U.S. CHAMBER OF COMMERCE

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September 30, 2013

Ms. Julie Dickson
Superintendent
Office of the Superintendent of Financial Institutions
Financial Stability Board
Centralbahnplatz 2
CH-4002
Basel, Switzerland

Re: ***Principles for an Effective Risk Appetite Framework***

Dear Ms. Dickson:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation, represents the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber has recently established the Global Risk and Governance Initiative ("GRGI") to promote modern and appropriate international structures for capital formation, risk management and corporate governance needed by businesses to fully function in a 21st century economy. The Chamber appreciates the opportunity to comment on the Consultative Document, ***Principles for an Effective Risk Appetite Framework*** ("Proposed Risk Appetite Framework") issued by the Financial Stability Board ("FSB").

The GRGI is concerned that the Proposed Risk Appetite Framework may create unnecessary redundancies for businesses and regulators, generate conflict with existing corporate governance systems, and concentrate destabilizing risk in the financial system while inhibiting reasonable risk taking needed for economic growth. Our concerns are discussed in further detail below.

Discussion

In November, 2008, the Chamber issued regulatory reform principles in response to the 2007-2008 financial crisis.[1] Ensuring an effective and robust capital formation system is essential to every business from the smallest start-up to the largest enterprise. The 2007-2008 financial crisis exposed shortcomings in domestic and global regulatory systems. However, as reform efforts continue we must not pursue proposals that fail to fix real problems and avoid undermining those capital markets functions that work well. The twin objectives of reform must be investor protection and preserving efficient capital markets that supply businesses and entrepreneurs with the capital they must have to grow, innovate, and create jobs.

The Chamber is concerned that the Proposed Risk Appetite Framework, in attempting to reduce the moral hazard of systemically important financial institutions ("SIFIs"), fails to meet that objective.

a. Redundancy

SIFIs subject to the Proposed Risk Appetite Framework must file with regulators and publish for investors a number of different reports and plans and develop systems to inform the appropriate governmental bodies and the market place of the systems used to monitor and handle risk and the ability of a firm to address unforeseen events. These systems, reports, and plans include but are not limited to: corporate charters, annual reports, audited financial statements, management discussion and analysis, living wills, capital standards, leverage ratios, liquidity ratios, and stress tests.

It should be noted that stress tests are an important means of allowing regulators and a firm to best understand the ability of that firm to take on and manage risk. Stress tests will allow the appropriate parties to identify weaknesses and develop necessary changes to handle catastrophic events.

While it is important to have international consistency on how risk appetite is communicated to markets and regulators, it is unclear how the Proposed Risk

[1] A copy of the Chamber principles is attached with this letter.

Appetite Framework helps to supplement, in a positive manner, all of these means of developing risk management systems with their attendant disclosures. At best, the Proposed Risk Appetite Framework will place costly burdens that duplicate already existing information. At worst, this Proposed Risk Appetite Framework will create additional layers of information that will harm the ability of a financial regulator to analyze the conditions of a SIFI. In short, the Proposed Risk Appetite Framework may contribute to information overload short-circuiting the ability of regulators to respond to problems and resolve cross border issues.

b. Potential Conflict with Corporate Governance Systems

Legal requirements for corporations to have corporate governance systems and internal controls—i.e. Board of Directors, audit committees, etc—are designed to build governance systems and accountability while also creating mechanism for risk management. Risk management, governance, and accountability are at the heart of the mission of the Board of Directors in the United States and their equivalents in different jurisdictions.

In 2009 the Chamber issued principles for effective corporate governance and executive compensation:

- **Corporate governance policies must promote long-term shareholder value and profitability but should not constrain reasonable risk-taking and innovation.**

- **Long-term strategic planning should be the foundation of managerial decision-making.**

- **Corporate executives' compensation should be premised on a balance of individual accomplishment, corporate performance, adherence to risk management, and compliance with laws and regulations, with a focus on shareholder value.**

- **Management needs to be robust and transparent in communicating with shareholders.**[2]

It would seem that compliance with existing legal requirements for corporate governance, internal controls, and principles such as those articulated above will give regulators the proper road map for risk management, responsibility, and accountability. The Chamber fails to see why a risk appetite framework will give regulators more relevant information than they already have or need.

Additionally, if the Proposed Risk Appetite Framework is going to be used to create new channels of management and responsibility, this may cause conflict with existing corporate governance and internal control requirements and lessen accountability by sowing confusion within the SIFI and between the SIFI and its regulators.

c. Concentration of Risk

In developing domestic and global systems of regulating systemic risk, regulators are seemingly forcing SIFIs, or potential SIFIs, to have the same systems to analyze and manage risk. The Proposed Risk Appetite Framework is another step down this road. Having SIFIs provide a Risk Appetite Framework that may be the focus of subjective regulatory action can force firms to have similar risk models and management. A homogenous system of risk management assumes that all SIFIs are the same, and magnifies the potential of contagion if a flawed one-size-fits-all approach is applied. Therefore a homogenous system of risk management has the potential to endanger the global economy and spread contagion in times of market turbulence.

If the FSB continues to believe that SIFIs should develop a Risk Appetite Framework, then the FSB and regulators need to take into account differing business models and situations to insure that risk management systems fit the needs and characteristics of a specific SIFI rather than meet preconceived notions of how a risk management system should be constructed. A Proposed Risk Appetite Framework that acts as a driver towards a homogenous risk management system for SIFIs will do

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[2] *See* letter from Chamber to Secretary Geithner on February 6, 2009.

more harm than good. FSB should also take into account the dynamic nature of risk-appetites that should vary in time depending on market conditions, business strategies, and national regulatory pressures.

d. Potential Barriers to Reasonable, Sustainable, and Necessary Risk Taking

Businesses and financial institutions of all types must engage in risk-taking on a daily basis in order to operate, grow, and if necessary fail. SIFIs whether they are engaged in lending (banks), underwriting equity offerings (banks or investment banks), or taking on potential risk (insurance companies) are important components for a global marketplace to operate and grow. Each of these activities, which are only a brief description of the potential activities SIFIs may engage in, contains by its very nature a risk. A loan may default, an equity offering may under subscribe, and an adverse event may occur. Yet, if the assumed risk is reasonable, over the long-term growth and benefits should outweigh the risks.

National and international regulators should be focused on unreasonable and risk taking. The 2007-2008 financial crisis demonstrated that certain behavior was unreasonable and that regulators may themselves have not understood the risks involved. This should not create a license to eliminate risk; rather, it should create a focus on unreasonable and outsize risks. Any attempt to eliminate risk will only transfer risk and make the financial system and economy inherently more dangerous, less efficient and a weaker transmission of growth. Policy-makers should instead look at internationally compatible ways to define unreasonable and unsustainable risk commensurate with the diverse business models of financial institutions.

As we stated in the earlier section on redundancy, stress tests, rather than the Proposed Risk Appetite Framework are a better means of testing for unnecessary risk taking, how a firm manages and tolerates risks, and any corrective measures that should be undertaken.

Conclusion

Thank you again for the opportunity to comment on the Proposed Risk Appetite Framework. The Chamber agrees that we need to have smarter and more efficient regulatory systems to monitor productive global capital markets. However, we do not believe that the current concept of the Proposed Risk Appetite Framework will achieve that purpose. The redundancies will create unnecessary layering of information that will create burdens for businesses and make regulators more inefficient by sorting through data and information already collected through other mandates. Additionally, creating homogenous risk management systems establish a one size fits all approach that may concentrate risk by eliminating flexibility and managerial initiative. Also, existing corporate governance requirements are designed to construct responsibilities and risk management of a firm. Accordingly, the Proposed Risk Appetite Framework may create duplicative and confusing lines of authority. These concerns, in our opinion, may combine to inhibit reasonable risk taking that may harm lending to businesses, adversely impacting economic growth and job creation.

We are happy to discuss these issues and concerns in greater detail.

Sincerely,

Tom Quaadman