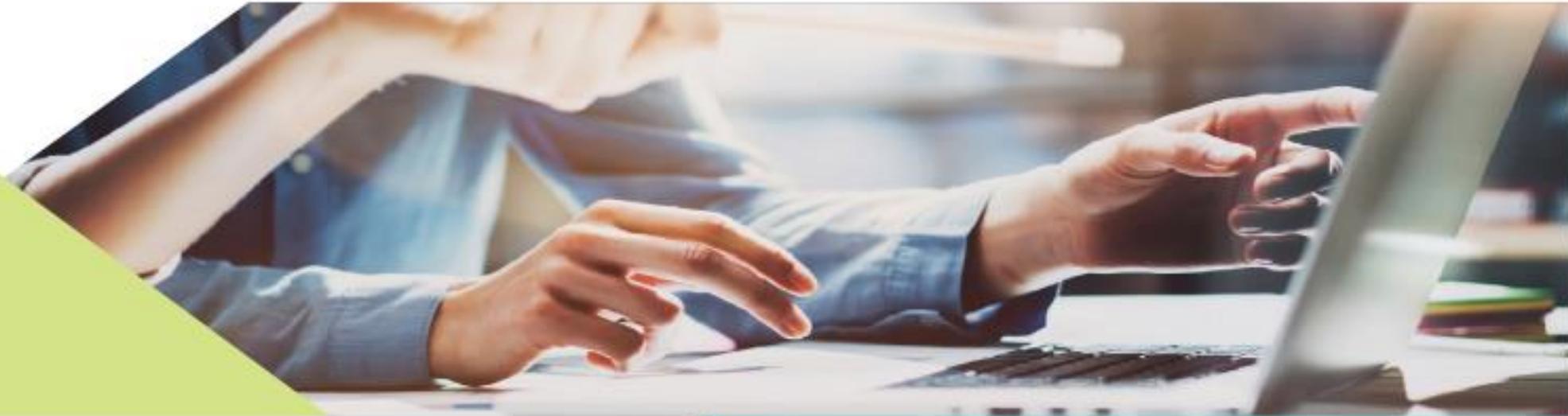




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Embedding Risk Appetite within the Central Bank

A practitioners perspective



IPA Governance Forum
November 2018

The Central Bank's mandate aims to contribute to the economic wellbeing of the people of Ireland and more widely in Europe by performing our wide-ranging statutory objectives.

Delivered by:

- 40 Divisions
- Circa 1,900 staff
- 500 core processes
- 3,500 controls
- Complex technology suite

- Price stability
- Financial system stability
- Operation of payments, settlement and currency systems
- Financial consumer protection
- Supervision and enforcement (c.10,300 firms)
- Recovery and resolution of distressed financial services firms
- Provision of economic advice and financial statistics
- Currency Production and Issue, Central Credit Register, Deposit Guarantee Scheme.

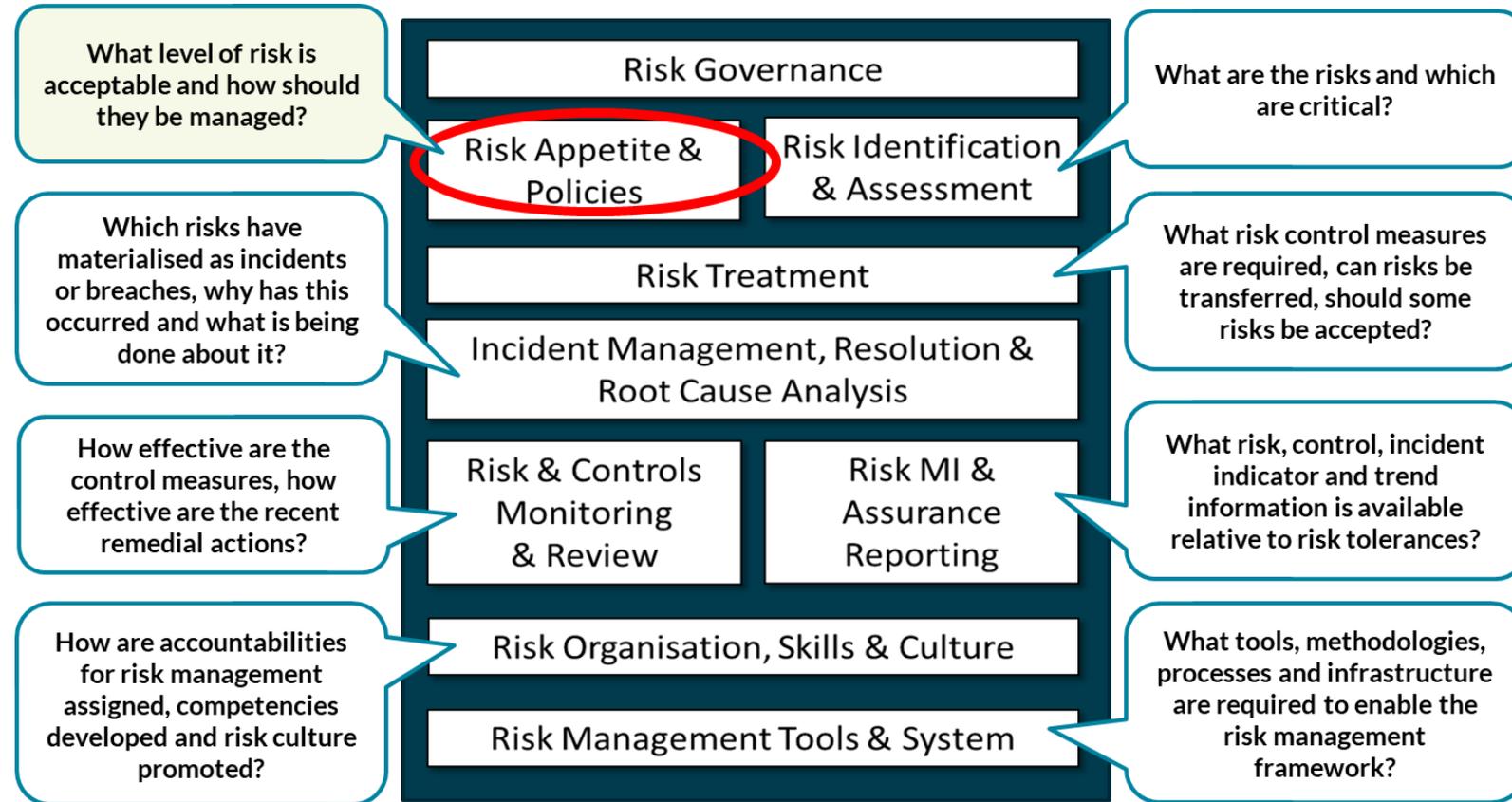


The ever-changing external environment together with its broad statutory mandate brings complex governance challenges for the Central Bank

- **Organisational capabilities**
- **Reputation and credibility**
- **Technological capabilities**
- **Co-ordination, prioritisation & responsiveness**
- **Cost and control**

These and other challenges necessitate robust, internal governance practices and sound risk management

Risk appetite forms part of the Central Bank's internal risk management framework and operating model.



The Risk Appetite Framework is progressively becoming an integral part of the Central Bank's internal governance model

Purpose:

Risk Appetite Framework (RAF) sets out Commission-approved thresholds or limits for the types and degrees of risk the Central Bank is willing to accept or tolerate in pursuing its objectives

Advantages:

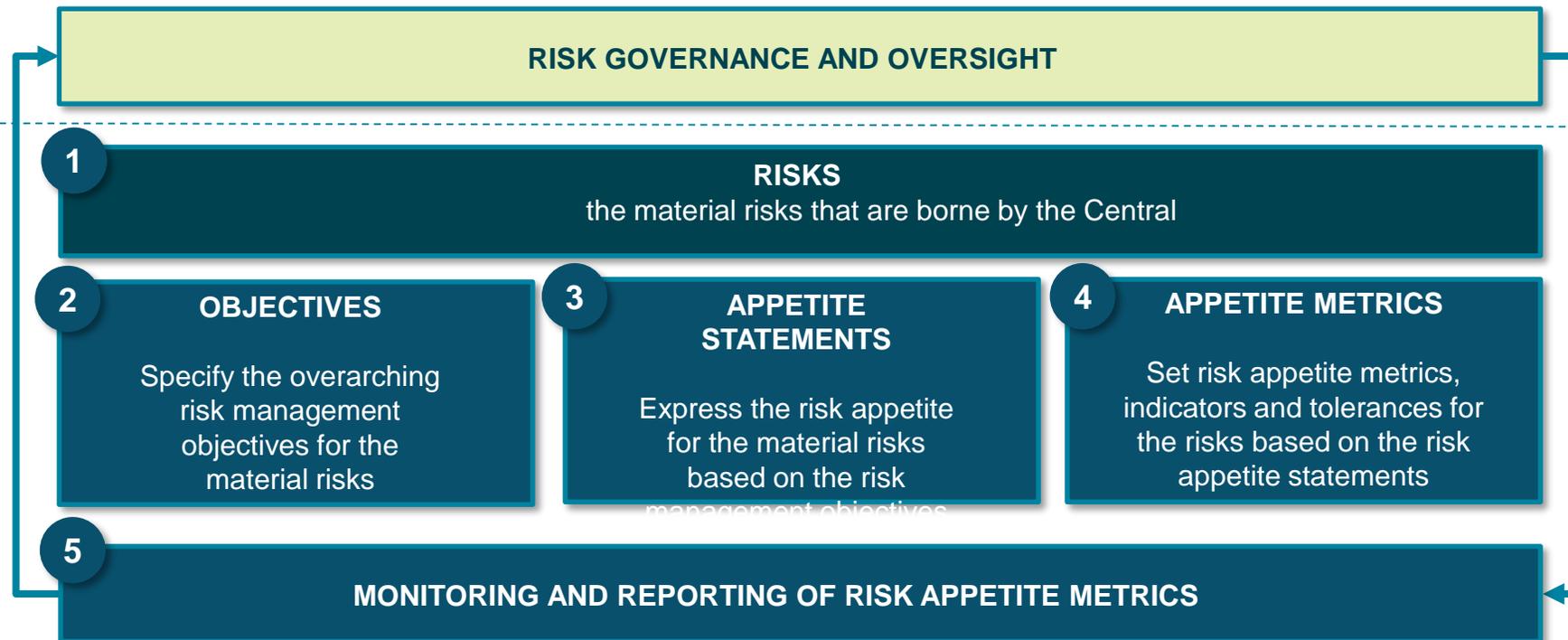
- Guiding strategic management
- Risk informed decision-making
- Strengthening governance and compliance
- Influencing stakeholders



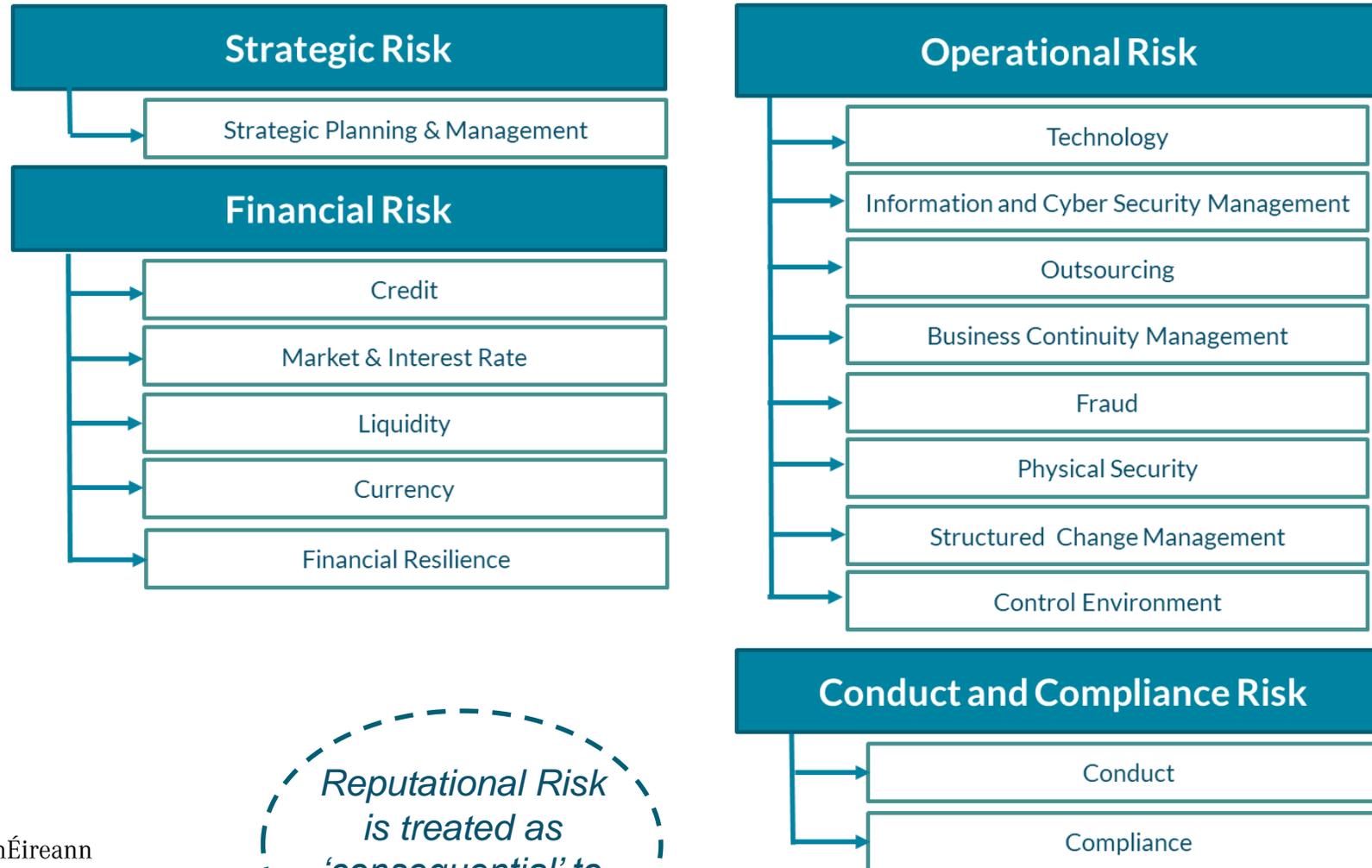
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The Central Bank's Risk Appetite Framework comprises 5 main components



Four categories of material risks fall within the scope of the Risk Appetite Framework



Reputational Risk is treated as 'consequential' to all other risks

The Risk Appetite Framework aims to support the Central Bank to achieve specified risk management objectives.

- Uphold the highest standards of conduct;
- Ensure compliance with legal and regulatory obligations;
- Preserve the Central Bank's long-term financial resilience;
- Avoid losses when investing public money;
- Safeguard operational continuity and maintain a robust internal control environment;
- Ensure effective delivery of the Central Bank's mandate and strategic objectives.



**Set overarching
risk posture...**

***In fulfilling its mission and associated
mandate, the Central Bank has a
limited appetite for accepting risk on a
discretionary basis...***

Specify risk appetite as a statement

Strategic Risk

Financial Risk

Operational Risk

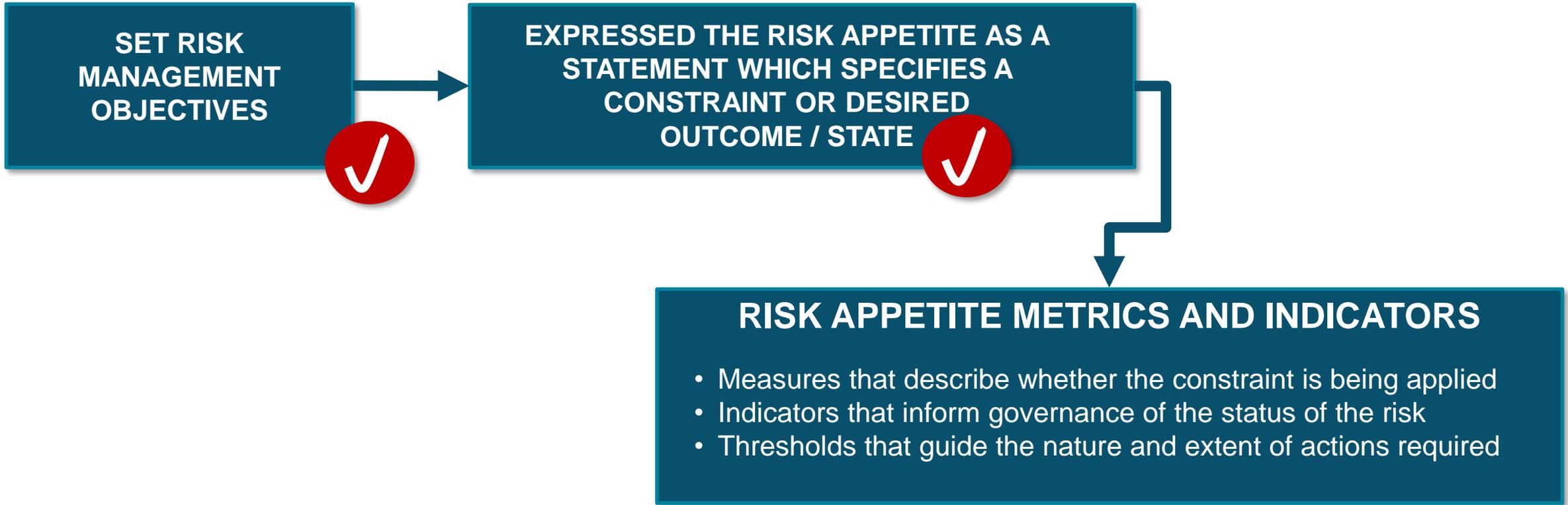
Conduct and Compliance Risk

Each statement expresses a desired outcome described as a threshold or tolerance for each material risk and sub-risk



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Specific responsibilities for risk appetite monitoring and reporting are defined at operational level

First line Divisions:

- Ensure they understand the RAF limits and take account of these in business planning and activities;
- Monitor adherence to approved risk tolerances;
- Act in a timely manner to ensure management or mitigation of material risk exposures.

Designated Risk Reporting Officers:

- Custodians for specific risk categories have been identified e.g. Head of Business Continuity, Head of Information Security
- Required to assess effectiveness of risk management and report on the status of risks to the Risk Division



Specific actions are in place for risk appetite monitoring and reporting are defined at an enterprise level

Second line Risk Division

- Ensure the integrity of the risk measurement techniques and data used to monitor on the risk profile relative to the appetite
- Promptly escalate instances of any material breaches of risk appetite
- Produce risk reporting on adherence to risk appetite limits for governance committees
- Engage with divisions to ensure mitigation of material risk exposures

Quarterly Integrated Risk Reporting

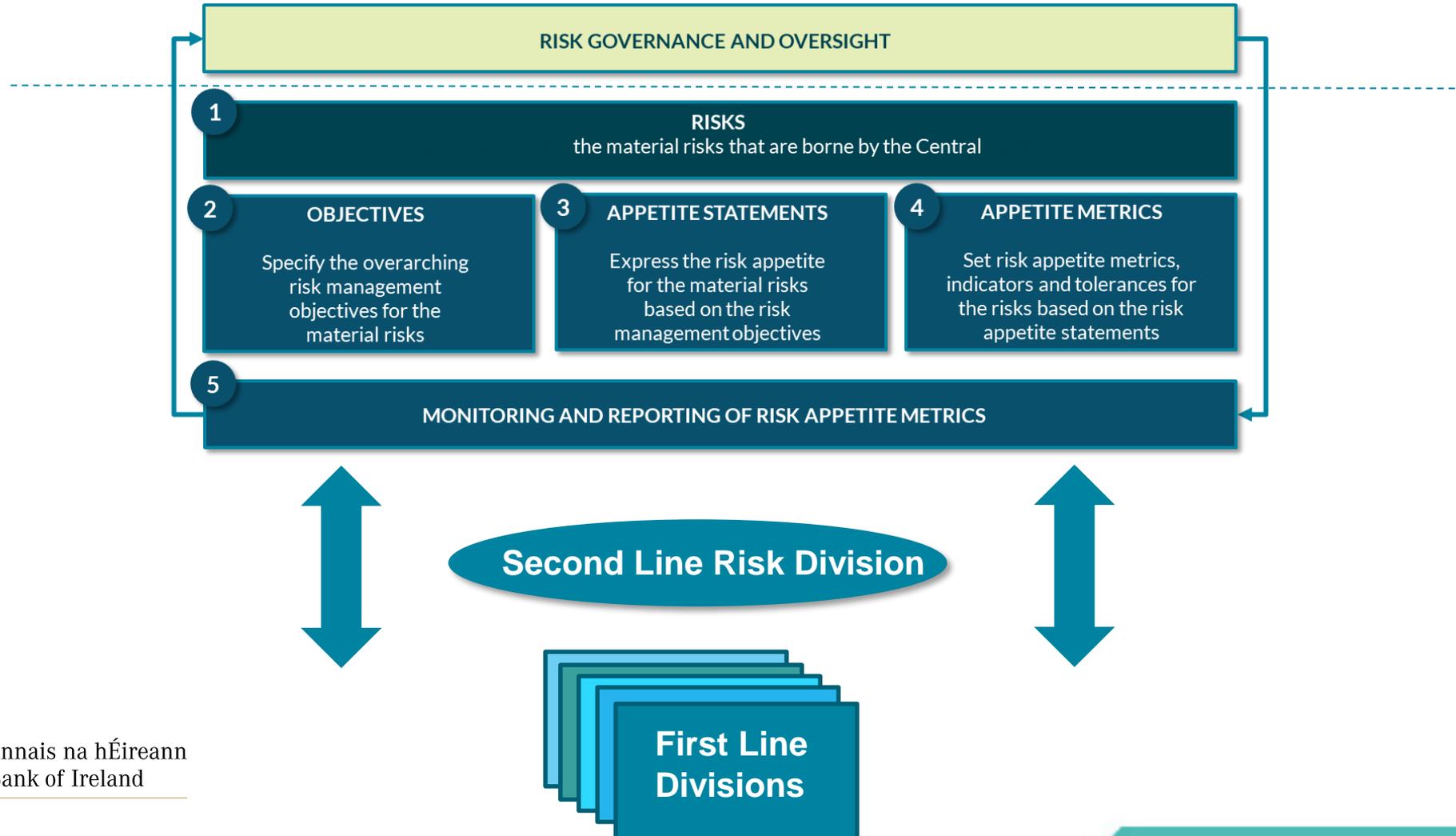
- A quarterly integrated risk report facilitates monitoring and reporting of adherence to the limits and tolerances. Adherence to risk appetite is reported on for each category and sub-category risk, using the metrics in RAF which were produced following engagements with first line business units
- Detailed reader's guide developed to support governance in understanding the basis for assessment

Annual Risk Appetite Performance Statement

- An annual Risk Appetite Performance Statement report is produced for the Commission, providing a separate perspective to assess risk appetite limits and risk appetite



The components of the Central Bank's Risk Appetite Framework



Some lessons learned...

- Start, iterate and refine over time
- Keep it simple, avoid over-engineering and focus on the key risks
- Ensure risk appetite forms part of an integrated risk management framework
- Data is key, but it doesn't have to be quantitative
- Refer back to the Risk Appetite Framework in the context of decision-making



QUESTIONS

