

From: [Arnold Schanfield](#)
To: [Financial Stability Board \(FSB\). Service](#)
Subject: Comments on Consultative Document-Guidance on Supervisory Interaction with Financial Institutions on Risk Culture
Date: 31 January 2014 19:29:37

Dear FSB:

Please find my commentaries below on your consultative document and kindly confirm receipt.

First- your document should provide a definition of what effective risk management means in an organization and it does not do this. I will reference you to HB 436 recently released, which is a product of a working group under the Standards Australia and Standards New Zealand Joint Risk Management Committee.

<http://shop.standards.co.nz/catalog/436%3A2013%28SA%7CSNZ+HB%29/view> or
<http://infostore.saiglobal.com/store/Details.aspx?productID=1694350>

The definition you will find in this document is that effective risk management exists when your Board and other stakeholders have a current, comprehensive and accurate understanding of the risk portfolio. In addition, the company must be operating within the risk criteria/appetite that has been established by the Board of the company.

Second- the document references importance of having a risk appetite statement but no examples exist of a comprehensive risk appetite statement. I will argue that once you move away from the financial parameters in an organization to such things as safety, reputation risk, brand risk, etc., you will be unable to articulate any meaningful risk appetite statements. However, if you peruse HB 436, you will see use of the term risk criteria. Such terminology should be used in place of risk appetite. I have as well just written a case that articulates examples of how to apply risk criteria, should the examples in HB 436 be insufficient. The methodology to create a meaningful risk criteria statement in an organization whether it is a financial institution or a non financial institution is clearly spelled out in HB 436.

Third- a regular assurance review should be performed of the entire risk management system which should include an assessment of Board performance in this regard and their words and action relative to creation of the risk culture. The results of such reviews should be made available to the key stakeholders in the company.

Last- you used several key indicators of a sound risk culture including tone from the top, accountability, effective challenge and incentives. I suggest as well that you add to this list an effective communications policy with all key stakeholders and as well creation and dissemination of a comprehensive risk management policy.

Thank you for consideration of my comments.

Sincerely yours,

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