FSB FINANCIAL STABILITY BOARD

Press release

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FSB Releases a Framework for Assessing Risk Culture and Progress Report on Enhanced Supervision

In the aftermath of the financial crisis, G20 Leaders and the Financial Stability Board (FSB) identified as a priority the need for more intense and effective supervision, particularly of systemically important financial institutions (SIFIs).

Increasing supervisory effectiveness remains a core element of the FSB's work to end the too-big-to-fail problem. To take forward this effort, the FSB published today the following documents:

- a framework for assessing risk culture, which takes into account public responses received on the consultative document issued on 18 November 2013, and
- a progress report on enhanced supervision, which describes the changes in supervisory practices since the financial crisis and identifies areas where more work is needed.

Weaknesses in risk culture were a root cause of the global financial crisis, as they led to failures in compliance. The *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture* sets out a framework to assist supervisors in their assessment of risk culture and has been revised in light of the comments received during the public consultation. The guidance forms a basis for supervisors and firms to promote and develop a shared understanding of the firm's risk culture and have informed conversations with the board and senior management who set the tone on culture from the top.

Julie Dickson, Superintendent of the Canadian Office of the Superintendent of Financial Institutions (OSFI) and Chair of the FSB Supervisory Intensity and Effectiveness Group, noted that “Risk culture has long been an informal part of supervision. The guidance will help to form and articulate a view on an institution's risk culture, and intervening early to prevent behavioural weaknesses from taking root and growing. Enhanced risk awareness and the ability to have meaningful supervisory conversations around an institution's risk culture are powerful preventive tools.”

In the past five years, supervisory attitudes have changed radically, with the determination to raise supervisory standards and the expectations for SIFIs. Today, supervisors interact more frequently and have more effective discussions with the board and senior management, have higher expectations for risk identification and measurement, and have greater understanding of SIFIs' business models. In addition, expanded use of recovery and resolution planning has helped to identify new sources of risk and impediments to resolution, such as complexity of organisational and funding structures, higher operational risk than previously apparent, and complex book and collateral management practices.

Despite the good progress in some areas, more remains to be done. Supervisors need to remain focused on ensuring that the changes identified above are appropriately embedded and impress upon institutions the importance of strengthening risk management and measurement. The work ahead on more effective supervision will focus on drivers of supervisory empowerment and the measurement of supervisory effectiveness. This includes the related assessment of whether all the supervisory focus on boards and risk governance is paying off and institutions are becoming more effective in their governance framework.

Notes to editors

At the Seoul Summit in 2010 the G-20 leaders endorsed the FSB framework for Reducing the moral hazard posed by SIFIs (SIFI Framework). This framework addresses the too-big-to-fail issue by reducing the probability and impact of SIFIs failing. It comprises requirements for assessing the systemic importance of institutions, for additional loss absorbency, for increased supervisory intensity, for more effective resolution mechanisms, and for stronger financial market infrastructure.

The FSB issued its first recommendations for more intense and effective supervision in October 2010, which underscored the key preconditions for effective supervision. Subsequent recommendations in 2011 and 2012 strengthened the supervisory expectations for financial institutions' risk governance, internal controls and risk management functions, as well as risk data aggregation and risk reporting capabilities.

The guidance on risk culture takes forward the recommendation set out in the November 2012 progress report for supervisors to explore ways to assess risk culture at financial institutions, particularly at SIFIs. The paper draws on the collective experience and efforts of supervisory and regulatory authorities across the FSB membership and insights from market participants.

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/.