FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes peer review on risk governance

The Financial Stability Board (FSB) published today a thematic peer review on risk governance. The report takes stock of risk governance practices at both national authorities and firms, notes progress made since the financial crisis, identifies sound practices and offers recommendations to support further improvements.

The recent global financial crisis exposed a number of risk governance weaknesses in major financial institutions, relating to the roles and responsibilities of corporate boards of directors (the "board"), the firm-wide risk management function, and the independent assessment of risk governance. Without the appropriate checks and balances provided by the board and these functions, a culture of excessive risk-taking and leverage was allowed to permeate in many of these firms.

The peer review found that, since the crisis, national authorities have taken several measures to improve regulatory and supervisory oversight of risk governance at financial institutions. These measures include developing or strengthening existing regulation or guidance, raising supervisory expectations for the risk management function, engaging more frequently with the board and management, and assessing the accuracy and usefulness of the information provided to the board to enable effective discharge of their responsibilities. Nonetheless, more work is necessary. In particular, national authorities need to better assess the effectiveness of a firm's risk governance framework, and more specifically its risk culture, to help ensure the sound management of risk through the economic cycle. Supervisors will need to strengthen their assessment of risk governance frameworks to encompass an integrated view across all aspects of the framework.

The peer review also surveyed 36 banks and broker-dealers that FSB members deemed as significant for the purpose of the review. The evaluation of their responses indicates that many of the best risk governance practices at surveyed firms are now more advanced than national supervisory guidance, an outcome that may have been motivated by firms' need to regain market confidence. Despite these considerable strides, significant gaps remain in a number of areas, particularly in the risk management function. At the core of strong risk management is an effective risk appetite framework, and firms' progress to date is uneven in its development, comprehensiveness and implementation. Very few firms were able to identify clear examples of how they used their risk appetite framework in strategic decision-making processes.

Drawing from the findings of the review, the report identifies a list of sound risk governance practices that would help firms continue to improve their risk governance and national authorities to assess its effectiveness. The review also sets out several recommendations targeting areas where more substantial work is needed, in particular:

1. National authorities should strengthen their regulatory and supervisory guidance for financial institutions and devote adequate resources to assess the effectiveness of risk governance frameworks.
2. Standard setting bodies should review their principles for governance, taking into consideration the sound risk governance practices set out in the report.
3. The FSB should explore ways to formally assess risk culture at financial institutions.
4. The FSB should provide general guidance on the key elements that should be included in risk appetite frameworks and establish a common nomenclature for terms used in risk appetite statements.

Tiff Macklem, Chairman of the FSB's Standing Committee on Standards Implementation (SCSI), said "The review usefully pulls together good risk governance practices and identifies follow-up work that needs to be done by national authorities to strengthen their ability to assess the effectiveness of firms' risk governance frameworks. Recent headline events surrounding activities at some large financial institutions underscore the importance of promoting and implementing a sound risk culture."

Swee Lian Teo, Chair of the peer review team on risk governance, said "While measures have been taken to improve risk governance, the review showed that there are still gaps that need to be addressed by both firms and supervisors. The report sets out recommendations that will help supervisors everywhere raise the bar on their expectations for risk governance so that firms' practices continue to improve through changing environments."

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The peer review on risk governance is the the sixth thematic peer review conducted by the FSB and the first thematic review using the revised objectives and guidelines for the conduct of peer reviews set forth in the December 2011 *Handbook for FSB Peer Reviews.*[1]

Thematic reviews focus on the implementation and effectiveness across the FSB membership of international financial standards developed by standard-setting bodies and policies agreed within the FSB in a particular area important for global financial stability. Thematic reviews may also analyse other areas important for global financial stability where international standards or policies do not yet exist. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to

[1] See http://www.financialstabilityboard.org/publications/r_120201.pdf.

identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including via the development of new standards) by FSB members.

The report published today describes the findings and conclusions of the risk governance peer review. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Swee Lian Teo, Deputy Managing Director of the Monetary Authority of Singapore. The review benefited from dialogue with risk committee directors and chief risk officers of several firms that participated in the review and from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.