

Program and Budget Committee

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RISK APPETITE STATEMENT

Prepared by the Secretariat

INTRODUCTION

1. The Organization presented its first risk appetite statement to Member States in September 2014 (WO/PBC/22/17), on the recommendation of both the Independent Advisory Oversight Committee (IAOC) as well as the Internal Oversight Division (IOD). In accordance with best practice, this document serves as an update to that original statement, and reflects the enhanced maturity of the Organization's risk management practices and risk awareness, as well as the evolution of its internal control system, as also reflected in WIPO's Accountability Framework (see document WO/PBC/29/4).
2. This Risk Appetite Statement forms one element of a comprehensive risk management framework, which has been developed over the past four biennia, and is, in turn, one element of WIPO's Accountability Framework (WO/PBC/29/4). The Organization's risk management framework comprises this Statement, the Policy on Risk Management, the Risk and Internal Controls Management Manual, and is under the responsibility of the Risk Management Group (RMG).
3. In addition to the documented framework, Enterprise Risk Management at WIPO forms an integral element of the biennial and annual work planning processes, as well as encompassing risk assurance for business continuity, physical security, information assurance and third party risk management.
4. This Statement proposes a relative continuum of appetite for risk taking, in exchange for the chance of improved services, greater efficiency and the achievement of its Strategic Goals and Expected Results¹.

¹ As defined in the Results Framework of the Program and Budget.

5. It is recognized that, while the Organization strives to minimize high impact risks, mitigation comes at a cost. Accordingly, there is a need to accept a certain amount of risk, underpinned by shared ownership between Member States and the Secretariat. WIPO aims to optimize its risk profile, implementing effective controls and mitigation plans in line with this Risk Appetite Statement.

RISK APPETITE

6. **Risk appetite** is defined as the amount of risk, on a broad level, that the Organization is willing to accept in pursuit of its Strategic Goals and Expected Results.

7. WIPO's business model is unique within the United Nations (UN) System, and requires that its approach be tailored accordingly. Its resourcing, operational structures and risk profile, are reflected in this Statement, which in turn guides the Organization's approach to accept certain residual risks in return for potential cost efficiencies, process efficiencies and innovation.

8. The risk appetite levels used represent the following:

- i) **LOW risk appetite** – areas in which the Organization avoids risk, or acts to minimize the likelihood or impact of the risk event. This level of risk appetite is aligned to the Organizational overall risk appetite, and represented by the green line in Figure 1.
- ii) **MEDIUM risk appetite** – areas in which the Organization must constantly strike a balance between the potential benefits, and the downside costs of a decision. This level of appetite is represented by the orange line in Figure 1.
- iii) **HIGH risk appetite** – in specific areas, the Organization may choose to take a calculated amount of risk, with the expectation that the probability of benefits outweighs the potential for ineffective investment. This threshold is represented by the red line in Figure 1.

9. Risks are expressed as residual risks, i.e. the risk after mitigation measures and/or controls have been implemented. In that light, the Organization's **overall risk appetite is low**, (represented pictorially in Figure 1). Low risk appetite means:

- Risks with a small impact² are accepted where the likelihood of the risk event is assessed as moderate, low or minimal;
- Risks with a noticeable impact are accepted where the likelihood of the risk event is assessed as low or minimal; and
- Risks with a critical impact are accepted only where the likelihood of the risk event is minimal.

10. Residual risks exceeding the overall risk appetite of the Organization as described above, may be accepted with the explicit approval of the concerned Program Manager and the RMG, if they are actively being managed, through appropriate mitigation measures, towards the overall risk appetite, or if they fall within the areas of risks with medium/high risk appetites as set out in this Statement. All cases of risks assessed with a residual medium or high risk exposure are systematically reported to the RMG.

² Impact is expressed in operational detail in the Risk Management and Internal Controls Management Manual.

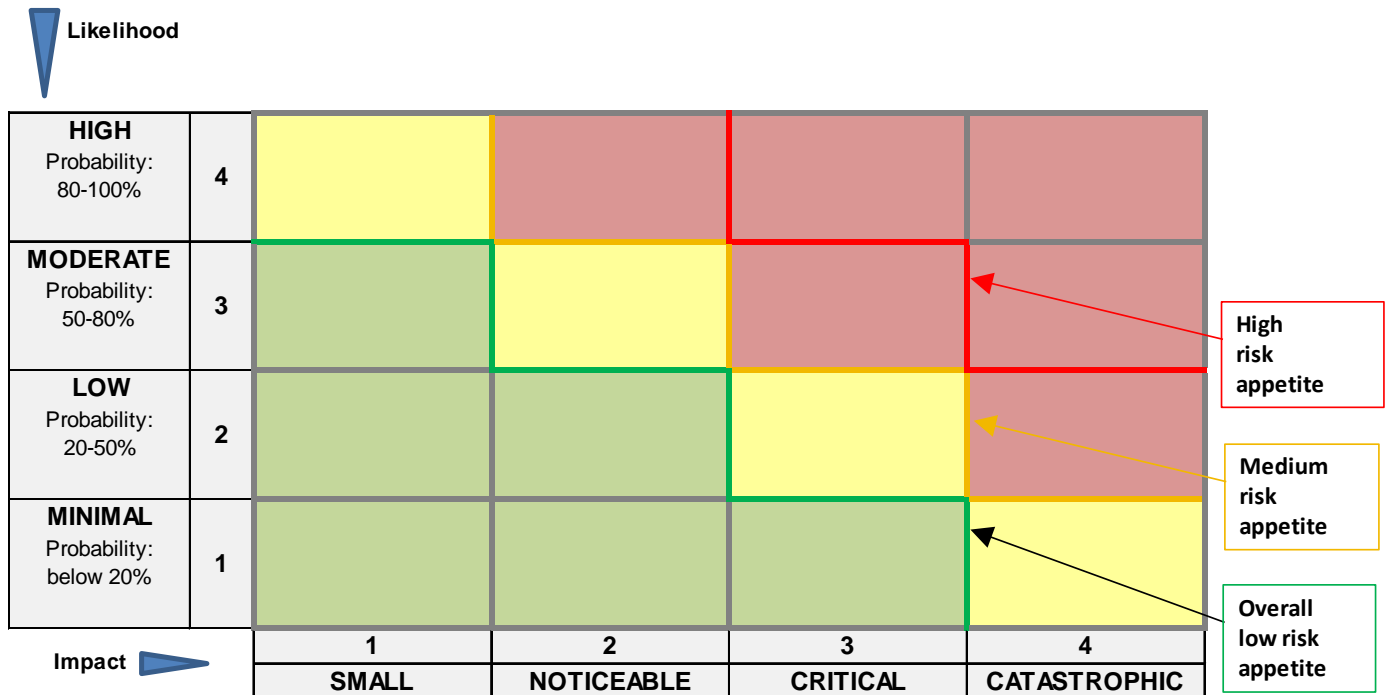


Figure 1: WIPO risk scale chart illustrating risk appetite levels

11. The Organization's risk appetite is expressed, in alignment with its Accountability Framework, under the following seven broad areas:

- i) Results Based Planning;
- ii) Performance and Risk Management;
- iii) Monitoring, Oversight, Complaints and Response Mechanisms;
- iv) Control Activities;
- v) Information and Communication;
- vi) Ethical Standards and Integrity; and
- vii) Control Environment.

WIPO Risk Appetite

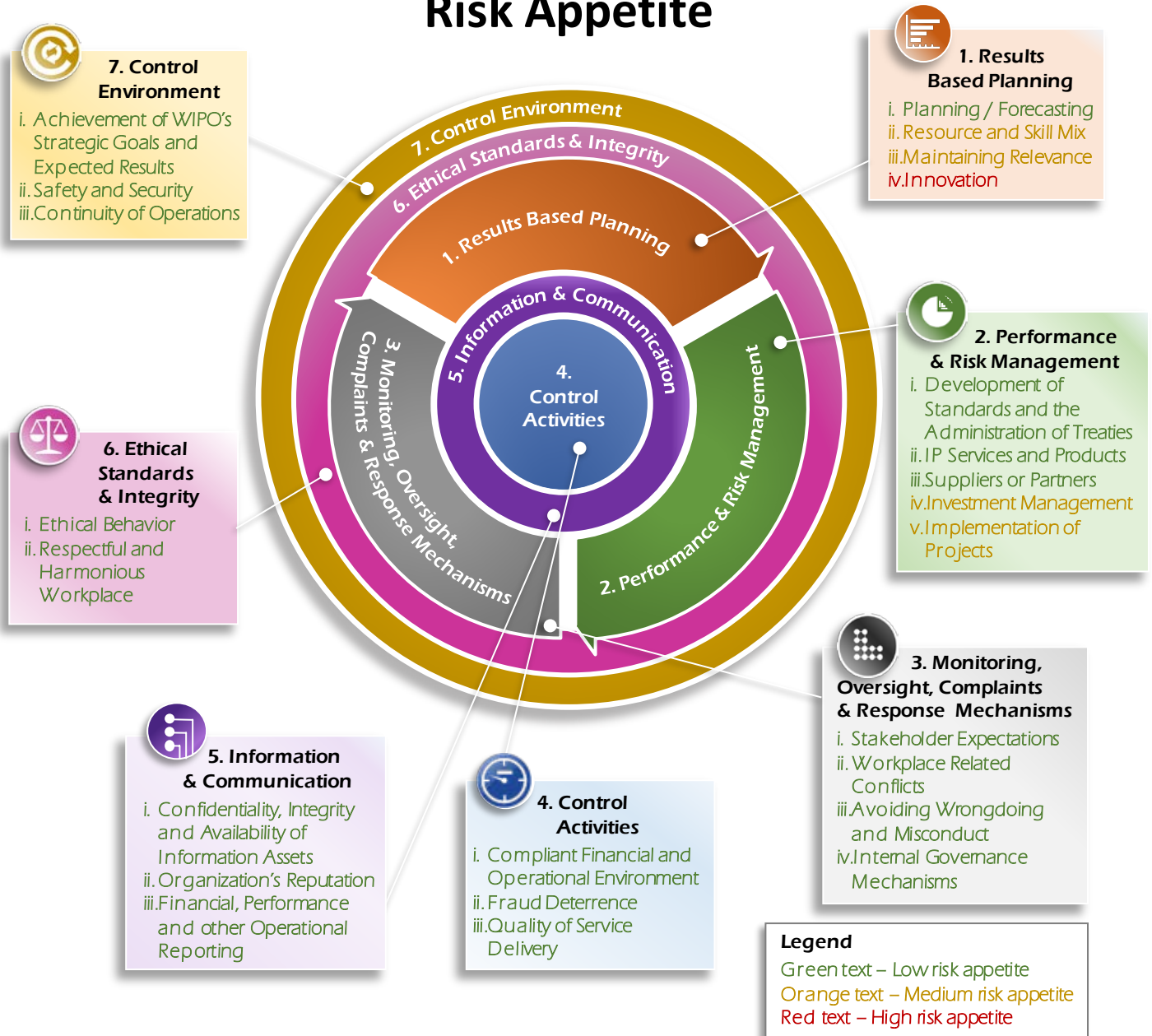


Figure 2: WIPO Risk Appetite

COMPONENT 1 – RESULTS BASED PLANNING

12. Risks under this area primarily relate to how, through its Expected Results, the Organization can achieve its Strategic Goals most effectively.



13. The Organization has a **low risk appetite** for:

- i) ***Negative deviations from key planning assumptions, primarily in respect of its income forecasts*** from PCT, Madrid and the Hague registration Systems. These forecasts are prepared by the Chief Economist on the basis of a robust statistical forecasting model, taking into account historical filing trends as well as Gross Domestic Product (GDP) forecasts. The planning assumptions which form the basis of the Program and Budget are set at a conservative level below the base case. Forecasts are regularly updated and reviewed by the RMG for operational monitoring.



14. The Organization expresses a **medium risk appetite** for:

- ii) ***Uncertainties regarding its ability to ensure that the appropriate resource and skill mix is available for its operational needs.*** The Organization dynamically manages the risks associated with resourcing through the tools at its disposal, such as recruitment incentives, various contract modalities, succession and workforce planning. Given the framework applicable to the Organization as a member of the UN common system, it accepts the necessity of taking a medium level of risk inherent in some contract modalities, such as loss of institutional knowledge and staff turnover in exchange for an efficient workforce model.
- iii) ***Loss of relevance in respect of addressing its stakeholders' needs, and responding to evolving global Intellectual Property (IP) requirements.*** As this risk is deemed to be a slowly evolving one, the Organization can accept a higher level of uncertainty in this regard, given its ability to respond to developing situations. 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. The Secretariat and Member States exercise their shared responsibility for ensuring that the Organization's continued investment in enhancing the quality of services for its users, together with the mitigating actions in this area, limit this risk to a medium level.



15. The Organization expresses a **high risk appetite** for:

- iv) ***Investing in areas that could provide significant improvement and innovation in its operations.*** The continued health and growth of the global registration systems require increasingly complex information technology solutions, which are underpinned by higher investment and development, bringing with them inherently higher risks as well. Other examples may include the development of enhanced tools for WIPO's operations, such as the Artificial Intelligence (AI) initiatives (e.g. neural translation), which represent new areas of innovation, and as such, may imply an inherent risk that the return on investment may not be fully achieved.

COMPONENT 2 – PERFORMANCE AND RISK MANAGEMENT

16. Uncertainties in this area primarily focus on the implementation of annual workplans and the Organization's biennial Program and Budget.



17. The Organization has a **low risk appetite** for:

- i) ***Risks related to the development of standards and the administration of treaties.*** In this respect, a shared understanding of the benefits of the international IP system is fundamental to achieving the goal of balanced evolution of the international normative framework for IP. Member States, facilitated by the Secretariat, make every effort to minimize risk to the achievement of this goal.
- ii) ***Uncertainties related to the provision of secure, available and accessible IP services and products.*** Member States and users of WIPO's registration systems expect accessibility and reliability in respect of WIPO's services, and consequently, WIPO only accepts a low level of risk in this area. An example of such a risk could be the prolonged unavailability of international IP registration services, which is mitigated through appropriate business continuity planning and enhancing IT infrastructure.
- iii) ***Uncertainties in WIPO's relationships with suppliers or partners, which may impact its activities.*** WIPO's business model entails working closely with external providers, partners, educational institutions, vendors, donors and other third parties. Risk assessments of strategic partners are routinely undertaken in order to ensure that the level of risk is mitigated to low, there is not an over reliance on a certain partner, and any deviations are reported according to the risk management policy. An example of this may be the failure of key suppliers to deliver services, which in turn can trigger a disruption to the service provided to WIPO's customers, and is therefore actively mitigated through contract and performance management.



18. The Organization expresses a **medium risk appetite** for:

- iv) **Losses incurred in respect of the implementation of WIPO's investment policy.** As set out by Member States, the policy establishes the level of risk WIPO may undertake in managing the Organization's investments, which is regularly monitored by the Advisory Committee on Investments. The policy acknowledges the need to consider the possibility of undertaking a moderate level of risk in respect of managing the Organization's long term investments. For example, there is a risk that the value of some or all of the investments made in accordance with the Member States approved investments policy could fall in the medium term, which would consequently result in a reduction in the Organization's net assets (reserves).
- v) **Risks encountered in the implementation of projects under the Capital Master Plan³.** In order to balance risk exposure against mitigation costs, new undertakings may pursue a slightly higher risk appetite, in accordance with the approved project plans. The risks, together with mitigation plans, and their evolution, are presented and reported on to Member States at the time of project proposal, at each reporting period as applicable, and in the WIPO Performance Report.

COMPONENT 3 – MONITORING, OVERSIGHT, COMPLAINTS AND RESPONSE MECHANISMS

19. Risks in this area primarily relate to the level of stakeholder satisfaction.



3. Monitoring, Oversight, Complaints & Response Mechanisms

- i. Stakeholder Expectations
- ii. Workplace Related Conflicts
- iii. Avoiding Wrongdoing and Misconduct
- iv. Internal Governance Mechanisms

20. The Organization has a **low risk appetite** for:

- i) **Potentially being unable to meet or exceed external stakeholders' expectations,** including those of customers, Member States, vendors, partners, or users of WIPO's services. In order to mitigate these risks, WIPO has put in place various mechanisms to channel feedback and provide a platform to monitor and enable follow up of concerns or comments indicative of the materialization of this risk.
- ii) **Workplace related conflicts,** which are mitigated through general awareness raising activities and provision of formal and informal conflict resolution mechanisms and services to staff and personnel.
- iii) **Any form of wrongdoing or misconduct,** which is addressed by training and sensitizing staff on how to prevent, avoid and report the same. Action will be taken on any occurrence of wrongdoing or misconduct through appropriate measures.

³ Capital Master Plan projects are Reserves funded and approved by, and reported on to Member States.

- iv) **Any perceived gaps in its internal governance mechanisms** including its risk **management** and internal controls framework, and anti-fraud framework. WIPO's oversight entities provide assurance to Member States and management on the effectiveness and efficiency of the internal governance and risk mitigating mechanisms.

COMPONENT 4 – CONTROL ACTIVITIES

21. Risks in this area primarily relate to the incidence of unauthorized financial or operational activities, fraud, as well as potential substandard quality of service.



22. The Organization has a **low risk appetite** for:

- i) **A non-compliant financial and operational environment, and any potential weakening of the checks and balances in place.** WIPO ensures that delegated authority, as well as segregation of duties, is strictly recorded and enforced through a robust system of internal controls, which in turn ensures that this risk area is mitigated. WIPO's oversight entities provide assurance to management that compliance, internal controls and risk management mechanisms in place to mitigate this risk area are effective and efficient.
- ii) **Any fraud in WIPO's operations.** WIPO is committed to ensuring that all its activities and operations are free from fraud and other prohibited acts⁴, and works to prevent and detect these from occurring in its activities or operations through appropriate internal control measures and the support of its oversight entities.
- iii) **Substandard quality of service delivery across its operations.** The Organization provides services to its fee paying users of the registration systems, its Member States, as well as other external and internal stakeholders, partners, its staff and personnel. Service quality is established through a variety of instruments, as appropriate, with strict time and quality related indicators closely monitored and tracked to ensure that the risk of substandard service delivery is minimized.

⁴ Other prohibited acts include corruption, collusion, coercion, money laundering and the financing of terrorism.

COMPONENT 5 – INFORMATION AND COMMUNICATION

23. This area focuses on exposure to malicious or negligent activity targeting WIPO's information assets, risks with negative reputational impact for the Organization, and the risk of communicating material misstatements regarding WIPO's operations.



5. Information & Communication

- i. Confidentiality, Integrity and Availability of Information Assets
- ii. Organization's Reputation
- iii. Financial, Performance and other Operational Reporting

24. The Organization has a **low risk appetite** for:

- i) **Events or circumstances resulting from negligence or malicious actions and which may compromise the confidentiality, integrity and availability of information assets**, including, *inter alia*, unpublished patent information, entrusted to and/or managed by the Organization. WIPO has invested significant resources to build its capacity and implement directive, preventive, and detective controls to protect all information assets under its custody.
- ii) **Risks which could damage the Organization's reputation**. WIPO adheres to the highest standards of transparency and accountability, and as such, it is subject to continuous scrutiny from its customers, stakeholders, staff, as well as the general public. Reputational damage could adversely affect WIPO's business operations and ability to deliver value for its stakeholders.
- iii) **Material misstatement and lack of transparency in financial, performance and other operational reporting**. This risk is mitigated by the extensive investment in the Enterprise Resource Planning (ERP) systems ensuring good data quality, and through comprehensive reporting by management to Member States across all WIPO's operational and financial activities.

COMPONENT 6 – ETHICAL STANDARDS AND INTEGRITY

25. This area primarily addresses risks associated with unethical behavior and disruptions to a harmonious workplace.



6. Ethical Standards and Integrity

- i. Ethical Behavior
- ii. Respectful and Harmonious Workplace

26. The Organization has a **low risk appetite** for:

- i) **Unethical behavior by its staff, vendors, and partners in relation to any part of WIPO's operations**, and mitigates this through the Staff Regulations and Rules (SRR), the Code of Ethics, the Supplier Code of Conduct, and related policies and procedures.
- ii) **Disruptions to a respectful and harmonious workplace**, including by discrimination or harassment, for which WIPO has zero tolerance, and which are mitigated by specific policies and procedures, as well as by dedicated programs and activities to prevent their occurrence.

COMPONENT 7 – CONTROL ENVIRONMENT

27. This area primarily addresses risks to WIPO's overall control environment, its personnel, and the physical security of its operations.



28. The Organization has a **low risk appetite** for:

- i) ***Deviations from activities directed at the achievement of WIPO's Strategic Goals and Expected Results as set out by Member States, and the Treaties which the Organization administers.*** This is reflected by the broad-based set of entity level controls in place, which demonstrate WIPO's commitment to executing its activities in line with Member States' decisions.
- ii) ***Any risk to the safety and security of its staff and other personnel and all individuals on its premises.*** WIPO addresses this risk through a comprehensive global security strategy, a dedicated safety and security service, and the significant investment in the implementation of its broad Duty of Care responsibilities to staff and personnel working across all WIPO's operations, including in high-risk environments if operational needs so dictate.
- iii) ***Disruptions to the continuity of its operations as a result of natural disasters or other physical security risks.*** WIPO actively monitors and mitigates these risks in a systematic manner, using a broad range of information resources, and undertaking Business Continuity Management within the framework of strong organizational resilience.

29. The following decision paragraph is proposed.

30. The Program and Budget Committee noted the Organization's Risk Appetite Statement, as set out in document WO/PBC/29/5.

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