



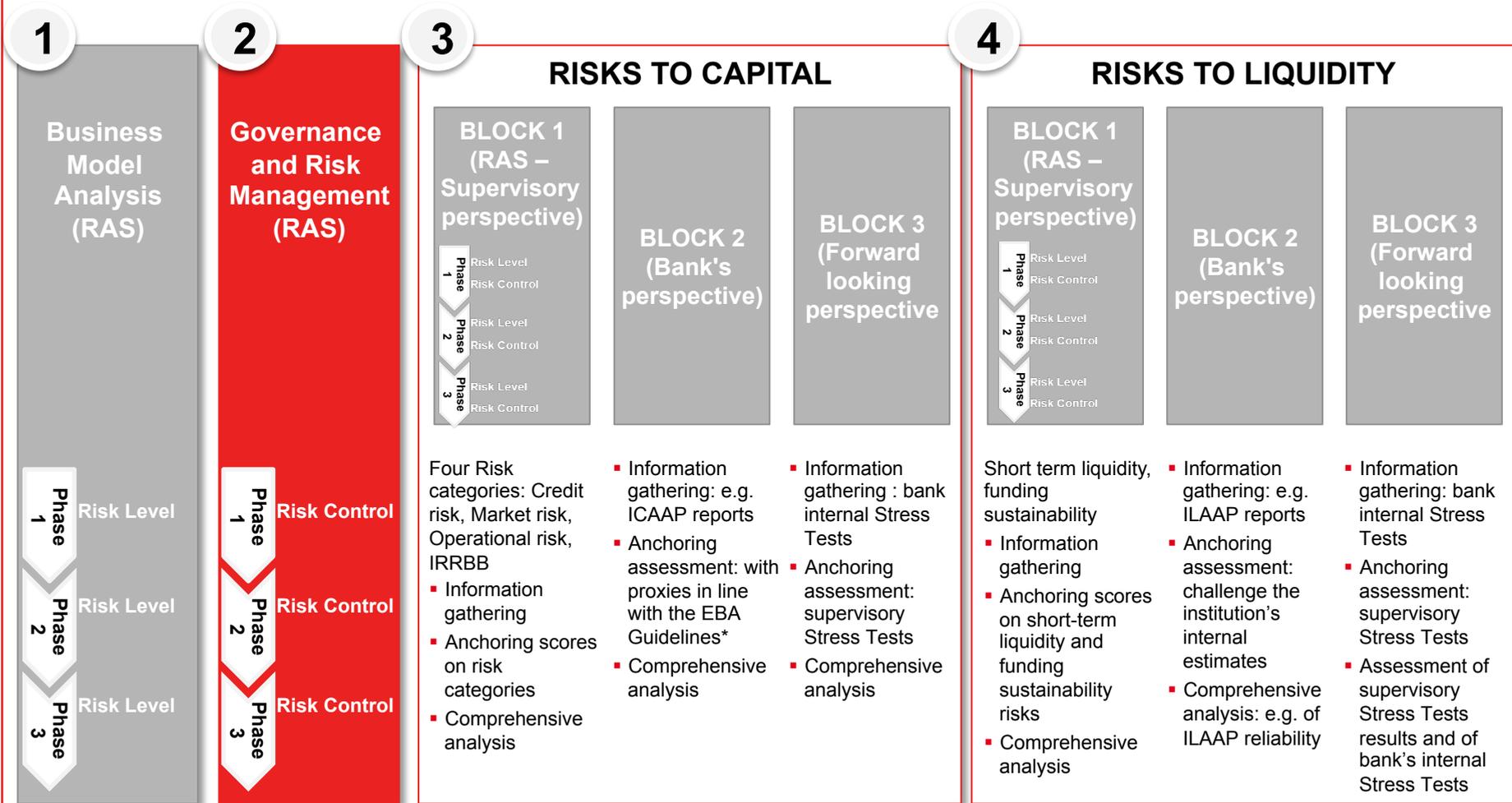
SREP methodology on Governance and Risk Appetite

A holistic approach to sustainability of banks

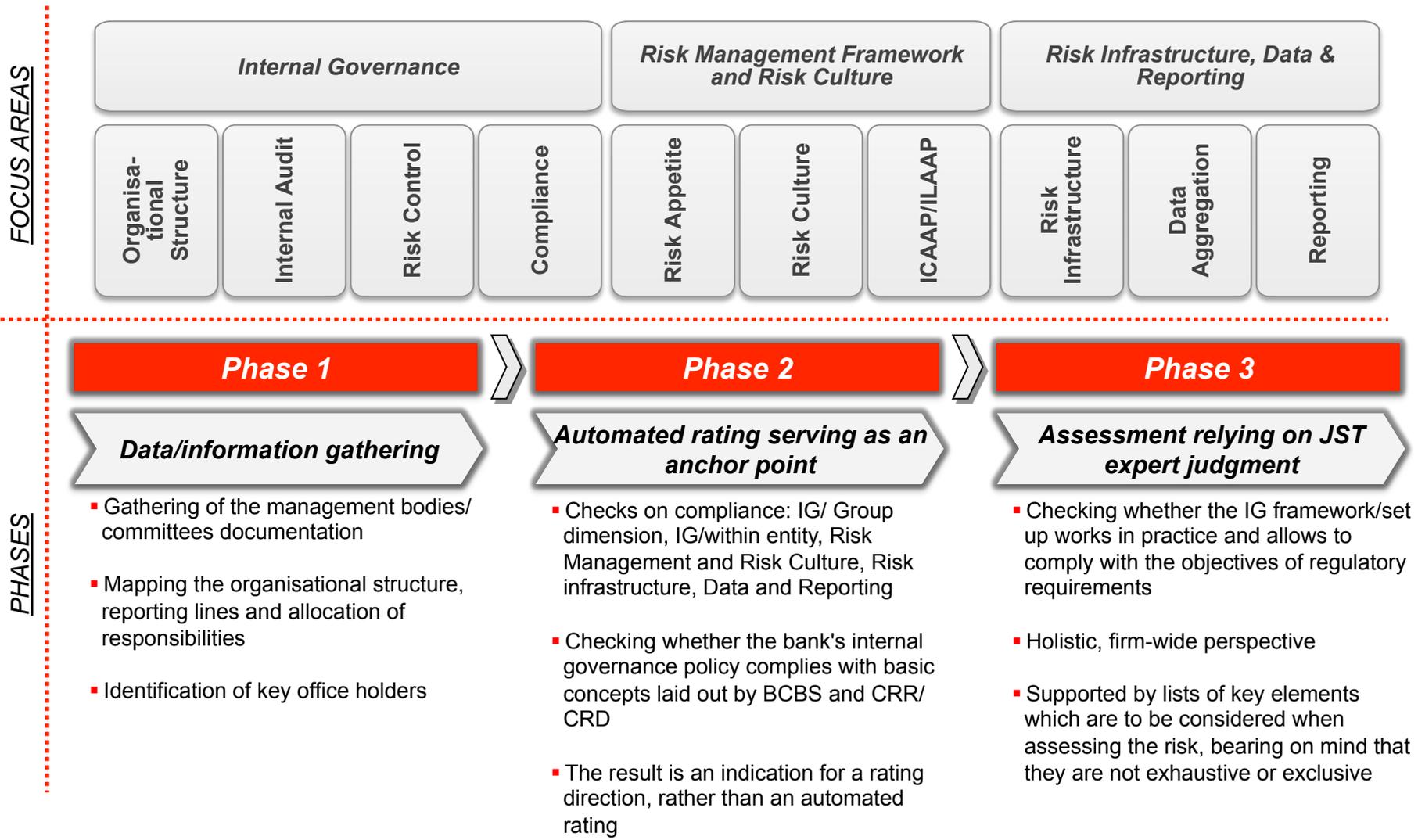
Aurelio Maccario, Head of Group Regulatory Affairs

Rome, June 2016

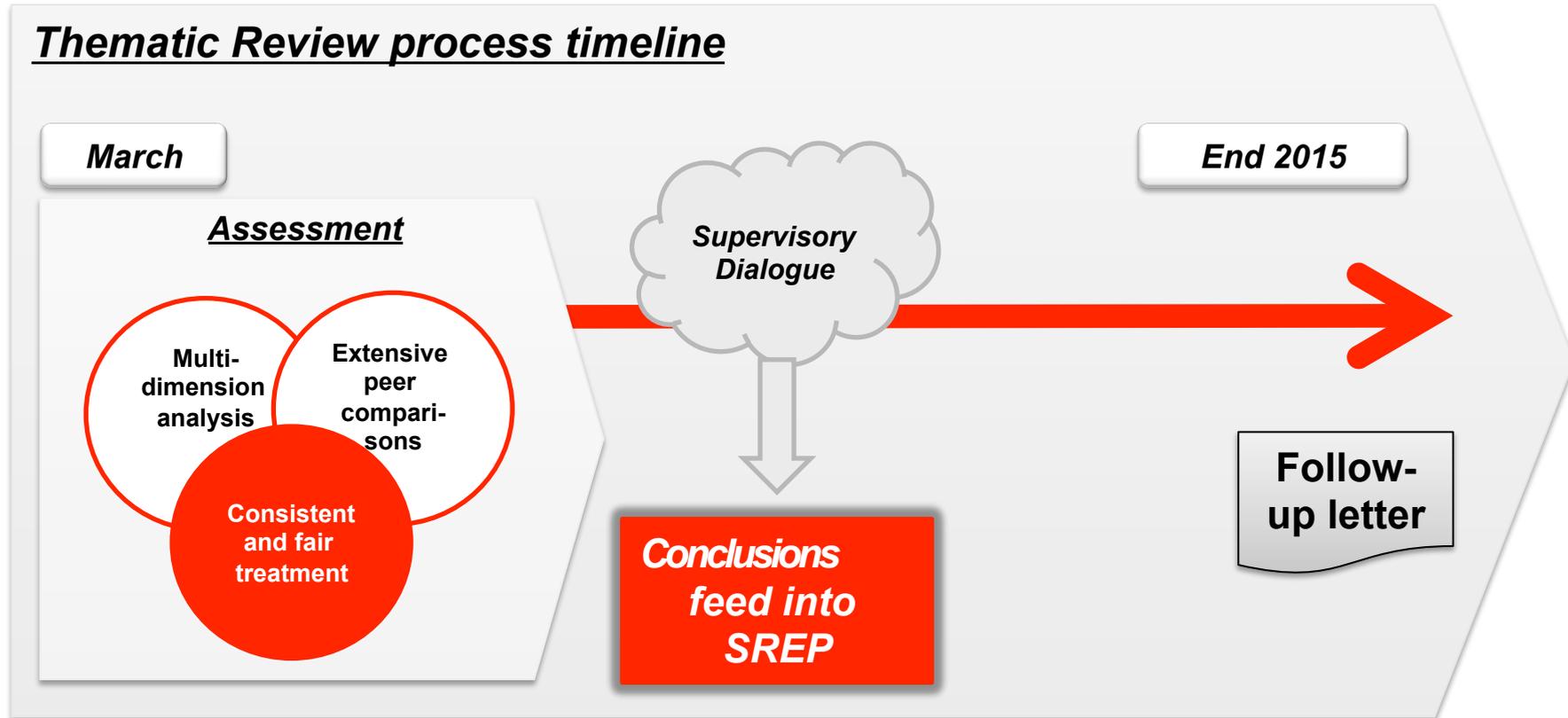
Governance and Risk Management is one of the four key elements of the Supervisory Review and Evaluation Process (SREP)



Governance and Risk Management is a cross area of analysis of the entire SREP process, focusing on internal governance, risk management framework and data governance

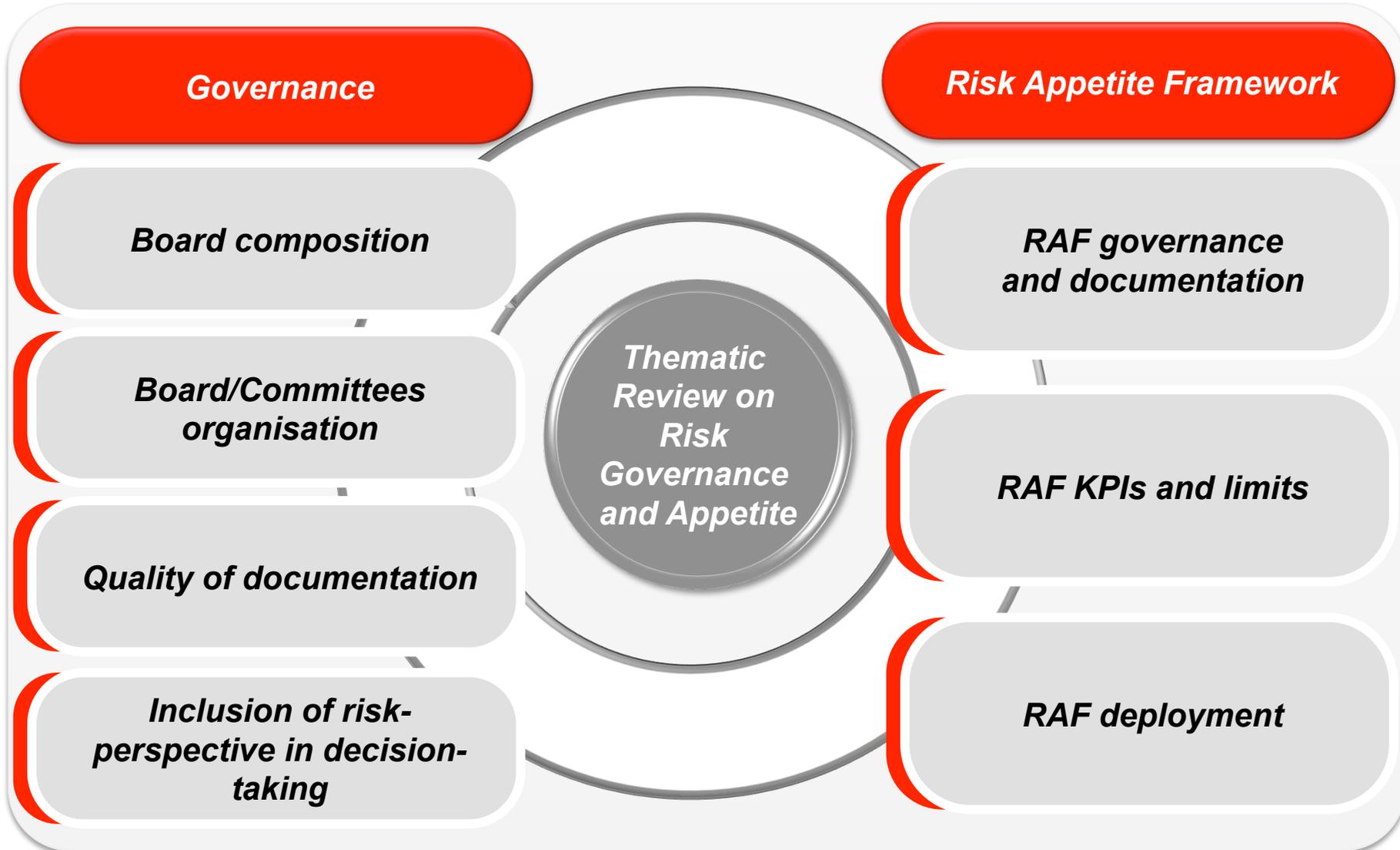


In 2015 the ECB performed an extensive thematic review on risk governance and risk appetite which results fed in to the SREP assessment



- The Thematic Review Risk Governance and Appetite is **part of the supervisory cycle**, its results feed into the SREP and its findings will lead to supervisory follow-up actions
- The **follow-up letter** received in December 2015 included the list of weaknesses that need to be addressed in 2016

Thematic review is structured through two modules and sub-topics based on ECB horizontal analyses methodology



The Thematic Review findings lead to supervisory follow-up actions both in terms of SREP assessment and of inspection activities

Governance as priority for ECB - SSM

- The impact of an institution's governance on its **risk profile** and **business model sustainability**
- **Corporate models** within the SSM are influenced by national regulation and tradition
- The SSM intends to foster the **dialogue with Boards' members** through regular meetings
- The SSM may attend as **observer part of a Supervisory Board/ Board of Directors meeting** from time to time to watch and to see what information is being provided and what questions are being asked

Thematic review scope and objectives

- Deep and granular assessments of
 - banks' **management bodies** in charge of supervisory and management functions
 - banks' **risk appetite frameworks**
- Proportionate approach was developed, taking into account the size and complexity of individual institutions

Two modules

- **Management bodies in their supervisory and management functions:** organization, composition, documentation and decision-making
- **Risk Appetite Framework:** policies, practices and implementation and governance

Two-layer approach

- European and national legislation
- International best practices

Supervisory tools

- Assessment of Boards' minutes and documentation
- Meetings with key function holders
- Attendance to one Board's meeting
- Workshops on Risk Appetite Framework

The thematic review enabled the ECB to strengthen the knowledge on corporate governance at overall banking sector level and fine-tune the assessment and the overall outcomes

The horizontal approach fostered discussion among experts from the ECB and the NCAs, at the levels of both the JSTs and the horizontal functions, as well as allowed the identification of:

Aggregated conclusions:

- *The thematic review revealed that, even if compliant with their national law, significant institutions are still far from consistent with international best practices*
- *The main areas of attention are the countervailing capacity of the boards, the inclusion of risk perspective in the boards' discussions and the interplay between risk appetite frameworks and strategy.*

Good practices observed:

- *The thematic review has allowed the identification of best practices in the operational implementation of international standards*
- *These will feed into an SSM report on the best practices identified that will be published later in the year.*

Consistent recommendations:

- *The thematic review was action-oriented and led to concrete recommendations to the institutions in order to improve their governance and risk appetite frameworks*
- *The horizontal approach ensured consistency in the recommendations so that similar findings would lead to similar recommendations.*

As part of their supervisory activities for 2016, JSTs will follow up on the implementation of the actions included in the individual follow-up letters sent to banks, as well as put in practice an enhanced monitoring of those aspects identified as main areas of attention.