



**ASSOCIATION OF RUSSIAN BANKS**

**(Moscow, Russia)**

URL: <http://arb.ru/>

September 30, 2013

Financial Stability Board

Email: [fsb@bis.org](mailto:fsb@bis.org)

Dear Sirs,

**Financial Stability Board Consultative Document  
Principles for An Effective Risk Appetite Framework**

On behalf of the Association of Russian Banks (ARB), and particularly Committee on Basel II and Risk Management standards we would like to thank the Financial Stability Board for the opportunity to deliver our opinion on the Consultative Document 'Principles for An Effective Risk Appetite Framework' published by the Financial Stability Board on July 17, 2013 at:

[http://www.financialstabilityboard.org/publications/r\\_130717.pdf](http://www.financialstabilityboard.org/publications/r_130717.pdf)

We grouped our comments into several sections: core definitions (including that of board, risk, firm etc.); linkage to other documents (e.g. ICAAP and Recovery Plan); RAF parameters (i.e. materiality and disclosure requirements); other roles for consideration (comport Chairman of the board and Head of HR) and other issues. We hope our comments would be of use for further development of the prudent international regulatory framework for systemically important financial institutions.

We acknowledge contribution of Danil TROFIMOV and Elizaveta ROZANOVA when preparing the below mentioned comments.

In case of further questions, please, do not hesitate to get in touch with us through email ([z.adam@arb.ru](mailto:z.adam@arb.ru) or [arb@arb.ru](mailto:arb@arb.ru)), telephone (+7.495.690.30.00) or fax (+7.495.690.31.38).

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## General Comments

### 1. Core definitions

#### - Board

*In sections 1-3 of the document the general term 'board' is used. Part 4 articulates the term 'board of directors'. Still a footnote 6 at page 6 states that there might be a two-tier board system.*

- P. 6 – “As noted in the BCBS 2010 Principles for enhancing corporate governance, some countries use a two-tier structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries use a one-tier structure in which the board has a broader role.”
  - To avoid confusion it is proposed to introduce 'board' as one of key definitions on P. 2. It would be welcomed if the FSB recommends in case of two-tier board structure what board is meant. In our proposal, that should be executive (management) board as opposed to non-executive board (or board of directors).

#### - Risk

- P. 2 – “The maximum level of **risk** the firm can assume”, “The aggregate level and types of **risk** a firm is willing to assume”
  - *Though 'risk' seems to be an intuitively understood term, it should be specially defined. Particularly 'absolute' and 'relative' risk categories should be introduced to be used in risk-appetite framework as a firm might be risky because of high absolute or high relative risk taken. Example of the absolute risk is the amount of exposure or risk-weighted assets, whereas example of the relative risk might include confidence level for internal models, own probability of bank's default, capital adequacy ratio etc.*

#### - Firm

- P. 1 – “The Principles aim to enhance the supervision of SIFIs but are also relevant for the supervision of financial institutions more generally, including insurers, securities firms and other non-bank financial institutions”
  - *It is important to add common definition of firm to understand that the scope of the document covers also insurers, securities firms etc.*

#### - Risk limits

- P. 2 – “Quantitative measures based on forward looking assumptions that allocate the firm's aggregate risk appetite statement”
  - *Risk-appetite statement is a top-level document and it might take large space describing all the limits in one document, including per transaction limits.*
  - *It is proposed that risk appetite statement describes “Risk Limit System” with necessary references to more granular documents.*

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## 2. Linkage to other documents

### - ICAAP

*The description of Risk appetite statement looks very similar to ICAAP reports that banks prepare in line with Pillar II guidance of Basel II. That is why it would be nice if the FSB could, please, specify the differences of ICAAP report and risk-appetite statement.*

### - Recovery Plan

*In many places of the document there is a reference that risk appetite should “be linked to the firm’s short- and long-term strategic, capital and financial plans”. It is proposed to add that risk-appetite statement is also aligned with firm’s recovery and resolution plans.*

## 3. Risk Appetite framework/statement parameters

### - Materiality criteria

*We suggest that the materiality criteria is introduced in the risk-appetite. For this reason following adjustments are proposed.*

- P. 1 – “risk capacity, risk appetite, risk limits, and risk profile to be considered at the legal entity level as well as within the group context”.
- P. 3 – par. 1 – “risk capacity, risk appetite, risk limits, and risk profile to be considered at the legal entity level as well as within the group context”
  - *Legal entity level should be considered only for those that bear material risk, otherwise disclosing information might be time-demanding though not much informative.*

### - Disclosure requirements

- P. 3 – “establish a process for communicating the RAF across and within the firm and, and to some extent, to **external** stakeholders;”
  - Risk-appetite framework like the bank strategy is an internal document and its disclosure to the **external** stakeholders should be decided by the bank. We advise banks are not encouraged to disclose everything if they are not willing if consider it may violate competition or bring a competitive disadvantage (nevertheless details might be disclosed to regulatory body).

## 4. Additional roles

### - Chairman of the Board

- Section 4.1 describes the responsibilities of the board. Still given the risk limit system and materiality thresholds special focus might be attached to Chairman of the Board responsibilities.

### - Head of HR

- The document postulates risk appetite statement should be consistent with compensation programs. This is why it is proposed to add Head of HR responsibilities as well as necessity to establish and develop a prudent risk-appetite in collaboration not only with CEO, CFO, CRO, but also with head of HR.

## 5. Other issues

- We propose differences in minimum requirements in terms of risk-appetite statement for SIFIs and non-SIFIs should be articulated in a more vivid manner (e.g. differentiated by GSIBs, DSIBs, other firms).
  - Following proportionality criteria embedded in ICAAP we would suggest different complexity of stress-scenarios etc. should be considered by firms of different categories of systemical importance.
  
- P. 3 – “it is important to check that the ‘top down’ risk appetite is consistent with the ‘bottom up’ perspective”
  - We would welcome if you could elaborate more, please, on the above mentioned statement. A respective example would be of value.
  
- P. 6 – “Risk limits should: ... not be strictly based on comparison to peers, default to regulatory limits, be overly complicated, ambiguous, or **subjective**.”
  - We propose to add that term ‘subjective’ does not refer to non-quantifiable expert-based risks assessment (e.g. reputational).
  
- P. 4 – “a stress scenario for liquidity measures could include the ability to meet expected cash outflows due to a firm-specific liquidity event that includes loss of access to all unsecured funding markets for up to 12 months.”
  - It is proposed to align stress scenarios with those four introduced in the intraday liquidity management paper of BCBS (<http://www.bis.org/publ/bcbs248.htm>).