



Risk governance – agenda for change

Survey of the implementation of the IIF's best practice recommendations

17 December 2009

Background to the IIF survey

The Institute of International Finance (IIF) represents the international banks collectively in dealings with the official sector and makes recommendations in areas such as risk management.

As a response to the global crisis the IIF created a Committee on market Best practices to review areas where improvements were needed in risk management, valuation, transparency.

In July 2008, the IIF issued recommendations of changes that were needed.



“The financial crisis exposed various weaknesses in the banking sector. Today, industry executives have identified many of these vulnerabilities and are working on new strategies and processes to eliminate them. The effort will be lengthy, and will require system and culture change as well as innovative thinking.”

The survey

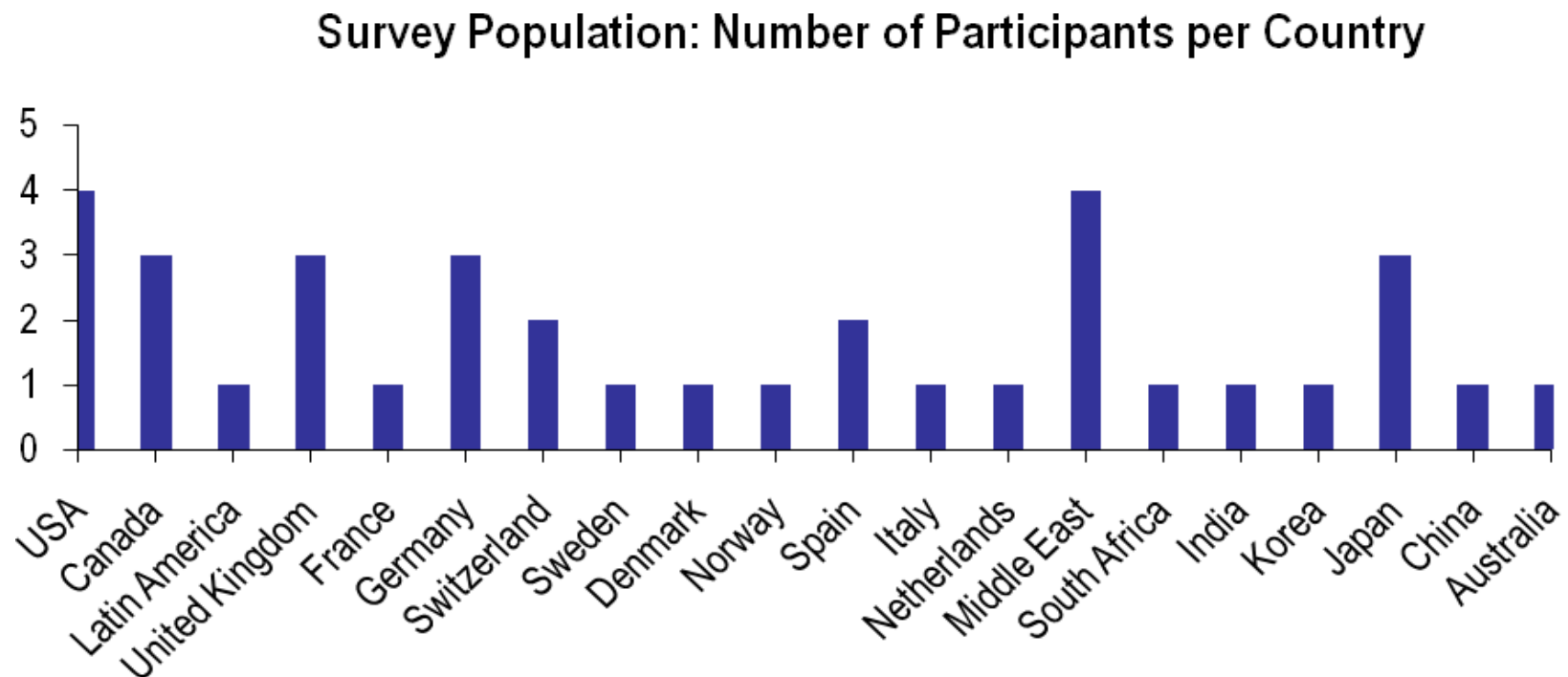
In March 2009 EY was asked to conduct a survey of the implementation of the recommendations –

1. Covering the areas where changes are being made to risk management
2. The types of changes being made
3. Impediments to change

The survey was conducted through interviews with CEOs, CROs, CFOs

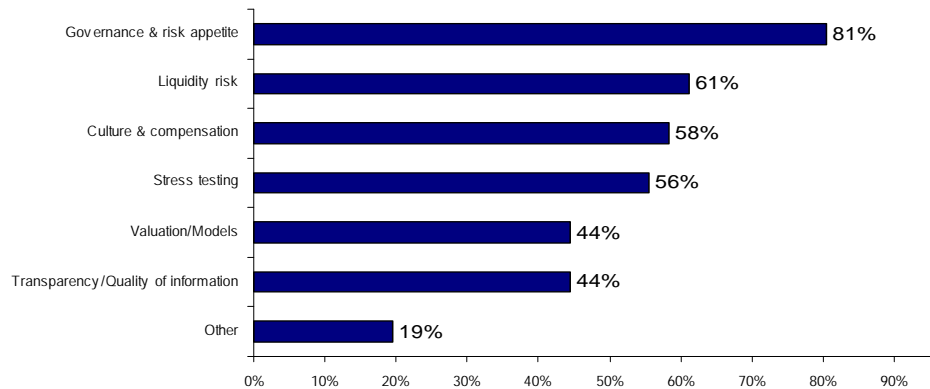
Sample size – 38 banks

Spread across different regions

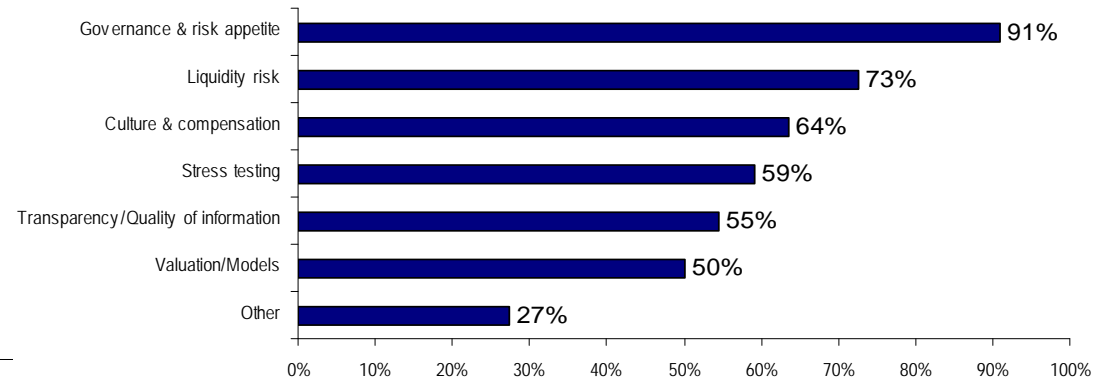


High level results

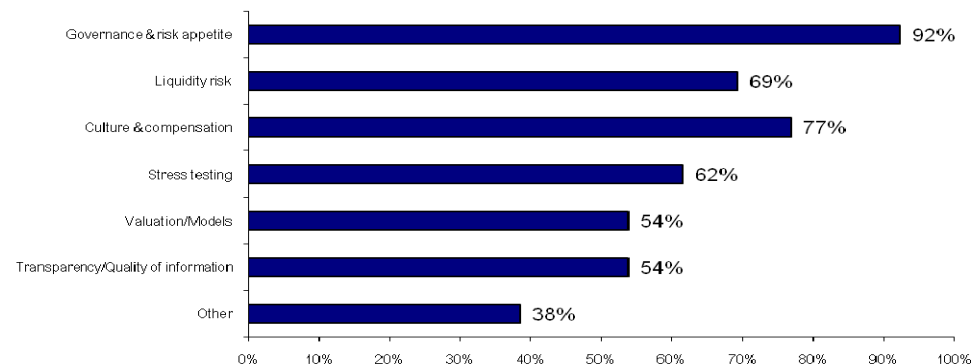
Top issues across all firms



Top issues across G10 firms



Top issues amongst the UK, US, Swiss, Netherlands and German firms



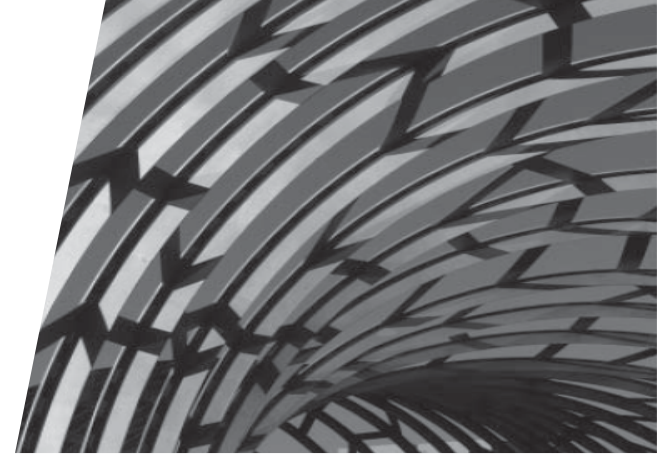
Governance and risk appetite

- Most frequently cited areas of change, 81% of banks
- Banks reviewing policies and procedures
- Terms of reference of committees
- Developing explicit risk appetite
- Enhancement of stress testing
- Role of CRO and risk function more holistic
- Enhancing Board level committees



Liquidity risk

- Changing governance, bigger role for group risk
- Risk appetite, contingency planning
- Stress testing
- Group risk oversight over Treasury assets
- Improvements in modelling and monitoring risk
- Improvements in charging for liquidity risk



Culture and compensation

- Banks addressing sales driven culture
- Many banks in G10 changing compensation arrangements to make compensation more risk adjusted – bonuses spread over several years.



Stress testing

- Over a half of banks are changing their approach
- Scenarios previously not severe enough
- Development of more systematic approaches
- Credit stress testing new and less developed
- Integrated approaches across all risks
- Systems a limiting factor



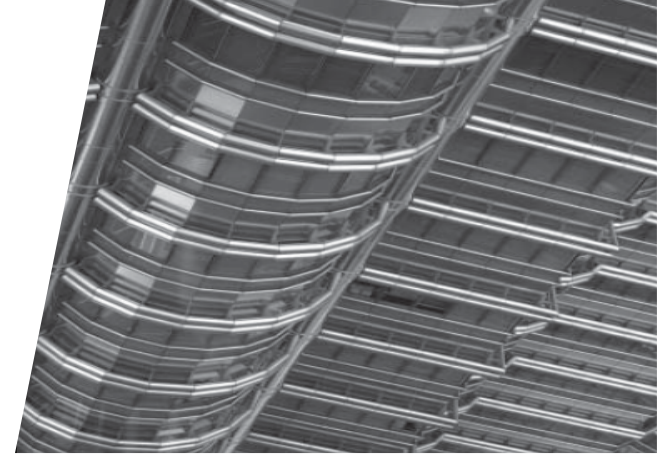
Risk transparency/valuations

- Development of better metrics and models
- Less reliance on single measures- VaR or Economic Capital
- Need to highlight large risks
- Again systems a limiting factor



Impediments to change

- Data and systems
- Culture
- Shortage of key resources
- Regulatory risk



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