

RISK GOVERNANCE- ISSUES & CHALLENGES DISCUSSION POINTS

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ISSUES OUTLINE

- ▣ Setting a Risk Appetite Framework (Risk Capacity, Risk Appetite, Risk Profile)
- ▣ Profit/Bonus Maximization vs. Shareholder/Stakeholder Value Optimization (ROE versus RAROC, SVA, EVA)
- ▣ Board Risk Committee qualifications, training, and evaluation
- ▣ Reporting relationship of Board Risk Committee, CEO, CRO
- ▣ Risk Ownership
- ▣ Risk Culture
- ▣ Implementation Challenges

SETTING A RISK APPETITE FRAMEWORK

- ▣ Risks to take, mitigate, and avoid by type, business line, product, geography, organization
 - ▣ How much risk in each; economic capital, regulatory capital, and required return thereon
 - ▣ Risk capacity, Risk Appetite, and Risk profile
 - ▣ Targeted and Current External Credit Rating
 - ▣ Heat Map (Exposure & Vulnerability Schema)
- Financial Stability Board Peer Review Report-
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PROFIT MAXIMIZATION OR STAKEHOLDER VALUE OPTIMIZATION

- ▣ ROE vs RAROC, SVA, EVA
- ▣ Which stakeholders; Shareholders, Creditors, Rating Agencies, Depositors, Regulators, Employees, and Community
- ▣ Who and how to determine economic capital? Who determines RAROC?
- ▣ The sustainability argument, and risk premium argument

BOARD RISK COMMITTEE (BRC)

- ▣ Qualification/s, training, and evaluation?
- ▣ Independent risk qualified director/s?
- ▣ Who should evaluate? Self evaluation? Outside specialized firm? Other Independent directors?
- ▣ Who should train?
- ▣ Which qualifications?

REPORTING TO BRC AND CEO BY CRO

- ▣ Dual, Matrix, or Single Reporting line
- ▣ Best Practice? Sound Practice? IIF Best Practices? Financial Stability Board Peer Review? BCBS Principles?
- ▣ CRO veto versus escalation?
- ▣ Board/BRC access? When?
- ▣ Presence of CEO and Business Executives, at all times?

RISK OWNERSHIP

- ▣ Business owns risk?
- ▣ Risk owns Assessment? Measurement? Monitoring? Reporting? Mitigating?
- ▣ Who owns Risk Appetite Statement? Framework?
- ▣ Risk Adjusted Return measurement?

RISK CULTURE

- ▣ What is it? Organization? Roles? Formal Processes? Informal Practices & Communication? Leadership? Appetite? Measurement? Systems?
- ▣ Who owns it? Risk organization major influencer? Thru training? Reporting? Stature?
- ▣ Centralized? Decentralized? Hybrid?
- ▣ IT infrastructure and aggregation?
- ▣ Risk ownership? Risk terminology?
- ▣ Risk Adjusted Incentivisation / Compensation? Claw backs? Etc.

IMPLEMENTATION CHALLENGES

- ▣ Embedding Risk Culture Through a Program
- ▣ Risk Culture Assessment & Education
- ▣ Alignment of Compensation Practices
- ▣ Linking Risk Appetite & Planning
- ▣ Cascading Risk Appetite into limits, etc.
- ▣ Developing Risk Metrics
- ▣ Risk Reporting to the Board

IMPLEMENTATION CHALLENGES

- ▣ Board Risk Committee Composition, Compensation & Training
- ▣ Board and BRC Self Evaluation
- ▣ Stress Testing
- ▣ Ownership of Risk
- ▣ CRO's Role in Decision Making (Veto, escalation, reporting)?
- ▣ CRO Role and Reporting Lines

Thank you