FSB FINANCIAL STABILITY BOARD

Press release

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FSB Releases Consultative Document on Principles for an Effective Risk Appetite Framework

The Financial Stability Board (FSB) is today launching a public consultation on its draft *Principles for an Effective Risk Appetite Framework.* The Principles will enhance supervisory oversight of firms, in particular of systemically important financial institutions (SIFIs), by establishing minimum expectations for the key elements contained in an effective risk appetite framework, such as: an actionable risk appetite statement; quantitative risk limits; and clearly defined roles and responsibilities of the board of directors, senior management and business lines.

The Principles also aim to establish a common nomenclature for terms used in the risk appetite framework, which will help to facilitate a common understanding between supervisors and firms and to narrow any gaps between supervisory expectations and firms' practices.

An effective risk appetite framework is the foundation of good risk management. A firm's risk appetite represents the aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan, and this should be set out in written form in a risk appetite statement.. The firm's risk appetite statement, in particular, should be linked to the firm's short- and long-term strategic, capital and financial plans, as well as compensation programmes. It should assess the firm's material risks under both normal and stressed market and macroeconomic conditions, and set clear boundaries and expectations by establishing quantitative limits and qualitative statements for risks that are difficult to measure.

Julie Dickson, Superintendent of the Office of the Superintendent of Financial Institutions (OSFI) and Chair of the FSB Supervisory Intensity and Effectiveness Group, noted that "Changes to the financial and regulatory environment underscore the importance for firms to be able to make well-informed and forward-looking strategic decisions that can affect their ability to manage risk prudently and to remain profitable over time. Defining, measuring, monitoring, and articulating a clearly defined risk appetite for the firm is critical to guiding those strategic decisions."

To help inform the final version of these *Principles for an Effective Risk Appetite Framework*, the FSB welcomes comments on the consultative document. Responses should be sent to fsb@bis.org by **Monday 30 September 2013**. Responses will be published on the FSB's website unless respondents explicitly request otherwise.

The final set of principles will be released by end 2013.

Notes to editors

Increasing the intensity and effectiveness of supervision is a key component of the FSB's framework, endorsed by G20 Leaders, to reduce the moral hazard posed by systemically important financial institutions (SIFIs). Since the onset of the global financial crisis, supervisors have intensified the oversight of financial institutions, particularly SIFIs, in order to better prevent their failure. Supervisory expectations for firms' risk management functions and overall risk governance frameworks are increasing, as this was an area that exhibited significant weaknesses in many financial institutions during the global financial crisis.

In October 2011, the FSB Supervisory Intensity and Effectiveness (SIE) group published a progress report which noted that effective, measurable and actionable, risk appetite frameworks have not yet been widely adopted. It concluded that the development of an effective risk appetite framework is important for firms and supervisors and needs attention by both, and recommended that supervisors should discuss expectations for what a "good" risk appetite framework entails and how to supervise against these expectations.

In light of these findings, the FSB launched a Peer Review on Risk Governance, published in February 2013. The review recommended that the FSB, in collaboration with relevant standard setters, develop guidance on the key elements contained in an effective risk appetite framework and establish a common nomenclature for terms used in risk appetite statements.

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 is chaired by Mark Carney, Governor of the Bank of England. 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 http://www.financialstabilityboard.org/.