



**GREEN
CLIMATE
FUND**

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21 – 24 October 2024
Songdo, Incheon, Republic of Korea
Provisional agenda item 15

GCF/B.40/09/Add.01

3 October 2024

Risk appetite statement – Addendum I: Response matrix for comments received on the draft document

Summary

This document contains the response matrix for Board comments received on the draft document titled “Risk appetite statement”.

Response matrix for Board comments received on the draft document “Risk appetite statement”

Comments received at the technical session, written comments and bilateral meetings:

1. Canada
2. France
3. Germany
4. Japan
5. Kingdom of the Netherlands
6. Republic of Korea
7. Sweden
8. Switzerland and Finland
9. United States of America
10. Private sector observers
11. Civil society observers

Board member/ alternate Board member	Section	Text	Board member/alternate Board member comment	Secretariat response
Kingdom of the Netherlands	NA	NA	What is the implementation plan? For instance, communication with other organizations such as multilaterals and small DAEs?	This is well noted. The Secretariat will prepare the implementation plan, including the communications plan, taking guidance from the RMC.

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Switzerland and Finland	annex II, section 3.3: “Zero tolerance behaviours and activities”	NA	We propose to explicitly mention forced labour as zero tolerance behaviour and activities in the Statement in chapter 3.3 (or in the Prohibited practice policy decision B.22/9)	<p>Currently, the Policy on Prohibited Practices, the Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse and Sexual Harassment, and the SEAH component of the Revised Environmental and Social Policy (RESP) set out the entirety of the GCF zero-tolerance framework. The PPP is the policy framework for integrity matters. Forced labour is captured in Standard 2 of the Interim Environmental and Social Safeguards of the Fund on Labor and Working Conditions, compliance with which is a requirement under the RESP. In addition, the RESP refers to the core labour standards of the International Labour Organization. GCF has a low risk tolerance for compliance breaches with its policies, including the RESP. Further, in the updated risk appetite statement, compliance breaches have the most conservative risk tolerance level.</p> <p>In keeping with the spirit of policy coherence and with the long-standing practice of GCF of substantive policy development/consultation, particularly on matters that require AE adherence, should</p>

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				GCF seek to amend the policy, such an exercise would need to be conducted through a distinct policy development process, which would also require full consultation with AEs in line with the obligations of GCF under the AMA.
			To differentiate between the GCF policies (low tolerance) and prioritize the crucial, human rights and biodiversity related policies and related monitoring and mitigation measures and;	The risk appetite statement establishes a low risk tolerance for both internal policy breaches and policy breaches by partners of the Revised Environmental and Social Policy, the Updated Gender Policy or the Indigenous Peoples Policy. Such matters and related monitoring and mitigation measures are included in these policies. Building on policy compliance, the Secretariat has been optimizing its review and is developing a monitoring approach based on risks.
			To add breaches of Environmental & Social Safeguards (ESS) to the low risk tolerance category (or even “zero tolerance” for serious ESS breaches). The approach should be aligned with how this is managed in other major IFIs and climate funds.	Noted. Breaches of ESS indeed have a low risk tolerance and are now explicitly mentioned together with Indigenous Peoples and Gender in the published proposal. This is in line with the practice of comparable institutions. The risk appetite statement is

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				also aligned with the GCF current ESS framework.
Switzerland and Finland	Annex II, section 3.4.2: "Funds held in trust risk"	NA	We believe the GCF should be able to take higher risk tolerance for funds held in trust. Or at least, the current low risk tolerance should not prevent investing in longer-term portfolios (currently limited to 1 and 3 years). This could generate substantially higher returns for the GCF trust fund without significantly increasing the risks, given the other safeguards and sustainability requirements in place. We call the GCF to explore with the Trustee how it could use model portfolios with longer time horizons than three years.	Noted. Investment duration will be examined as part of the risk management framework review following the approval of the risk appetite statement.
Republic of Korea	Annex II, section 3.4.6: "Legal risk"	Notwithstanding paragraph (b), above, the Fund will not establish presence in countries that have	As the host country of the GCF, we welcome the moderate risk tolerance set for legal risk.	This is noted.

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		not recognized its privileges and immunities.		
Republic of Korea	Annex II, section 3.5.2: "Credit and equity investment risk"	NA	We agreed to the considerable risk tolerance for credit and equity investment risk in projects and programmes to meet its strategic mandate of the Fund, however, we need a clarification for setting equivalent to 20% of the face value of the loan contribution provided to the Fund by the loan contributors for non-performing loans as the the cushion for loan loss reserves;	As per the updated Policy for contributions to the Green Climate Fund for the second replenishment (decision B.36/14, annex IV, para. 36), payment of interest and repayment of loans to the loan contributors will be made from (a) reflows received by GCF from loans extended and (b) the cushions, in line with the principle of avoiding cross-subsidization between grants and loans. As GCF matures and more granular data become available, the 20 per cent cushion level will be reviewed.
Republic of Korea	Annex II, section 3.5.3: "Project and programme implementation risk"	NA	We recommend the visualization of the risk description similar to the Risk assessment and management in the project proposal c.f., category/tolerance level/impact or likelihood/description/mitigation measures or actions to be taken, or the integration of these components in the Annex III.	Such parameters have been mentioned under "Project and programme implementation risk". We continue to refine the project/programme risk assessment methodology and detailed sublevel risk taxonomy.

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Japan	Annex II, section 3.4.5: "Concentration risk"	NA	<p>Concentration Risk</p> <p>The MDBs have some sort of single country limit/cap in their portfolio to maintain AAA ratings from the rating agencies, and these limits/caps are basically based on the sovereign bond ratings of the lending countries. We see the indicative threshold in the footnote in the document. What is the rationale for these numbers given the fact that the GCF itself does not have a bond rating? Would you be able to articulate the financial impact on the GCF balance sheet if the proposed numbers are adopted? Or do you have any other alternative numbers that we could consider?</p>	<p>The concentration numbers are proposed for risk management purposes, including monitoring of implementation risk. The numbers are proposed considering the existing portfolio and pipeline growth. They cover all funding proposals, including grants, and exclude the Readiness and Project Preparation Facility. In addition, these numbers are monitoring thresholds, not limits. We do not envision a direct impact on the GCF balance sheet.</p>
Japan	Annex II, section 3.5.2: "Credit and equity investment risk"	NA	<p>Credit and equity investment risk</p> <p>The document describes that the Fund will balance its deployment of funding instruments (e.g. grants, equity, loans, and guarantees). We understand that the comparative advantage of the GCF among the multilateral climate funds is the scale of resources, and the wide variety of instruments, especially for the de-risking instrument to mobilize private finance such as equity investments and guarantees. We</p>	<p>GCF needs to understand, measure, report on and manage risk associated with the use of different instruments, both at the project level and at the portfolio level, assessing concessionality and appropriate risk-sharing with partners. A differentiated risk-monitoring approach based on financial instruments is needed, and such an approach will be carefully developed and assessed keeping in mind these expectations.</p>

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			also recognize that there are high expectations for the GCF to expand the use of these de-risking instruments in the climate finance architecture. How do you plan to address these expectations in the risk policy?	
Japan	Annex II, section 3.4.3: "Foreign exchange risk"	NA	Foreign exchange risk Given the ongoing discussions on local currency financing in the Investment Committee, FX risk should be considered in conjunction with the practical/specific instrument of the GCF. Could you clarify how you plan to reconcile these two discussions together if possible?	The Investment Committee is working on a foreign exchange management framework to help GCF partners better manage their foreign exchange risks. The risk appetite statement is about the risk appetite of GCF in its operational decisions. The link is that options being considered by the IC may have risk implications for GCF that need to be assessed, understood and managed. Joint committee meetings between the RMC and the IC will be beneficial.
Germany	Annex II, section 3.4.3: "Foreign exchange risk"	NA	Para 16a: For the management of FX-risks the GCF should establish clear procedures and guidelines (to be approved by the Board). This could / should include the introduction of a limit for FX-exposure.	The Secretariat takes note of the importance of establishing foreign exchange risk management procedures and will update the RMC on its progress in this area.
Germany	Annex II, section 3.4.3: "Foreign exchange risk"	NA	Para 16b: There is an implicit link to the Asset Side FX-risk, as the "low risk tolerance" for liability side (which is important) will limit the ability to take on larger Asset Side	"Asset" and "liabilities" in the draft risk appetite statement do not refer to the accounting concepts found in balance sheets. They refer to the definitions in the RAS. As a

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			FX-risks (because higher Asset side FX risks would increase the mismatch challenge for which only a low risk tolerance is allowed). It would be good if this link could be clarified in the text and stipulated that the low risk tolerance on the Liability side supersedes the moderate risk tolerance on the Asset side.	result, the accounting equation (<i>asset = liability + equity</i>) does not apply here and therefore the risk of asset–liability mismatch is not relevant in this context. We modified the categorization to “programming-side” and “funding-side” foreign exchange risk to avoid confusion.
Germany	Annex II, section 3.4.2: “Funds held in trust risk”	NA	Para 17: If not already specified in the relevant policies this should also include excluding investments in certain non-sustainable sectors and countries (e.g. fossil fuels, nuclear energy, sanctioned countries etc.)	Currently, the trustee selected by the Board uses an integrated environmental, social and governance approach.
Germany	Annex II, section 3.3: “Zero-tolerance behaviours and activities”	NA	Regarding sanctions – we welcome the mention of UN sanctions. We assume that in practice the GCF and trustee also consider EU sanctions via their compliance systems. Also knowing that with the Policy on Prohibited Practices from 2019 the GCF applies highest integrity standards to all its activities and follows a zero-tolerance-policy towards money laundering and financing of terrorism, among others.	The risk appetite statement reflects the scope of sanctions applicable to GCF (i.e. UNSCR) as per the AML/CFT Policy and Standards adopted at the eighteenth meeting of the Board (B.18) and twenty-third meeting of the Board (B.23). GCF applies due diligence measures within the scope of the AML/CFT Policy. In addition, in line with the Prohibited Practices Policy, GCF investigates reports on allegations of prohibited practices and misconduct, including money laundering and

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				financing of terrorism, and takes appropriate measures.
Sweden	NA	NA	Are there any limitations that the current RAS has on GCF and how we are addressing those barriers, especially for the approvals of certain projects? Encouraging the establishment of a RAS that enables GCF to take risks that are relevant and important to fill the GCF mandate.	The Secretariat responded citing challenges of applying a zero-risk tolerance in the 2017 risk appetite statement given the contextual risk that GCF and its partners face and the need to manage risk. This is addressed in the updated risk appetite statement by separating prohibited behaviours and activities from risk tolerance, which starts at “low” and increases to “considerable”, as zero risk does not exist.
Sweden	NA	NA	Are there any issues raised based on discussions within the Secretariat or the RMC regarding the updated document?	Areas mentioned by the RMC Chair and the Secretariat at the technical session include zero tolerance and concentration risk. The RMC feels comfortable with how they are framed and addressed.
Sweden	Annex II, section 3.4.3: “Foreign exchange risk”	Liability-side FX risk: GCF receives contributions from countries in	I do not understand this fully. If Sweden makes a contribution in SEK, should that not appear on the Asset side of the books?	The mentions of “asset” and “liabilities” in the draft risk appetite statement do not refer to the accounting concepts found in balance sheets but to the definitions in the risk

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		currencies that may not match the currency of future funding proposals, creating potential currency mismatch challenges.		appetite statement. Contributions in Swedish krona received through promissory notes (not yet encashed) appear on the asset side of the GCF balance sheet under “Contribution receivables”. To avoid confusion, this has been renamed to “programming-side” and “funding-side” foreign exchange risk.
Sweden	Annex II, section 3.4.1: “Funding contribution uncertainty risk and liquidity risk”	Currently, GCF does not use planned project refloes to reduce net funding requirements	<p>GCF have currently a very strong balance sheet, capital that is placed in the trustee relatively long. GCF should consider ways to expand the commitment authority. Planned refloes in the coming 5 years could be added. Furthermore GCF could consider further usage of the balance sheet increasing the transformational potential of the capital beyond what WB as trustee currently offers.</p> <p>This point goes however beyond the current RAS statement, and I do not expect anything on this in the upcoming decision.</p>	Enhancing the finance and risk functions is a priority for the Secretariat, with an ongoing focus on improving processes, systems and capabilities, including staffing to manage refloes. All these will further strengthen the ability of GCF to better leverage its balance sheet.

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Sweden	Annex II, section 3.5.1: "Policy breaches by partners"	NA	This needs to have a low risk tolerance. And it would be good with clearer language around the secretariats activities and emphasise the role of the secretariat to monitor and follow up to early detect policy breaches.	This is noted. Policy breaches by partners has a low risk tolerance, and we agree with the importance of monitoring to identify policy breaches. As stated in the risk appetite statement (section 3.2 para 9), a cornerstone of the GCF risk management approach is proactive risk management, including risk identification and assessment, appropriate mitigation, monitoring, reporting and appropriate actions. The Secretariat has been reviewing internal processes and considering options to strengthen this area.
United States	throughout	general	Please make sure that there is consistent use of terminology throughout the document, in particular for ("Fund," "GCF," and "SEC")	Noted and use GCF unless there is a specific reference to the Secretariat.
United States	Cover brief, section IV: "Implementation arrangements"	The Secretariat will make efforts to strengthen a proactive risk culture. These include ensuring solid linkages between decision-making and	Suggest section be strengthened and clarified that the culture extends to all entities, personal in the GCF ecosystem - staff, AEs, partner countries, Board, etc. A sentence on HOW the SEC will make these "proactive" "efforts" would also be welcomed.	Noted. Additional text has been added to strengthen the description of the risk management culture in the cover brief and annex II.

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		risk management, enhancing risk management capabilities through resourcing, training and development, and promoting open communication about risks.		
United States	Cover brief, section V: “Budgetary implications”	Since the updated RAS will be implemented in the context of the ongoing risk management and compliance efforts of the Secretariat and Independent Units, no separate budget implications are expected to arise from implementing the policy	Noting this suggests the risk management staff at the SEC is sufficiently staffed to implement and no new headcount would be requested to implement the policy effectively.	The Secretariat continues to strengthen the risk management functions. Since the updated risk appetite statement will be implemented in the context of the ongoing risk management efforts, overall budget and staffing implications will be proposed as part of the multi-year work-programming and budget exercise.

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United States	Annex II, section II: "Description of risk tolerance levels"	In addition to zero tolerance for defined behaviours and activities that are contrary to the values of the Fund, GCF defines three levels of risk tolerance, from low risk tolerance to considerable risk tolerance:	Is this just "values" or is it also some "policies"?	The activities and behaviours reflected in the risk appetite statement are aligned with the existing GCF Board-adopted policy framework and reflect the commitment of GCF to upholding the highest level of integrity in conducting its operations, as stated in annex II, paragraph 6, of the draft. These are areas commonly included in the risk appetite statements of other peer institutions. We have amended the language to avoid confusion.
United States	Annex II, section II: "Description of risk tolerances levels"	"low risk tolerance": risks accepted when unavoidable for which appropriate mitigants to minimize the likelihood and/or impact will be applied.	This phrasing is confusing, please clarify	Noted.
United States	Annex II, section II: "Description of risk tolerances levels"	"considerable risk tolerance": risks required to be taken to fulfil the GCF mandate, that will be managed, monitored	This seems like a very high bar (taking any one risk will not fulfill the mandate), so perhaps we mean "to deliver" or "consistent with"?	Noted. Modified to "to deliver".

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		and, where practicable, mitigated, and only accepted if compensated through impact.	This is an odd word [compensated] to use here. I think we mean “only accepted if the impact outweighs the risk”?	
United States	Annex II, section 3.1: “Context”	On the programming side, to meet its strategic mandate of promoting a paradigm shift towards low-emission and climate-resilient development pathways, GCF is prepared to take risks that other investors will not take to support projects and programmes with significant climate impact potential	Do?	Noted and addressed.

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United States	Annex II, section 3.2: "Overall statement of risk appetite"	The Fund will uphold the highest level of integrity in conducting its operations. It has zero tolerance for a range of behaviours and practices that are contrary to the values of the Fund, such as corruption, fraud, sexual exploitation, sexual abuse or sexual harassment. The Fund will promptly respond to allegations or incidences of related violations.	If edited above, then should also be edited here.	Noted. This is adjusted accordingly.
United States	Annex II, section 3.2: "Overall statement of risk appetite"	The Fund seeks a stable and manageable institutional risk profile enhancing its ability to help ensure the adequacy and predictability of	The risk profile alone cannot ensure. This is not a principle articulated in the GI [regarding country ownership] Since the board determines how to respond to guidance, rather than a blanket	Text was adjusted after consultation with the RMC.

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		<p>financial resources, maintain a well-balanced portfolio of projects and programmes consistent with country ownership and implementation of guidance from the COP and CMA, and operate in a transparent, accountable, and efficient manner by implementing Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework</p>	<p>consistency approach. [regarding implementation from the COP]</p> <p>For clarity and completeness [regarding COP and CMA]</p>	

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United States	Annex II, section 3.4.3: "Foreign exchange risk"	The Fund maintains a moderate risk tolerance for such risk, providing the Board with a broader set of investment options per the Fund's mandate in line with the Fund's mission to promote a paradigm shift towards low-emission and climate-resilient development pathways	Why only moderate tolerance? Does the value of insulating GCF from FX risk outweigh the benefit of supporting development of model for domestic resource mobilization into climate action?	Moderate risk tolerance does not preclude options for foreign exchange risk management for partners being considered by the Board based on the proposed definition.
United States	Annex II, section 3.4.2: "Funds held in trust risk"	The Fund has low risk tolerance for risk related to funds held in trust. GCF will manage its liquid asset portfolio through the Trustee and the applicable investment strategy and in accordance with the Fund's	Suggest clarifying that this refers to the investment profile of funds held in trust.	This includes the liquid asset portfolio held and invested by the trustee.

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		evolving investment policy		
United States	Annex II, section 3.4.4: "Legal risk"	The Fund has moderate risk tolerance for legal risk, which, for the purpose of this section, is the risk of loss, including but not limited to, financial loss, penalties, sanctions,	Above, there is (correctly) noted zero tolerance for working with counterparties that are subject to UNSC sanctions, so this would seem to conflict, unless this term is meant to refer to something else, which should be clarified, if so	This is not a reference to UNSC sanctions. This relates to "sanction" in its ordinary meaning – e.g., a restriction imposed by a court or regulatory body. To avoid confusion, we have removed the term "sanction" in the revised draft.
United States	Annex II, section 3.4.6: "Legal risk"	Notwithstanding paragraph (b), above, the Fund will not establish presence in countries that have not recognized its	Presume this means physical presence? I am not familiar with this phrasing if it is a term of art.	Confirmed: this means physical presence.

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		privileges and immunities.		
United States	Annex II, section 3.4.1: “Funding contribution uncertainty risk and liquidity risk”	Predictable funding and sufficient liquidity are essential for GCF to achieve its objectives. The Fund has low risk tolerance for funding contribution risk and liquidity risk	Can this be explained a bit further?	This means that GCF is not able to flexibly accommodate changes in the payment (cash) and deposit (promissory notes) schedules of contributions by contributors, as such changes impact the amount of commitment authority forecast, which determines the number/amount of funding proposals and activities/costs that can be approved during Board meetings. It also means that GCF needs to minimize the risk of mismatches between assets and liabilities to ensure sufficient funds for the operations of GCF. Details are covered by other policies.
United States	Annex II, section 3.4.1: “Funding contribution uncertainty risk and liquidity risk”	The Fund will take necessary actions to protect the predictability of its financial resources, including diversifying sources of	Please explain what “necessary actions” entail. Should this be “attempting to diversify”? GCF cannot control contributors	“Necessary actions” entail the following: (a) request contributors to schedule payments early in the year (by Q3); (b) follow up with contributors individually on upcoming scheduled payments; (c) if needed, ask contributors to make early payments (front-loading) compared to the original payment

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		contributions across a range of contributors, managing cancellations, postponements, and other changes in contribution payment schedules to minimize risks associated with asset-liability cash flow mismatches.	This should be strengthened to account for the SEC managing its commitment authority. As drafted the accountability for bringing/proposing projects is not stated. Please augment to include how project flow will be brought to the board in manner that respects the commitment authority, given the likelihood for limited “actions” the SEC can take to “protect” predictability.	<p>schedule; and (d) report to the Board on non-payments of contributions.</p> <p>“Diversifying sources” refers to having a greater variety of government contributors and exploring alternative sources.</p> <p>In terms of how project flow will be brought to the Board: as mandated by decision B.36/14 and outlined in document GCF/B.37/Inf.15, the Secretariat will produce a plan for the financial management of the GCF commitment authority for GCF-2, and it will be updated regularly to account for any changes in contributions and commitments. The assumptions in this plan also will inform the multi-year budget and work programmes, including those for 2025–2027 to be presented for Board consideration at B.40.</p>
United States	Annex II, section 3.4.4: “Operational risk”	The Fund has low to moderate risk tolerance for operational risks. GCF recognizes that daily	Need to acknowledge that how staff manage internal operational risks can impact engagement with AEs, speed of project execution and results delivery et cetera.	Noted; “negatively impact the speed of programming delivery” has been added.

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		operations carried out by its personnel through information systems and operational processes are susceptible to various internal and external risks that may jeopardize the Fund's day-to-day operations, lead to financial losses, and damage its reputation		
United States	Annex II, section 3.5.1: "Policy breaches by partners"	Policy breaches by partners	Note that terms are inconsistent in this doc—sometimes AEs, sometimes Counterparties, and sometimes partners.	Noted. The document has been reviewed for consistency with how terms are defined in GCF policies.
United States	Annex II, section 3.5.2: "Credit and equity investment risk"	GCF has established a required cushion for loan loss reserves equivalent to 20% (in grants) of the face value of the loan contribution provided to the Fund by the loan contributors for	Should this be in Section 3.3.5?	It has been included in this section since 2017. It is specific to the risk of the loan portfolio supported by the loan contributors. It is noted that GCF also sets up a prudential debt limit of 20 per cent, per paragraph 31 of the updated Policy for Contributions to the Green Climate Fund for the second replenishment (decision B.36/14, annex IV).

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		non-performing loans. The adequacy of the cushion will be reviewed and updated periodically by the Secretariat in consultation with the RMC to ensure GCF's ability to repay the loan contributions during the programming period.		
United States	Annex II, section 3.5.3: "Project and programme implementation risk"	Project and programme implementation risk	Need something in here on risk of failing to deliver on promised climate impacts.	Noted. The section mentions that GCF will actively assess and manage this risk in order to maximize the likelihood of successful project execution and impact delivery. Failing to deliver on promised climate impact is consequence of not managing various risk domains.
United States	Annex II, section 3.5.3: "Project and programme implementation risk"	GCF has considerable risk tolerance for project and programme implementation risk to achieve climate	Suggest there is a reference to the policy on structuring and cancellation and expectations this means more frequent use if risk tolerance considerable.	Noted. Active adaptive measures are important to manage the growing portfolio and associated risk. Risk appetite statements generally do not list all policies.

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		impacts and a paradigm shift.		
United States	Annex II, section 3.5.3: "Project and programme implementation risk"	The Fund will recognize the contextual risk environment in which GCF partners operate and will support AEs, particularly DAEs, to build technical and institutional capabilities over time. The Fund will actively monitor partner performance in project and programme implementation and take active adaptive measures during project implementation to respond to evolving risks and challenges to maximize the likelihood of successful project	GCF needs to focus as well on execution risk that AEs are unable to disburse GCF projects within expected timeframes because of GCF or AE specific procedural bottlenecks	Noted. Indeed, execution is explicitly mentioned in this section.

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		execution and impact delivery.		
France	Cover brief, section IV: "Implementation arrangements"	NA	The Implementation arrangements do not appear sufficient to ensure full implementation of the RAS or is not sufficiently detailed.	Noted and edits proposed. Additional implementation arrangements will be applicable when the other RMF components are brought forward for Board consideration.
France	Cover brief, section VII: "Monitoring and review"	NA	Regarding monitoring, we would like to understand what means will be allocated to this monitoring as the GCF's portfolio grows, and whether they are fit for purpose. Furthermore, a more detailed budget/HR impact assessment would be needed. Regarding review, a set periodic review rather than on a need basis should also be explored.	Noted. Since the updated risk appetite statement will be implemented in the context of ongoing risk management and compliance efforts, budget implications will be proposed as part of the multi-year work-programming and budget exercise. The Secretariat has been reviewing existing processes and developing a risk-based portfolio monitoring plan. We take note of the suggestion on periodic review.
France	Annex II, section 3.4.5: "Concentration risk"	NA	How is this risk proposed to be assessed in real terms?	This will be monitored during funding proposal approval and implementation. Risks will be assessed and reported via risk reports provided to the RMC and data will be included in the quarterly risk dashboard provided to the Board. For example, we intend to monitor more closely the macro and/or political risk of a country (if its portfolio is more concentrated than average)

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				so as to ensure proactive risk identification, partner engagement and adaptive measures. This also applies to the monitoring of the performance of projects and AEs.
France	Annex II, section 3.4.5: "Concentration risk"	The Secretariat will monitor and report to the RMC against the following thresholds: [25%] of the total committed amount into a single results area, [10%] of the total committed amount into a single country, [2.5%] of the total committed amount into a single proposal, [10%] of the total committed amount into a single AE.	What is the rationale for lowering these thresholds?	When the first risk appetite statement was established in 2017, GCF had a small portfolio, resulting in investments being concentrated in a narrow range of countries, proposals and result areas, with a small set of AEs. Since then, the portfolio has grown and expanded significantly, making diversification both necessary and achievable as GCF continues to invest in a broader array of countries, projects and result areas. For example, the 10 per cent single proposal threshold in the 2017 risk appetite statement is about \$1.5 billion based on approved funding after B.39. The updated version lowers result area and single FP thresholds and includes a monitoring threshold for AE.
Canada	General	NA	The document generally lays out the different types of risk, but the specific actions for mitigation or specifics relating to the appetite are not included in the document. How does	The risk appetite statement is a risk management strategy document that generally does not include detailed actions or mitigations. Other risk-management-related

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			the GCF Secretariat plan to include these, and when?	policies, procedures and manuals specify risk mitigation strategies. Other components of the risk management framework will be reviewed and updated as needed starting in 2025.
Canada	Annex II, section 3.4.2: “Funds held in trust risk”	NA	While the document makes reference to the risk appetite of having idle resources in some places, it would be useful to ensure that these are referred to as such to distinguish between GCF’s loan portfolio and the idle resources managed by the Trustee.	The management of “idle resources”, referred to as the “liquid asset portfolio” in the risk appetite statement, is addressed in annex II, section (“Funds held in trust risk”).
Canada	General	NA	The document is missing references to environmental safeguards and risk appetite in terms of a gender sensitive/responsive approach to projects, as mentioned in paragraph 3 of the Governing Instrument.	This is noted. Environmental and social safeguards and gender are covered by the relevant GCF policies. We are fully committed to these policies, and to underscore this commitment, the risk tolerance for breaches of such policies is low based on the refined risk tolerance levels. In addition, explicit references to environmental and social safeguards, gender, and Indigenous Peoples have been added to annex II, section 3.5.1 (“Policy breaches by partners”) in the published version following the consultation.
Canada	Annex II, section 3.4.4:	NA	Paragraph 23 states, “GCF has low risk tolerance for... and to threats against the	Annex II, section 3.3 (“Zero tolerance behaviours and activities”), includes

Board member/ alternate Board member	Section	Text	Board member/alternate Board member comment	Secretariat response
	"Operational risk"		safety and security of GCF Board members, alternate Board members, Board advisors and GCF personnel in the performance of their functions for GCF." We would like to understand why the GCF Secretariat would not consider zero tolerance	prohibited activities and behaviours specified in Board-approved policies and is about the commitment of GCF to uphold the highest integrity in its operations. In terms of risk tolerance, low risk tolerance is the most conservative approach based on the risk tolerance levels. GCF supports programmes and projects in diverse regions. There are always safety and security risks, but GCF will seek to minimize such risks (low risk tolerance).
Canada	General	NA	Some of the terms in the document could be defined, or defined more clearly, for the purpose of the exercise. For instance, the words tolerance and appetite are used interchangeably, while they are two different things. Risk appetite is the amount of risk GCF is willing to accept to achieve its objectives and risk tolerance is the acceptable deviation from the set risk appetite levels.	"Risk appetite" refers to the aggregate level and the types of risk that GCF is willing to assume to achieve its strategic objectives, as stated in the cover section of the updated package. "Risk tolerance" defines the level of risk GCF can accept within each risk category in the subsequent sections of the RAS. Explanations have been added to the cover section of the updated package. In addition, annex II, section 3.1 ("Context"), has been modified accordingly.
Canada	General	NA	While the document states that the Secretariat will work with the RMC and the Board, it would be useful to have the roles and responsibilities clarified. For instance,	After the risk appetite statement is adopted, the risk dashboard will gradually be updated, including:

Board member/ alternate Board member	Section	Text	Board member/alternate Board member comment	Secretariat response
			<p>will the Secretariat prepare risk reports for the Board and what would the reports include? How will deviations be managed and to whom will these be reported? Since the document does not include limits and indicators for majority of the risks identified, what specific metrics is the Secretariat planning to track? What would be the next steps assuming Board approval at B.40?</p>	<p>Concentration and funding risk metrics; Operational risk events; and Project/programme financial and implementation performance.</p> <p>The Secretariat will also work with the independent units (the Independent Integrity Unit and the Independent Redress Mechanism) on non-financial risk and compliance matrices.</p> <p>The Board will continue to receive the risk dashboard, with more detailed reports being provided to the RMC.</p>
Canada	Cover brief, section VII: “Monitoring and review”	NA	<p>On the related point of monitoring, it is not clear in the document which areas have data gaps and what changes must be undertaken to allow for effective monitoring</p>	<p>The Secretariat acknowledges challenges in obtaining the relevant data in a timely manner as data on the programme and project side relies on the reports from the AEs. The Secretariat is looking at including additional data points in the annual performance report template and other targeted proactive portfolio-monitoring approaches.</p>

Board member/ alternate Board member	Section	Text	Board member/alternate Board member comment	Secretariat response
Canada	General	NA	On the Risk Appetite Statement in general, how does the GCF plan to revisit and update the RAS and how often? We suggest undertaking a periodic revision approach as the GCF's portfolio and the institution matures.	This is noted. The Secretariat will review and recommend reviews and update the Board in consultation with the RMC when significant changes occur in the strategy or risk environment and as the institution and portfolio mature.
Canada	Annex II, section 3.5.2: "Credit and equity investment risk"	NA	The Risk Appetite Statement does not differentiate between grants and loan contributions to GCF. There is also no mention of Portfolio A, which as we know is guided by the Operational Guidelines, and has a different risk appetite than the general loan portfolio. Specifically, the end of paragraph 27 makes reference to GCF's funded portfolio, but is not specific on details on the treatment of loan assets.	This is noted. Some of the details are included in the updated Policy for Contributions to the Green Climate Fund for the second replenishment (decision B.36/14, annex IV).
Canada	Annex II, section 3.5.2: "Credit and equity investment risk"	NA	We are happy to see the brief reference to cushion determination and its periodic review in paragraph 28, but would welcome the inclusion of a reference or a link to the development of a credit risk framework (which will in turn help the GCF manage its risk appetite with regards to Portfolio A, as well as more broadly better predict future	This is noted. Credit risk management has been mentioned in paragraph 27 of annex II. We will continue to strengthen credit risk management at the GCF.

Board member/ alternate Board member	Section	Text	Board member/alternate Board member comment	Secretariat response
			reflows for further programming and help with cushion determination).	

Abbreviations: AE = accredited entity, AMA = accreditation master agreement, AML/CFT Policy = Anti-Money Laundering and Countering the Financing of Terrorism Policy, B.36/14 = decision on “Updated Policy for Contributions to the Green Climate Fund for the second replenishment”, CMA = Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, COP = Conference of the Parties to the United Nations Framework Convention on Climate Change, DAE = direct access entity, ESP = Environmental and Social Policy, ESS = environmental and social safeguards, FAA = funded activity agreement, FX = foreign exchange, GCF-2, the second replenishment period of GCF, GCF/B.37/Inf.15 = decision on “Financial management plan of GCF’s commitment authority for the second replenishment period”, GI = Governing Instrument for the GCF, HR = human resources, IC = Investment Committee, PPP = Policy on Prohibited Practices, RAS = risk appetite statement, RMC = Risk Management Committee, RMF = risk management framework, SEC = GCF Secretariat, SEK = Swedish krona, UN = United Nations, UNSCR = United Nations Security Council.

GCF private sector active observers (written consultation and through two calls with private sector active observers and one AE providing input to the written comments):

1: The GCF is a climate impact fund not a generic impact fund, suggest explicitly mention climate impact in the document (cover section, Annex II, 3.2 and 3.5.3)

Response: Reviewed the document and adjusted as appropriate in the relevant sections of the revised post-consultation version.

2: Provided general suggestion on the structure of a risk appetite statement including principles, risk appetite statement, risk taxonomy and an MRE framework for monitoring performance.

Response: Suggestions are noted and have been considered. The risk appetite statement needs to be developed in the context of an institution's strategy and mandate and considering its risk management capability and the institution's maturity. The current risk appetite statement is in line with the key elements of the good practice of a risk appetite statement. The taxonomy is included under the risk categories. The monitoring and reporting will occur through the risk dashboard and continue to be refined taking into account good practice.

3: Section 3.4.3, in order to deliver urgently on the GCFs objectives, the risk appetite for elements such as FX risk is far too low. There is an urgent need for higher risk appetite on FX risks where the GCF can fulfil a much-needed transformational role in enabling local currency financing.

Response: The foreign exchange risk tolerance does not preclude options of foreign exchange risk management for partners being explored.

4: General comment: There is also no statement covering appetite for supporting innovation and the associated risk of failure.

Response: It is referenced in annex II, section 3.1 ("Context"), and included in 3.5.2 ("Credit and equity investment risk")

5: The statement is also unclear/conservative on the GCFs tolerance for return on investment.

Response: This is noted but not part of the risk appetite statement.

6: 3.4.5 – Concentration risk

It is suggested that a more nuanced approach based on financial instruments in a matrix with sectors would be beneficial. The 10% threshold may be a constraining issue for large economies with a growing, young population, a rapid development trajectory and a potential high carbon emission pathway if it is interpreted as a hard limit. Our current understanding is that the wording is clear that this is not a limit, and would suggest that steps be taken to ensure this interpretation is clearly understood and accepted by all parties.

Response: It is correct that these are not limits but risk-monitoring thresholds. In the post-consultation draft, the RMC will review annually whether to include a monitoring threshold for country concentration.

GCF civil society organization active observers:

Technical session

1: Potential risks of violation of human rights, indigenous people rights or gender issues are not mentioned in the document. Are those part of the values of the GCF? How does GCF address them?

Response: Environmental and social safeguards, gender and Indigenous Peoples are covered by the relevant GCF policies. We are fully committed to these policies, and to underscore this commitment, we have reclassified the risk tolerance for breaches of such policies by partners from moderate risk tolerance in the 2017 risk appetite statement to low risk tolerance based on the refined risk tolerance levels. In addition, explicit references to these areas have now been added to the post-consultation draft.

2: How we see potential changes in the policy since this will guide reviews of other policies, particularly on policies related to accreditation and accredited entities in general. Noting the shift to the risk-reward policy in the GCF. What is your view? How does the IRM view the implications?

Response: There is no risk-reward policy. GCF is shifting from sole reliance on policy compliance to a more comprehensive approach that includes evaluating the risk and opportunity aspects of projects. However, this does not mean we are disregarding compliance with critical policies, such as policies on environmental and social safeguards, gender and Indigenous Peoples. We are enhancing our approach by considering both compliance with these policies and the broader risk and opportunity landscape.

3: GCF will do more adaptive management of the risks during programme implementation, which pose two questions: Has GCF enough capability to manage appropriately these risks? If the budgetary implications of managing such a portfolio are not in the RAS draft, will they be addressed in other policies?

Response: This is noted. As the portfolio grows, adaptive risk management is a priority for the GCF. Any budget considerations will be integrated into the multi-year budgeting of the Secretariat and the independent units, and the review and approval of other applicable policies.

Written comments:

1: Compared to the 2017 RAS, the document has narrowed the scope of risks that are classified as “zero tolerance”, mostly focusing on prohibited practices that, though important, leave out things that should not be tolerated, including violations of human rights and Indigenous Peoples rights.

Response: Environmental and social safeguards and Indigenous Peoples are covered by the relevant GCF policies. We are fully committed to these policies, and to underscore this commitment, we have reclassified the risk tolerance for breaches of such policies by partners from moderate to low risk tolerance based on the refined risk tolerance levels. This is the most conservative risk tolerance level as zero risk does not exist. In addition, explicit references to these areas have now been added to the published risk appetite statement post-consultation.

Currently, the Policy on Prohibited Practices the Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse and Sexual Harassment (SEAH policy), and the SEAH component of the Revised Environmental and Social Policy (RESP) set out the entirety of the GCF zero-tolerance framework. This section is consistent with the overall risk appetite statement in relation to integrity in the conduct of operations of GCF, and is in line with the approach of comparable institutions. In keeping with the spirit of policy coherence and with the long-standing practice of GCF of substantive policy development/consultation, particularly on matters that require the accredited entity adherence, should GCF seek to amend applicable policies, such an exercise would need to be conducted through a distinct policy development process, which would also require full consultation with AEs, in line with the obligations of GCF under the AMA (accreditation master agreement).

2: A streamlining approach that fails to provide the specificity of the last approach is an odd choice when an overarching critique we have heard of late is the complexity of the Fund's policy landscape. Each risk area should include a list of relevant policies in the text.

Response: The risk appetite statement is a high-level strategic risk-management document and does not list the names of policies or details contained in other policies. Our approach is in line with the common practice of a risk appetite statement. Policies are mentioned in the footnotes in the zero-tolerance section as defined terms are used.

3: The proposed update provides background on non-financial risks but does not fully integrate a strong balance of non-financial risk into the risk appetite statement itself.

There should be a stronger acknowledgement and appreciation of the non-financial risks, including those that can pose reputational risk to the GCF, including but not limited to human rights violations and other harms to communities that should be benefiting from the GCF.

Response: We agree with the importance of managing non-financial risks. The current risk appetite statement reflects the commitment of GCF to non-financial risk management, as internal policy compliance and policy compliance by partners (many policies are related to non-financial risk management on the programming side) have been classified as low risk tolerance. The published post-consultation risk appetite statement also includes explicit reference to requirements on non-financial risk – for example, concerning prohibited practices, anti-money-laundering, environmental and social safeguards, Indigenous Peoples and gender – in annex II, “Policy breaches by partners” section.

4: Para 9 states that the updated RAS “will also establish a foundation for further evolving the GCF business model, operating modalities and policies, particularly as the Fund fosters its robust risk culture,” but sufficient information is not detailed to outline how that foundation is being set and what will be involved. Para 21 notes that the “updated RAS will inform the revision of the other components of the RMF, as per Decision B.24/04 (h), ensuring a cohesive and aligned approach to risk management across GCF.” Why does the revision of the RMF start with the Risk Appetite Statement given it is “Component II” of 8 components that complement the Risk Management Framework? What else will follow? An annex should be included listing all policies and whether an update is merited for alignment with the draft RAS.

Response: The importance and urgency of updating the risk appetite statement are articulated in the cover section of the package. The risk appetite statement is a risk

management strategy document and therefore guides other components in the RMF. The Secretariat will work in consultation with the RMC on the review and revision of the other components of the RMF. Alignment of other policies with the risk appetite statement will be assessed in the context of the update and approval process of such policies.

5: It should also be made clear, and this would indeed need further clarification, that a “zero tolerance for sexual exploitation, sexual abuse or sexual harassment in Fund-related Activities” (paragraph 11, Annex II, the RAS) would have to include the risk of SEAH in partner activities. As such the ESP, in which SEAH considerations for partners are integrated, should be also listed explicitly here (noting that under the currently proposed approach ESS risk under the ESP would be assigned a low-risk tolerance, which implies inconsistency at best, a disregard for SEAH violations at worst).

Response: GCF has zero tolerance for SEAH in all GCF-related activities, which means any activity that is financed, administered or supported by GCF. Zero tolerance is different from zero risk tolerance. GCF does not tolerate such behaviours but recognizes that the risk exists. GCF will seek to minimize such risks (low risk tolerance). Therefore, there is no inconsistency. We have also added the reference to the SEAH component of the ESP in footnote 3 (para 11) of Annex II in the post-consultation draft.

6: The GCF should also clearly consider and outline in any proposed RAS draft what potential implications its approach would have for the work of the independent units, particularly, in this case, the IRM. While mentioning consultation with the independent units, it’s unclear if the IRM has been consulted.

Response: The risk appetite statement was developed in consultation with the independent units, including the IRM, and incorporated their feedback and recommendations. The IRM case-handling processes are not negatively affected by this proposed approach. In addition, zero risk tolerance in the 2017 risk appetite statement only relates to internal compliance breaches (which is not practical as a zero risk tolerance does not exist), while policy breaches by partners has a moderate risk tolerance. The proposed risk appetite statement now classifies both as low risk tolerance, the strictest risk tolerance level in the risk appetite statement.

7: The document is going in the same direction as previous, related policy drafts, which are taking the GCF from a compliance to a “risk-opportunity” or “risk-reward” approach. The whole concept of risk-reward and tolerance levels outlined here seems to rely on the GCF’s ability to implement adaptive management measures, to manage and respond to any risks materialising. However, the GCF does not have the capacity to manage its current, let alone future much larger portfolio of projects and programmes. This is why compliance is important, unless and until the GCF manages to build its capacity for adaptive management.

Response: As explained during the technical session, GCF is shifting from sole reliance on policy compliance to a more comprehensive approach that includes evaluating the risk and opportunity aspects of projects. However, this does not mean we are disregarding compliance with policies. We are enhancing our approach by considering both compliance with these policies and the broader risk and opportunity landscape. Therefore, policy compliance continues to be important as policy compliance by partners has a low risk tolerance while emphasizing building partner capacity and assessing and addressing cases of non-compliance and taking appropriate action. The need to build capacity for adaptive management is noted.

8: As a result of the previous point, the GCF and the Board should consider that, even if at this time there are no budgetary implications, the GCF's "ongoing risk management efforts" (para 23) will inevitably increase the budget and costs needed by the Secretariat for the added human resources to implement adaptive management measures.

Response: As the portfolio grows, adaptive risk management is a priority for GCF. Any budget considerations will be integrated into the multi-year budgeting of the Secretariat.

9: The proposed approach moves away from a need to tolerate the potential failure of a project or programme, which is understandable given the many factors outside the control of AEs and EEs can impact the success of a project. Instead, it proposes to tolerate implementation risks linked to project design and AEs' and EEs' characteristics, including project governance, partners' technical and institutional capabilities, and their track record (or lack thereof) in implementing GCF projects and programmes. This shift needs further discussion and clarification, as it seems to suggest that the GCF will tolerate badly planned governance arrangements and inexperience from AEs and EEs. The implications for a future accreditation strategy should be explored and outlined. At the very least, if this is aimed at enhancing direct access, it should be clearly stated that this will only apply to direct access entities, under very specific circumstances.

Response: The factors listed in the risk appetite statement affect the overall implementation risk and therefore are important factors for risk management. All these areas are important for GCF to assess the overall implementation risk.

10: The fundamental risk of over-reliance on AE self-reporting when it comes to monitoring and accountability for implementation, which is the de facto system under the current Monitoring and Accountability Framework (MAF), is one that we find to be under-considered.

Response: Such comments will be considered in the review process for the MAF.

11: We welcome that the proposed RAS acknowledges the dynamic risk landscape in which the GCF operates, particularly when it comes to the need for climate finance to reach fragile and in conflict areas, incentivising GCF operations in these contexts should be done in a more structured and planned manner. This includes the development of instruments such as sectoral guidance for project development in the context of fragile and conflict-afflicted areas, as well as policies and strategies, as recommended by relevant studies on this subject. These instruments should facilitate the delivery of climate finance in these contexts to go beyond the do-no-harm approach, by also enabling conditions for peacemaking efforts.

Response: Thank you for the support. Comments will be considered in the context of the broader work of GCF on fragility.

12: Credit and equity investment risk into a single category feels premature.

Response: They are combined as each has a considerable risk tolerance level whereas management of credit risk (loans and guarantees) and investment risk (equity instruments) will take into account the specifics of the financial instruments.

13: The concentration risk thresholds should be outlined in the text and not regulated to a

footnote in para 22 of the RAS (Annex II). This information is integral to understanding what the concentration risk is. Also, 10% as a threshold for a single entity seems quite high given a landscape where DAE proposals should be increasing, and the number of accredited entities continues to increase. This threshold feels in conflict with the current strategic plan and the current reality of where the fund is moving, and some threshold between 5% and 10% may be more appropriate. (As of Q1, 2024, the highest concentration was UNDP at 6.6%.)

Response: As these are thresholds, not limits, they are included in a footnote. The information in the current risk dashboard is based on the definition in the 2017 risk appetite statement, whereas the proposed risk appetite statement has a different method for calculating exposure.

14: The “balance” of funding instruments (e.g., grants, equity, loans, and guarantees)” requires further explanation at this point in the Fund’s development (noting this is carried over from the original RAS): certainly the intention is not that each instrument merits equal shares of GCF funding.

Response: This was in the 2017 risk appetite statement. No changes are envisioned.

15: In para 33, Annex II, there needs to be a clear commitment of having quarterly updates of the Risk Dashboard remain public (as seen here) and having the “regular reports summarizing the findings”, if anything beyond these updates, publicly posted in a timely manner.

Response: This is noted.
