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## Thematic Review of Risk Function

Dear Chair,

The Central Bank of Ireland (the 'Central Bank') undertook a thematic review to assess the operation of the risk function by reviewing risk frameworks and risk culture across Investment Firms, Fund Service Providers and Stockbrokers. The objective of the review was to evaluate the processes in place for identifying, measuring, mitigating and communicating risks. This letter is without prejudice to any future guidance that the Central Bank may issue in relation to risk management.

Undoubtedly, identifying risks and the process in place to manage and mitigate those risks is essential for all firms. Critical to this is the risk function, which is the responsibility of the management of the entity in the first instance and ultimately with the Board of Directors. However, it is the board who empower the risk framework, through robust governance arrangements, to ensure it has the necessary processes and systems in place to manage and mitigate the risks of each firm. Moreover, creating a culture of risk awareness amongst staff at all levels within a firm will serve to strengthen the risk framework. It is the Central Bank's expectation that boards' continuously examine their current risk frameworks in order to strengthen the resilience and cultural awareness of risk management within firms.

### Analysis of Findings

Risk frameworks and culture are unique to each individual firm and are appropriately developed to fit the business. During this thematic review, the Central Bank found a divergence in the quality and effectiveness of risk frameworks. Where issues have been identified in relation to the risk function we are following up directly with firms to address these issues. There were notable inconsistencies and deficiencies in how firms' approach to identification of risks, documenting risks, quantifying risks, mitigating risks and communicating



these risks within the firm. The Central Bank would encourage all boards to consider how it is addressing these aspects of the risk management framework.

A key finding from the onsite inspections is that many of the good practices identified in the firms' documentation are not always evident in the operations of the business. Firms are reminded that policies and procedures are only of use to the firm if they are implemented at all levels.

Firms may find the questions attached at **Appendix A** useful when carrying out a self-assessment of their risk framework and culture. Firms are not required to submit responses to these questions to the Central Bank.

The Central Bank will consider the action that the firm has taken in light of this letter as part of future supervisory engagement. Where there is non-compliance with relevant regulatory requirements the Central Bank will have regard to this when exercising its regulatory and enforcement powers.

It is requested that this communication is brought to the attention of each of your board members, risk officer and senior management at your firm.

Yours sincerely,

**Des Ritchie**

**Deputy Head - Investment Firms and Fund Services**

**Markets Supervision Directorate**



## Appendix A

1. When and how did the board last review its full risk framework?
2. Does the board effectively drive the agenda on risk?
3. Is the Board adequately aware of the risks facing the firm and does the Board challenge on risk at board meetings?
4. Does the firm utilise resources and expertise from a parent firm or connected group entity? If so, is the group risk framework appropriate for the local Irish entity and does it address all the risks to which the firm is exposed?
5. Does the firm discuss emerging risks, both firm specific and in the wider macro-economic environment, and how these might affect the firm?
6. Has the firm satisfied itself that before it puts someone forward for a PCF role, that the person has the necessary qualifications, experience, competence and capacity appropriate to the relevant function?
7. Has an independent review of the risk function been undertaken?
8. Does the firm have an adequate, firm appropriate risk framework in place? How often is this framework reviewed and has it been properly implemented at all business levels?
9. Does the firm maintain adequate risk documentation, including but not limited to the following:
  - Risk Appetite Statement;
  - A Risk Register which identifies, quantifies and gives details of the mitigants in place for all risks faced by the firm;
  - Risk Incident Log (including near misses).
10. Are the above documents integrated into the business and is there buy in to the risk function from staff at all levels within the firm?
11. Are staff at all levels aware of the risks facing the firm in each staff member's area? Are staff trained on how to identify and escalate a risk within the firm?
12. Does the firm promote open communication on risk and are staff aware of, and have access to, clear mechanisms and channels in which to escalate issues?

This is not an exhaustive list of questions. Firms should at all times be evaluating their own risk function and deciding on how applicable risks are best managed or mitigated.