**Consolidated Comments of Saudi Banks on the FSB Consultative Document: "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture"**

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The FSB Consultative Document on "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture has been reviewed by Saudi banks and their main comments on this documents are given hereunder:

i. This consultative document provides a more unified framework on a topic that is typically approached / discussed in a piecemeal way. We believe that the cascading of risk-appetite from the corporate level to business and operational units is an important step in creating a stronger risk culture and in particular will support the objectives set out in the section –'Indicators of accountability. It is likely that to address the aims and ambitions proposed, investment will be required to develop connectivity to improve communication and enhance reporting across the enterprise;

ii. We believe there should be references in the CD to the previous Basel Committee on Banking Supervision (BCBS) documents which have been issued, namely 'Principles for enhancing corporate governance' issued in October 2010, and the 'Core Principles for Effective Banking Supervision' which were heavily revised and issued in September 2012. In the 'Core Principles for Effective Banking Supervision' the new Corporate Governance (Principle 14) and revisions in Risk Management Process (Principle 15) already provide strong guidance to supervisors on "risk culture" and what they should expect to see demonstrated in banks and financial institutions;

iii. With regard to the specific questions in the addendum to the consultative document published by the FSB on 23 December 2013, we have following responses:

    a. *Are there areas not addressed in the Guidance that should be considered in assessing risk culture?* We believe the guidance should acknowledge that inherent ownership structure of SIFIs is aimed at maximizing the wealth for shareholders and investors. But given recent experience of state-funded bail outs, this intent of profit maximization needs to be balanced. Therefore, equally important is the guidance that acts as an interface between the Boards and shareholders, and ultimately recognition by owners that the Boards are also entrusted to curb excessive risk taking - in addition to the inherent function of increasing the wealth of shareholders;

b. *What tools would assist, in particular supervisors, to effectively assess the risk culture of financial institutions?* It is important that the dialogue between supervisor and bank management and Board is constructive and pragmatic. Supervisors should be equipped with a scorecard that would allow them to objectively measure the 'Risk Culture' score of each financial institution. Care must be taken not to adopt 'a one size fits all' approach;

c. *What is the expected supervisory response if, for example, the board of directors failed in its responsibility of setting the adequate tone from the top and consequently in promoting a sound risk culture?* Before proposing the response, we consider that the supervisors should work on developing an interface and setting expectations between the shareholders and the boards;

d. *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?* Consideration should be given to the development of an objective risk culture scorecard/measurement metrics;

e. *Are the indicators identified in the guidance sufficient for assessing risk culture and adequately capturing the multifaceted nature of risk culture?* Where there are 'failures' in risk culture which may be reported internally by staff to Senior Management. We propose that consideration be given to strong whistle-blower protection as is the case in some other industries;

f. *Are there specific examples of good practices that can be used to support the indicators?* Consideration should be given to functional models which encourage increasing stakeholder involvement, such as safeguarding the interests of depositors, communities and suppliers of capital.