

Comments

Financial Stability Board Consultation Paper “Principles for an Effective Risk Appetite Framework”

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 2,000 banks.

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I. General Comments

The Financial Stability Board (FSB) received the mandate from the G20 to develop more stringent supervisory rules for systemically important financial institutions (SIFIs). In an attempt to ensure a more effective Risk Appetite Framework (RAF), the present Consultation Paper contains comprehensive, detailed requirements applicable first and foremost to the frameworks that need to be implemented by SIFIs. Yet, at the same time, the FSB also recommends transferring the principles to all other financial institutions and to have their compliance verified by national supervisors.

However, from our point of view, the FSB’s detailed requirements concerning the RAF should exclusively apply to SIFIs. In this context it is worth noting that Germany has already implemented a principle based framework for minimum requirements with regard to banks’ risk management specifically concerning the underlying risk strategy, risk capacity and risk limits. This framework already is sufficient for an appropriate risk appetite framework of banks. Already today, these requirements apply to all banks and they have been tested and tried in practice. Notwithstanding the foregoing, should there be a genuine need to subject all banks to clearly more detailed requirements, in our view, these rules should reflect the nature of high level principles to a greater extent.

Given the rationale of the Consultation Paper, our following comments are based on the assumption that there will be a broad scope of application (i.e. our following comments are based on the understanding that the proposed requirements shall be applicable to all financial institutions).

II. Specific Comments

Rationale for the objective and its achievement

Initially, we would like to point out that the Consultation Paper’s objective and the contribution which the proposed rules will make in meeting this objective should be explained in a more compelling manner. In our view, the explanation given in order to justify the appropriateness and effectiveness of the requirements for globally systemically important institutions and particularly for all other banks remains inadequate.

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Reduction in the level of detail of the requirements

We have major concerns over the requirements' level of detail. In our view, there is a risk that the rules' level of detail will force banks into preparing a rigid regulatory framework which might – *de jure* – comply with the provisions proposed in the Consultation Paper but which – for all intents and purposes - will no longer be understood by a bank's staff and which will equally fail to generate any additional, decision-useful information for supervisors. Presumably, this will lead to a lack of acceptance for the regulatory framework and an implementation of the requirements that is largely unaware of the underlying risks and at the expense of the practical fitness for purpose.

At this point, we would like to highlight a non-exhaustive list of examples for excessively tight or, moreover, rigid regulation:

- Implementation of risk limits on the level of business lines or, moreover, legal entities – respectively expressed relative to earnings, capital, liquidity or other relevant measures (e.g. growth, volatility) (c.f. 3.1 b)
- Preparing a comprehensive list in order to single out or, moreover, specify the roles and responsibilities of the CEO, CRO and CFO (cf. 4); in this context, the board has to question senior management regarding its activities outside the approved risk appetite framework (c.f. 4.1 g).

We should like to reiterate our preliminary understanding that the current proposals shall have a broad scope of application. Hence, we hold the view that the Consultation Paper's proposals should take greater account of the heterogeneity of the banking community on the whole. Contrary to a detail-oriented approach, in Europe (and particularly in Germany) a regulatory approach that is based on high-level principles including the so-called principle of double proportionality has stood the test of time. Thus, also, the German “Minimum Requirements of risk management“ first and foremost seeks to ensure that a bank - depending on its size, the complexity of its business activities and its risk profile – complies with the intents and purposes of the minimum requirements in an appropriate manner. Conversely, the same approach applies to the supervisory review of compliance with the requirements. This approach extends to all material regulatory subjects: From defining the risk appetite in the risk strategy to financial planning and capital planning, risk limitation and risk monitoring up to the definition of specific tasks during risk management.

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Hence, in order to enhance the focus on principles and processes, we would like to suggest an increased emphasis of the high-level nature of the proposed framework. In our view, the forthcoming regulation should primarily focus on the following areas:

- Establishing the risk appetite on the basis of the business strategy and risk strategy;
- The definition of the risk appetite should be confined to a limited number of mandatory features;
- Reflection of the risk appetite in business plans and capital planning;
- Definition and review of the risk limits.

Yours sincerely,
For the German Banking Industry Committee

Signature