

Program and Budget Committee

Twenty-Second Session
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RISK APPETITE STATEMENT

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INTRODUCTION

1. The Organization is committed to the continued strengthening of its risk management and internal control systems. Within this context, a number of important milestones have already been achieved, but further work remains to be done in order to effectively implement Enterprise Risk Management (ERM) by the end of the 2016/17 biennium. A critical component of this work is the establishment of a risk appetite for the Organization. WIPO's Independent Advisory Oversight Committee (IAOC) as well as the Internal Audit and Oversight Division (IAOD) have called for WIPO to establish a risk appetite statement.

2. It is recognized that, while the Organization strives to minimize the impact of risks encountered in the pursuit of its strategic objectives and expected results, there is a need to accept a certain amount of risk underpinned by shared ownership between Member States and the Secretariat. This threshold defines the risk appetite of the Organization, representing the benchmark against which WIPO will actively manage its risks.

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3. WIPO's business model is unique within the United Nations (UN) System, and requires that its risk approach is tailored accordingly. This is demonstrated through its resourcing as well as its operational structures.

4. WIPO defines its risk appetite in terms of: (i) operational risks; (ii) financial risks (iii) strategic risks; and additionally (iv) reputational impact. These are expressed as residual risk, i.e. the risk after mitigation measures and/or controls have been implemented. In that light, the Organization's risk appetite in broad terms is defined below:

- (i) Risks with a small impact are accepted where the likelihood of the risk event is assessed as moderate, low or minimal;
- (ii) Risks with a noticeable impact are accepted where the likelihood of the risk event is assessed as low or minimal; and
- (iii) Risks with a critical impact are accepted only where the likelihood of the risk event is minimal.

5. Any risks in excess of WIPO's risk appetite are assessed by Program Managers and/or the WIPO risk committee, taking into account the risk tolerances¹. Such risks will only be accepted after explicit approval when they are within delegated levels of authority, in line with the Organization's regulatory framework and after ensuring that the mitigation measures in place are suitable and appropriate.

Operational risks

6. WIPO's income relies on the continued health and growth of the global registration systems. These are supported by and delivered *via* increasingly complex information technology solutions. In view of the importance of global, reliable and timely access to the information provided by WIPO, including by its Member States, stakeholders as well as its external offices, the Organization accepts no more than a minimal level of risk related to systems availability, and mitigates this risk through robust business continuity management.

7. While provision of the registration services is guided primarily by WIPO's treaty obligations, high quality, secure and cost effective services are of paramount importance for continuing to retain and expand the user base of these services. WIPO is committed to protecting the data entrusted to it, and has zero tolerance for any identifiable risk which would endanger the confidentiality or integrity of that data. A minimal level of risk is considered acceptable in respect of the Organization's internal non-critical systems.

8. The Organization is committed to continuous improvement of its services and operations, and encourages the introduction of innovative solutions to enhancing effectiveness and cost efficiency in the delivery of these. Such changes, if they represent a low level of risk, and are suitably mitigated through careful planning and measured deployment, may be accepted by the Organization in pursuit of its strategic goals and expected results.

9. WIPO recognizes and accepts that users of its global registration systems may select alternative filing routes which may be perceived as more agile and responsive to their individual needs. This, in turn, may have significant impact on the income of the Organization. Mitigation of this risk targets evolving user expectations and keeping pace with the rapidly advancing technology. The Secretariat and Member States exercise their shared responsibility for ensuring that the Organization's continued progress in this area limits this risk to a low level.

Financial risks

10. Over 90 per cent of WIPO's income is generated by the services provided under the registration systems. WIPO acknowledges key risks to its income generating capacity in respect of exposure to external factors such as the economic climate, and foreign exchange movements. The Organization has put in place various measures to mitigate these risks, including a robust income forecast model, prudent financial policies, regulations and rules and a review of managing foreign exchange exposures with available financial instruments, which reduce the residual risk to a low level.

¹ Risk tolerance is the level of variation the Organization is willing to accept around specific objectives, for which specific approval levels are established within the organizational hierarchy.

11. The introduction of International Public Sector Accounting Standards (IPSAS) has provided an improved and more transparent view of the Organization's financial performance and its financial position. These standards highlight that prudent financial management within the constraints imposed by the traditional UN regulatory framework, in particular for investments, may not provide the appropriate platform for tailored and differentiated investment measures and strategies. At the same time, however, there is an increasing need for the Organization to recognize the imperative to protect the value of its financial assets in both the short and longer term. This requires that WIPO consider the possibility of undertaking a moderate level of risk in respect of its investment management policy, as the currently applied zero risk policy has a high probability of eroding the value of the Organization's financial assets.

12. Similar to other service-oriented organizations, the majority of WIPO's biennial expenditures relate to fixed staff costs, representing a significant static and long term cost element, which is not fully in line with the needs of WIPO's business model. Given the constraints imposed on the Organization as a member of the UN common system, it accepts the necessity of taking a moderate level of risk, through the judicious use of outsourcing and other cost effective resourcing solutions, in order to achieve a more sustainable cost structure for the future.

13. While the operating environment for WIPO is not deemed to be high risk in terms of exposure to risk of fraud, corruption or collusive practices, these risks nevertheless exist in all organizations, and WIPO has expressed a zero tolerance policy in respect of these.

Strategic risks

14. A shared understanding of the benefits of the international IP system is fundamental to its balanced evolution. The Organization recognizes the necessity of identifying specific opportunities that provide a platform for continued development of the international framework. The Member States, facilitated by the Secretariat, make every effort to minimize risk to the achievement of this goal.

Reputational impact

15. As a public sector organization and a specialized agency of the United Nations, WIPO must adhere to the highest standards of transparency and accountability. As such, it is subject to continuous scrutiny from its customers, stakeholders, staff, as well as the general public. Reputational impact may result from the occurrence of any of the aforementioned risks and can cause significant harm to the credibility of the Organization's work, for which WIPO's tolerance is correspondingly low. In this light, public disclosure, proactive provision of information, media awareness, and openness in responding to queries are key mitigating measures in place.

16. The following decision paragraph is proposed.

17. The Program and Budget Committee noted the establishment of WIPO's Risk Appetite Statement, in accordance with audit and oversight recommendations, as set out in document WO/PBC/22/17.

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