

Talking About Risk

Part I: The Why, Who, How and When of Board Risk Reporting

In this first instalment of our six-part study of board risk communication, **Rob Jameson and Duncan Wood** set out the basic structure of board risk reporting

There is no detailed industry rulebook on how a bank should report its risks to its Board. This is perhaps to be expected: the portfolio of relevant risks varies considerably from organisation to organisation and reporting frameworks vary accordingly.

More surprisingly, however, little exists in the way of best-practice guidance. Regulators insist on certain basic standards in terms of a minimum quality of Board risk reporting.¹ But beyond these basic regulatory requirements, banks largely make up their own procedures based on the instincts of senior executives and non-executives, the advice of senior risk officers, ‘what we did last year’, and any new corporate governance rules or legislation.

We’ll begin this six-part series by putting the basic building blocks of the discussion in place. In this first instalment we’ll look at the *why*, *who*, *when* and *how* of Board risk reporting, before moving on to the details of *what* is reported in the next issue. *Where* risk is reported will be dealt with in the fourth part of this series.

Why is Risk Reported - and Have Motivations Changed?

The fundamental motivations for reporting risk to a bank Board are pretty straightforward - even though the theoretical underpinnings, and the effect of different kinds of Board structure and legal responsibilities, are the subject of an ongoing and complex debate.

Boards are the representatives of various non-executive stakeholders in the institution, notably the shareholders. They have the responsibility and the power to make sure the Executive manages the bank in such a way that the bank can perform on its obligations and avoid bankruptcy, while also earning a reasonable return on the major risks it assumes.

Boards are therefore naturally interested in monitoring - and often have legal duties to oversee - the big-picture risks faced by the bank as well as the day-to-day processes that executives have in place to monitor and manage risks and to make risk/reward decisions.

Throughout this report we include the results of a series of straw polls of ten CRO interviewees on key topics. Our first question asked whether CROs thought that the debate about Board responsibilities ...

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¹ One example of such standards is given in Section 5000 of the US Federal Reserve Board’s Commercial Bank Examination Manual, available at: <http://www.federalreserve.gov/Boarddocs/supmanual/cbem/0306cbem.pdf>