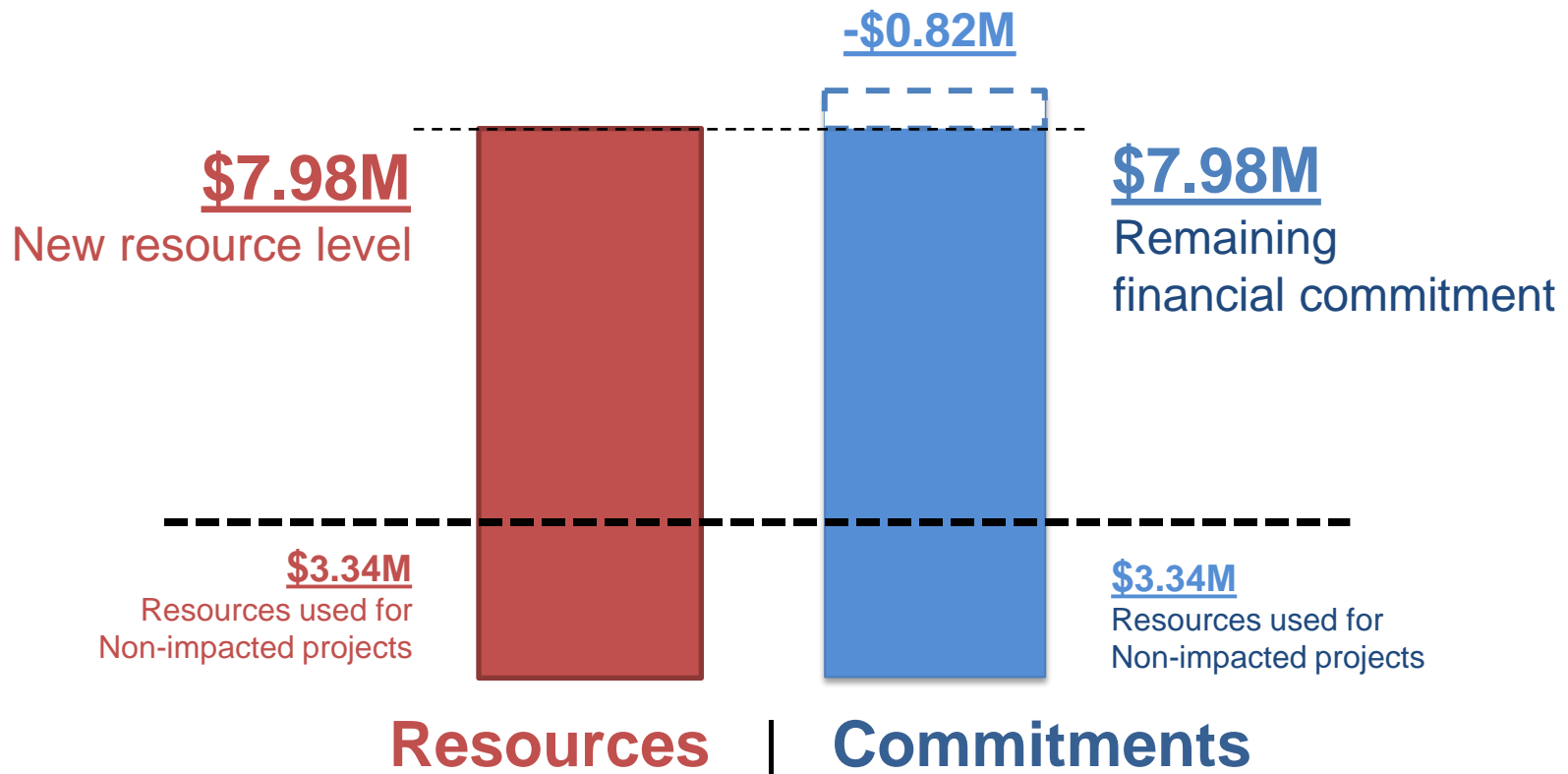


Addressing ITTO's Financial Shortfall



April 2017: Final amount of haircut administered

Sufficient resources are now available to meet all remaining financial commitments



Costs of the Impairment of Funds



- Direct costs
 - \$18M of project funds impaired
 - Balances of internal reserves for Program Support, Ex-Post Evaluation, BPF, Thematic Programs, Interest Reserve are all nil or close to it; Working Capital Reserve depleted (\$4.5 million used on impairment and related legal/financial issues)
 - Funding opportunities lost
 - \$7M from EC for Phase III of CITES program
 - \$1M from Germany for GTTN
 - Requests for refunds of donor funds (Denmark, Switzerland and UK) totalling \$0.39 million

Costs of the Impairment of Funds



- Indirect costs
 - Time and resources of staff and member countries
 - Loss of faith and credibility with donors and other stakeholders
- Actual loss to projects and project donors is the relatively small haircut and write-offs actually administered.

Implementation of other Relevant Decisions



Decision 3 (LII) – Amendments to the Staff Regulations and Rules

- Amendments have been adopted and applied
- Key changes are:
 - ITTO's contributions to the Provident Fund to be withheld in case of future summary dismissal
 - Stronger protection for whistle-blowers
 - Prohibition on the use of private email for official business

Implementation of other Relevant Decisions



Decision 4 (LII) – Revision of ITTO Financial Rules

- Amendments have been adopted and applied
- Transition to IPSAS accounting was made and ITTO received a clean audit for its 2016 financial statements, which was reported using IPSAS and audited based on the new ITTO Auditing Standards
- A detailed investment policy has been established
- ITTO's internal controls have been strengthened, with new policies on procurement, disbursements and internal audit

Implementation of other Relevant Decisions



- Decision 5 (LII) – Further Measures Regarding Financial Impairment
- Letters sent in Dec 2016 to former ED and staff asking return of ITTO’s part of their provident funds
 - Only one substantive response (from former ED) declining the request (Annex 5 of Council document ITTC(LIII)/12)
 - Former Finance Officer acknowledged receipt of letter only. He also refused to travel to Japan to testify in court case against investment advisor

Implementation of other Relevant Decisions



Decision 5 (LII) – Further Measures Regarding Financial Impairment

- Reported investment advisor to Japanese authorities and launched a lawsuit against him in Japanese court for LM losses
 - Japan's FSA found both investment advisor and company he formerly presented himself as affiliated with were unregistered as brokers under Japanese law; this was reported to Japanese police but no outcome yet
 - 8 court sessions to date, next one Dec 25
 - Testimony from both sides at most recent session (Nov 16)
 - Investment advisor has refuted his admission to independent investigators that he mistakenly informed ITTO LM fund was underwritten by Deutschebank and challenges ITTO's testimony on this
 - Investment advisor testified to receiving a 3-4% commission on the LM investment (\$180,000 to \$240,000)
 - Lawyers estimate another 3-6 months required; barring a negotiated settlement, judge will impose a settlement

Implementation of other Relevant Decisions



Decision 5 (LII) – Further Measures Regarding Financial Impairment

– Possible developments in the court case:

- Lawyers recommend to wait for 3rd party notice to former ED/staff until it is clear to what extent (if any) ITTO's former management is deemed responsible for the loss of funds
- Lawyers have further studied Japan's statute of limitations for cases of this nature and now inform that the statute of limitations is up to 10 years from when the entire ITTO membership became aware of the extent of the misconduct (i.e. from April 2016 when the final report of the independent investigator was circulated to members)

Implementation of other Relevant Decisions



Decision 5 (LII) – Further Measures Regarding Financial Impairment

– Status of LM and Ardent liquidations:

- No updates received from liquidators since mid-2016
- Latest information is that any funds recovered from LM liquidation will be used to (partially) cover legal/liquidator's fees
- Ardent liquidators indicated in 2016 that they would suspend liquidation due to lack of funds (having failed to convince investors to provide more funds for the liquidation)
- Court case in NY against factoring companies allegedly involved in Ardent hasn't proceeded due to inability to locate company representatives
- ITTO reported on Ardent to US Department of Justice but no response yet
- Demand by liquidator of Ardent fund for ITTO to cover legal costs for trying to appoint our own liquidators was rejected and there has been no further communication on this matter

Summary



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- All impacted projects back on track
 - ITTO reserves depleted
 - Court case against investment advisor ongoing; ITTO's former management may be found partly responsible for the loss
 - All Council decisions implemented and internal controls strengthened



Thank you for your kind attention

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