



*Office of Inspector General
Export-Import Bank
of the United States*

Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities

*Revised
August 29, 2019
OIG-EV-17-01*

MEMORANDUM

To: Kimberly A. Reed
President and Chairman

From: Jennifer Fain
Acting Inspector General


Digitally signed by JENNIFER FAIN
DN: c=US, o=U.S. Government, ou=Export
Import Bank, cn=JENNIFER FAIN,
0.9.2342.19200300.100.1.1=8300100185927
2
Date: 2019.08.29 09:17:07 -04'00'

Subject: Reissuance of Final Report, *Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities* (OIG-EV-17-01, dated December 2, 2016)

Date: August 29, 2019

I am writing to inform you that the attached final evaluation report, originally issued on December 2, 2016, was reissued on August 29, 2019. The report was revised to remove statements pertaining to two reports that were part of an independent limited scope review. The objective of the review was to determine whether the actions of a senior EXIM OIG official posed a conflict of independence and integrity. Specifically, the review focused on whether appropriate steps were taken to identify and mitigate the threats relating to the senior official during the evaluation.

Based on the results of the review, two reports and a letter were permanently removed from our website on August 26, 2019, and the subject final evaluation report was revised for reissuance. Statements in the attached report pertaining to EXIM OIG's withdrawn *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-INS-12-02, dated September 28, 2012) and revised *Follow-Up Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01, dated July 28, 2016) have been removed accordingly. If you have any questions or concerns, please do not hesitate to contact me at (202) 565-3439 or Courtney Potter at (202) 565-3976.

Attachments

cc: Stephen Renna, Senior Vice President and Chief Banking Officer
David Slade, Senior Vice President and General Counsel
David Fogel, Senior Vice President and Chief of Staff
Lauren Fuller, Senior Advisor to the President and Chairman
Adam Martinez, Special Advisor to the President and Chairman
Lisa Terry, Senior Vice President and Chief Ethics Officer
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
Inci Tonguch-Murray, Acting Senior Vice President and Chief Financial Officer
David Sena, Senior Vice President, Office of Board Authorized Finance
James Burrows, Senior Vice President, Office of Small Business
Courtney Potter, Deputy Assistant Inspector General for Audits and Evaluations, OIG
Amanda Myers, Counsel, OIG

MEMORANDUM

To: Kimberly A. Reed
President and Chairman

From: Jennifer Fain
Acting Inspector General



Digitally signed by JENNIFER FAIN
DN: c=US, o=U.S. Government, ou=Export
Import Bank, cn=JENNIFER FAIN,
0.9.2342.19200300.100.1.1=830010018592
72
Date: 2019.08.26 15:18:03 -04'00'

Subject: Withdrawal of OIG-INS-12-01 (March 27, 2012) and OIG-INS-12-02 (September 28, 2012); and Letter to Chief Financial Officer (September 28, 2012)

Date: August 26, 2019

I am writing to inform you that the independent limited scope review of three EXIM OIG reports and a letter is complete. The objective of the review was to determine whether the actions of a senior EXIM OIG official posed a conflict with independence and integrity. Specifically, the review focused on whether appropriate steps were taken on the related projects to identify and mitigate the threats relating to the senior official. Based on the results of the review, we have permanently removed the following two reports and letter from our website:

1. *Report on Performance Metrics for Operational Efficiency Phase One* (OIG-INS-12-01, dated March 27, 2012)
2. *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-INS-12-02, dated September 28, 2012)
3. *Review of Portfolio Risk Mitigation Techniques* (Letter to Chief Financial Officer, dated September 28, 2012)

You should not place any reliance on the above listed reports and letter. The *Follow-up Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01, dated July 28, 2016) is being revised for reissuance. If you have any questions or concerns, please do not hesitate to contact me at (202) 565-3439 or Courtney Potter at (202) 565-3976.

cc: Stephen Renna, Senior Vice President and Chief Banking Officer
David Slade, Senior Vice President and General Counsel
David Fogel, Senior Vice President and Chief of Staff
Lauren Fuller, Senior Advisor to the President and Chairman
Adam Martinez, Special Advisor to the President and Chairman
Lisa Terry, Senior Vice President and Chief Ethics Officer
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
Inci Tonguch-Murray, Acting Senior Vice President and Chief Financial Officer
David Sena, Senior Vice President, Office of Board Authorized Finance
James Burrows, Senior Vice President, Office of Small Business
Courtney Potter, Deputy Assistant Inspector General for Audits and Evaluations, OIG
Amanda Myers, Counsel, OIG



**OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES**

Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities

December 2, 2016

OIG-EV-17-01

The Export-Import Bank of the United States (EXIM Bank) is the official export credit agency of the United States. EXIM Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. EXIM Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. EXIM Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within EXIM Bank, was statutorily created in 2002 and organized in 2007. The mission of the EXIM Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

This evaluation was conducted in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. This report does not constitute a Government audit and therefore, it was not conducted following the Generally Accepted Government Auditing Standards (GAGAS).



OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK *of the* UNITED STATES



To: David Sena, SVP & Chief Financial Officer
Kenneth Tinsley, CRO & SVP Credit and Risk Management

From: Mark Thorum
Assistant Inspector General, Inspections & Evaluations

Subject: Report on the Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities

Date: December 2, 2016

Attached please find the final report on the Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities. The report outlines eight recommendations for corrective action. On November 30, 2016, EXIM Bank provided its management response to a draft of this report, agreeing with the recommendations. The response identified the Bank's actions to address the recommendations. OIG considers the Bank's actions sufficient to resolve the reported recommendations, which will remain open until OIG determines that the agreed upon corrective actions are successfully implemented.

We appreciate the courtesies and cooperation extended to us during the evaluation. If you have any questions or comments regarding the report, please contact Mark Thorum at (202) 565-3939.

cc: Charles J. Hall, Acting First Vice President/Vice Chairman, EVP and COO
Michael McCarthy, Deputy Inspector General
Angela Freyre, SVP & General Counsel
Inci Tonguch-Murray, Deputy CFO
Jennifer Fain, Deputy AIGIE
Parisa Salehi, Counsel, OIG

Attachment: Evaluation Report CRO Responsibilities, OIG-EV-17-01, December 2016

Why We Did This Evaluation

The Export-Import Bank Reform and Reauthorization Act of 2015 requires the OIG to evaluate the Bank's portfolio risk management policies and the implementation of the duties assigned to the CRO and to submit a written report with its findings to Congress no later than December 4, 2016.

What We Recommend

To further develop its integrated risk management program EXIM should:

- Formally document the risk management roles, responsibilities and authority of its line of defense functions; and clarify responsibilities and interaction between different senior management committees and divisions.
- Review the Enterprise Risk Committee (ERC) approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.
- Assess whether the CRO has sufficient staff, funding, and other resources to carry out the assigned responsibilities.
- Update its current Risk Appetite Statement and establish aggregate thresholds for key risks.
- Design a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.
- Develop a maturity model approach to assess each component of the RAF separately and in the aggregate.

What We Found

In accordance with statutory requirements contained in the Export-Import Bank Reform and Reauthorization Act of 2015 (the "Act"), we evaluated the Bank's portfolio risk management policies and the extent to which EXIM Bank has implemented the provisions related to the appointment of the Chief Risk Officer (CRO) and the duties ascribed to the CRO. As part of our assessment, we benchmarked the Bank's key risk management policies with guidance on enterprise risk management (ERM) and internal controls for U.S. federal agencies promulgated by the Office of Management and Budget and the Government Accountability Office as well as current ERM practices as observed by a select group of peers.

With respect to the appointment of the CRO, OIG found that EXIM Bank appointed an Acting Chief Risk Officer on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum.

OIG's review of the duties assigned to the CRO confirmed that the CRO is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency. Our assessment of the Bank's risk policies found that EXIM should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement. Finally, we found that EXIM should strengthen the over-arching risk appetite framework (RAF) that draws together all the separate policies and committees as well as a process for considering risk appetite and risk tolerance.

TABLE OF CONTENTS

Executive Summary.....	4
Table of Contents.....	5
List of Figures and Tables.....	6
Abbreviation and Glossary.....	7
Introduction	9
Scope and Methodology.....	9
Background	10
Prior Reports on Portfolio Risk and Loss Reserve Policies.....	12
Applicable Standards and Current Industry Practices	16
Results of Assessment.....	23
Conclusion.....	44
Appendixes.....	45
Appendix A: Management Response and OIG Evaluation.....	45
Appendix B: Background on EXIM Bank’s Charter 2015.....	48
Acknowledgements.....	54

LIST OF FIGURES AND TABLES

Figure 1: U.S. Federal ERM Policy Framework	20
Table 1: Playbook Excerpts on Bank Charter Provision Topics.....	21
Table 2: CRO Selection Events	24
Table 3: Allocation of Risk Management Activities Across EXIM Bank	27
Table 4: Three Lines of Defense.....	30
Table 5: Risk Management Strategies	33
Table 6: Summary of Management’s Comments on the Recommendations	50

ABBREVIATION AND GLOSSARY

Term	Description
ALLL	Allowance for Loan and Lease Losses
Bank or EXIM or EXIM Bank	Export-Import Bank of the United States
BCL	Budget Cost Level (BCL) is a risk rating system of EXIM Bank that rates a transaction on a sliding scale of one (low risk) to 11 (high risk). The BCL rating determines loss reserves that will be allocated by the Bank for the transaction.
CPC	Credit Policy Committee, EXIM Bank
CRO	Chief Risk Officer, EXIM Bank
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ECA	Export Credit Agency
ERC	Enterprise Risk Committee, EXIM Bank
FCRA	Federal Credit Reform Act of 1990
FY	Fiscal Year
IACPM	International Association of Credit Portfolio Managers
Key Risk Indicator	A metric monitored as an early warning signal of increasing risk. Firms establish KRIs for both <i>financial</i> and <i>nonfinancial</i> risks, but they are critical for <i>nonfinancial</i> risk types, where quantifying the associated risk exposure is more difficult.
OCC	Office of the Comptroller of the Currency
OCFO	Office of the Chief Financial Officer, EXIM Bank
OIG	Office of Inspector General, EXIM Bank
OMB	U.S. Office of Management and Budget
Risk Appetite	The overall level and types of risk an organization is willing to accept in order to achieve expected goals and strategic objectives, given its risk capacity, and the expectations of its stakeholders.
Risk Appetite Framework	The risk appetite framework (RAF) is the overarching approach or framework for establishing and monitoring all material risks of the organization. The framework may include risk appetite statements, risk policies, risk limits, processes, controls and systems.
Risk Appetite Statement	The risk appetite statement (RAS) is a summary of the aggregate levels and types of risks an organization is willing to accept in order to achieve its business objectives.

Term	Description
Risk Capacity	The maximum level of risk the firm can assume before it reaches regulatory and stakeholder constraints (e.g., minimum capital thresholds, liquidity).
Risk Limits	The allocation of an organization’s risk appetite statement to specific risk categories (e.g., credit, market, liquidity), line of business concentration limits. – A value established for a risk metric that is not to be breached. Typically established for <i>financial</i> risk types where the risk exposure is quantifiable. A specific means for ensuring that total losses are kept within the RA levels established for the firm.
Risk Profile	A point-in-time assessment of the FI’s gross and net exposures, aggregated within and across each relevant risk category based on forward looking assumptions.
Risk Tolerances	An acceptable performance variance to an established risk appetite level relative to achievement of an objective.
RMC	Risk Management Committee, EXIM Bank

INTRODUCTION

The *Export-Import Bank Reform and Reauthorization Act of 2015* (the “Reauthorization Act” or “Act”) created the management position of Chief Risk Officer (CRO) and assigned specific duties to that office related to the risk management policies and procedures of the Bank. The Act also requires OIG to review the portfolio risk management procedures of the Bank, including a review of the implementation by the Bank of the duties assigned to the Chief Risk Officer under section 3(l) of the Export-Import Bank Act of 1945, as amended by section 51005 and to submit a written report with its findings to Congress no later than December 4, 2016.¹

To comply with this requirement, [REDACTED]

[REDACTED] in July 2016, we issued a [REDACTED] *Report on Ex-Im Bank’s Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01, July 28, 2016). The report concluded that EXIM Bank should take additional steps to [REDACTED] align its risk management policies with industry best practices and made eight [REDACTED] recommendations to support several key risk management initiatives. Management agreed to all eight recommendations and provided a timetable to implement corrective actions. Second, we initiated a separate evaluation of EXIM’s implementation of the duties assigned to the CRO. This report presents the results of that evaluation.

SCOPE AND METHODOLOGY

To inform our assessment, OIG designed and implemented a comprehensive evaluation plan consisting of several phases and various research techniques. First, we reviewed EXIM Bank documentation and undertook a series of internal interviews to understand how EXIM management interpreted and implemented the various CRO provisions enumerated in the Act. Those provisions provide guidance on both the criteria for selection of the CRO and the responsibilities ascribed to the CRO position at EXIM Bank. Second, we researched various evaluative criteria and applicable standards to assess the Bank’s compliance with those provisions.

¹ See the *Export-Import Bank Reform and Reauthorization Act of 2015*, included in “Division E—Export-Import Bank of the United States” of the “FAST Act,” which became public law on December 4, 2015 (Pub. L. No. 114-94) at <https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf>. The requirement to review the implementation by the Bank of the duties assigned to the Chief Risk Officer is contained in Sec. 51007. Independent Audit of Bank Portfolio. (A) Audit. – The Inspector General of the Export-Import Bank of the United States shall conduct an audit or evaluation of the portfolio risk management procedures of the Bank, including a review of the implementation by the Bank of the duties assigned to the Chief Risk Officer under section 3(l) of the Export-Import Bank Act of 1945, as amended by section 51005.

As outlined below, we used two different categories of applicable standards for our analysis: the statutory provisions contained in the Act and guidance on enterprise risk management (ERM) and internal controls for U.S. federal agencies promulgated by the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). In addition, we surveyed and reviewed current industry ERM practices as observed by a select group of peers. To assist with our research, OIG conducted a number of external interviews comprising: subject matter experts from several large commercial and multilateral development banks; professional organizations such as the International Association of Credit Portfolio managers (IACPM); other U.S. federal agencies with similar credit programs and select foreign export credit agencies. To support our evaluation, OIG engaged Ernst and Young (EY) to complete an external independent review of EXIM's risk management policies and to conduct a survey of current ERM practices observed by peer institutions including foreign export credit agencies, other U.S. government agencies, and multilateral financial institutions.

Points of Inquiry

The following point of inquiry (POI) directed our focus and helped guide our evaluation:

POINT OF INQUIRY: Has EXIM Bank complied with the various CRO provisions stipulated in the 2015 Reauthorization Act? What areas require further enhancement to comply with the statutory requirements contained in the Act, federal regulatory guidance and leading ERM practices?

The OIG conducted this evaluation during Fiscal Year (FY) 2016 in accordance with the 2012 *Quality Standards for Inspection and Evaluation* as defined by the Council of Inspectors General on Integrity and Efficiency.² Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, conclusions and recommendations based on our evaluation objective and points of inquiry. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

BACKGROUND

The Export-Import Bank is an independent federal agency and wholly-owned government corporation whose mission is to aid export financing to maintain or create U.S. jobs. The Bank's Charter authorizes it to engage in "general banking business," except that of currency circulation.³ Its core financing programs are direct loans, export

² For more information, see <https://www.ignet.gov/sites/default/files/files/committees/inspect-eval/iestds12r.pdf>.

³ See *The Charter of the Export-Import Bank of the United States* at [http://www.exim.gov/sites/default/files/2015 Charter - Final As Codified - 02-29-2016.pdf](http://www.exim.gov/sites/default/files/2015%20Charter%20-%20Final%20As%20Codified%20-%2002-29-2016.pdf).

credit guarantees, working capital guarantees, and export credit insurance. The Charter requires “reasonable assurance of repayment” for all EXIM Bank transactions, which are backed by the full faith and credit of the U.S. Government. The Bank has functioned on a self-sustaining basis since fiscal year 2008, covering its operational costs and provisioning for expected losses through loan loss reserves, funded by the fees and interest it charges its customers.

As a U.S. federal agency, the Bank is subject to risk management guidelines deriving from its Charter, federal legislation, Congressional mandates, and the Office of Management and Budget (OMB). Additional guidance is provided in prior reports from the GAO and the federal accounting standards. Support for the portfolio risk mitigation function derives from several sources including:

- **Broad banking authority**: Section 2(a) (1) of the Export-Import Bank Act of 1945 (the Act) confers broad banking authority to EXIM Bank.⁴
- **Reasonable provisions for losses**: The Act requires the Bank to make reasonable provisions for losses. This is also addressed in OMB Circular A-11.⁵
- **The Federal Credit Reform Act (FCRA) of 1990**:⁶ FCRA directs policies used for the allowance for loan and lease losses (ALLL) – originally referred to as the reserve for bad debts. ALLL is a valuation reserve established and maintained by charges against operating income. It is an estimate of uncollectable amounts used to reduce the book value of loans and leases to the amount that a bank expects to collect.
- **OMB guidance**: OMB Circular A-129 directs agencies to analyze and control the risk and costs of their programs and to benchmark against current market practices.⁷ OMB Circular A-123 defines Management’s Responsibility for Enterprise Risk Management and Internal Control.⁸

With the passage of the 2015 Reauthorization Act, the Bank’s Charter was renewed for an additional four-year period. Additional provisions included in the Act that relate to risk management follow below. Please see Appendix B for a more in depth discussion.

⁴ Export Import Bank Act of 1945, 12 U.S.C. § 635 (2006).

⁵ For more information, see https://www.whitehouse.gov/sites/default/files/omb/assets/a11_current_year/a11_2015.pdf.

⁶ See the Federal Credit Reform Act of 1990, included in Title XIII, “Sec. 13201. Credit accounting” of the “Omnibus Budget Reconciliation Act of 1990,” which became public law on Nov 5, 1990 (Pub. L. No. 101-508) at <https://www.congress.gov/bill/101st-congress/house-bill/5835>.

⁷ For more information, see https://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf.

⁸ For more information, see <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2016/m-16-17.pdf>.

1. An aggregate exposure cap of \$135 billion for each FY from 2015 to 2019, providing the Bank’s default rate remains below 2 percent.
2. A new requirement that the Bank “build to and hold in reserve” an amount not less than 5 percent of the “aggregate amount of disbursed and outstanding loans, guarantees and insurance of the Bank.”
3. Establishes an Office of Ethics in the Bank.
4. Establishes a CRO who shall “oversee all issues relating to risk within the Bank and report to the President of the Bank.”
5. Establishes a Risk Management Committee of the Board of Directors.
6. Terminates the Bank’s Audit Committee.
7. Authorizes a pilot program to share risks under the Bank’s loan, guarantee, and insurance programs. The aggregate amount of liability the Bank may transfer through risk-sharing may not exceed \$10 billion in any fiscal year.

Prior Reports on Portfolio Risk and Loss Reserve Policies

OIG’s [redacted] review of EXIM Bank’s risk management policies was driven in [redacted] part by [redacted]

Congressional interest and questions about the adequacy of policies regarding portfolio risk measurement and mitigation. Separately, the Export-Import Bank Reauthorization Act of 2012 required GAO to analyze the Bank’s Business Plan, growth in business and the effectiveness of its risk management policies.⁹

[redacted]

[redacted]

⁹ For more information, see *Export-Import Bank Reauthorization Act of 2012* at <http://www.gpo.gov/fdsys/pkg/PLAW-112publ122/pdf/PLAW-112publ122.pdf>. Pub. L. No. 112-122, 126 Stat. 357 (2012).

[redacted]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

EXIM Bank OIG Report (OIG-EV-16-01)

On July 28, 2016, EXIM Bank OIG issued its report entitled, [REDACTED] *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01, July 28, 2016).¹¹ The purpose of the OIG’s 2016 evaluation was to complete a [REDACTED] review [REDACTED] of the Bank’s Portfolio Risk and Loss Reserve Policies [REDACTED].

The evaluation made eight [REDACTED] recommendations to support several key initiatives:

- Mitigate portfolio concentration risk through the implementation of soft portfolio limits and risk sharing as provided for in the 2015 Reauthorization Act.
- Complete the independent assessment of the Bank’s financial models and further refine its risk dashboard, ensuring independent oversight of the review process.

¹¹ See EXIM Bank OIG’s *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01, dated July 28, 2016), available at <https://www.exim.gov/sites/default/files/oig/reports/Final%2020Risk%20Management%20Report%20%28OIG-EV-16-01%29%20Redacted.pdf>.

- Further develop internal risk management procedures and the reporting of risk management data to better inform management and key stakeholders.

As of the date of this report, the Bank agreed with all eight recommendations and is in the process of implementing the recommendations.

GAO Report (GAO-13-303) Export-Import Bank

On March 28, 2013, GAO issued its report entitled, *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management*.¹² The Export-Import Bank Reauthorization Act of 2012 required GAO to conduct an evaluation of the Bank's growth in business and the effectiveness of its risk management.¹³ GAO made a total of four recommendations to EXIM Bank's Chairman to improve the Bank's internal risk processes:

"We recommend that the Chairman of the Export-Import Bank of the United States take the following four actions:

- To help improve the reliability of its loss estimation model, EXIM should assess whether it is using the best available data for adjusting loss estimates for longer-term transactions to account for global economic risk.
- To conduct future analysis comparing the performance of newer and older business and to make future enhancements to its loss estimation model, EXIM should retain point-in-time, historical data on credit performance.
- To help Congress better understand the financial risks associated with EXIM's portfolio, EXIM should report its stress test scenarios and results to Congress when such information becomes available.
- To help manage operational risks stemming from EXIM's increased business volume, EXIM should develop workload benchmarks at the agency wide and functional area levels, monitor workload against these benchmarks, and develop control activities for mitigating risks when workloads approach or exceed these benchmarks."¹⁴

All four of GAO's recommendations have been implemented by the Bank and are closed.

¹² See GAO's *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management* (GAO-13-303, dated March 28, 2013) report, available at <http://www.gao.gov/assets/660/653373.pdf>.

¹³ For more information, see *Export-Import Bank Reauthorization Act of 2012* at <http://www.gpo.gov/fdsys/pkg/PLAW-112publ122/pdf/PLAW-112publ122.pdf>. Pub. L. No. 112-122, 126 Stat. 357 (2012).

¹⁴ See GAO's *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management* (GAO-13-303, dated March 28, 2013) report, available at <http://www.gao.gov/assets/660/653373.pdf>.

GAO Report (GAO-13-620) Export-Import Bank

On May 30, 2013, GAO issued an additional report entitled, *Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*.¹⁵ The Export-Import Bank Reauthorization Act of 2012 required GAO to conduct an evaluation of the Bank's Business Plan and analyses.¹⁶ In writing the report, GAO's objectives were to examine the extent to which the Business Plan and analyses of the Export-Import Bank (1) justify bank exposure limits; (2) evaluate the risk of loss associated with the increased exposure limit, changing composition of exposure, and compliance with congressional mandates; and (3) analyze the adequacy of EXIM Bank resources to manage authorizations and to comply with congressional mandates. GAO made a total of four recommendations to improve the accuracy of EXIM Bank's forecasts of exposure and authorizations:

"To provide Congress with the appropriate information necessary to make decisions on EXIM's exposure limits and targets, we recommend that the Chairman of the Export-Import Bank of the United States take the following four actions:

To improve the accuracy of its forecasts of exposure and authorizations, EXIM should

- Compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience; and
- Assess the sensitivity of the exposure forecast model to key assumptions and authorization estimates and identify and report the range of forecasts based on this analysis.

To help Congress and EXIM management understand the performance and risk associated with its sub portfolios of transactions supporting the small business, sub-Saharan Africa, and renewable energy mandates, EXIM should routinely report financial performance information, including the default rate and risk rating, of these transactions at the sub portfolio level.

To better inform Congress of the issues associated with meeting each of the bank's percentage-based mandated targets, EXIM should provide Congress with additional information on the resources associated with meeting the mandated targets."¹⁷

All four of GAO's recommendations have been implemented by the Bank and are closed.

¹⁵ See GAO's *Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources* (GAO-13-620 dated May 30, 2013) report, available at <http://www.gao.gov/assets/660/654925.pdf>.

¹⁶ For more information, see *Export-Import Bank Reauthorization Act of 2012* at <http://www.gpo.gov/fdsys/pkg/PLAW-112publ122/pdf/PLAW-112publ122.pdf>. Pub. L. No. 112-122, 126 Stat. 357 (2012).

¹⁷ See GAO's *Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources* (GAO-13-620 dated May 30, 2013) report, available at <http://www.gao.gov/assets/660/654925.pdf>.

POINT OF INQUIRY: Has EXIM Bank complied with the various CRO provisions stipulated in the 2015 Reauthorization Act? What areas require further enhancement to comply with the statutory requirements contained in the Act, federal regulatory guidance and leading ERM practices?

Applicable Standards and Current Industry Practices

For the purposes of our evaluation, OIG reviewed two categories of Applicable Standards and current industry practices:

- Applicable Standard One: Statutory provisions contained in the 2015 Reauthorization Act. Those provisions are listed below.
- Applicable Standard Two: Guidance on enterprise risk management (ERM) and internal controls for U.S. federal agencies promulgated by the OMB and GAO. Those standards are listed below.
- Current Industry Practices: ERM practices as observed by a broad group of peers. To determine those practices, OIG conducted interviews with subject matter experts and engaged EY to conduct a survey of ERM practices.

Applicable Standard One: Chief Risk Officer Provisions outlined in the 2015 Reauthorization Act

With the passage of the Export-Import Bank Reform and Reauthorization Act of 2015 (the Act), the Bank’s Charter was renewed for an additional four-year period.^{18,19} Under Sec. 3(l), the Act included the following provisions related to the appointment of a Chief Risk Officer and his duties.

Sec. 3(l) Chief Risk Officer.

(1) In general. – There shall be a Chief Risk Officer of the Bank, who shall **(A)** oversee all issues relating to risk within the Bank; and **(B)** report to the President of the Bank.

¹⁸ See the *Export-Import Bank Reform and Reauthorization Act of 2015*, included in “Division E—Export-Import Bank of the United States” of the “FAST Act,” which became public law on December 4, 2015 (Pub. L. No. 114-94) at <https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf>.

¹⁹ See *The Charter of the Export-Import Bank of the United States* at [http://www.exim.gov/sites/default/files/2015 Charter - Final As Codified - 02-29-2016.pdf](http://www.exim.gov/sites/default/files/2015%20Charter%20-%20Final%20As%20Codified%20-%2002-29-2016.pdf).

2) Appointment. – Not later than 180 days²⁰ after the date of the enactment of the Export-Import Bank Reform and Reauthorization Act of 2015, the Chief Risk Officer shall be –

(A) appointed by the President of the Bank from among persons –

(i) with a demonstrated ability in the general management of, and knowledge of and extensive practical experience in, financial risk evaluation practices in large governmental or business entities; and

(ii) who are not serving in a position requiring appointment by the President of the United States before being appointed to be Chief Risk Officer; and

(B) approved by the Board.

(3) Duties. – The duties of the Chief Risk Officer are –

(A) to be responsible for all matters related to managing and mitigating all risk to which the Bank is exposed, including the programs and operations of the Bank;

(B) to establish policies and processes for risk oversight, the monitoring of management compliance with risk limits, and the management of risk exposures and risk controls across the Bank;

(C) to be responsible for the planning and execution of all Bank risk management activities, including policies, reporting, and systems to achieve strategic risk objectives;

(D) to develop an integrated risk management program that includes identifying, prioritizing, measuring, monitoring, and managing internal control and operating risks and other identified risks;

(E) to ensure that the process for risk assessment and underwriting for individual transactions considers how each such transaction considers the effect of the transaction on the concentration of exposure in the overall portfolio of the Bank, taking into account fees, collateralization, and historic default rates; and

(F) to review the adequacy of the use by the Bank of qualitative metrics to assess the risk of default under various scenarios.

Additional Risk Management Provisions

The Act contains additional risk management related provisions that are not the subject of this report. Those provisions are summarized in Appendix B and include the following:

- An exposure cap if the Bank's default rate rises to two percent or more.
- A pilot program to share risks under its loan, guarantee, and insurance programs.
- The establishment of a Risk Management Committee (RMC) on the EXIM Bank Board of Directors.

²⁰ The derived appointment date of June 1, 2016 is based on the date of Charter enactment on December 4, 2015, plus 180 days.

- The establishment of a minimum credit loss reserve of five percent or more for the aggregate amount of disbursed and outstanding commitments.

Applicable Standard Two: Federal Guidance on Internal Control and ERM

Federal guidance on internal controls, risk assessment and enterprise risk management is provided in several publications: the Government Accountability Office’s (GAO) *Standards for Internal Controls for the Federal Government*, dated September 2014; the Office of Management and Budget’s (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* dated July, 2016; OMB Circular A-123, *Management’s Responsibility for Risk Management and Internal Control*, dated July 2016, and OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, dated January 2013. In addition, the Chief Financial Officers Council (CFOC) and the Performance Improvement Council (PIC) released *Playbook: Enterprise Risk Management for the U.S. Federal Government* in July 2016.

Standards for Internal Control in the Federal Government

GAO’s *Standards for Internal Control in the Federal Government* provide four principles for the risk assessment process:

- Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- Management should consider the potential for fraud when identifying analyzing, and responding to risks.
- Management should identify, analyze, and respond to significant changes that could impact the internal control system.²¹

OMB Circular A-129

OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, requires departments and agencies to “[o]perate each credit program under a robust management and oversight structure, with clear and accountable lines of authority and responsibilities for administering programs and independent risk management functions; monitoring programs in terms of programmatic goals and performance within acceptable risk thresholds; and taking action to improve or maintain efficiency and effectiveness.”²²

²¹ For more information, see <http://www.gao.gov/assets/670/665712.pdf>.

²² For more information, see https://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf.

OMB Circular A-123

OMB Circular No. A-123, *Management's Responsibility for Risk Management and Internal Control*, requires agencies to integrate risk management and internal control functions. The Circular also establishes an assessment process based on the GAO's *Standards for Internal Control in the Federal Government* (known as the "Green Book") that management must implement in order to properly assess and improve internal controls over operations, reporting, and compliance. The primary compliance indicators that management must consider when implementing the Circular include:²³

- Management is responsible for the establishment of a governance structure to effectively implement, direct and oversee implementation of the Circular and all the provisions of a robust process of risk management and internal control.
- Implementation of the Circular should leverage existing offices or functions within the organization that currently monitor risks and the effectiveness of the organization's internal control.
- Agencies should develop a maturity model approach to the adoption of an ERM framework. For FY 2016, Agencies are encouraged to develop an approach to implement ERM. For FY 2017 and thereafter Agencies must continuously build risk identification capabilities into the framework to identify new or emerging risks, and/or changes in existing risks (See Section II.C. for additional details).
- Management must evaluate the effectiveness of internal controls annually using the Green Book.

EXIM Bank is not one of the 24 listed agencies that are advised to implement, direct and oversee an ERM framework for FY 2017, but any agency that wishes to do so is advised to adopt OMB's guidelines.

OMB Circular A-11

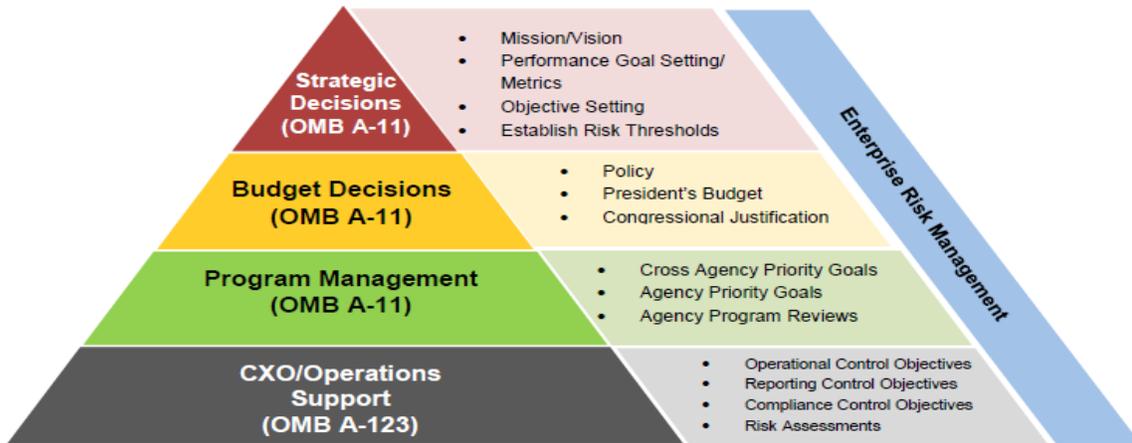
OMB recently published its revised Circular A-11: *Preparation, Submission, and Execution of the Budget*. Section 270 of the Circular addresses the key roles of risk managers at federal agencies and defines Enterprise Risk Management as "an effective agency-wide approach to addressing the full spectrum of the organization's significant risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos. ERM provides an enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides better insight about how to most effectively prioritize and manage risks to mission delivery."²⁴

Figure 1 below illustrates how OMB circulars A-11 and A-123 interrelate within the context of Enterprise Risk Management.

²³ For more information, see https://www.whitehouse.gov/omb/circulars_a123.

²⁴ For more information, see https://www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc.

Figure 1: U.S. Federal ERM Policy Framework



Source: Playbook: Enterprise Risk Management for the U.S. Federal Government, July, 2016

Playbook: Enterprise Risk Management for the U.S. Federal Government

In 2016, the CFOC and the PIC released *Playbook: Enterprise Risk Management for the U.S. Federal Government* (the “Playbook”)²⁵ as a guide to help Federal Agencies meet the ERM requirements of OMB Circular A-123. Although the Playbook should not be construed as a standard for audit reviews,²⁶ OIG staff reviewed the Playbook to gain a common understanding of applying ERM practices in the Federal context. Table 1 below notes some of the Playbook’s key suggestions related to the corresponding sections of the Bank’s Charter.

²⁵ See *Playbook: Enterprise Risk Management for the U.S. Federal Government* at <https://cfo.gov/wp-content/uploads/2016/07/FINAL-ERM-Playbook.pdf>.

²⁶ Ibid., p.5

Table 1: Playbook Excerpts on Bank Charter Provision Topics	
EXIM Bank Charter Provisions	Excerpts from the Playbook
Sec. 3(I)(3)(A) to manage and mitigate all Bank risk	ERM is an “agency-wide approach to addressing the full spectrum of the organization’s significant risks by considering the combined array of risks as an interrelated portfolio, rather than addressing risks only within silos.” ²⁷
Sec. 3(I)(3)(B) to establish policies and processes for risk oversight, the monitoring of risk limits, exposures and controls	Agency should identify, prioritize, and develop appropriate strategies to address priority risks. Leadership may adjust its approach if implementation fails to bring the risk within desired limits.
Sec. 3(I)(3)(C) to plan and execute all Bank risk management activities, including policies, reporting, and systems to achieve strategic risk objectives	Risk appetite is useful for an Agency to articulate the amount of risk it is willing to accept in pursuit of strategic objectives and “should be informed by the public policy purpose of the program and the agency’s mission as well as the environment in which it operates.” ²⁸ Information reliability and communication at all organization levels is a key for Agency staffs to evaluate and act on risk.
Sec. 3(I)(3)(D) to develop a program that identifies, prioritizes, measures, and monitors all risks	ERM frameworks vary across Federal Agencies due to different needs. However, all Federal ERM frameworks should include elements such as: establish context, identify risks, analyze and evaluate, develop alternatives, respond to risks, monitor and review, and continuous risk identification and assessment.
Sec. 3(I)(3)(E) to ensure underwriting process considers a new transaction’s impact on portfolio risk	ERM provides the potential for a fully integrated, prioritized, and forward-looking view of risk to drive strategy and business decisions.
Sec. 3(I)(3)(F) to effectively use qualitative metrics to assess the risk of default under various scenarios	In cases where it is impractical to measure certain risks quantitatively, it is important to discuss the risks qualitatively.

Source: Playbook: Enterprise Risk Management for the U.S. Federal Government

²⁷ Ibid., p.6.

²⁸ Ibid., p.24.

Current Industry Practices

In an effort to establish current industry practices,²⁹ OIG together with EY conducted interviews and survey research to identify benchmarks for enterprise risk management practices to address several core themes:

- How do various organizations define and operationalize risk appetite? What internal metrics and mechanisms are used for this purpose?
- What is the role and responsibilities of the Chief Risk Officer across agencies?
- What areas are covered by internal policies on ERM governance?
- How to determine the appropriate level of internal control for programs?

²⁹ OIG recognizes that the risk management practices of an institution will differ in accordance with its mandate, business model, level of government support, etc.

RESULTS OF ASSESSMENT

The following section outlines the various provisions contained in the 2015 Reauthorization Act and provides an assessment of the actions taken by EXIM Bank to implement those requirements. For the purposes of this evaluation the provisions are divided into two categories: (i) provisions related to the appointment of the Chief Risk Officer (CRO) including the attendant qualifications; and (ii) provisions that describe the duties allocated to the CRO.

Charter Provisions: Appointment of the Chief Risk Officer

The following provisions relate to the appointment of the CRO as stipulated in the Act.

Sec. 3(l) Chief Risk Officer.

(1) In general. – There shall be a Chief Risk Officer of the Bank, who shall **(A)** oversee all issues relating to risk within the Bank; and **(B)** report to the President of the Bank.

(2) Appointment. – Not later than 180 days³⁰ after the date of the enactment of the Export-Import Bank Reform and Reauthorization Act of 2015, the Chief Risk Officer shall be –

(A) appointed by the President of the Bank from among persons –

(i) with a demonstrated ability in the general management of, and knowledge of and extensive practical experience in, financial risk evaluation practices in large governmental or business entities; and

(ii) who are not serving in a position requiring appointment by the President of the United States before being appointed to be Chief Risk Officer; and

(B) approved by the Board.

Finding 1: EXIM Bank appointed an Acting Chief Risk Officer on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum.

³⁰ The derived appointment date of June 1, 2016 is based on the date of Charter enactment on December 4, 2015, plus 180 days.

Pursuant to the above provision, EXIM Bank was required to appoint a CRO no later than June 1, 2016, or 180 days after the date of the enactment of the Reauthorization Act. The successful candidate was to be appointed by EXIM Bank’s President and was to be selected among persons “with a demonstrated ability in the general management of, and knowledge of and extensive practical experience in, (i) financial risk evaluation practices in large governmental or business entities; and (ii) who are not serving in a position requiring appointment by the President of the United States before being appointed to be Chief Risk Officer.”

OIG’s review of internal documents and discussions with Bank officials confirmed that Mr. Kenneth Tinsley was appointed as Acting CRO on January 1, 2016 and as EXIM Bank’s permanent CRO on August 21, 2016, subject to the approval by the Bank’s Board of Directors. At the time of his appointment, Mr. Tinsley had been serving as the SVP of Credit Policy with EXIM Bank. He continues to serve in the capacity of SVP of Credit Policy in addition to his new position as SVP Chief Risk Officer.

To ascertain whether the candidate was selected from a pool of candidates that possessed the requisite level of knowledge and experience as outlined in the Act, OIG conducted internal interviews and reviewed various documents related to the selection process. The latter includes the Position Description provided to the EXIM Bank Office of Human Resources, the recruitment announcement placed with USAJOBS and the list of candidates that were deemed qualified by the Hiring Certificates.

The USAJOBS announcement was placed on May 24, 2016 and closed on June 24, 2016. OIG confirmed that 19 internal and external candidates were selected as qualified by the Hiring Certificates and eight were selected by EXIM Bank senior management for interviews. Of the eight, three finalists were interviewed by a team of senior management during the month of July 2016. Candidate selection was finalized on August 17, 2016 and Mr. Tinsley was appointed as the permanent CRO on August 21, 2016 subject to the confirmation by the Bank’s Board of Directors. Table 2 below illustrates the sequence of events that occurred as part of the CRO selection process.

Table 2: CRO Selection Events	
Date	Event
12/4/2015	Reauthorization Act signed into law
1/1/2016	Mr. Tinsley appointed as Acting Chief Risk Officer (CRO)
5/24/2016	USAJOBS Announcement-OPEN
6/1/2016	Deadline for Act compliance (180 Days from 12/4/2015)
6/24/2016	USAJOBS announcement-CLOSED
7//2016	Certifications provided to EXIM Bank by OPM-July 2016
7//2016	Interview dates-July 2016
8/17/2016	Candidate selection finalized
8/21/2016	Mr. Tinsley appointed as CRO

Source: EXIM Bank Internal Documents

The selection process and vetting procedures to ensure that the successful candidate was selected according to the criteria stipulated in the Act were not completed until after June 1, 2016 deadline imposed by the Act. The posting of the job announcement occurred on May 24, 2016 and final selection occurred on August 17, 2016.

The final selection has not been approved by the Board of Directors as required by the Act, due to the continuation of the lapse of a quorum on EXIM Bank's Board that occurred in July 2015. Management confirmed their intention to proceed with board approval once the quorum has been established.

RECOMMENDATIONS

No recommendation is provided for this finding.

Charter Provisions: Duties of the Chief Risk Officer

The provisions below relate to the responsibilities ascribed to the Chief Risk Officer as stipulated in the Act.

Managing and Mitigating Risk

Sec. 3(I)(3) Duties.

(A) to be responsible for all matters related to managing and mitigating all risk to which the Bank is exposed, including the programs and operations of the Bank;

Finding 2: The Chief Risk Officer is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency.

To determine the Bank's compliance with CRO "Responsibility A," OIG focused on the CRO's role in the management and mitigation of all Bank risks in his capacity as CRO and as exercised by his membership in several senior management committees, including the Enterprise Risk Committee (ERC), the Transaction Review Committee (TRC) and the Executive Working Committee (EWC).

To inform our evaluation, OIG interviewed senior Bank management including the Bank's Chief Operating Officer (COO), Chief Financial Officer (CFO), CRO and Chief Legal Counsel to learn how senior management interpreted and implemented the CRO provisions. We reviewed the Bank's internal policies related to risk management, financial governance and the various standing committees. We reviewed the description of duties articulated in the Position Description and announcement that

were used for the selection of the candidate. Finally, we consulted federal guidance related to internal controls and ERM. OIG's observations and findings appear below.

Position Description and Job Announcement were consistent with the duties assigned to the CRO under the Act

In May 2016, a Position Description was posted for the CRO position. Duties for the position included risk policy and procedure formation, developing (and integrating) a risk management program, reviewing transactions and their exposure levels and reviewing the adequacy of the qualitative metrics to assess default risks under various scenarios. In interviews with senior management, OIG confirmed that the selection process, evaluative criteria and vetting procedures were consistent with the criteria stipulated in the Act.

Senior Management Interviews Confirm the CRO's Responsibilities

Discussions with the Bank's senior management confirmed their interpretation of the various risk management duties ascribed to the CRO in the Act and the authority granted to carry out those responsibilities. Concerning the latter, management states that the CRO's authority to oversee those responsibilities derives from the direct reporting line to the President and Chairman, the provisions in the Act and various internal communications such as the President and Chairman's announcement of the CRO appointment. In interviews, Bank management also expressed the view that the CRO provisions do not require a formal transfer of risk management activities from various units within the Bank to the CRO. They added that although the Act created the position of CRO, it did not create an Office of the CRO, which would require additional staff to be allocated to perform those functions.

Concerning the inability to obtain board approval of Mr. Tinsley's appointment, management stated that it does not affect his authority to carry out the prescribed responsibilities. Further, although the Act does not provide a specific deadline to implement the CRO duties, Bank management confirmed that effective January 1, 2016 Mr. Tinsley assumed those duties as Acting CRO.

Finally, management provided several examples as evidence of the Bank's continued progress with respect to complying with the duties of the CRO provision:

- The CRO oversees the Bank's "Risk Register" process—a Bank-wide process for managers to identify and log "all risks", along with assessment of the associated inherent and residual risks.
- The Bank continues to utilize its ERC to manage, monitor and mitigate the risks to which the Bank is exposed. The CRO chairs the ERC.
- The CRO participates in other standing committees. He is a non-voting member of the TRC and a voting member of the EWC.
- The Bank has identified risk owners across the agency, who continue to utilize a common risk nomenclature to identify, register and monitor risks. The CRO oversees this process.

- The Bank established a Risk Appetite Statement (RAS) in September 2015, which addresses key risks the Bank faces in fulfilling its mandate along with the Bank’s approach to risk. The CRO is responsible for the updating and subsequent revision of this important risk management document.

Reflecting prior OMB guidance and common federal agency practices, risk management activities are currently shared among several internal divisions within EXIM Bank

Pursuant to OMB guidance and common federal agency practices, the responsibilities of managing risk are shared throughout the agency.³¹ Similarly, at EXIM Bank risk management activities are carried out by various divisions and standing committees. Those include the Office of the CFO, the Office of Credit and Risk Management, the Office of Export Finance, the Office of General Counsel, the newly created Office of Ethics; standing committees including the ERC, the TRC, and the EWC; senior management team members such as the COO and CRO; and the RMC of the Board of Directors. Table 3 below denotes the current allocation of risk management responsibilities to the various divisions and standing committees at EXIM Bank.

Table 3: Allocation of Risk Management Activities Across EXIM Bank	
Entity	Functional Responsibility
Risk Management Committee (RMC)	Pursuant to the Act, the RMC is composed of members of the Board of Directors, with the President and First Vice President of the Bank serving as ex officio members. Its duties are to oversee, in conjunction with the Office of the CFO of the Bank—(i) periodic stress testing on the entire Bank portfolio, reflecting different market, industry, and macroeconomic scenarios, and consistent with common practices of commercial and multilateral development banks; and (ii) the monitoring of industry, geographic, and obligor exposure levels; and (iii) to review all required reports on the default rate of the Bank before submission to Congress.
Office of the CFO (OCFO)	The OCFO is primarily responsible for matters pertaining to the Bank’s funds, financial policy and operations, monitoring and reporting on the Bank’s loan, guarantee, and insurance portfolio, the payment of claims and the management of recovery efforts, the preparation, monitoring, and reporting of the Bank’s program and administrative budgets. The Office of the CFO directly manages a number of risk management related functions

³¹ For example, OMB A-11 provides that “the Enterprise risk managers, who may be referred to as the Chief Risk Officer (CRO) in some agencies, champion agency-wide efforts to manage risk within the agency and advise senior leaders on the strategically-aligned portfolio view of risks at the agency. The responsibilities of managing risk, however, are shared throughout the agency from the highest levels of executive leadership to the service delivery staff executing Federal programs.”

Table 3: Allocation of Risk Management Activities Across EXIM Bank	
Entity	Functional Responsibility
	including portfolio risk monitoring through the Asset Management and Transportation Portfolio Management Divisions; portfolio risk mitigation through the development and implementation of soft portfolio limits and the pilot project for reinsurance; portfolio stress testing analysis; preparation and review of the Credit Loss Factor model and annual budget; and preparation of risk management reports for the Risk Management Committee.
Office of Credit and Risk Management (OCRM)	The OCRM is composed of the following divisions: Credit Policy, Credit Review and Compliance, Country Risk and Economic Analysis, and Engineering and Environment. Through its several divisions, this office is directly responsible for numerous risk management activities including the formulation of EXIM Bank credit policies and procedures; compliance reviews of the Bank’s Character, Reputational, Transaction, Integrity (CRTI) risk vetting process and transactions when deemed necessary; and the formulation and recommendation of cover policy and country limits for Board approval, the independent assessment of the internal risk rating models, etc.
Office of Export Finance	The Office of Export Finance is responsible for all of the Bank’s short, medium- and long-term loan guarantee, insurance and working capital programs, including Aircraft and Project Finance. The Office is comprised of Operations and Data Quality, Trade Finance, Transportation, Structured and Project Finance, Working Capital Finance, Trade Credit Insurance, and Business Development Divisions. The originators in each of the divisions are responsible for the initial due diligence of the transactions, including credit assessment and the vetting of CRTI risks.
Enterprise Risk Committee (ERC)	The ERC is chaired by the CRO and includes the Bank’s EVP Chief Operating Officer, Senior Vice President Office Heads. Its responsibilities include reviewing, evaluating, coordinating and making recommendations on financial, credit, legal, operational and reputational risks.
Transaction Review Committee (TRC)	The TRC serves as a forum for senior management to (i) provide guidance to EXIM staff on Board-level transactions under consideration; (ii) review and recommend transactions to the President for a decision whether to place the transaction on the agenda for the Bank’s Board of Directors; and (iii) advise the Board as to whether it agrees with staff recommendations regarding transactions.

Table 3: Allocation of Risk Management Activities Across EXIM Bank	
Entity	Functional Responsibility
Executive Working Committee (EWC)	The EWC consists of the EVP Chief Operating Officer as Chair and the various SVPs. The EWC is a standing committee that meets regularly to discuss bank programs, policies and procedures at a senior level.
Office of Innovation and Performance	The Office of Innovation and Performance is responsible for managing the replacement of existing information systems and platforms.
Office of Information Management and Technology	The Office of Information Management and Technology is responsible for the cybersecurity risks and the overall management of the Bank’s information systems and platforms.
Data Quality Board	Chaired by the Chief Information Officer and SVP of the Office of Innovation and Performance, the Data Quality Board is responsible for improving the execution of the Bank’s mission by enhancing the quality and availability of business data.

Source: EXIM Bank Internal Documents

Enterprise Risk Committee is the primary forum in which the CRO carries out his risk management responsibilities

As a standing committee, the ERC is the primary forum in which the CRO carries out the responsibilities related to managing and mitigating risk to which the Bank is exposed. The Committee is chaired by the CRO and includes the Bank’s EVP Chief Operating Officer and SVP Office Heads. Pursuant to the ERC Charter, the ERC is responsible for “reviewing, evaluating, coordinating and making recommendations to the Chief Risk Officer, the President of the Bank, the Board of Directors and senior management on financial, credit, legal, operational and reputational and other risks as well as Bank policies related to those risks.” In addition to the ERC, the CRO is a non-voting member of the TRC and a voting member of the EWC. Through attendance and participation in the above committees, the CRO informs the committees’ discussions of various credit and risk management policies.

As ERC Chair, the CRO develops “guidelines for meetings and submitting topics to the ERC for consideration and shall report to the President of the Bank.” In addition, the ERC Charter assigns the CRO and other senior management to be co-heads of the ERC Secretariat. For the purpose of voting, the Charter establishes a quorum at five ERC members and states that “Actions shall be taken by a vote of the majority.”

Notwithstanding the description of responsibilities above, there are certain risk governance aspects that should be addressed in the ERC Charter to provide further clarity of the role of the CRO and level of authority. For example, the CRO Charter is unclear as to the level of authority the ERC and the CRO possess to approve any of the policies, procedures, and various risk reports submitted to the ERC for review. In addition, the ERC charter states that in the absence of the CRO, the co-heads of the ERC Secretariat may convene and conduct meetings. However, it does not state whether

decision making and approval authority resides with the ERC in the absence of the CRO. Finally, the Charter does not explicitly state if the CRO as Chair has a veto if he/she does not vote with the majority of ERC.

Organizational alignment and the three lines of defense

Risk management best practices as promulgated under the Committee of Sponsoring Organizations (COSO) framework and recent federal guidance advocate a “three lines of defense” (3LoD) model that allocates risk management activities to three separate groups or lines of defense.³² This promotes risk ownership and a stronger risk management culture while addressing inefficiencies and gaps that may occur in the management of risk and compliance by multiple functions within an agency. Table 4 below provides a breakout of the key risk management responsibilities ascribed to each line of defense.

Table 4: Three Lines of Defense		
Line of Defense	Responsible Entity	Function
First line	Line of business managers	Assumes primary ownership for the identification, measurement, monitoring, control and reporting of risks for their respective program.
Second Line	Central risk and compliance management teams	Establishes and communicates common risk management taxonomies, risk assessment methodologies, policies and practices.
Third Line	GAO, EXIM Bank OIG	Independent assessment of design and operating effectiveness of the agency’s risk management activities and controls.

Source: COSO Framework

In reviewing the Bank’s policies and organizational structure, OIG found that certain activities under the direction of the CRO in the OCRM are typically considered “front line” activities under the 3LoD risk governance model. For example, the OCRM includes the Engineering and Environment Division which is typically considered a “front line” activity from an ERM perspective. As such this function may be misaligned with the “second line” risk management duties of the CRO.

³² For example, in July 2015, COSO of the Treadway Commission and the Institute of Internal Auditors (IIA) published a collaborative paper endorsing the 3LoD model on how to articulate and assign specific roles and responsibilities regarding internal control by relating the COSO Framework to the 3LoD Model.

RECOMMENDATIONS

1. To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.
2. EXIM Bank should review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.
3. EXIM Bank should review the alignment of the Bank’s risk management activities consistent with the “three lines of defense” framework and ensure that responsibility for the first line of defense and second line of defense are separated.
4. EXIM Bank should assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Policies and Processes for Risk Oversight, Monitoring and Management

Sec. 3(I)(3) Duties.

(B) to establish policies and processes for risk oversight, the monitoring of management compliance with risk limits, and the management of risk exposures and risk controls across the Bank;

Finding 3: EXIM Bank has made substantial progress in implementing policies and procedures for risk oversight, monitoring and management. Some enhancements are required to align with leading practices and federal guidance.

To assess the Bank’s progress in implementing the above provision, OIG interviewed management from several divisions including the OCRM, the OCFO and members of the ERC including the CRO. To inform our analysis, OIG interviewed subject matter experts including representatives from OMB, leading commercial banks and peer U.S. agencies. In addition, OIG reviewed the Bank’s policy documents, guidance on risk management for federal agencies and literature related to leading risk management practices. Our

assessment focuses on the extent to which the Bank has identified, documented and developed mitigation strategies for its key risks and the involvement of the CRO in that process.

Identification of Key Risks and Mitigation Strategies

A key consideration in assessing the above provision is the extent to which the Bank has identified the principal risks it faces in pursuit of its mandate and has established policies for managing those risks. EXIM Bank's *Risk Structure and Nomenclature* document cites the following key risks: Strategic, Credit, Country, Market, Legal, Regulatory Compliance, Reputation, and Operational Risk.³³ Other Bank documents such as the Loan, Guarantee and Insurance Manual (Loan Manual),³⁴ and the Bank's RAS³⁵ contribute to the risk identification process as well.

In reviewing the various risk management documents, OIG found that non credit risk polices such as Strategic, Reputation and Operational risks require further enhancement to align with industry practices. Although these risks are broadly defined in the nomenclature document and the RAS, the Bank does not have standalone risk management policies that set risk thresholds and mitigation strategies for those risks.

In contrast, EXIM Bank's credit risk policies are more developed and prescriptive. The extensive Loan Manual documents the Bank's credit policies. The manual provides comprehensive guidance for the structuring and risk mitigation of different credit programs including structured financings. At the portfolio level, the Bank's 2015 *Portfolio Risk Mitigation Policy* directs the CFO to "review, analyze, and implement five portfolio risk management strategies, which constitute the Bank's *Portfolio Risk Mitigation Policy*." Those strategies include monitoring the Bank's portfolio; reserving against potential losses; the use of soft portfolio concentration sub-limits; the potential use of reinsurance to transfer risk; and conducting stress testing. The Bank has developed supporting documentation and policies for each of the five mitigation strategies as indicated in Table 5 below.

³³ The nomenclature document was approved by the ERC on January 15, 2014. EXIM defines operational risk as including, Technology, Staffing, Model and Fraud Risk.

³⁴ LGIM, last updated on Aug 2016. LGIM is the Bank's manual for credit policies and procedures for loans, insurance, and guarantees related to applications approval process.

³⁵ Attachment B of *Financial Model Risk Management and Governance Policy*, dated September 23, 2015. Bank RAS identifies the amount and type of risk the Bank is willing to take in order to meet its strategic objectives.

Table 5: Risk Management Strategies		
Risk Mitigation Strategy	Supporting Documentation	Responsible Unit
Monitoring the Bank's portfolio	AMD manuals Enhanced Monitoring Management Policy Loan, Guarantee and Insurance Manual	All Bank Units
Reserving against potential losses	FCRA Credit Loss Factors, Process and Governance	OCFO ERC
Soft portfolio concentration sub-limits	Soft Limit Dashboard Transaction specific template for Soft Limit Analysis	OCFO ERC
Risk transfer	Statement of Work for Pilot Program for Reinsurance	OCFO ERC
Stress testing	Portfolio Stress Testing Credit-Level Stress Test Triggers	OCFO ERC

Source: EXIM Bank Internal Documents

CRO involvement in the development of policies, processes, and reporting of risk oversight, limits, exposures, and controls

Through the CRO's participation in several standing committees including the ERC and TRC, the CRO informs the committees' discussions of various credit and risk management policies. In addition, the CRO leads the development of credit policies and procedures, including the Country Limitation Schedule (CLS),³⁶ which serves as the Bank's de-facto country risk threshold.

Risk oversight is achieved through EXIM Bank's policies and risk governance structure. The latter includes standing committees such as the ERC and TRC, as well as various internal processes including portfolio monitoring and the Risk Register process. OIG notes that the Bank further refined the CRO's role on the various committees. For example, on July 22, 2016, in response to a 2014 EY study of EXIM Bank management-level committees, the Bank revised the TRC Charter³⁷ to add the CRO as a non-voting ex officio member of the TRC to bifurcate the TRC and the Board's recommendations for each proposed transaction.

With respect to the management of risk tolerances, EXIM Bank utilizes several key metrics to manage its risk exposures including: the 2 percent regulatory default rate cap established by Congress; county and sovereign debt ratings; soft portfolio concentration limits (e.g., geographic region, country and industry limits); and the RAS.

³⁶ See *Country Limitation Schedule*, <http://www.exim.gov/tools-for-exporters/country-limitation-schedule>, updated on an "as-needed" basis.

³⁷ Transaction Review Committee Charter Memo, June 30, 2016.

The latter is a macro-level document and is addressed as part of OIG's assessment of provision D below, the integrated risk framework.

In interviews with senior management, the Bank provided several examples of its continued progress in implementing policies and processes for risk oversight, monitoring and management compliance with risk tolerances, and the management of risk exposures and risk controls across the Bank.

Under the purview of the CRO, the Bank created and is further refining new policies on risk oversight, limits, exposures, and controls. Credit-Level Stress Test Triggers³⁸ were introduced in April 2016 to provide guidelines for stress testing troubled transactions with exposures in excess of \$20 million. The Enhanced Monitoring Management policy³⁹ was introduced in August 2015 to enhance monitoring procedures of high risk transactions (transactions with a Budget Cost Level (BCL) 7 or worse).

In 2015, in collaboration with the ERC, the Bank's OCFO worked with the Economist Intelligence Unit (EIU) to develop a soft-limit portfolio dashboard.⁴⁰ The soft limits are based on the congressionally mandated default rate of 2 percent as stated in the 2015 EXIM Bank Charter. The Bank is enhancing the dashboard to include features such as combining sub-portfolio limits with the CLS. Finally, in response to several OIG recommendations, the Bank is refining its dashboard analysis to include soft limits for one obligor exposures and examining the potential co-variance of portfolio risks and the effect on expected losses.⁴¹

In terms of monitoring, the CRO has responsibilities for monitoring risk limits and exposures through his participation in a number of senior management-level committees, which existed before the reauthorization of the Charter.

In FY 2016, through the RMC,⁴² the CRO regularly reviewed the Bank's region and industry risk reports as well as the Bank's quarterly Default Report, which provides the Bank's default rate by region, product line, industry, key markets, and mandate. Through the ERC,⁴³ the CRO is responsible for monitoring changes in the CLS and the Transaction Risk Classification Process (TRCP), a mechanism by which the origination divisions and the Credit Policy Division jointly review certain medium-term insurance policies and guarantees. OIG observed that the expected implementation of new or

³⁸ *Credit Level Stress Test Triggers*, dated April 2016.

³⁹ *Enhanced Monitoring Management*, dated August 2015.

⁴⁰ *Memo to ERC with subject Soft Portfolio Concentration Sub-Limits*, dated Feb 25, 2016.

⁴¹ *Supra* note 11.

⁴² RMC minutes, dated 2016.

⁴³ *Ibid.*

upcoming policies such as Credit-Level Stressed Test Triggers, Enhanced Monitoring Management, and soft limit dashboard will continue to expand the CRO's risk management responsibilities.

Risk controls continue to be assessed through the Bank's internal controls process, which was established based on GAO's Green Book. Management also stated that the Bank recently established a central Internal Control Group to centrally manage this process.

Reputational and integrity risks are assessed by the Bank's Office of Export Finance utilizing the CRTI process. This process vets all parties of a Bank transaction in terms of their character, reputation and integrity and is similar to background checks performed at financial services institutions.

RECOMMENDATIONS

5. EXIM Bank should enhance its risk policy framework to further document the non-credit risks that are identified in the Risk Appetite Statement.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Planning and Execution of Risk Management Activities

Sec. 3(I)(3) Duties.

(C) to be responsible for the planning and execution of all Bank risk management activities, including policies, reporting, and systems to achieve strategic risk objectives;

Finding 4: The Chief Risk Officer is responsible for the planning and execution of risk management activities.

Pursuant to the provision above "CRO Responsibility C," OIG focused the assessment on the CRO's role in the development of risk assessment activities through the policies and procedures of the Bank, reporting structure and systems used in the risk process. As discussed above, through his attendance and participation in several standing committees, including the RMC and TRC, the CRO informs the committees' discussions of various credit and risk management policies. The CRO also manages risks through the use of various reports, such as the portfolio limit dashboard, region and industry risk reports, quarterly Default Report and CLS as discussed in CRO Responsibility B above.

Regarding the “system” objectives noted within the provision, management has implemented several initiatives to improve its risk management data via system upgrades. Bank management noted that the primary source of data that is used to produce the Bank’s risk reports is EXIM Bank’s Financial Management System Next Generation (FMS-NG).⁴⁴ Updated in 2014, the FMS system replaces the legacy F&A Systems, upgrading it to a Financial System Integration Office (FSIO) certified U.S. federal financial system. Its main objective is to seamlessly integrate EXIM Bank’s current technology architecture, support automated financial data exchanges while being located within a cloud service environment. One of FMS-NG’s uses is to produce the data used for the Bank’s Annual Financial Statement. According to OIG’s Office of Audits, the Bank has consistently received an unqualified opinion that the financial statements have been found to fairly present the financial position of the Bank. EXIM Bank Management confirmed that the Bank’s senior management team including the CRO is kept abreast of the review process and briefed on the results.

An additional group that focused on the reporting and quality of risk management data is the Data Quality Board.⁴⁵ Per the Charter, “the goal of the Data Quality Board is to improve the execution of the Bank’s mission by enhancing the quality and availability of business data. The Board’s purpose is to continually assess the quality of Bank data, develop a plan for improving it, and recommend appropriate standards to maintain a higher level of quality. The Data Quality Board will also be the focal point for an integrated team approach to data governance best practices required to meet its goals.” This group consists of senior management from the offices of the CIO, CFO, OGC, Office of Policy and Planning and the Office of Export Finance, and the CRO.

RECOMMENDATIONS

No recommendation is provided.

⁴⁴ *Overview Training Export Import Bank of the United States Financial Management Systems Next Generation (FMS-NG)*, dated May 23, 2016.

⁴⁵ *Data Quality Board Charter*, dated March 2015.

Integrated Risk Management Program

Sec. 3(I)(3) Duties.

(D) to develop an integrated risk management program that includes identifying, prioritizing, measuring, monitoring, and managing internal control and operating risks and other identified risks;

Finding 5: EXIM Bank is developing an integrated risk management program. While EXIM is identifying and measuring its key risks, it has not fully implemented an overarching Risk Appetite Framework (RAF) that clearly defines policies and processes to prioritize and manage risks.

In assessing “CRO Responsibility D,” OIG focused on the Bank’s current risk policies and the extent to which management is developing an integrated risk management framework including identifying, prioritizing, measuring, monitoring, managing internal control and operating risks and other identified risks within the Bank’s policies and programs. In interviews with Bank management, staff provided an update on several ongoing initiatives that demonstrate the Bank’s continued progress in the development of an integrated risk management framework:

- In January 2014, the ERC approved the use of the Risk Structure and Nomenclature document. This document identifies and categorizes all groups of risk within the Bank. The document divides risks into two categories, a Top Level (e.g. Strategic, Repayment, Operational Market etc...) and Sub-Categories (Reputational, Organizational, Credit etc...) while also identifying the primary risk owner.
- The Bank maintains an inventory of financial models currently in use by the entire Bank along with the model users. As part of its financial model governance policy, the Bank periodically validates and tests those models.
- Under the purview of the CRO, the Bank maintains a Risk Register to identify, prioritize, and monitor all risks the Bank faces in exercising its mandate. Since 2014, Bank management requires all departments to define and document a comprehensive risk assessment of each program annually. The CRO is responsible for managing the risk register process while each risk area through the identified risk owner is required to update the list annually. In addition to the risk title and descriptions, the Risk Register clearly outlines risk category, risk owner, implication to the Bank, existing control and future actions, control owner, due date and status for future actions, as well as evaluation of existing residual risk. Bank management also noted that this is an ongoing process and the Bank is still deciding on the proper time interval to regularly review the Risk

Register. Finally, in reviewing the list, OIG notes that changes to the Risk Register have not been documented on a change log.

- Periodic risk assessments. EXIM Bank management engages an external consultant to perform an independent risk assessment for the Bank. The last assessment was completed in 2012 and management has engaged another review to be completed by year end 2016.

Formulation of the Bank's Risk Appetite Statement in 2015 and the establishment of the ERC are two important milestones in the development of an integrated risk management framework

Consistent with OMB A-123 guidance, EXIM has an established management-level ERC chaired by the CRO. Membership is comprised by all officers of the Bank holding the title of executive vice president (EVP) and senior vice president (SVP). The Committee meets not less frequently than once each month. The purpose of the Committee is to review, evaluate, coordinate, and make recommendations to the President of the Bank and senior management on issues related to “financial, credit, legal, operational, reputational and other risk. The ERC will foster the development of enterprise risk awareness, promote open discussion regarding risk, integrate risk management into the bank’s goals, and create a culture such that Bank employees at all levels manage risks.” In addition, with the establishment of the ERC, the duties of legacy Credit Policy Committee (CPC) were consolidated into the duties of the ERC on May 26, 2016. The ERC is also a superior committee to and manages the activities of (i) the Transaction Risk Classifications Working Group (TRCWG), and (ii) the Default Working Group (DWG), to whom both committees report.

Notwithstanding the above, in discussions with EXIM management and in reviewing the ERC’s Charter, OIG found that not all of the responsibilities and authority of the ERC are clearly stated. For example, the Charter’s “Responsibilities and Duties” section outlines responsibilities defined as those that the ERC “may address,” which would typically be interpreted as not being required to do so under the Charter. However, following A-123 guidance, most if not all of these are considered responsibilities an ERC should be required to perform. In addition, the ERC Charter does not address two of the three A-123 “purpose” recommendations for the ERC, which concern responsibility to “oversee the establishment the Agency’s risk profile” and “development of appropriate risk response.” During meetings with EXIM management, ERC members also recognized the need for the ERC’s agenda to provide a better balanced focus on all of the Bank’s risk types, not just credit risk and portfolio risk mitigation.

Federal guidance describes the RAS as a written articulation of the aggregate levels and types of risk that an agency is willing to accept or avoid to meet its business objectives. EXIM Bank’s RAS was approved by the ERC in January 30, 2015. The statement broadly describes the Bank’s key risks and classifies them as either credit risk or other risks. The latter contains strategic risk, market risk, operational risk, and legal risk. OMB A-123, implemented July 15, 2016, states that “although a formally documented [RAS] is not required, agencies must have a solid understanding of their risk appetite and

tolerance levels in order to create a comprehensive enterprise-level risk profile.” Following federal guidance, the RAS can be described as a written articulation of the aggregate levels and types of risk that an agency is willing to accept or avoid to meet its business objectives.

In its review of the RAS, OIG found that although the RAS enumerates the risks, it does not adequately define those risks and address how they arise in the course of the Bank’s business operations. For example, the discussion on credit risk is silent on the Bank’s portfolio concentrations and the potential effect of correlation among risk factors and industry sectors. Second, the Bank’s current RAS does not articulate a risk appetite and risk tolerance for those risks — key components of a RAS.

As such the Bank should revise its RAF consistent with the new OMB A-123 guidance that encourages agency risk management functions “to develop a process to help senior management define risk appetite, and establish risk thresholds accordingly,” and then to “consider [those] risk appetite and tolerance levels.”

EXIM Bank should strengthen the Risk Appetite Framework

In response to various GAO and OIG recommendations as well as management’s internal assessment, the Bank has created several standing committees and drafted individual policies to address key risks inherent in EXIM Bank’s operations. Although these efforts have strengthened the Bank’s risk management practices, EXIM should continue to strengthen and integrate a single over-arching RAF that draws together all the separate policies and committees as well as a process for considering risk appetite and risk tolerance levels.

In recent years several international bodies have provided guidance on developing an RAF and its components. Those institutions include the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Financial Stability Board (FSB).⁴⁶ More recently, OMB A-123 and the *Playbook: Enterprise Risk Management for the U.S. Federal Government* also identifies COSO as a primary source of understanding the components and concepts of a RAF.

In addition, Section II of OMB’s A-123 defines as an industry best practice a risk management function that helps senior management “develop a process to define risk appetite, and establish risk thresholds accordingly.” While presently there is no federal requirement for EXIM to implement a RAF, OMB A-123 states that agencies are encouraged, but not required, to develop an approach to implement ERM, which may include a process for considering risk appetite and risk tolerance levels. The latter is defined in OMB’s A-123 as follows:

- Risk Appetite – The broad-based amount of risk an organization is willing to accept in pursuit of its mission/vision.

⁴⁶ The FSB’s Principles for an Effective Risk Appetite Framework was published in November 2013.

- Risk Tolerance – The acceptable level of variance in performance and risk appetite levels relative to achievement of objectives.

Finally as defined by federal guidance and the FSB, the RAF is defined as “the overall approach, including policies and processes through which risk appetite is established, communicated, and monitored.”

Although federal agencies are not required to adhere to FSB standards, they present an additional reference point as to leading practices followed by financial institutions. The FSB posits that an effective RAF consists of seven separate but interrelated components. Indeed, an effective RAF establishes each of the components and explains the relationship of the components to one another.⁴⁷ The latter is critical for communicating and implementing the RAF across the organization. The following are the principal components of a RAF as suggested by FSB guidance:

- Risk Capacity – The maximum level of risk a financial institution (FI) can assume given its available resources (i.e., capital and liquidity).
- Risk Appetite Levels – The aggregate levels and types of risk an FI is willing to take within its risk capacity.
- Risk Tolerances – An acceptable performance variance to an established risk appetite level relative to achievement of an objective.
- Risk Limit – A value established for a risk metric that is not to be breached. Typically established for financial risk types where the risk exposure is quantifiable. A specific means for ensuring that total losses are kept within the Risk Appetite Levels established for the firm.
- Key Risk Indicator (KRI) – A metric monitored as an early warning signal of increasing risk. Firms establish KRIs for both financial and nonfinancial risks, but they are critical for nonfinancial risk types, where quantifying the associated risk exposure is more difficult.
- Risk Appetite Statement – A written articulation of the aggregate levels and types of risk that an FI is willing to accept or avoid to meet its business objectives.
- Risk Profile – A point-in-time assessment of the FI’s gross and net exposures, aggregated within and across each relevant risk category based on forward looking assumptions.

⁴⁷ Ibid.

Developing an ERM maturity model

According to the ERM Playbook, an agency’s progress in developing and implementing a RAF should be forward-looking, with assessments concerning maturity of the ERM program along the way. Since each organization is at a different point of organizational and process maturity, these levels can be assessed using capability maturity models. For example, organizations at an earlier stage of ERM may lack formal procedures and are more reactive to risks while those that are further along the ERM process may have an integrated, pro-active process with risk discussions informing daily decision making. Finally, evaluation of ERM at an organization is a long-term, continuous process as needs and risks will change over time. The Playbook provides different examples of maturity models that can be used to evaluate organization’s maturity.

RECOMMENDATIONS

6. The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.
7. The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.
8. To track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Risk Assessment and Underwriting of Transactions and Concentration Exposure***Sec. 3(I)(3) Duties.***

(E) to ensure that the process for risk assessment and underwriting for individual transactions considers how each such transaction considers the effect of the transaction on the concentration of exposure in the overall portfolio of the Bank, taking into account fees, collateralization, and historic default rates; and

Finding 6: EXIM Bank has developed a process to ensure that risk assessment and underwriting for individual transactions considers the effect of the transaction on concentration of exposure in the overall portfolio.

As discussed above in our assessment of provision B above, the OCFO worked with the EIU and members of the ERC to develop a soft-limit portfolio dashboard.⁴⁸ In FY 2016, the Bank created a transaction level template that aggregates any new transaction over \$10 million into a specific sub-portfolio by region, product, and sector. The data are then added to the portfolio dashboard and the incremental impact on existing portfolio concentrations is calculated by the dashboard model. The template allows Board staff to determine the proforma effect on the Bank’s overall portfolio including its soft portfolio limits.

According to EXIM Bank staff, the results of the soft-limit analysis for transactions under consideration for Board approval will be presented by the underwriters to the Board. The underwriters would notify the Board of potential soft-limit breaches if approving the transaction pushes the expected default rate of the sub-portfolio or the entire EXIM Bank portfolio to be over the 2 percent default limit. The Bank’s senior management indicated that the limit would be a soft limit because the Board would still be able to approve the transaction and override the soft limit for the particular sub-portfolio.

OIG notes that the Bank has cited that due to the lack of board quorum, the transaction level soft limit analysis has not been formally tested in an origination setting.

The Bank also noted that future enhancements⁴⁹ are planned for soft-limits that may impact the future underwriting process, such as combining sub-portfolio limits with country risk, updating soft portfolio concentration sub-limits data at least annually, and completing a model review every three years. The future enhancements are scheduled to be carried out by the Bank’s OCFO and other units such as Country Risk and Economic Analysis Division (CREA) under the oversight of the CRO and ERC.

RECOMMENDATIONS

No recommendation is provided.

⁴⁸ Memo to ERC with subject Soft Portfolio Concentration Sub-Limits, dated Feb 25, 2016.

⁴⁹ Ibid.

Review of Qualitative Metrics

Sec. 3(1)(3) Duties.

(F) to review the adequacy of the use by the Bank of qualitative metrics to assess the risk of default under various scenarios.

Finding 7: EXIM Bank has implemented the use of qualitative risk metrics to assess the risk of default under various scenarios consistent with FCRA provisions.

As discussed in OIG's earlier evaluation entitled, *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-EV-16-01), EXIM Bank has worked together with OMB to selectively incorporate qualitative risk factors as part of the estimated Credit Loss Factors for Bank programs in accordance with FCRA.

RECOMMENDATIONS

No recommendation is provided.

CONCLUSION

In accordance with the statutory requirements contained in the Export-Import Bank Reform and Reauthorization Act of 2015 (the “Act”), we evaluated the Bank’s portfolio risk management policies and the extent to which EXIM Bank has implemented the provisions related to the appointment of the Chief Risk Officer (CRO) and the duties ascribed to the CRO. OIG’s evaluation found that EXIM Bank appointed an Acting CRO on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum.

OIG’s review of the duties assigned to the CRO confirmed that the CRO is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency. Our assessment of the Bank’s risk policies found that EXIM should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement. Finally, we found that EXIM should strengthen the over-arching risk appetite framework (RAF) that draws together all the separate policies and committees as well as a process for considering risk appetite and risk tolerance.

APPENDIXES

Appendix A: Management Response and OIG Evaluation



EXPORT-IMPORT BANK
OF THE UNITED STATES

November 30, 2016

Michael McCarthy
Deputy Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Mr. McCarthy,

Thank you for providing the Export-Import Bank of the United States (“EXIM”) with the Office of the Inspector General’s Evaluation Report on the Chief Risk Officer (CRO) Responsibilities”, OIG-EV-17-01 on November 22, 2016. EXIM continues to support the OIG’s work, which complements the Bank’s efforts to continually improve its processes. EXIM is proud of the strong and cooperative relationship it has with the OIG.

EXIM values OIG’s conclusion that, after interviewing “subject matter experts, including representatives from OMB, leading commercial banks and peer U.S. agencies”, “EXIM Bank has made substantial progress in implementing policies and procedures for risk oversight, monitoring and management.”

Further, EXIM appreciates OIG’s acknowledgment that “consistent with OMB A-123 guidance, EXIM has an established management-level Enterprise Risk Committee (ERC)” and that “the formulation of the Bank’s Risk Appetite Statement in 2015 and the establishment of the ERC are two important milestones in the development of an integrated risk management framework.”

EXIM also appreciates that the OIG acknowledges that “EXIM Bank appointed an Acting Chief Risk Officer on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act.” Additionally, EXIM values the OIG’s conclusion that “the CRO is performing duties related to managing and mitigating all risk.”

EXIM continuously strives to improve its policies and practices and agrees to all eight OIG recommendations in this report.

1

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

Recommendation 1: OIG recommends that EXIM Bank clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.

Management Response: EXIM concurs with this recommendation. EXIM will update its guidance to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency and formally document the risk management roles, responsibilities and authority of its line of defense functions.

Recommendation 2: OIG recommends that EXIM Bank review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.

Management Response: EXIM concurs with this recommendation. EXIM will review the Enterprise Risk Committee approval process and update its guidance accordingly.

Recommendation 3: OIG recommends that EXIM Bank review the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework and ensure that responsibility for the first line of defense and second line of defense are separated.

Management Response: EXIM concurs with this recommendation. EXIM will review and ensure that the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework.

Recommendation 4: OIG recommends that EXIM Bank assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.

Management Response: EXIM concurs with this recommendation. EXIM will assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and as necessary, will reassign resources or seek additional funding for the CRO.

Recommendation 5: OIG recommends that EXIM Bank enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.

Management Response: EXIM concurs with this recommendation. EXIM will enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.

Recommendation 6: OIG recommends that the Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides

an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.

Management Response: EXIM concurs with this recommendation. EXIM will continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework. This project has been underway since the approval of the Bank's current Risk Appetite Statement, and has been a priority of the CRO.

Recommendation 7: OIG recommends that the Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.

Management Response: EXIM concurs with this recommendation. EXIM will update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.

Recommendation 8: OIG recommends that to track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

Management Response: EXIM concurs with this recommendation. EXIM will develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect EXIM funds from fraud, waste, and abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,



Charles J. Hall
Acting First Vice President / Vice Chairman
Executive Vice President / Chief Operating Officer
Export-Import Bank of the United States

OIG Evaluation

On November 30, 2016, EXIM Bank provided its management response to a draft of this report, agreeing with the eight recommendations. The response identified the Bank's actions taken or planned to address the recommendations. OIG considers the Bank's actions sufficient to resolve the reported recommendations, which will remain open until OIG determines that the agreed upon corrective actions are completed and responsive to the reported recommendations. The Bank's management response to the eight reported recommendations and OIG's assessment of the response are as follows:

RECOMMENDATION 1

Recommendation 1: To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.

Management Response: EXIM concurs with this recommendation. EXIM will update its guidance to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency and formally document the risk management roles, responsibilities and authority of its line of defense functions.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 2

Recommendation 2: EXIM Bank should review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.

Management Response: EXIM concurs with this recommendation. EXIM will review the Enterprise Risk Committee approval process and update its guidance accordingly.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 3

Recommendation 3: EXIM Bank should review the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework and ensure that responsibility for the first line of defense and second line of defense are separated.

Management Response: EXIM concurs with this recommendation. EXIM will review and ensure that the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 4

Recommendation 4: EXIM Bank should assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.

Management Response: EXIM concurs with this recommendation. EXIM will assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and as necessary, will reassign resources or seek additional funding for the CRO.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 5

Recommendation 5: EXIM Bank should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.

Management Response: EXIM concurs with this recommendation. EXIM will enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 6

Recommendation 6: The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.

Management Response: EXIM concurs with this recommendation. EXIM will continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework. This project has been underway since the approval of the Bank’s current Risk Appetite Statement, and has been a priority of the CRO.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 7

Recommendation 7: The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.

Management Response: EXIM concurs with this recommendation. EXIM will update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 8

Recommendation 8: To track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

Management Response: EXIM concurs with this recommendation. EXIM will develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

Evaluation of Management’s Response: Management’s actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

Table 6: Summary of Management’s Comments on the Recommendations				
Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date ⁵⁰	Resolved: Yes or No ⁵¹	Open or Closed ⁵²
1.	EXIM will update its guidance to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency and formally document the risk management roles, responsibilities and authority of its line of defense functions.	No target completion date provided	Yes	Open
2.	EXIM will review the Enterprise Risk Committee approval process and update its	No target completion	Yes	Open

⁵⁰ EXIM Bank OIG has requested target completion dates for each of the outstanding recommendations.

⁵¹ “Resolved” means that (1) Management concurs with the recommendation, and the planned, ongoing and completed corrective action is consistent with the recommendation; or (2) Management does not concur with the recommendation, but alternate action meets the intent of the recommendation.

⁵² Upon determination by EXIM Bank OIG that the agreed upon corrective action has been completed and is responsive to the recommendation, the recommendation can be closed.

Table 6: Summary of Management’s Comments on the Recommendations				
Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date⁵⁰	Resolved: Yes or No⁵¹	Open or Closed⁵²
	guidance accordingly to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.	date provided		
3.	EXIM will review and ensure that the alignment of the Bank’s risk management activities consistent with the “three lines of defense” framework.	No target completion date provided	Yes	Open
4.	EXIM will assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and as necessary, will reassign resources or seek additional funding for the CRO.	No target completion date provided	Yes	Open
5.	EXIM will enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.	No target completion date provided	Yes	Open
6.	EXIM will continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.	No target completion date provided	Yes	Open
7.	EXIM will update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.	No target completion date provided	Yes	Open
8.	EXIM will develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.	No target completion date provided	Yes	Open

Appendix B: Background on EXIM Bank’s Charter 2015

With the passage of the Export-Import Bank Reform and Reauthorization Act of 2015 (the “Act”), the Bank’s Charter was renewed for an additional five-year period.^{53, 54} The Act included additional provisions related to risk management as summarized below:

1. Enact an exposure cap “freeze” if the Bank’s default rate rises to 2 percent or more: Under Sec. 6(a), the aggregate outstanding exposures are capped at \$135 billion for each fiscal year from 2015 to 2019. In addition, the exposure cap is subject to a “freeze” if the Bank’s default rate⁵⁵ rises to 2 percent or more. Under the freeze, the exposure would be capped at the amount outstanding as of the last day of the quarter and would remain in place until the default rate falls under 2 percent.
2. Build and hold a reserve of 5 percent or more for the aggregate amount of disbursed and outstanding commitments: Under Sec. 6(b), the bank is required to “build to and hold in reserve” an amount not less than 5 percent of the aggregate amount of disbursed and outstanding loans, guarantees, and insurance of the Bank to protect against future losses.
3. Establish an “Office of Ethics” in the Bank: Under Sec. 3(k), the Office of Ethics provides oversight for all ethics issues within the Bank. The duties include administrative actions to establish or enforce standards of official conduct, referral of alleged ethics violations to the OIG, reporting of violations to appropriate Federal or State authorities and issuance of general ethical guidance on Bank matters.
4. Appoint a Chief Risk Officer who shall “oversee all issues relating to risk within the Bank; and report to the President of the Bank”: Under Sec. 3(l), the Bank is expected to appoint a Chief Risk Officer with prior experience in practical financial risk evaluation practices. The duties of the Chief Risk Officer shall include the following:
 - To be responsible for all matters related to managing and mitigating all risk to which the Bank is exposed, including the programs and operations of the Bank;

⁵³ See the *Export-Import Bank Reform and Reauthorization Act of 2015*, included in “Division E—Export-Import Bank of the United States” of the “FAST Act,” which became public law on December 4, 2015 (Pub. L. No. 114-94) at <https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf>.

⁵⁴ See *The Charter of the Export-Import Bank of the United States* at [http://www.exim.gov/sites/default/files/2015 Charter - Final As Codified - 02-29-2016.pdf](http://www.exim.gov/sites/default/files/2015%20Charter%20-%20Final%20As%20Codified%20-%2002-29-2016.pdf).

⁵⁵ Default Rate, as defined by EXIM Bank, is the total amount of required payments that are overdue divided by a total amount of financing involved.

- To establish policies and processes for risk oversight, the monitoring of management compliance with risk limits, and the management of risk exposures and risk controls across the Bank;
 - To be responsible for the planning and execution of all Bank risk management activities, including policies, reporting, and systems to achieve strategic risk objectives;
 - To develop an integrated risk management program that includes identifying, prioritizing, measuring, monitoring, and managing internal control and operating risks and other identified risks;
 - To ensure that the process for risk assessment and underwriting for individual transactions considers how each such transaction considers the effect of the transaction on the concentration of exposure in the overall portfolio of the Bank, taking into account fees, collateralization, and historic default rates; and
 - To review the adequacy of the use by the Bank of qualitative metrics to assess the risk of default under various scenarios.
5. Terminate the Bank’s Audit Committee and establish a “Risk Management Committee”: Under Sec. 3(m), the members of the Board, along with the President and First Vice President of the Bank, form the Risk Management Committee. In conjunction with EXIM Bank OCFO, the Risk Management Committee shall provide oversight to periodic stress testing of the entire Bank portfolio and the monitoring of industry, geographic, and obligor exposure levels. The oversight will ensure that portfolio stress testing covers different market, industry, and macroeconomic scenarios following the common practices of commercial and multilateral banks. In addition, the Risk Management Committee is responsible to review all required reports on the default rate of the Bank before submission to Congress under Sec. 8(g).
6. Establish a pilot program to share risks under its loan, guarantee, and insurance programs: Under Sec. 51008, the Bank may enter into contracts to engage in risk transfer activities. The aggregate amount of liability the Bank may transfer through risk-sharing may not exceed \$10 billion in any fiscal year. The Bank is required to report annually on the use of the pilot program.

Acknowledgements

This report was prepared by the Office of Inspections and Evaluations, Office of Inspector General for the Export-Import Bank of the United States. Several individuals contributed to the report including Mark Thorum, Daniel Wong and Liam Bresnahan.



Office of Inspector General
Export-Import Bank *of the* United
States
811 Vermont Avenue, NW
Washington, DC 20571
202-565-3908
<http://www.exim.gov/about/oig>