U.S. CHAMBER OF COMMERCE
GRGI
Global Risk and Governance Initiative

January 31, 2014

Ms. Julie Dickson
Superintendent
Office of the Superintendent of Financial Institutions
Financial Stability Board
Centralbahnplatz 2
CH-4002
Basel, Switzerland

Re: **Consultative Document: *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture***

Dear Ms. Dickson:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation, represents the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber established the Global Risk and Governance Initiative ("GRGI") to promote modern and appropriate international structures for capital formation, risk management, and corporate governance needed by businesses to fully function in a 21st century economy. The Chamber appreciates the opportunity to comment on the Consultative Document: ***Guidance on Supervisory Interaction with Financial Institutions on Risk Culture*** ("Risk Culture paper") issued by the Financial Stability Board ("FSB").

The GRGI appreciates the opportunity to comment on the Risk Culture paper and welcomes the work of the FSB to pursue policy measures to address systemic risk issues. We are concerned that the Risk Culture paper may create subjective guidelines that are redundant to, or in conflict with, the legal and regulatory provisions for systemically important financial institutions ("SIFIs"). These guidelines may also inhibit reasonable risk taking thereby depriving non-financial businesses of the resources needed to grow. In addressing unreasonable risk taking we must not pursue proposals that fail to fix real problems and avoid undermining well-functioning capital markets. The twin objectives of reform must be investor protection and preserving efficient capital markets that supply businesses and entrepreneurs with the capital they must have to grow, innovate, and create jobs.

The Risk Culture paper sets forth checklists to:

- Assess tone from the top through leading by example, assessing espoused values, ensuring common understanding and awareness of risk and learning from risk culture failures;

- Accountability through ownership of risk, escalation process, enforcement;

- Effective challenge though openness to dissent and stature of risk management;

- Incentives through remuneration and performance and talent development and succession planning.

While these efforts and checklists are well intentioned, they also create three separate issues that can lead to harmful unintended consequences. First, any assessment of a financial institution and its management in this process is subjective by nature. Second, a financial institution and its management may be in conformance with all of the relevant legal and regulatory requirements but still run afoul of regulators through these subjective tests. Third, this checklist fails to take into account differing business models, management styles, and national cultures of very diverse institutions.

Businesses and financial institutions of all types must engage in risk taking on a daily basis in order to operate, grow, and if necessary fail. SIFIs, whether they are engaged in lending (banks), underwriting equity offerings (banks or investment banks), or taking on potential risk (insurance companies), are important components for a global marketplace to operate and grow. Each of these activities, which are only a brief description of the potential activities SIFIs may engage in, contains by its very nature a risk. A loan may default, an equity offering may undersubscribe, and an adverse event may occur. Yet, if the assumed risk is reasonable, over the long-term growth and benefits should outweigh the risks.

If institutions are in conformance with the law, following sound business practices and effectively communicating to investors and regulators on their long-term and short-term strategies it would seem that they would be meeting the objectives of the Risk Culture paper. The checklists described above are not only subjective in nature by they are also prescriptive in the manner of examination.

If the FSB continues to believe that SIFIs should be subject to the double checking envisioned in the Risk Culture paper, then the FSB and regulators need to take into account differing business models and situations to ensure that risk management systems fit the needs and characteristics of a specific SIFI rather than meet preconceived notions of how a risk management system should be constructed. Otherwise the Risk Culture paper and the Proposed Risk Appetite Framework can act as a driver towards a homogenous risk management system for SIFIs, which will do more harm than good by reducing the benefits of risk diversification. By forcing financial institutions to have a one size fits all approach to risk management, the Risk Culture and Risk Appetite Frameworks may concentrate risk by eliminating flexibility and managerial initiative.

National and international regulators should be focused on unreasonable risk taking. The 2007-2008 financial crisis demonstrated that certain behavior was unreasonable, and that regulators may themselves have not understood the risks involved. This should not create a license to eliminate risk; rather it should create a focus on unreasonable and outsize risks. Any attempt to eliminate risk will only transfer risk and make the financial system and economy inherently more dangerous, less efficient and a weaker transmission of growth. Policy-makers should instead look at internationally compatible ways to define unreasonable and unsustainable risk commensurate with the diverse business models of financial institutions.

Thank you again for the opportunity to comment on the Risk Culture paper. The FSB should take into account the dynamic nature of risk-appetites that should vary in time depending on market conditions, business strategies, and national regulatory pressures. In its current format, the supervision outlined in the Risk

Culture paper may inhibit reasonable risk taking that could harm lending to businesses adversely impacting economic growth and job creation.

We are happy to discuss these issues and concerns in greater detail.

Sincerely,

Gary Litman
Vice President
International Strategic Initiatives

Tom Quaadman
Vice President
Center for Capital Markets
Competitiveness