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AMERICAN ACADEMY *of* ACTUARIES

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January 30, 2014

Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland  
Via email: fsb@bis.org

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

On behalf of the American Academy of Actuaries'<sup>1</sup> Enterprise Risk Management (ERM) Committee, I am pleased to provide comments on the Financial Stability Board's (FSB) Supervisory Intensity and Effectiveness Group's Consultative Document, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture*.

We agree in general that the principles articulated within the paper could enhance supervisory oversight of systemically important financial institutions (SIFIs). We understand that one of the primary goals of the FSB is to identify foundational elements of a sound risk culture that include, risk governance, risk appetite, and compensation, as well as indicators that include tone from the top, accountability, effective challenge, and incentives. It is encouraging that the paper aims to provide guidance for supervisors to assess the strength and effectiveness of a financial institution's culture in managing risks. This will help facilitate a common understanding between supervisors and financial institutions for supervisory expectations of an institution's sound risk culture. It could also support of appropriate behaviors and judgments within a risk governance framework.

We encourage the FSB to consider the following observations:

1. A better understanding of the scope of the uses of this risk culture review would be helpful in forming comments. FSB should consider that risk culture may not be defined by a short list of specific practices or that a review of practices is sufficient to evaluate the culture. It is key that the organizations under supervision understand what the supervisor intends – and are not just responding mechanically to static detailed requirements. Additionally, a holistic view of the culture should be considered as certain strong values and behaviors may compensate for other less developed ones.

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<sup>1</sup> The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

2. There are areas not addressed in the guidance that could be considered in assessing risk culture. These may include:
  - **Integrity and ethics**  
Institutions with sound risk culture would expect employees to conduct business in a legal and ethical manner and would provide the appropriate guidelines for their actions. They also would provide a protective environment for employees to escalate integrity related issues.
  - **Risk awareness**  
Risk awareness would include the active identification of current and emerging risks from all sources of the institution. Risk awareness also would include a common risk language in support of a consistent enterprise-wide view of risk. In a sound risk culture, risk awareness extends throughout the organization and is one of the skill sets seen as a critical component in the top management group.
  - **Risk assessment**  
Sound risk cultures facilitate risk assessment and encourage strategies to balance risks and returns in accordance with an institution's goals and values. These cultures would support accountability in risk-based decision making and an active monitoring process. Risk assessment also needs to incorporate the concept of aggregation of risk, which would include risks' correlations and/or dependencies.
  - **Broad risk management competency throughout the organization**  
Institutions with sound risk culture offer programs to develop all business-critical risk management skills, both technical and leadership, to attract and retain skilled individuals to fill influential roles in the company.
  - **Open communication and dialogue**  
A firm that openly communicates with its employees will facilitate understanding of its risk appetite and improve the risk-based decision making process. A collaborative dialogue for key risk-based decisions enhances the control structure and leads to better solutions.
  - **Adaptation to a changing environment, experience, and view of risk**  
Corporate culture is tested through experience. When experience is consistent with its view of risk, a firm will use experience to affirm its view of behaviors and judgments that are believed to have led to its success. When the experience is inconsistent, a sound risk culture will lead the firm to make changes to reflect an adjusted view of risk. A sound risk culture is always adapting to a changing experience and environment.
3. Finally, it is important to recognize that both companies under supervision as well as supervisors will have the opportunity to move the best practices and insights of risk

management. The culture should be evaluated against the practices and insights available at the time.

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We appreciate the opportunity to provide you with these comments and would be happy to discuss these comments with you further. If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council, via email ([getachew@actuary.org](mailto:getachew@actuary.org)) or phone (202-223-8196).

Sincerely,

Bruce Jones, MAAA, FCAS  
Chairperson, ERM Committee  
Risk Management & Financial Reporting Council  
American Academy of Actuaries