

## **Fact sheet on ITTO financial impairment and remedial steps taken (as of November, 2016)**

### **Former managers invest ITTO funds in schemes that later fail.**

- Former managers of the International Tropical Timber Organization (ITTO) invested US\$6 million in the LM Managed Performance Fund (LMMPF) in 2012. The same managers made an additional investment of US\$12.2 million in the Ardent 365 Fund in February 2015. Both these funds subsequently went into liquidation, and the total loss of funds from ITTO's Executing Agencies Account is likely to be US\$18.2 million.
- The LMMPF was liquidated in early 2013. The amount of US\$6 million that ITTO had invested in the fund was written off in ITTO's 2013 financial statements and noted in a description of the accounting practices. Neither the International Tropical Timber Council (ITTC, the Organization's governing body) nor its Committee on Finance and Administration (CFA) recognized the significance of that note when they approved the 2013 audit in late 2014, since the former ITTO management decided not to draw attention to the issue.

### **The losses are detected and initial steps taken.**

- ITTO's third Executive Director, Mr Emmanuel Ze Meka, retired from his position on 5 November 2015. On 6 November 2015 (his first day in office), the ITTO Officer-in-Charge (OIC), who had noticed the impairment of US\$6 million due to the investment in LMMPF in the audited financial statements while he was preparing for his new duties, reported the loss to the Chairperson of the ITTC.
- At its 51st session in November 2015, the Council commissioned an independent investigation of the financial losses from the LMMPF investment and established the Oversight Committee (OC) to monitor the implementation of measures to deal with the LMMPF loss.
- By December 2015, the OIC had: taken steps to commence liquidation of any investments not in line with the ITTO's financial rules as well as all available steps to minimize further losses to the Organization; introduced new controls, signing authority and procedures for disbursements of all relevant funds in the Organization; and suspended from duty the two senior officers directly involved in the LMMPF investment and the decision not to inform the Council about it or its outcome.
- The formal procedure to redeem the investment in the Ardent 365 Fund commenced in early 2016.
- The OC received the final report of the independent investigation in February 2016.
- In March 2016, the OIC summarily dismissed from the Organization the two senior officers directly involved in the LMMPF investment and the decision not to inform the Council about it or its outcome.
- In late April 2016, ITTO was informed that its request to redeem its Ardent 365 Fund investment would not be honoured and that the fund had entered liquidation, with virtually no funds remaining to reimburse investors.

### **The Oversight Committee delivers its report in April 2016.**

- Following its review and consideration of the independent investigation report, the OC concluded that (among other things):
  - ITTO's investments in the LMMPF and the Ardent 365 Fund were not in accordance with ITTO's financial rules and the provisions established by the CFA. Those rules and provisions instruct the Secretariat to make all investments at no credit risk and to seek the consent of the CFA or the Council for such investments. The investments also constituted a change in investment strategy.
  - The failure of the former Executive Director and two former employees in 2013, 2014 and most of 2015 to draw the attention of the CFA and the ITTC to the change in investment strategy and the loss of ITTO funds through the investment in LMMPF constituted a breach of their duty.
  - There was no evidence that the former management or staff of ITTO had sought personal financial gain through the investments under independent investigation.

- Recent audit procedures and instructions to auditors did not result in audits that presented a clear picture of the financial health of the Organization.
- There had been a failure in recent years to update the Organization's financial rules to include relevant decisions by the ITTC and recommendations by the CFA.
- There were sufficient reserve funds in other ITTO accounts to offset the lost US\$6 million from ITTO's Executing Agencies Account due to the LMMPF investment.

**Further steps are taken in May–November 2016.**

- In May 2016, the OIC wrote letters to all ITTO members informing them of the decision to suspend disbursements of funds to projects funded by the Organization, pending decisions to be taken by the Council on dealing with the loss of funds.
- In July 2016, the Council adopted (without meeting) decisions to address shortcomings in the Organization's financial rules and procedures, audit standards and staff regulations and rules, and to undertake a civil law suit to seek damages against the investment advisor who sold the LMMPF and the Ardent 365 Fund to ITTO (ongoing at the end of 2016). It also extended the mandate of the OC.
- In August 2016, the OIC, in liaison with the host government, submitted a report to Japan's financial services regulator (*Kinyucho*) regarding the conduct of the investment advisor who sold the LMMPF and the Ardent 365 Fund to ITTO. The OIC also, in liaison with officials responsible for ITTO in the US government, contacted the FBI and the US Department of Justice about the Ardent 365 liquidation case, given that the factoring company that allegedly received the Ardent 365 funds was domiciled in New York State, and provided the US authorities with all relevant facts.
- The OC continued working in the second half of 2016 to develop a strategy for dealing with projects and activities impacted by the loss of funds. This strategy was incorporated as a draft Council decision in the report of the OC posted on ITTO's website ([www.itto.int/council\\_documents/](http://www.itto.int/council_documents/)).

**The Council adopts several important decisions at its 52nd session in November 2016.**

- Decision 6(LII) provides guidelines to address ITTO's financial shortfall through a range of measures, including drawing on its reserves, in a fair and transparent manner. These guidelines will enable sufficient funds to be brought to bear to allow impacted projects to be completed and to achieve their main objectives.
- Decision 3(LII) amends ITTO's staff regulations and rules, particularly those governing the reporting of misconduct (the Whistleblower Policy).
- Decision 4(LII) adopts revised ITTO financial rules and procedures, including (among others) the establishment of the Investment Oversight Panel, a fully revised auditing standard and procedures, and the Investment Policy, with the aim of avoiding all risk of financial mismanagement in the future.
- Decision 5(LII) provides for the following additional measures:
  - requesting the former ITTO employees responsible for the failed investments and the failure to inform the Council to voluntarily return, to the Organization, the ITTO-paid part of their provident funds (plus interest); and
  - steps (to be taken on legal advice) to maintain the ability to pursue possible civil claims against the former ITTO employees.
- All of these Council decisions and relevant updates authorized by the Council will be available on the ITTO website ([www.itto.int/decisions/](http://www.itto.int/decisions/)).