



UNITED OVERSEAS BANK
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Julie Dickson
Chair, Supervisory Intensity and Effectiveness Group
Financial Stability Board
CH-4002
Basel
Switzerland

Email: fsb@bis.org

Dear Ms Dickson

**FINANCIAL STABILITY BOARD CONSULTATIVE DOCUMENT ON GUIDANCE
ON SUPERVISORY INTERACTION WITH FINANCIAL INSTITUTIONS ON RISK
CULTURE**

UOB appreciates the opportunity to share with the Financial Stability Board (FSB) our views on the consultative document on Supervisory Interaction With Financial Institutions on Risk Culture.

We are supportive of FSB's goal to promote sound risk culture within financial institutions and broadly agree with the concepts and guidelines outlined in the paper.

In UOB, we believe in perpetuating an entrepreneurial environment whereby staff at all levels, both at the frontline and back-office, are responsible and held accountable for managing risk for the overall benefit of the organization. A sound risk culture does not mean staff are expected to be risk averse, but rather, they are encouraged to take calculated risk responsibly to foster a sustainable business. Over the years, UOB has always stayed focus on businesses which we understand and are adept at managing the risks involved. The alignment of management's objective and shareholders' long-term interests has worked well in enabling UOB to build a solid commercial banking franchise over the last 80 years.

UOB would like to provide our comments as attached. Please do not hesitate to contact us should you need further clarifications.

Yours sincerely,

Encs

cc Mr Wee Ee Cheong, Deputy Chairman & Chief Executive Officer
Mr Hsieh Fu Hua, Chairman

Questions for Public Consultation	UOB's Response
<p>1. Are there areas not addressed in the Guidance that should be considered in assessing risk culture?</p>	<p>We propose to address two areas below :- 1) Tone from the Top – The Board, being ultimately responsible for the risk culture of the Bank, should receive periodic risk training to keep abreast of risk management developments and risk issues in order to perform an effective risk oversight function. In addition, we would like to propose that supervisors conduct ongoing industry-wide risk training programmes for Board members of financial institutions to enhance the risk management proficiency levels. 2) Incentives - To reinforce the direct linkage between Risk Appetite Statement (RAS) and compensation, the Board Risk Committee should assess and provide inputs on management's compliance with RAS to the Remuneration Committee. Based on this, the Remuneration Committee will then make an informed decision on appropriate construct, practices and levels of compensation for the Bank, especially the key management personnel and material risk takers.</p>
<p>2. Are there areas of Guidance where further elaboration or clarity would be useful, without becoming too granular?</p>	<p>The Guidance paper provides useful indicators of sound risk culture without being too prescriptive. However, it would be useful to share more specific examples of good / bad practices.</p>
<p>3. Would the Guidance benefit from further elaboration on definitions of corporate culture, risk culture and sub-cultures within business lines, and on the relationship between them?</p>	<p>Yes</p>
<p>4. What tools would assist, in particular supervisors, to effectively assess the risk culture of financial institutions (e.g. interviews, questionnaires, analyses of internal documents such as board self-assessments, code of ethics for employees, risk appetite statements)?</p>	<p>One practical and useful tool for supervisor to assess a bank's risk culture is to observe over time the reaction and behaviours of management towards supervisory findings. An organisation with sound risk culture will respond positively to address the underlying concerns even beyond the supervisory findings.</p>

Questions for Public Consultation	UOB's Response
<p>5. What is the expected supervisory response if, for example, the board of directors failed in its responsibility of setting adequate tone from the top and consequently in promoting a sound risk culture?</p>	<p>We recommend a regular dialogue between supervisors and the board to ensure supervisory expectation on these issues are clearly communicated. Persistent failure, of course, will warrant a revamp of the Board membership.</p>
<p>6. What suggestions do you have to improve the engagement of supervisors with financial institutions on risk culture, in particular when discussing the underlying causes of behavioral weaknesses?</p>	<p>As per point 1 above, UOB recommends that supervisors should conduct industry-wide risk training as part of mandatory training for directors. Such formal and regular training exercise will reinforce both the skillset and mindset of Board members towards the need to uphold sound risk culture in their organisations.</p>
<p>7. Are the indicators identified in the Guidance sufficient for assessing risk culture and adequately capturing the multifaceted nature of risk culture?</p>	<p>Refer to point 2.</p>
<p>8. Are there specific examples of good practices that can be used to support the indicators?</p>	<p>1) To ensure that the Group is managed in a cohesive manner across business lines and geographies, UOB has instituted a matrix reporting structure where overseas function heads have a dual reporting line to both the country heads and Group function heads. Each country head plays an effective oversight role to ensure a proper balance between the different objectives of customer segment groups, product specialists and control functions. This will minimise the silo effect while harnessing the synergy across the Group to bring to bear the best solution for our customers with optimum risk-reward outcome for the Bank.</p> <p>2) UOB's Risk-Reward Framework is designed to avoid the moral hazard caused by excessive incentives linked to short term performance where the employee's remuneration package is linked holistically to a combination of quantitative and qualitative factors and is not solely dependent on individual short term performance. The emphasis has always been on building a long term sustainable franchise over the pursuit of short term profit targets.</p>

Questions for Public Consultation	UOB's Response
<p>9. Are the indicators identified in the Guidance commonly considered by the board and senior management when internally discussing risk culture? Are there other indicators that should be included?</p>	<p>No comments</p>
<p>10. Does the paper appropriately describe the different roles of the board, senior management and other control functions in relation to defining, implementing and monitoring risk culture?</p>	<p>Yes</p>
<p>11. What tools or process are used to make risk culture tangible within the organization?</p>	<p>The Group has a formal Risk Appetite statement to provide a common framework across UOB Group for senior management and the board of directors to communicate, understand and assess the types and level of risk that they collectively are willing to accept in pursuing the Group's business strategy, taking into account the interests of all stakeholders. It helps to reinforce a strong risk culture in the bank, thus creating a conducive environment for sound risk management at all levels. Development of the RAS was driven by both top-down board leadership and bottom-up involvement of management. It is well articulated across and within the Group and is cascaded down to the respective business units to ensure all risk taking activities within each business unit is aligned with the risk appetite approved by the Board. A monitoring process has been put in place to ensure senior management and the board are regularly and promptly apprised of the Group's risk profile relative to risk appetites.</p>
<p>12. Are there useful descriptors of an institution's risk culture, both good and bad, that would be helpful to include in an attachment to the paper? For example "growth for growth's sake" or "it's someone else's problem".</p>	<p>A quote from our Risk Appetite Statement : "Our risk taking approach is focused on businesses which we understand and are well-equipped to manage the risks involved".</p>