



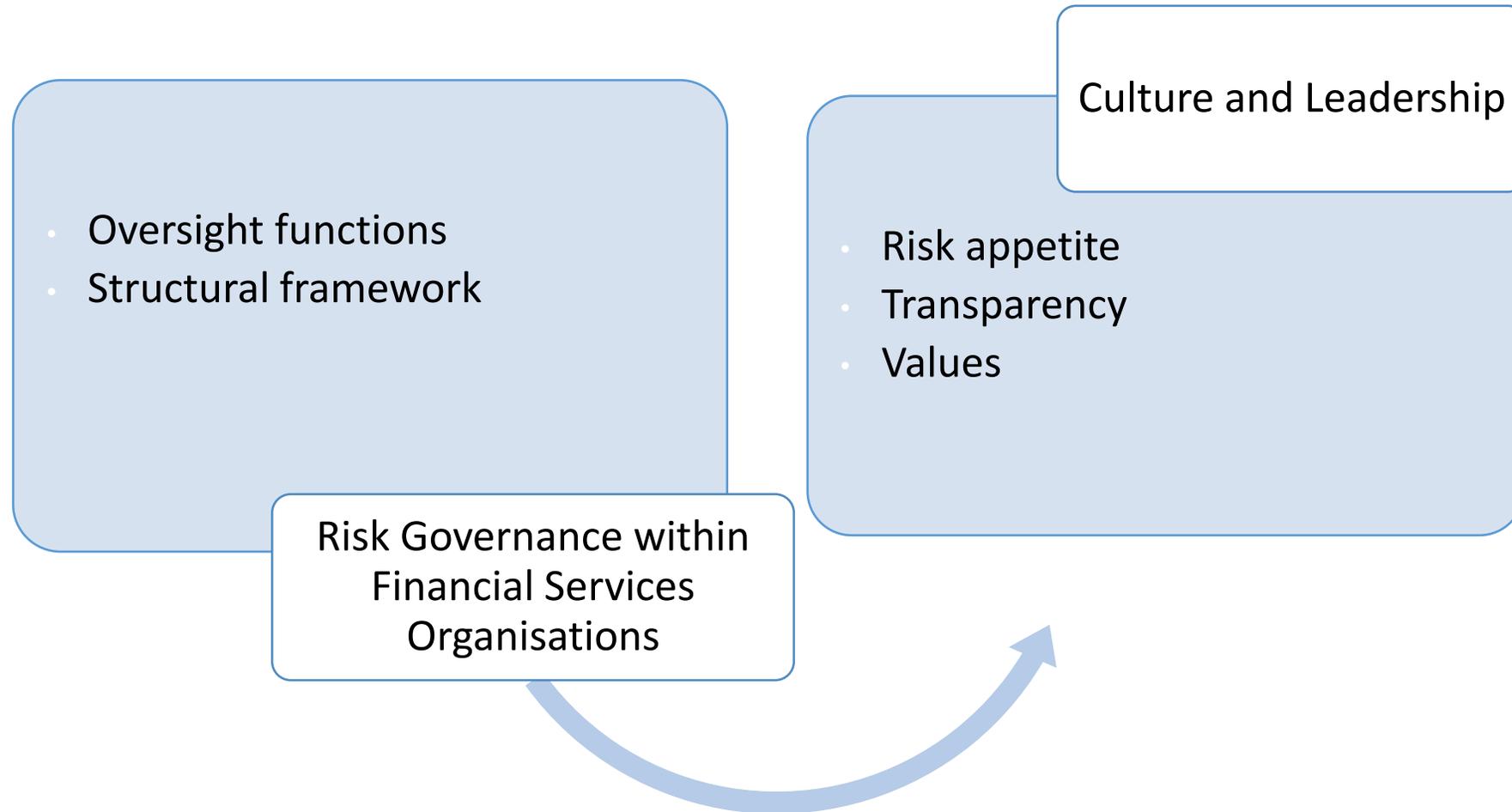
Chapter 9

Risk Oversight and Corporate Governance

Questions - 5

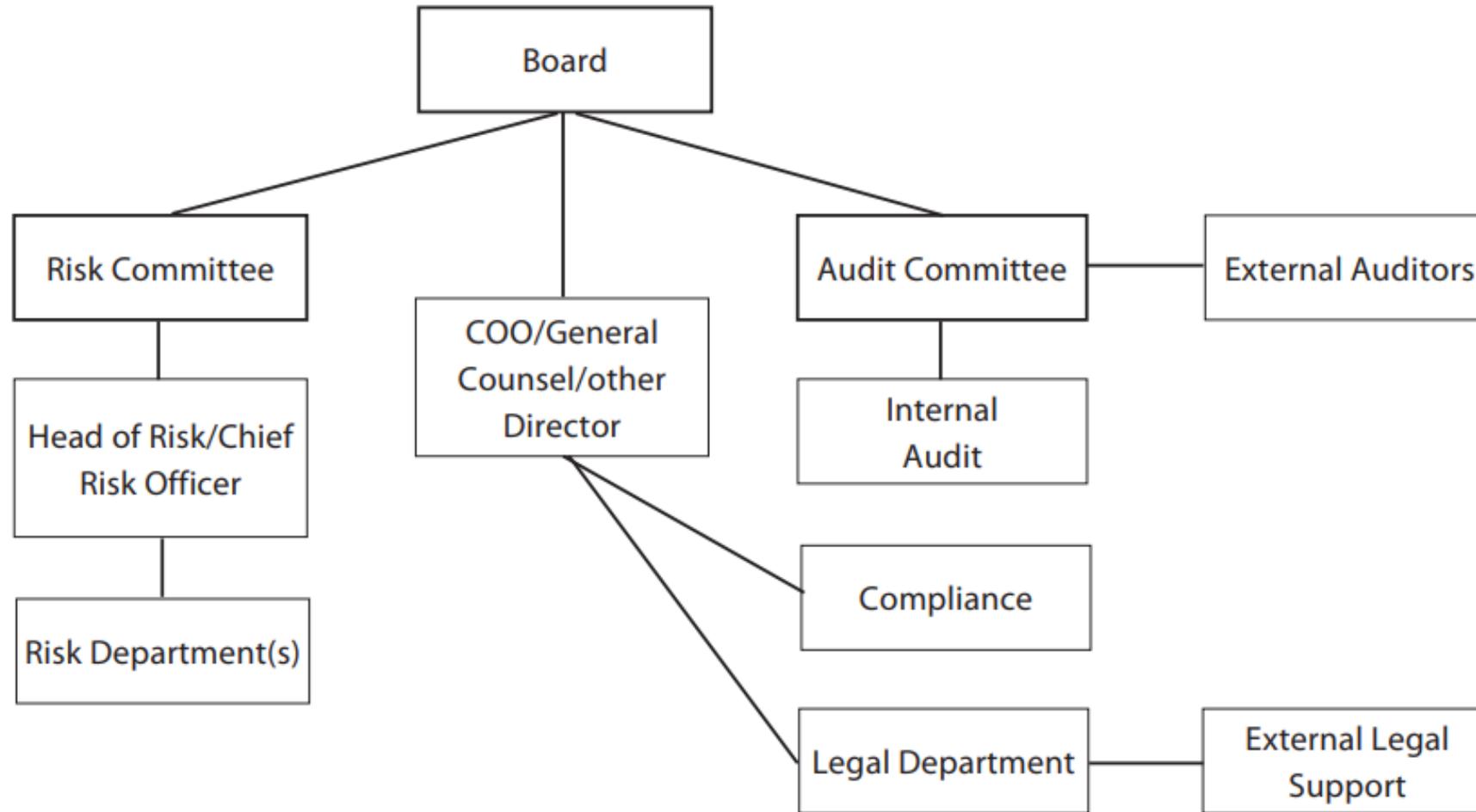


Chapter Summary



Risk Governance within Financial Services Organisations

Principal Oversight Functions showing Typical Organisational Relationships



Board of Directors Risk Responsibilities

Determining the company's approach to risk, including setting or approving its risk appetite

Setting and instilling the right culture throughout the organization

Monitoring the company's exposure to risk and the key risks that could undermine its strategy, reputation or long-term viability

Identifying the risks inherent in the company's business model and strategy, including risks from external factors

Overseeing the effectiveness of management's mitigation processes and controls

Ensuring the company has effective crisis management processes.



The Risk Committee

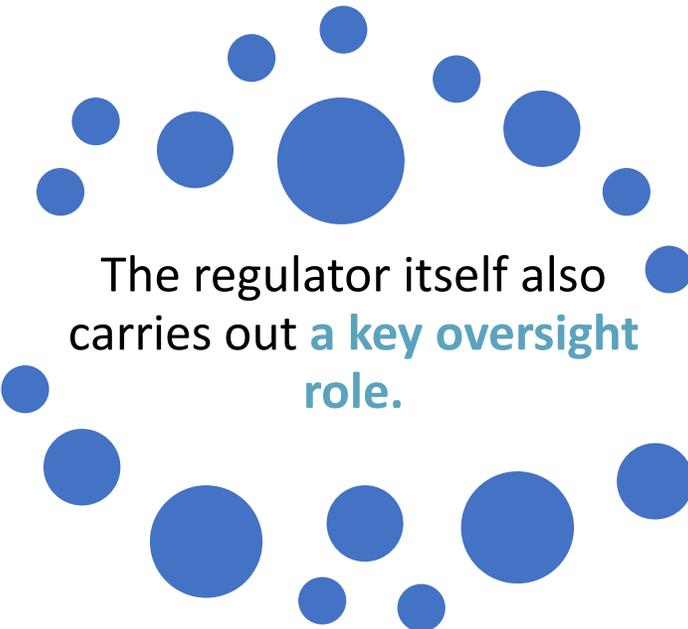
Ratify the key policies and associated procedures of the **firm's risk management activities**

Monitor the effectiveness of these key policies

Translate the overall **risk appetite** of the firm, approved by the board, into a set of limits that flow down through the firm's executive officers, **business divisions and sub-committees**



Regulatory Oversight



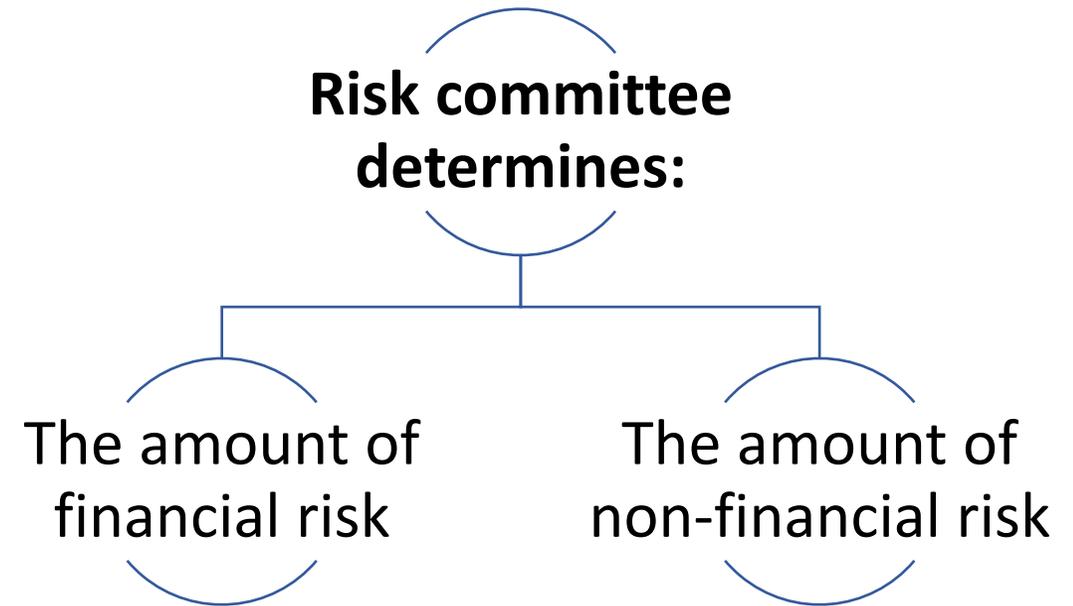
The regulator itself also carries out **a key oversight role.**

For larger firms, this involves lengthy and in-depth on-site visits looking at all the important aspects of the way in which the firm is run.

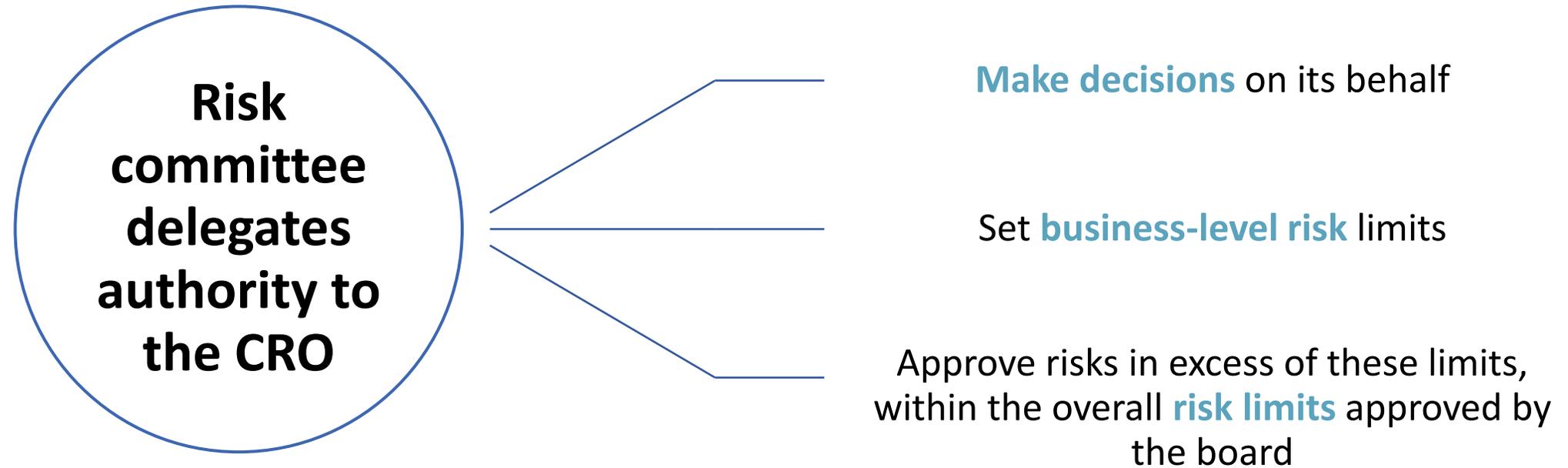
Internal Capital Adequacy Assessment (ICAAP) mean that the regulator receives detailed reports on the way in which the firm is managing its risks and capital.



Structural Framework



Structural Framework



CRO responsibilities

The firm's risk **management strategy**

The firm's risk **policies and risk methodologies**

Ensuring that the firm's infrastructure can support its **risk management objectives**



Three Lines of Defence

Business Management

Day-to-day ownership, responsibility and accountability for assessing, controlling and managing risk.

Independent Risk Functions

Provide **Support and challenge on risk management**

Help to **set risk appetite and strategy**

Define **risk reporting**

Ensure the adequacy of **risk mitigation.**

Internal Audit

Provide **independent assurance** on the first and second lines & the appropriateness and effectiveness of **policy implementation and internal controls.**



What is Internal Audit ?

- A. Governance and controls over the model risk management process
- B. Establishing adequate policies and procedures
- C. Independent assurance that an organisation's risk management, governance are operating effectively.
- D. Help to set risk appetite and strategy.

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Key challenges

Establishing and maintaining the appropriate authority and autonomy of risk managers

Keeping a clear segregation of duties between risk-taking staff and risk managers

Relationship of risk managers to the business

Relationship of Risk Managers to the Business

- Important that risk managers, and other senior managers, find ways of keeping close to the business areas within their oversight or charge.
- They need to combine good management information with walking the floor and talking to staff at the coalface.



Risk Governance Implementation

Corporate changes, whether planned or unplanned, must take the current **governance structure** into account



To be prepared for **unplanned changes**, such as senior managers leaving the firm, succession plans must exist for each member of the firm's key committees



Governance and Policies

- Ownership and management involvement
- Staff remuneration policy
- Staff appraisal process
- Risk policy
- Risk function(s) independence
- Calibre of risk personnel
- Escalation and whistle-blowing processes
- Code of conduct



Risk Culture and Leadership

Risk Appetite/Risk Tolerance

Risk appetite is the type and **amount of risk** that a firm is willing to accept in the pursuit of its business objectives

Transparency

The governance of the bank should be **adequately transparent** to its shareholders, depositors, other relevant stakeholders and market participants.

The key to internal transparency is **good and open communication**, and a lack of public blame for specific incidents



Risk Culture and Leadership

Integrity,
Ethics and
Social
Responsibility

Account for the needs of **clients, employees, shareholders, any parent company, service providers, government authorities, financial regulators** and other users of the environment in which they operate

Education
and
Development

This extends the necessary **board-level education** on risk management down to process and control education for staff on the 'front-line'



Reducing Risk

Organisations need to understand that risk management is more than a methodology and a **set of tools** to be imposed on the operations of a business.

It is a way of doing business that enables firms to derive the greatest value from every opportunity without jeopardising the existing value of the organization

Moral Hazard

The possibility that people will behave differently when protected from the effects of the risks that they take e.g. excessive risk before bonus period



What is Risk Appetite?

- A. Risks that affect one firm, or a group of firms, can affect the stability of the whole financial system
- B. Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- C. The type and amount of risk that a firm is willing to accept in the pursuit of its business objectives
- D. Risk that exposes a firm's financial condition to adverse movements in interest rates.

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