

# Annexes

12 - 17

*Annex 12*

Submission on Behalf of Mr. Wolfowitz, President of the World Bank Group to the Ad Hoc Committee, World Bank Group dated April 30, 2007

**SUBMISSION ON BEHALF OF  
PAUL WOLFOWITZ, PRESIDENT OF THE WORLD BANK GROUP  
TO THE AD HOC COMMITTEE, WORLD BANK GROUP**

**APRIL 30, 2007**

Respectfully Submitted,

Robert S. Bennett  
Amy Sabrin  
Skadden, Arps, Slate, Meagher & Flom LLP  
*Attorneys for Paul Wolfowitz*

**TABLE OF CONTENTS**

	<b>PAGE</b>
INTRODUCTION .....	1
THE FACTS .....	2
I.    MR. WOLFOWITZ DISCLOSED THE RELATIONSHIP AND PROPOSED THAT HE BE RECUSED .....	2
II.   THE ETHICS COMMITTEE TOLD MR. WOLFOWITZ THAT MS. RIZA SHOULD BE PROMOTED AND REQUIRED TO LEAVE THE BANK.....	3
III.  THE ETHICS COMMITTEE TOLD MR. WOLFOWITZ HE WOULD HAVE TO IMPLEMENT THE ARRANGEMENTS WITH MS. RIZA BECAUSE THEY COULD NOT.....	4
IV.  THE TERMS AND CONDITIONS OF MS. RIZA’S EXTERNAL PLACEMENT WERE AIMED AT ACHIEVING THE GOALS SET BY THE ETHICS COMMITTEE.....	5
V.   THE ETHICS COMMITTEE REVIEWED THE MATTER A SECOND TIME AND DETERMINED IT DID NOT WARRANT FURTHER REVIEW .....	10
VI.  MR. WOLFOWITZ DID NOT VIOLATE HIS CONTRACT, AND HE FOLLOWED THE BANK’S ETHICAL RULES .....	11
A.   Mr. Wolfowitz Complied with His Contract .....	11
B.   Mr. Wolfowitz Complied with Pertinent Ethics Rules .....	12
C.   Mr. Wolfowitz Did Not Hide Anything from the Ethics Committee or Anyone Else .....	13

D. The Ethics Committee Was Aware that Ms. Riza Was Going to Receive a Promotion and Other Compensation in Connection with Her Forced Departure.....14

E. Mr. Wolfowitz Believed He Had to Follow the Committee’s Advice .....15

F. Appeal to the Executive Directors Would Not Have Changed the Advice He Received.....16

CONCLUSION.....16

**SUBMISSION ON BEHALF OF  
PAUL WOLFOWITZ,  
PRESIDENT OF THE WORLD BANK GROUP**

**INTRODUCTION**

In attempting to resolve the potential conflict of interest caused by his pre-existing, personal relationship with a World Bank staffer, Paul Wolfowitz acted at all times in good faith in accordance with the guidance he was given by the Bank's Ethics Committee. The record demonstrates beyond dispute that:

- Before Mr. Wolfowitz came to the World Bank, he disclosed his personal relationship with Shaha Riza, a Senior Communications Officer at the Bank.
- He proposed that he would recuse himself from all personnel matters concerning her.
- The issue was submitted to the Ethics Committee.
- The Committee decided that recusal was insufficient.
- The Committee decided that Ms. Riza should be relocated outside the Bank, over her objections.
- The Committee also said she should receive a promotion that she was due, before she was out-placed, and also that the terms of her forced departure should recognize the damage this would do to her career.
- The Committee members did not want to implement this plan themselves, however, because they said they could not interact directly with staff member situations. Instead, they told Mr. Wolfowitz, over his strong and repeated objections, that he would have to work with the Vice President of Human Resources to implement their advice.
- At the time, Mr. Wolfowitz understood that the Committee was the final arbiter of ethics questions, so he followed its advice.
- The agreement reached with Ms. Riza was in line with other World Bank settlement agreements and was consistent with the goals that the Ethics Committee set out for treating her fairly.

- The Committee reviewed the resolution of this matter on two occasions and determined that it had been dealt with in a manner consistent with the Committee's findings and advice.

Mr. Wolfowitz and the Committee both acted in good faith to try to resolve what they recognized was an unprecedented and difficult situation. It would therefore be unjust, to now find that he acted improperly, to find that he breached his contract, or to take any action against him in connection with this matter. It would also be harmful to the Bank as an institution.

### **THE FACTS**

#### **I. MR. WOLFOWITZ DISCLOSED THE RELATIONSHIP AND PROPOSED THAT HE BE RECUSED.**

At the outset of his contract negotiations with the World Bank, Mr. Wolfowitz disclosed the existence of his relationship with Ms. Riza and proposed that he would recuse himself, as follows:

In order to avoid any conflict of interest, real or apparent, and consistent with Staff Rule 4.01, I recuse myself from any personnel decisions or actions with respect to Ms. Shaha Riza. To further ensure any personnel action or decision bearing on Ms. Riza's employment is consistent both with her rights as an employee and with my recusal and that no influence, real or apparent, has been implied or assumed, I direct Human Resources notify the Ethics Committee of any personnel action or decision concerning Ms. Riza and provide the Committee with any information requested in order to ensure all appropriate Bank standards, rules and regulations have been properly upheld and enforced.

(Ex. 1.)

Thereafter followed an exchange between Mr. Wolfowitz's then-counsel, Robert Barnett, and the Bank's then-General Counsel, Robert Danino, concerning the appropriate scope of the recusal. (See Ex. 2, pp. 7-8.) They agreed that the Bank's Ethics Committee should resolve the issue, because, as Mr. Danino stated, the Committee was a "mechanism within the legal

framework of the Bank” for resolving conflict-of-interest questions. (*Id.*) Mr. Barnett therefore wrote the Committee asking it to confirm whether Mr. Wolfowitz’s proposal to recuse himself was “consistent with the regulations and policies – and, most importantly, the practices – of the Bank.” (*Id.* at 8.) Thus, although he had hoped to resolve this issue before he signed his contract, Mr. Wolfowitz executed the contract on June 2, 2005, and decided to defer to the Ethics Committee’s resolution of the matter, as his contract at paragraph 3.f. stated he should. (Ex. 3.)

## **II. THE ETHICS COMMITTEE TOLD MR. WOLFOWITZ THAT MS. RIZA SHOULD BE PROMOTED AND REQUIRED TO LEAVE THE BANK.**

In June, the head of the Ethics Committee first surfaced the idea of placing Ms. Riza outside the Bank while compensating her for any harm to her career this occasioned. Specifically, in an informal discussion with Mr. Wolfowitz on June 22, 2005, reflected in a memo of that date, Ad Melkert said that he believed recusal would not resolve the matter, but hoped that a “pragmatic approach” could be employed pursuant to which Ms. Riza would be reassigned outside the Bank. (Ex. 4.) This, according to Mr. Melkert, “would neither be exceptional nor inappropriate . . . as this would be in line with the rules and a substantial number of practical cases.” (*Id.* at 2.) Most significantly, the Ethics Committee Chair said that this approach would have to take into account “the legitimate concern and interest of [Ms. Riza] that her career path would not be harmed . . . . I am quite convinced that there are ways to ensure full recognition of her (considerable) professional qualifications and achievement in any option for reassignment.” (*Id.*)

After obtaining advice from the Bank’s Legal Counsel and other ethics and personnel policy experts within the Bank, and after thoroughly reviewing the Bank’s personnel and

compensation policies, as well as Ms. Riza's employment history and status,<sup>1</sup> the Ethics Committee in late July rendered the following advice to Mr. Wolfowitz:

- (a) That the staff member *will be* relocated to a position beyond (potential) supervising influence by the President and therefore will withdraw from the current selection procedure for job promotion within the MENA department;
- (b) That at the same time the potential disruption of the staff member's career prospect *will be* recognized by an in situ promotion on the basis of her qualifying record as confirmed by her shortlisting for the current job process and as consistent with the practice of the Bank;
- (c) That the President [Mr. Wolfowitz], with the General Counsel, communicates this advice to VPMENA and VPHR so as to implement a) and b) with immediate effect.

(Ex. 8.) (emphasis added.) Mr. Melkert also told Mr. Wolfowitz and the Vice President of Human Resources, Xavier Coll, that the Committee desired that any resolution "would duly recognize the record and career perspectives of" Ms. Riza. (Ex. 9.)

**III. THE ETHICS COMMITTEE TOLD MR. WOLFOWITZ HE WOULD HAVE TO IMPLEMENT THE ARRANGEMENTS WITH MS. RIZA BECAUSE THE COMMITTEE COULD NOT.**

---

Significantly, the Ethics Committee, through its chairman, told Mr. Wolfowitz that he, and not the Committee, must instruct the Vice President of Human Resources to implement the Committee's advice. (Ex. 8.) This greatly concerned Mr. Wolfowitz, who was cognizant of the appearance of conflict of interest this would create, and he strongly and repeatedly objected to being involved. The Committee Chairman nonetheless reconfirmed to Mr. Wolfowitz in writing, that, because "the EC cannot interact directly with staff member situations, . . . Xavier [Coll, the

---

<sup>1</sup> See Exs. 5, 6, 7.

Vice President of Human Resources] should act upon your instruction.” (Ex. 9.) Mr. Melkert also asked that Mr. Wolfowitz and Mr. Coll report back to him by the end of the week. (*Id.*)

After discussing the issue with Mr. Wolfowitz, Mr. Coll met with Ms. Riza to discuss options for her future employment. Mr. Coll reported the results of that discussion to Mr. Wolfowitz. The meeting did not go well, and Ms. Riza subsequently insisted that she have a lawyer present. Mr. Coll then requested that he receive written instructions from Mr. Wolfowitz about how to proceed. Because the Ethics Committee had told him he should provide such instruction, Mr. Wolfowitz wrote a memo to Mr. Coll. (Ex. 10.)

In the memo, Mr. Wolfowitz again explained that he had attempted to recuse himself from all matters pertaining to Ms. Riza, but that the Ethics Committee found that proposal unacceptable. Mr. Wolfowitz reiterated his “deep unhappiness with the whole way of dealing with a situation that I still believe, and have been advised by experienced labor legal counsel, should have been resolved by my recusal.” (*Id.*)

**IV. THE TERMS AND CONDITIONS OF MS. RIZA’S EXTERNAL PLACEMENT WERE AIMED AT ACHIEVING THE GOALS SET BY THE ETHICS COMMITTEE.**

---

In instructing Mr. Coll on how to conduct the negotiations of the terms and conditions of Ms. Riza’s out-placement, Mr. Wolfowitz attempted to achieve the goals identified by the Ethics Committee and to hew as closely as possible to the Bank’s policies and rules as this unprecedented situation would allow. Specifically, Mr. Wolfowitz’s instructions to Mr. Coll quoted the advice of the Ethics Committee to “develop a plan which ‘duly recognizes [Ms. Riza’s] record and career perspectives.’” (Ex. 10, quoting Ex. 9.) Mr. Wolfowitz also instructed Mr. Coll to accept Ms. Riza’s offer to “be detailed to an outside institution of her choosing while retaining Bank salary and benefits,” as the Committee had advised. (*Id.*)

With respect to the technical details of the terms and conditions of Ms. Riza's future employment, Mr. Wolfowitz instructed Mr. Coll as follows: First – consistent with the wishes of the Ethics Committee that Ms. Riza “will be promoted in situ” prior to the external placement and in view of her already having been qualified and short-listed for a promotion to a higher level position (*see supra*, Ex. 8) – the memo authorized Mr. Coll to propose that Ms. Riza be promoted to “H level,” a promotion that would carry with it a salary of \$180,000. (Ex. 10.) At the time, Mr. Wolfowitz was told that this salary, which Ms. Riza requested, was in the “mid-point” range for H Level employees. That seemed reasonable to him.

In this regard, it is important to note that the annual salary that accompanied Ms. Riza's in situ promotion to an H Level – the promotion the Ethics Committee said she should receive – was well in-line with salaries paid to Bank employees in H Level positions. Indeed, current bank data shows that there are more than 1,000 staffers who hold H Level positions, and that the pay range for H level positions is from \$132,000 to \$232,000 a year.

As the instructions to Mr. Coll further noted, “because [Ms. Riza] is being compelled to leave the Bank Group and will not be able to go through regular reviews as the basis for future promotions, she is being forced into a situation with no precedent under Bank rules, practice or policy.” (*Id.*) To effectuate the Committee's advice that Ms. Riza should be dealt with in a manner that recognized this disruption to her future advancement, Mr. Coll, with Mr. Wolfowitz's authorization, had attempted to negotiate a lump-sum payment as compensation. Ms. Riza, however, was adamant about obtaining salary increases over time instead. Mr. Coll was authorized in writing to give Ms. Riza a choice between a lump sum financial settlement that would compensate her for the lost opportunities for future promotions, or financial compensation

over time reflective of promotions which she potentially would have received had she remained at the Bank. (*Id.*)

Ms. Riza ultimately opted for annual salary increases and the possibility of future promotions instead of a lump sum payment, but in this regard, she did not obtain everything that she wanted. Mr. Wolfowitz understood that she had wanted to receive these future promotions automatically, but he insisted that she be subject to objective evaluations of her work by an independent committee before she could receive such promotions, and such a mechanism was in fact built into her agreement. Mr. Wolfowitz also directed Mr. Coll to reject her request that she be permitted to extend her detail unilaterally.

As Mr. Coll noted in his handwritten edits to the draft agreement with Ms. Riza, in offering these terms, Mr. Coll and Mr. Wolfowitz were trying to resolve an unprecedented situation and there was “*no policy that would clearly apply to resolve it.*” (Ex. 11.) (emphasis added.)<sup>2</sup> Mr. Wolfowitz and Mr. Coll were simply attempting in good faith to resolve a unique problem in a manner that comported with the guidance provided by the Ethics Committee.

At the time, Mr. Wolfowitz’s tenure at the bank was in its infancy. He was just beginning to learn its culture and policies. He relied on the guidance provided by the Ethics Committee and Mr. Coll, who stated that there were no clear policies that applied. Moreover, the resolution put forth by the Ethics Committee and implemented by Mr. Coll upon his instruction necessarily required some variance from the routine policies, because the situation they were addressing was not routine. For example, Bank employees were routinely placed voluntarily at

---

<sup>2</sup> As the final agreement states, because the Ethics Committee had decided that recusal was insufficient to address the potential conflict, the Committee had “instructed the President” to explore the possibility of assigning her outside the Bank, “while preserving the same opportunities and professional development and career advancement” she “would otherwise have had.” (Ex. 12.) As Mr. Coll recognized, Ms. Riza was being compelled against her will to find a placement outside of the Bank. She was, moreover, under no obligation to accept their proposal but could have and did demand better financial terms. (*Id.*)

member country institutions outside the Bank, although typically for only two to four years, while remaining on the Bank's payroll. (Ex. 7, citing Staff Rule 5.02.) Because the Ethics Committee had advised that Ms. Riza should be externally placed involuntarily, and that her absence should last as long as Mr. Wolfowitz remained President, her external placement necessarily would have to be longer than was routine.

Mr. Wolfowitz also understood that in cases where an employee was being forced to accept job reassignment or separation over her objection, management had the discretion to compensate the staffer appropriately for the disruption to her career either in the form of an up-front lump sum payment, or through an ad hoc salary increase. In fact, internal Ethics Committee documents show that the Committee received the same advice from Bank experts in personnel matters. Indeed, the Committee itself was told, with respect to compensating an employee subject to forced external placement or departure, the Bank under its Staff Rules could provide either an "overall pay increase," "a promotion increase," or it could decide "as part of settlement of claims, to offer an ad hoc salary increase." (*Id.*) Further, the Ethics Committee itself was advised that if Ms. Riza left the Bank as part of a mutually-agreed separation, Staff Rule 7.01 provided for a staffer of her grade and experience to receive a severance payment of \$60,000-\$66,000, but "*[o]utside the mutually agreed separation provisions, a larger payment could be made at managerial discretion.*" (*Id.*) (emphasis added.)

In this case, just when Ms. Riza had been short-listed for promotion into a position that she had been performing without commensurate compensation for several years, she was forced to take external placement, over her objection, for five to ten years. Accordingly, hers was not a "mutually agreed separation." As a practical matter, this long-term out-placement effectively ended any career advancement she could hope for at the Bank. In these circumstances, the

Ethics Committee itself had advised that she should receive compensation that made up for derailing her future career prospects and promotions at the Bank. Mr. Wolfowitz understood, moreover, that Ms. Riza had been advised by her personal counsel that she would be justified in claiming substantial damages in these circumstances. Therefore, she was offered the choice of taking compensation for the damage to her career in the form of a lump sum payment or in regular salary increases over time. She opted for the latter.

On August 12, 2005, Mr. Wolfowitz informed the Chairman of the Ethics Committee, Ad Melkert, that Ms. Riza had agreed to be detailed outside the Bank. (Ex. 13.) He also reported that he viewed the potential conflict of interest to be closed. Steps were taken to finalize the details of Ms. Riza's new terms and conditions and to document the agreement that was reached with her with respect to compensation. The agreement was executed on September 1, 2005. (Ex. 12.)

Seven weeks later, on October 24, 2005, Mr. Melkert sent written confirmation to Mr. Wolfowitz that "the outcome [was] consistent with the [Ethics] Committee's findings and advice," and that the Committee concurred that the matter was closed. (Ex. 14.) Handwritten notes indicate that Mr. Melkert orally briefed a meeting of the Executive Directors of the Bank about this matter the following day. (Ex. 15.) Mr. Melkert subsequently wrote a note to Mr. Wolfowitz acknowledging that the issue they worked together to resolve was an "extraordinarily difficult" one, and thanked him "for the very open and constructive spirit" of their discussions. (Ex. 16.) Moreover, an Ethics Committee document prepared about this time stated that the Ethics Committee "is pleased to confirm to the Executive Directors that the conflict of interest has been dealt with appropriately." (Ex. 15.) Accordingly Mr. Wolfowitz had every reason to believe the matter was resolved to the satisfaction of the Ethics Committee.

V. THE ETHICS COMMITTEE REVIEWED THE MATTER A SECOND TIME AND DETERMINED IT DID NOT WARRANT FURTHER REVIEW.

Significantly, the Ethics Committee and the other Executive Directors had a second occasion to consider the appropriateness of Ms. Riza's promotion, salary arrangements, and out-placement, and determined that the matter did not warrant further review. On January 21, 2006, an anonymous Bank staffer sent an email to the Bank's investigations hotline and each of the Bank's twenty-four Executive Directors. Among other complaints, the email challenged Mr. Wolfowitz's conduct with respect to Ms. Riza. (See Ex. 17.) In particular, the email summarized the events leading to Ms. Riza's external assignment and recounted that she received a permanent \$50,000 raise, specifically, that her salary went from \$130,000 to \$180,000 upon the placement. The anonymous author charged that the amount was "egregious," and that given Mr. Wolfowitz's asserted conflict of interest, it was improper for him not to submit the terms of the placement to the Board of Directors. (*Id.*)<sup>3</sup>

Officials and governing bodies at the Bank – including the Ethics Committee – reviewed the complaints and other documents relevant to the email's claims.<sup>4</sup> The Committee found that "the facts as alleged in the email were consistent with the Committee's resolution of Case No. 2 [the Riza matter]." (Ex. 19.) Following what he described as a "careful review," Mr. Melkert on February 28, 2006, wrote Mr. Wolfowitz to advise him that the Ethics Committee had reviewed the allegations and had decided that the allegations respecting the Riza matter "*did not contain*

---

<sup>3</sup> On February 15, 2006 another anonymous email was sent from the same address to the same recipients. (Ex. 18.) The second email largely reiterated the charges made in the first, with passing mention of the issues regarding Ms. Riza.

<sup>4</sup> On February 1, 2006, the Ethics Committee and the Bank Personnel Committee met to discuss the first email. (Ex. 19.) Two days later, on February 3, Mr. Wolfowitz met informally with the Executive Directors for the same purpose. (*Id.*) Finally, on February 13, the Ethics Committee met to discuss the email and to determine if the actions it alleged might violate any Bank ethics policies. (*Id.*)

*new information* warranting any further review by the Committee.” (Ex. 20.) (emphasis added.)

The other Executive Directors were informed of the Committee’s resolution and took no other action. (*See id.*)

One can only conclude from these events that the Ethics Committee and the other Directors knew of Ms. Riza’s promotion and salary arrangements, if not by October 2005, then surely by January 2006 when they received the anonymous email complaining about the arrangements. The Committee nevertheless determined that the conflict of interest issues were properly addressed, and so informed the other Directors, who did not dissent from the resolution of the matter.

**VI. MR. WOLFOWITZ DID NOT VIOLATE HIS CONTRACT, AND HE FOLLOWED THE BANK’S ETHICAL RULES.**

As noted above, Ethics Committee Chair Ad Melkert told Mr. Wolfowitz, orally and in writing, that Mr. Wolfowitz should instruct Mr. Coll on Ms. Riza’s out-placement because the Ethics Committee could not do it. To now suggest that he acted inappropriately by doing what the Committee said he should do is grossly unfair and unwarranted.

**A. Mr. Wolfowitz Complied with His Contract.**

Mr. Wolfowitz did *not* violate his contract by following the Committee’s pronouncements. While Mr. Wolfowitz’s contract provides that he “will avoid any conflict of interest, real or apparent,” it also provides that “where clarification is required with respect to ethical standards, [he] may seek the guidance of the Ethics Committee.” (Ex. 3, ¶¶ 3.d, 3.f.) Mr. Wolfowitz cannot now be deemed to have breached his contract by engaging in a conflict of

interest when he did exactly what the contract provided: he sought guidance from the Ethics Committee and followed that guidance, even over his own protest.<sup>5</sup>

**B. Mr. Wolfowitz Complied with Pertinent Ethics Rules.**

Mr. Wolfowitz also complied with the Bank's Code of Conduct, which requires that "Board Officials shall *endeavor* to avoid any situation involving an actual conflict, or the appearance of a conflict, between their personal interest and the performance of their official duties. . . ." (Code of Conduct, ¶ 4(b).) (emphasis added.) He endeavored to avoid any conflict by following the advice the Ethics Committee gave him for dealing with the potential conflict.

With respect to any applicable Staff Rules, the Ethics Committee itself considered all pertinent rules when it issued its advice resolving this matter, including those relating to conflicts of interest, sexual relationships between supervisors and subordinates, and spouses and domestic partners in the workplace. At the time, indeed, the Committee obtained a lengthy written memo from its legal counsel, quoting and analyzing all of the applicable conflict-of-interest provisions in the Staff Rules, as well as in his contract, and the Code of Conduct. (*See Ex. 5.*) Thus, the Ethics Committee considered all the ethical standards. It concluded that these standards dictated that Ms. Riza should withdraw from the competition for which she had been short-listed and that she should be relocated, but at the same time, should be granted a promotion and other

---

<sup>5</sup> In hindsight, one can only wonder why the Ethics Committee insisted that he, rather than one of its members or the managing director, be the one to instruct Mr. Coll to implement the guidance set out by the Committee. We surmise that this was because Ms. Riza was very upset by the Committee's decision that she had to be separated from her current career at the Bank, and that the Committee members were loathe to deal with this difficult situation. Mr. Melkert commented to Mr. Wolfowitz on several occasions that they needed to reach a "pragmatic" solution to this difficulty. Perhaps the Committee felt that Mr. Wolfowitz, because of his personal relationship with Ms. Riza, was in the best position to achieve such a "pragmatic" solution. Or perhaps the Committee simply did not want to get in the middle of a sticky employment situation.

compensation to make up for the disruption to her career. The Committee also advised that Mr. Wolfowitz should instruct Mr. Coll in this regard. The Committee evidently concluded that taking these steps comported with the Rules. Accordingly, the Bank cannot now claim that he violated those same Rules by taking the steps outlined by the Ethics Committee to satisfy them.

**C. Mr. Wolfowitz Did Not Hide Anything from the Ethics Committee or Anyone Else.**

Questions have been raised about whether Mr. Wolfowitz sought to conceal the details of Ms. Riza's compensation from the Committee. This simply is not the case. During the negotiations with Ms. Riza, he emphasized to Mr. Coll that he was to keep this sensitive matter confidential. The reasons for this are obvious. For one thing, through no fault of her own, Ms. Riza had already been subjected to very public, demeaning and unfair rumors and allegations which had made it more difficult to find an agreed resolution to the issue. For another, all personnel matters are supposed to be confidential at the Bank. However, Mr. Wolfowitz always expected that the Ethics Committee could know the details of how the matter was resolved if they so desired. In fact he believed they did know. Mr. Wolfowitz also understood that lawyers in the Human Resources department would review the contract, and he understands that they did.

Nor can anything unusual be inferred from the fact that Ms. Riza's contract contains a non-disclosure provision. Mr. Coll suggested including this. He advised that the provision is standard practice at the Bank in financial compensation settlements, and that it was done to protect both Ms. Riza's privacy and the institution. (See Ex. 10 at 2.) In any event, personnel information is confidential under the Bank's rules.

Mr. Wolfowitz declined Mr. Coll's suggestion that he involve the Bank's General Counsel, Roberto Danino, in the negotiations with Ms. Riza. He did this for several reasons. First, Mr. Danino had been advising the Ethics Committee in this matter and Mr. Wolfowitz

understood from Mr. Melkert that the Ethics Committee could not “interact with staff member situations.” (Ex. 9.) Second, Mr. Wolfowitz assumed that Mr. Danino, as an advisor to the Committee, would participate in the Committee’s review of the matter once the agreement was reached. Therefore, instead of Mr. Danino, Mr. Wolfowitz consulted respected outside labor law counsel from the firm of Gibson, Dunn & Crutcher. They reviewed the proposed contract with Ms. Riza and said it was a reasonable resolution to a conflict of interest issue which, among other things, avoided the potential of protracted legal proceedings. (Ex. 21.) And again, Mr. Wolfowitz understood that the contract was reviewed by lawyers in the Bank’s Human Resources department.

**D. The Ethics Committee Was Aware that Ms. Riza Was Going to Receive a Promotion and Other Compensation in Connection with Her Forced Departure.**

It would be contrary to the evidence if the Ethics Committee were now to assert that they did not comment on, review, or approve the terms or conditions of Ms. Riza’s package. First, more than a year ago, they and the other Executive Directors received the email complaining that Ms. Riza received an assertedly “egregious” salary increase to \$180,000. (Ex. 17.) Even if they had been unaware of the details before, they were put on notice at that time. Further, at the time, they stated that they had conducted “a careful review” of the allegations, and that the allegations “did not contain new information warranting any further review.” (Ex. 20.) Mr. Wolfowitz therefore had every reason to believe they were aware of the details of the terms and conditions of Ms. Riza’s package. They certainly had access to the information if they so desired, and he did nothing to keep those details from them.

Even prior to receipt of the January 21, 2006 email, the Committee was, at a minimum, generally aware that Ms. Riza was going to receive a promotional pay raise and other increases

in compensation. For one thing, the Committee itself unambiguously recommended that Ms. Riza receive an “in situ” promotion prior to out-placement. (Ex. 8.) Promotions necessarily entail pay increases. The Committee also advised that any resolution with Ms. Riza should recognize the disruption to her “career perspectives” caused by her forced external placement – again, contemplating she would receive additional compensation. (Ex. 9.) Finally, as discussed above, it has since been revealed that the Committee received a briefing about the compensation options available in this case, which, they were told, could include “an overall pay increase,” “a promotion increase,” “an ad hoc salary increase,” or, in the case of a compelled separation such as this, “a larger payment at management discretion.” (Ex. 7.)

**E. Mr. Wolfowitz Believed He Had to Follow the Committee’s Advice.**

Mr. Wolfowitz had no reason to doubt that the Committee was the final arbiter of ethics matters. For one thing, during his contract negotiations, the Bank’s General Counsel advised his lawyer that the Ethics Committee was a “mechanism within the legal framework of the Bank” to provide a resolution of the conflict issue. (Ex. 2.) For another, the Code of Conduct itself, as well as his contract, required submission of conflict of interest issues to the Committee. Implicit in that requirement is that directors and officers who submit ethics questions to the Ethics Committee should follow the advice of that Committee once it is issued. For all these reasons, he understood that he had no option but to follow the steps laid out by the Committee, and he should be entitled to rely on the advice he received.

In this regard, much has been made of the fact that the Ethics Committee characterized its guidance to Mr. Wolfowitz as “advice.” It is simply not accurate to describe the Committee’s refusal to deal directly with Ms. Riza in resolving this matter – or its repeated statements over his protests that Mr. Wolfowitz should be the one to instruct Mr. Coll – as mere “advice.”

More importantly, as a matter of corporate governance, the Executive Directors cannot now seriously suggest that Bank officials may ignore guidance on ethics issues issued by their own Ethics Committees, simply because the Committee characterizes its pronouncements as “advice” rather than “instructions” or “directives.” However characterized, Mr. Wolfowitz reasonably understood that he could not deviate from the Ethics Committee’s resolution of any conflict of interest question, let alone this one in particular.

**F. Appeal to the Executive Directors Would Not Have Changed the Advice He Received.**

Because these events occurred very early in his tenure at the Bank, and Mr. Wolfowitz had not reviewed the Ethics Committee’s own procedures at the time, and he was not aware that there was a provision that provided that he could seek review from the Executive Directors of any advice from the Committee that he questioned. Had he gone to the Executive Directors in any event, it appears most likely that they would have supported the Ethics Committee’s determination.

The record shows that the Committee Chairman informed the other Directors of the resolution of this matter at least twice – including at least one time when they had been made aware of the details of Ms. Riza’s salary increase. On neither occasion did they take any action in respect of it. Accordingly, even had Mr. Wolfowitz gone to them with questions about the Ethics Committee’s advice, it does not appear he would have received a different answer.

**CONCLUSION**

In seeking to resolve the potential conflict of interest that was created by his and Ms. Riza’s relationship, Mr. Wolfowitz acted forthrightly, sought and received the advice of the Bank’s Ethics Committee, and conducted himself in accordance with that guidance. He as well

as the Ethics Committee and Mr. Coll were all attempting in good faith to work through an unprecedented and, in Mr. Melkert's words, "extraordinarily difficult" situation to which no Bank policies or rules clearly applied. The Committee tried its best to fashion a solution that satisfied the spirit of the Bank's ethics and personnel rules, and Mr. Wolfowitz did his best to implement that solution as the Committee intended. Mr. Melkert twice informed Mr. Wolfowitz that the Ethics Committee considered the matter had been dealt with appropriately, including after it indisputably knew about Ms. Riza's promotion and salary. If the Board now determines that the Bank's policies and conflict-of-interest rules require some additional or different remedial action, Mr. Wolfowitz will work with the Executive Directors to take any appropriate steps. However, for the Bank's leaders to change course now and find that Mr. Wolfowitz acted inappropriately or violated his contract would be wholly unwarranted and grossly unfair.

Respectfully Submitted,

Robert S. Bennett  
Amy Sabrin  
Skadden, Arps, Slate, Meagher & Flom LLP  
1440 New York Avenue, N.W.  
Washington, DC 20005  
202-371-7000

*Attorneys for Paul Wolfowitz*

April 30, 2007

## Exhibits to Paul Wolfowitz Submission

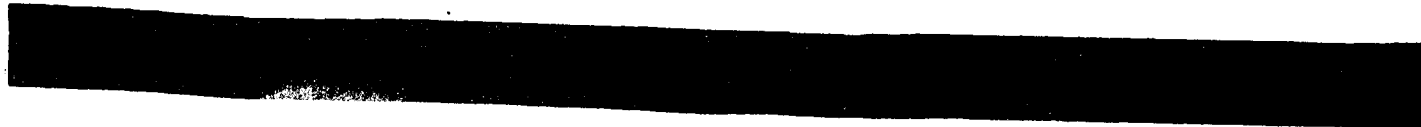
EXHIBIT	DATE	DOCUMENT
1	May, 2005	Recusal Proposed by Mr. Wolfowitz During Contract Negotiations May 2005
2	June 2, 2005	Correspondence During Contract Negotiations
3	June 2, 2005	World Bank Contract of Paul Wolfowitz
4	June 22, 2005	Memorandum to Paul Wolfowitz from Ad Melkert
5	June 2, 2005	Background Information for the Ethics Committee
6	UNDATED	Summary of Ethics Committee Meetings with HRVP, INT, Ethics Officer
7	July 22, 2005	Ethics Committee Discussion
8	July 27, 2005	EC Advice in Response to the President's Letter d.d. July 21, 2005
9	August 8, 2005	Letter from Ad Melkert to Paul Wolfowitz
10	August 11, 2005	Memorandum to Xavier Coll from Paul Wolfowitz Re: Shaha Riza
11	UNDATED	Xavier Coll Edits to Letter of Agreement
12	September 1, 2005	Letter of Agreement between Shaha Riza and Xavier Coll
13	August 12, 2005	Memorandum to Ad Melkert from Paul Wolfowitz Re: Shaha Riza
14	October 24, 2005	Letter to Paul Wolfowitz from Ad Melkert
15	October 25, 2005	Communication to the EDs From the Ethics Committee on Case No. 2
16	November 25, 2005	Handwritten Note to Paul Wolfowitz from Ad Melkert
17	January 21, 2006	Anonymous Email to Executive Directors
18	February 15, 2006	Second Anonymous Email to Executive Directors
19	February 13, 2006	Record of Ethics Committee Discussion
20	February 28, 2006	Letter to Paul Wolfowitz from Ad Melkert
21	August 31, 2005	Letter to Paul Wolfowitz from Douglas R. Cox (Gibson, Dunn & Crutcher)

**TAB 1**

#### PROPOSED RECUSAL LANGUAGE

In order to avoid any conflict of interest, real or apparent, and consistent with Staff Rule 4.01, I recuse myself from any personnel decisions or actions with respect to Ms. Shaha Riza. To further ensure any personnel action or decision bearing on Ms. Riza's employment is consistent both with her rights as an employee and with my recusal and that no influence, real or apparent, has been implied or assumed, I direct Human Resources notify the Ethics Committee of any personnel action or decision concerning Ms. Riza and provide the Committee with any information requested in order to ensure all appropriate Bank standards, rules and regulations have been properly upheld and enforced.

1



**TAB 2**

III. CORRESPONDENCE DURING CONTRACT NEGOTIATIONS

- a. Letter from Roberto Danino, Senior Vice President and General Counsel, The World Bank to Messrs. Robert Barnett and Michael O'Connor, Williams & Connolly, counsel for Mr. Wolfowitz, May 27, 2005

"I would also like to acknowledge the two other issues that have been raised in the context of our discussions.

(a) First, I would like to acknowledge that Mr. Wolfowitz has disclosed to the Board, through you, that he has a pre-existing relationship with a Bank staff member, and that he proposes to resolve the conflict of interest in relation to Staff Rule 3.01, Paragraph 4.02 by recusing himself from all personnel matters and professional contact related to the staff member. A determination on whether a recusal is sufficient to resolve the conflict would be made within the legal framework of the institution, namely the contract, the Code of Conduct and the Staff Rules.

...  
I would be grateful if you could confirm our understanding on these two points."

- b. Email response from Mr. Barnett to Mr. Danino, on May 29, 2005 (6:49 PM)—all responses indicated in ALL CAPS

"MR. WOLFOWITZ UNDERSTANDS THE NEED TO DEAL WITH THE APPEARANCE OF A CONFLICT OF INTEREST. HE HAS PROPOSED A FAIR AND APPROPRIATE RECUSAL PROCESS THROUGH CONSIDERATION BY THE ETHICS COMMITTEE. THAT RECUSAL PROCESS WOULD NOT -- I REPEAT, NOT -- INVOLVE RECUSAL FROM PROFESSIONAL CONTACT. GIVEN THE ATTITUDE THAT THE BANK HAS EXPRESSED WITH RESPECT TO THIS MATTER, WE BELIEVE THAT THIS MATTER MUST BE RESOLVED BEFORE A CONTRACT IS SIGNED."

- c. Email Letter response from Mr. Danino to Mr. Barnett, on May 30, 2005 (4:20 PM)

"*Conflict of interest.* We understand from your response that Mr. Wolfowitz proposes now that the potential conflict arising from the disclosed pre-existing relationship would be resolved before a contract is signed. We can agree to this request. The mechanism he has proposed for resolution is consideration by the Ethics Committee, which is a mechanism within the legal framework of the Bank. Based on his request, we will arrange for the Ethics Committee to deal with this matter as soon as possible."

- d. Email from Mr. Danino to Mr. Barnett, May 30, 2005 (4:46 PM)

"Pls call me to confirm that I can request the Ethics Cmte. to meet tomorrow to review the pre-existing relationship issue."

e. Email from Mr. Barnett to Mr. Danino, on May 30, 2005 (7:10 PM)

“There are reports that Mr. Wolfowitz has had a personal relationship with a long-time employee of the Bank. In order to avoid any appearance of a conflict of interest involving that individual, Mr. Wolfowitz will recuse himself from any personnel actions or decisions with respect to that individual. We ask confirmation from the Ethics Committee that this approach is consistent with the regulations and policies -- and, most importantly, the practices -- of the Bank. Thank you.”

**TAB 3**

June 2, 2005

Terms of Appointment of Paul D. Wolfowitz as President of the International Bank for  
Reconstruction and Development

Dear Mr. Wolfowitz,

On March 31, 2005, the Executive Directors of the International Bank for  
Reconstruction and Development selected you as its President.

In accordance with our discussions, we are writing this letter to confirm the  
understanding between you and the Bank:

1. **Term.** Your appointment will become effective June 1, 2005, and your term of  
office will be five years from that date.
2. **Principal Responsibilities.** Your duties as President and Chairman of the Board  
of Executive Directors of the Bank will be those set forth in the Articles of Agreement of  
the Bank as supplemented by the By-Laws and such rules, regulations, directives and  
instructions as the Executive Directors shall adopt in accordance therewith. They shall  
include such further duties as may be attached to offices in other institutions held ex  
officio by the President of the Bank or to offices in these institutions to which you may  
be appointed. At present, the offices held ex officio by the President of the Bank are  
Chairman of the Board of Directors of the International Finance Corporation, President  
and Chairman of the Executive Directors of the International Development Association,  
Chairman of the Administrative Council of the International Centre for the Settlement of  
Investment Disputes and Chairman of the Board of Directors of the Multilateral  
Investment Guarantee Agency.
3. **Code of Conduct.** You will adhere to the standards set forth in the Code of  
Conduct for Board Officials (the Code). You will also be expected to observe the  
standards of ethical conduct applicable to staff members of the Bank, where these reflect  
a stricter standard. Notwithstanding any provisions to the contrary in the Code or the  
staff standards, the following provisions will apply to you as President:
  - a. **Gifts and Honors.** In view of the international character of your position, it is  
expected, of course, that you will not accept any gift or fee from any government  
or from any party external to the Bank. In addition, you will not, without the prior  
approval of the Executive Directors, accept any honor, decoration or favor in  
respect to services rendered during your tenure with the Bank.

June 2, 2005

- b. **Non-Profit Service.** It is understood that during your tenure with the Bank, you will not, without the prior approval of the Executive Directors, serve as a non-salaried officer, director or trustee of non-profit charitable, educational, literary or scientific organizations or committees, provided that such service requires only occasional effort on your part and does not in any way conflict or interfere with the performance of your duties as President of the Bank.
  - c. **Outside Employment.** It is understood further that you will not, without the prior approval of the Executive Directors, accept any public or private employment or engage in any other business activity. You may manage your own private investments and those of members of your immediate family to the extent that the management of these investments does not involve the operation of a business.
  - d. **Conflict of Interest.** It is understood further that you will avoid any conflict of interest, real or apparent.
  - e. **Financial Disclosure.** The annual written disclosures made by you in accordance with paragraph 5 (b) of the Code shall also include such disclosures as are required of senior staff members of the Bank.
  - f. **Clarification.** Where clarification is required with respect to ethical standards, you may seek the guidance of the Ethics Committee, established by the Executive Directors pursuant to paragraph 10 of the Code.
4. **Remuneration.** You will receive remuneration from the Bank for your services as follows:
- a. **Salary.** The salary of the President of the Bank is presently \$302,470 per annum, payable in equal semi-monthly installments.
  - b. **Allowance.** In addition to reimbursement for all other expenses incurred by you on the business of the Bank, you will receive a non-pensionable allowance, payable in equal semi-monthly installments, without any certification or justification by you. The amount of this allowance is currently \$141,290 per annum.
  - c. **Pending adjustment.** If the Board of Governors of the Bank approves the resolution approved for transmittal by the Executive Directors on May 31, 2005, proposing an increase in the salary of the President, your salary would be increased to \$376,380 per annum and your allowance would be decreased to \$67,380 per annum, both with retroactive effect from June 1, 2005.
  - d. **Annual Adjustment.** Your salary and allowance will be adjusted effective July 1, 2005 and each July 1 thereafter by the percentage increase in the Washington metropolitan area consumer price index for the twelve months ending in the preceding May. The applicable index for this purpose will be the U.S. Bureau of

Labor Statistics Regional (Washington, Baltimore, Maryland, Virginia, West Virginia) Consumer Price Index for All Urban Consumers, or the equivalent replacement index.

- e. **Tax Allowance.** You will receive quarterly a tax allowance on your salary and allowance, as provided for in Section 13(b) of the By-Laws of the Bank, in accordance with the usual practice for staff of the Bank.
5. **Expenses.** You will be reimbursed for reasonable entertainment directly related to the business of the Bank over and above the normal expenses of running your household. When you travel on commercial airlines on official business, you may travel first class at the Bank's expense. Your travel expenses shall include travel and hotel expenses of your wife in attending overseas Annual Meetings of the Board of Governors and in accompanying you on official travel in the cases you determine this to be in the interest of the Bank.
6. **Vacation and personnel arrangements.** You will be entitled to a reasonable vacation, and in matters of personnel policy, arrangements similar to those applying to the Executive Directors shall, except as otherwise provided, be applicable to you.
7. **End of service.** Although you have been appointed for a term of five years, the Executive Directors may terminate your contract with the Bank in accordance with Article V, Section 5(a) of the Articles of Agreement. It is expected that should you desire to resign, you will give the Bank reasonable advance notice of your desire to do so.
8. **Termination Allowance.** At the end of your term, or if your service is terminated by the Executive Directors, or if you resign or die in Bank service after having served for at least one year under this agreement, the Bank will pay a termination allowance. The termination allowance will be an amount equal in amount to your salary for one year, minus the amount of any income you receive from regular and continuous employment of not less than six months' duration during the year following the end of your service. The termination allowance would be subject to a tax allowance in the same manner as your salary.
9. **Retirement Benefits.** In addition to your benefits under the Bank's Staff Retirement Plan (the Plan), the Bank undertakes to pay you supplemental retirement benefits as follows:
  - a. The Bank undertakes to pay you a supplemental pension for life in an annual amount equal to a percentage of your highest average net salary (as defined in the Plan) for each day of Plan service. The percentage shall equal 5/365% during your first eight years of service, and 3/365% thereafter. The supplemental pension, paid monthly, shall be subject to annual cost of living increases in the same manner as a Plan pension would be pursuant to Article 7A of the Plan.
  - b. If, upon termination of Bank service, you receive income from regular and continuous employment of not less than six months' duration in any twelve month period, the supplemental pension payable for that period will be reduced by the

amount of such income, except to the extent that such income is offset from your termination allowance.

- c. A supplemental death benefit equal in amount to 100% of the death benefit payable from the Plan will be payable to the recipient(s) of the Plan death benefit at the same time (or times) as the Plan death benefit is payable. If there is no death benefit payable under the Plan, the amount of the supplemental death benefit, as well as the beneficiary and form of payment, shall be determined by applying the provisions of Section 4A.2 of the Plan with respect to the annual supplemental pension payable immediately before your death.
  - d. On or before December 29, 2005, you may elect to receive a lump sum payment in lieu of the supplemental pension under paragraph (a) above and the supplemental death benefit under the second sentence of paragraph (c) above. The election is intended to comply with the applicable provisions of Internal Revenue Service Notice 2005-1. The amount of the lump sum would be determined at the time of termination of employment by applying Schedule C, Table 10, of the Plan to the value of the supplemental pension that would be payable in the absence of an election under this paragraph. The election shall be in writing and incorporated by reference into this contract, and shall be irrevocable once made.
  - e. No tax supplement is payable on the Plan benefit, the supplemental pension, the Plan death benefit or the supplemental death benefit.
10. **Public Disclosure.** These terms of appointment will be publicly disclosed, in accordance with applicable Bank policies.

Your acceptance of this letter will constitute the agreement between you and the Bank.

Sincerely yours,

International Bank for Reconstruction  
and Development

[signed]  
Yahya Alyahya  
Dean

[signed]  
Pierre Duquesne  
Co-Dean

Accepted:

[signed]  
Paul D. Wolfowitz

Date: June 7, 2005

**TAB 4**

*MEMORANDUM*

*To: Paul Wolfowitz  
From: Ad Melkert  
6.22.05*

*Personal and confidential*

1.  
As agreed during our open conversation today I send you enclosed the rules relevant to any further steps. Let me highlight a few elements which you might want to consider in particular and let me then add some observations as to the way forward.
2.  
You will note that the distinction between spousal and non-spousal relationships is primarily between permission in principle and de facto conflict of interest. However in both cases supervision, directly or indirectly and routine professional contact are the defining elements. This is important as we discussed the validity of making a difference between a (declared) partner and a spouse. That aspect however seems to me less relevant than the supervision provisions, such as under point 8 ("Reassignment"), including references to supervision "directly or indirectly".
3.  
On a different note it is relevant to keep in mind that – regardless possible cases that have not been dealt with – in the recent past particularly the partnership provisions have led to reassignments, demotions or departures in different cases as confirmed by HR and the Ethics Office. This explains no doubt a part of the high attention for resolving the issue.
4.  
Against this background the introduction of a recusal formula would suggest deviation of the existing standard (whilst the Code of Conduct refers to the "highest" standards) and would probably introduce legalistic dispute in a situation that essentially requires clear guidance and leadership taking into account perception and sensitivity.
5.  
Let me also come back on your concern that there is a tendency to set different standards, particularly with reference to the situation of the MD and his spouse. This issue has to be and – as I understand – will be resolved. However, even if this would not have been the case, this could not guide Board members and Ethics Committee, committed as they are to the standards in their Code of Conduct. What has not been right could not be an example to follow.

6.

All in all it would neither be exceptional nor inappropriate to consider reassignment options as this would be in line with the rules and a substantial number of practical cases. Moreover this would serve:

- strengthening internal standard setting
- sending a clear external message, thereby boosting the President's and institution's reputation
- sending a signal about the type of (decisive and fair) leadership of the new President
- inoculating against (anonymous) complaint procedures
- keeping future options for joint representation at public functions open.

7.

However in this approach there is still a very vital part missing, i.e. the legitimate concern and interest of the "partner" (my terminology) that her career path would not be harmed as a consequence of any conclusion on the issue of a potential conflict of interest. It may even be considered to address this question before reaching any conclusion at all. This would require from her side understanding of the situation as described above and readiness to consider alternatives. I am quite convinced that there are ways to ensure full recognition of her (considerable) professional qualifications and achievement in any option for reassignment. From your own perspective this could be considered one of the possible alternatives to address the potential conflict of interest that was brought to the Board's attention. It would also make it unnecessary to draw any further conclusions.

8.

So in summary these are the two scenarios for conclusion that I consider feasible:

- the "pragmatic approach" along the suggested lines
- formal guidance to you by the Ethics Committee.

9.

I want to emphasize that this memo is just on my behalf, only being addressed to you. After receiving your reaction I intend to report back to the Ethics Committee, keeping confidential aspects and considerations that you have shared with me on that basis.

I know this is a most difficult  
question to deal with.  
I do appreciate the conditions  
of our conversation.

Jel

**TAB 5**

STRICTLY CONFIDENTIAL  
JUNE 2, 2005

BACKGROUND INFORMATION FOR THE ETHICS COMMITTEE

In connection with the Ethics Committee's consideration of the request for guidance concerning conflict of interest referred by the President, I am providing the following background material:

- I. Correspondence during contract negotiations
- II. Legal Background
- III. Available information on the Administration of Staff Rule 3.01 and Staff Rule 4.01, with respect to supervisory relationships and employment of Bank spouses and domestic partners.

## I. LEGAL BACKGROUND

## Legal Background Regarding Conflicts of Interest

## Senior Vice President and General Counsel

1. The President's proposed Terms Of Appointment (the Contract) provide, in paragraph 3, that the President will: (a) be required to adhere to the standards of the Code of Conduct for Board Officials; and (b) be expected to observe the ethical standards applicable to staff, where these reflect a stricter standard:

"You will adhere to the standards set forth in the Code of Conduct for Board Officials (the Code). You will also be expected to observe the standards of ethical conduct applicable to staff members of the Bank, where these reflect a stricter standard."

In addition, there are several specific provisions that apply to the President under paragraph 3, "notwithstanding any provisions to the contrary in the Code or the staff standard."

- "It is understood that you will avoid any conflict of interest, real or apparent." (paragraph 3d)
- "It is understood further that you will not, without the prior approval of the Executive Directors, accept any public or private employment or engage in any other business activity." (paragraph 3c)

2. The Code Of Conduct provides the following with respect to conflicts of interest generally:

"Board Officials shall endeavor to avoid any situation involving an actual conflict, or the appearance of a conflict, between their personal interest and the performance of their official duties...."  
(paragraph 4 (b))

3. As noted above, the contract also requires the President to observe the ethical standards applicable to staff, where these reflect a stricter standard. The ethical standards embodied in the Staff Rules apply to the President because of this contract provision; as a legal matter, the President is not a staff member and thus the Staff Rules themselves do not apply to him. (Note that under the Articles, the President is the chief of the operating staff of the Bank, and is responsible for the organization, appointment and dismissal of staff, subject to the general control of the Executive Directors. Article V, Section 5 (b))

4. The Principles of Staff Employment, adopted by the Board, provide: "[A]s employees of international organizations, staff members have a special responsibility to avoid situations and activities that might reflect adversely on the Organizations, compromise their operations, or lead to real or apparent conflicts of interest." (Principle 3)

5. Supervisory Relationships. Staff Rule 3.01 sets out the Standards of Professional Conduct for staff, and provides the following regarding Supervisory Relationships (paragraph 4.02):

"A sexual relationship between a staff member and his/her direct report, or direct or indirect manager or supervisor is considered a de facto conflict of interest. The manager/supervisor shall be responsible for seeking a resolution of the conflict of interest, if need be in consultation with management, who will take measures to resolve the conflict of interest. Failure to promptly resolve the conflict of interest may result in a finding of misconduct."

The announcement introducing this provision in 1999 explained:

"Conflicts of interest are likely to arise in relationships where one person has the authority to make decisions about the other's conditions of employment (recruitment, salary, contract approval, performance evaluation, promotion, work program).\* When a supervisor and subordinate engage in a sexual relationship, the unequal institutional power heightens the vulnerability of the subordinate and the potential for coercion. Other negative effects include perceptions by others of unfair advantage enjoyed by the person involved in the relationship, and the potential for one or both parties to injure the other if the relationship does not end amicably. Experience of other organizations and of the Bank Group has shown that the costs of relationships between managers and subordinates, even when initially consensual, are high in terms of staff morale, perceptions of fairness, and in extreme cases, legal fees." (Kiosk Announcement, March 26, 1999)

The Announcement further noted that Management would work with both parties in the relationship to resolve the conflict of interest, and that any actions taken will not be considered punitive in any way. Lastly, in implementing this amendment to Staff Rule 3.01, the Announcement stated that: "management shall ensure full compliance with due process and take into account all the relevant facts and circumstances of a given situation and will observe the principle of proportionality in deciding what action to take."

6. *Conclusion*: Staff Rule 3.01, Section 4.02 establishes the principle that sexual relationships between staff and those who are their indirect supervisors present a conflict of interest. It also establishes the obligation of management, rather than the staff member, to take measures to resolve the conflict.

7. Spousal Relationships. Spouse and domestic partners can be hired by the Bank under current rules. Staff Rule 4.01, Appointment, paragraph 5.02, provides:

"The spouse or domestic partner of a staff member who meets the normal selection standards may be employed by the Bank Group. A husband and wife or domestic partners may be assigned to the same vice presidency or department, if neither supervises the other, directly or indirectly, and their duties are not likely to bring them into routine professional contact. They may not be assigned to the same division or equivalent unit. A spouse or a domestic partner of a staff member may be assigned to the same country office, provided that neither supervises the other, directly or indirectly, and provided that the Vice President responsible for the country office, in consultation with the Manager, Human Resources Service Center or the IFC Manager, Recruitment, approves the assignment."

8. Reassignment. Where staff members marry someone in the same unit, the Staff Rules call for the Bank's management to reassign staff where necessary to comply with Staff Rules 4.01, paragraph 5.02. Staff Rule 5.02, Reassignment, in Section 2, "Reassignment at the Initiative of the Bank Group", paragraph 2.03, provides:

"...The Director, Human Resources, shall reassign a staff member who marries or registers as a domestic partner of a staff member assigned to the same vice presidency, department, or other unit, if one spouse or domestic partner supervises the other, directly or indirectly, or their duties are likely to bring them into routine professional contact. If two staff members assigned to the same department or unit (other than a vice-presidential unit) marry each other or register as domestic partners, one of the staff members shall be reassigned except as the Director, Human Resources, decides."

Generally, the Vice President, Human Resources has the authority under this paragraph to reassign staff members within the Bank when the interests of the Bank Group require it.

9. *Conclusion*: Staff Rule 4.01, Section 5.02 establishes the principle that spouses and domestic partners should not be in positions where one supervises the other, directly or indirectly, and where their duties are likely to bring them into routine professional contact. Staff Rule 5.02, paragraph 2.03, establishes the use of reassignment to achieve compliance with this principle, and also permits reassignment by the Vice President, Human Resources "when the interest of the Bank Group require it."

10. The Code of Conduct provides a mechanism for resolution of real or apparent conflicts of interest for Board Officials:

"If an actual conflict arises, the Board Official concerned shall promptly refer the matter to the Ethics Committee described in paragraph 10 below and shall withdraw from attendance or participation in deliberations or decision-making connected with

that matter. If an appearance of conflict arises, or if there is doubt whether a conflict, actual or apparent, exists, the Board Official concerned shall promptly refer the matter to the Ethics Committee for guidance." (paragraph 4 (b))

11. The role of the Ethics Committee is reinforced under the contract, as paragraph 3(f) provides that "where clarification is required with respect to ethical standards, [the President] may seek the guidance of the Ethics Committee...."

12. The Ethics Committee Procedures specifically refer to requests for guidance from the President:

"A Board Official or the President may submit a request for guidance concerning his or her annual disclosures, conflicts of interest, or other ethical aspects of conduct in respect of his or her personal situation to any Committee Member for consideration by the Ethics Committee in accordance with the procedures set forth in this paragraph 7." (Paragraph 7)

The Procedures provide for the Ethics Committee to review the request, with the assistance of the General Counsel. The Ethics Committee can also consult with the outside Ethics Advisers, once these are selected.

13. The Ethics Committee Procedures regarding requests for guidance do not specifically provide for consideration by the Board or for decision by the Board, in contrast to the Procedures for allegations of misconduct considered by the Ethics Committee. However, the Procedures do provide that the Ethics Committee may communicate its advice to other Board Officials and the President, subject to consultation with the individual and in a manner that ensures the privacy of the individual concerned. (Paragraph 7 (c))

14. The 2003 COGAM paper, recommending Board approval of the Code, noted the following:

*"Matters involving the President.* No mechanism currently exists to handle allegations against the President. INT, which reports to the President, cannot handle such allegations. As requested by the Executive Directors, and with the agreement of the President, it is proposed that the Ethics Committee would handle allegations involving the President as well as Board Officials." (paragraph 4a of Board paper)

15. *Conclusion:* Referring an actual or perceived conflict of interest to the Ethics Committee for guidance is provided for under the President's contract and the Code of Conduct, and is specifically referred to under the Ethics Committee Rules.

II. AVAILABLE INFORMATION ON THE ADMINISTRATION OF STAFF RULE 3.01 AND STAFF RULE 4.01 (with respect to supervisory relationships and employment of bank spouses and domestic partners)

- a. Email from David Rivero, Chief Counsel, Corporate Administration, to Roberto Danino, Senior Vice President and General Counsel, June 1, 2005 (5:24 PM), "Administration of Staff Rule 3.01 and Staff Rule 4.01"
- b. Email from Mr. Rivero to Mr. Danino, June 2, 2005 (9:29 AM), "Fw: Data You Requested," forwarding email from Maria Borrero, Ethics Office, June 2, 2005 (6:29 AM)
- c. Materials regarding Shengman Zhang spousal relationships

## III. CORRESPONDENCE DURING CONTRACT NEGOTIATIONS

- a. Letter from Roberto Danino, Senior Vice President and General Counsel, The World Bank to Messrs. Robert Barnett and Michael O'Connor, Williams & Connolly, counsel for Mr. Wolfowitz, May 27, 2005

"I would also like to acknowledge the two other issues that have been raised in the context of our discussions.

(a) First, I would like to acknowledge that Mr. Wolfowitz has disclosed to the Board, through you, that he has a pre-existing relationship with a Bank staff member, and that he proposes to resolve the conflict of interest in relation to Staff Rule 3.01, Paragraph 4.02 by recusing himself from all personnel matters and professional contact related to the staff member. A determination on whether a recusal is sufficient to resolve the conflict would be made within the legal framework of the institution, namely the contract, the Code of Conduct and the Staff Rules.

...

I would be grateful if you could confirm our understanding on these two points."

- b. Email response from Mr. Barnett to Mr. Danino, on May 29, 2005 (6:49 PM)—all responses indicated in ALL CAPS

"MR. WOLFOWITZ UNDERSTANDS THE NEED TO DEAL WITH THE APPEARANCE OF A CONFLICT OF INTEREST. HE HAS PROPOSED A FAIR AND APPROPRIATE RECUSAL PROCESS THROUGH CONSIDERATION BY THE ETHICS COMMITTEE. THAT RECUSAL PROCESS WOULD NOT -- I REPEAT, NOT -- INVOLVE RECUSAL FROM PROFESSIONAL CONTACT. GIVEN THE ATTITUDE THAT THE BANK HAS EXPRESSED WITH RESPECT TO THIS MATTER, WE BELIEVE THAT THIS MATTER MUST BE RESOLVED BEFORE A CONTRACT IS SIGNED."

- c. Email Letter response from Mr. Danino to Mr. Barnett, on May 30, 2005 (4:20 PM)

"*Conflict of interest.* We understand from your response that Mr. Wolfowitz proposes now that the potential conflict arising from the disclosed pre-existing relationship would be resolved before a contract is signed. We can agree to this request. The mechanism he has proposed for resolution is consideration by the Ethics Committee, which is a mechanism within the legal framework of the Bank. Based on his request, we will arrange for the Ethics Committee to deal with this matter as soon as possible."

- d. Email from Mr. Danino to Mr. Barnett, May 30, 2005 (4:46 PM)

"Pls call me to confirm that I can request the Ethics Cmte. to meet tomorrow to review the pre-existing relationship issue."

e. Email from Mr. Barnett to Mr. Danino, on May 30, 2005 (7:10 PM)

"There are reports that Mr. Wolfowitz has had a personal relationship with a long-time employee of the Bank. In order to avoid any appearance of a conflict of interest involving that individual, Mr. Wolfowitz will recuse himself from any personnel actions or decisions with respect to that individual. We ask confirmation from the Ethics Committee that this approach is consistent with the regulations and policies -- and, most importantly, the practices -- of the Bank. Thank you."