POSITION PAPER

WSBI comments on the FSB Consultation for Guidance on Supervisory Interaction with Financial Institutions on Risk Culture

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General Comments

Reading the guidelines in the context of past developments with regard to risk culture in the industry, they confirm what big international banks have already understood and have been implementing with regard to risk culture. It also shows that there is more work to be done by banks, and that these guidelines are helpful to understand which aspects the regulators will look at to assess the Risk Culture in a bank. Nevertheless, the guidelines should also consider that changing the Risk Culture of a firm is a long process, therefore the regulatory assessment and respective supervisory response need to take this into account when setting deadlines.

Section 3.1.3: The board and senior management promote through actions and words a risk culture that expects integrity and a sound approach to risk.

Regarding this section, the term "responsibility" should be added to the key characteristics and values of sound risk culture. The board is ultimately responsible for risk culture and risk taking in a bank but one of its key functions is to establish a culture of taking full responsibility for the risks across the organisation alongside the three lines of defence (front office, risk management, and internal audit) in order to avoid finger pointing if something goes wrong. Ultimately, everyone should understand that risk is everyone's responsibility – the key principle of sound risk culture. Therefore, we would propose to change this section to the following:

"The board and senior management promote through actions and words a risk culture that expects integrity**, responsibility** and a sound approach to risk."

Section 3.2.9: Breaches in internal policies, procedures and risk limits, as well as non-adherence to internal codes of conducts, impact an individual's compensation and responsibilities, or affect career progression including termination.

It should be clearly stated that only those breaches in internal policies, procedures and risk limits which prove to be intentional should have an impact on the compensation and career of the employees that are responsible for them. We suggest changing this section by adding "proven intentional" at the beginning of the sentence. Therefore, the paragraph would be:

"**Proven intentional** breaches in internal policies, procedures and risk limits, as well as non-adherence to internal codes of conducts, impact an individual's compensation and responsibilities, or affect career progression including termination."

We agree that non-adherence to a code of conduct should affect compensation and career prospects. However, if a breach of the internal policy occurs, i.e. if there is a divergence of the standard procedure, an individual assessment of this breach should be made. If a bank establishes a process to assess all breaches of policies, procedures and limits, they will be able to decide which ones are intentional, and therefore should have taken action against them, with a respective impact on remuneration or career progression. This means that there will no longer be a fear of following existing procedures which are not up-to-date but still binding, if there is a different method which is proven to have better results. In addition, limit breaches depend on how limits are set up (soft vs. hard) and if there is a technical system capability to allow employees to track limits in real time. If limit breaches occur, they should be reviewed and discussed by the institution's governance, i.e. the relevant body and/or person that makes the decision. However, not all of them should automatically be linked to compensation and career decisions.

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