

7. Internal Governance and institution wide controls

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Outline

1. Overview of internal governance and controls
2. Objective and scoring
3. Assessment of the individual components

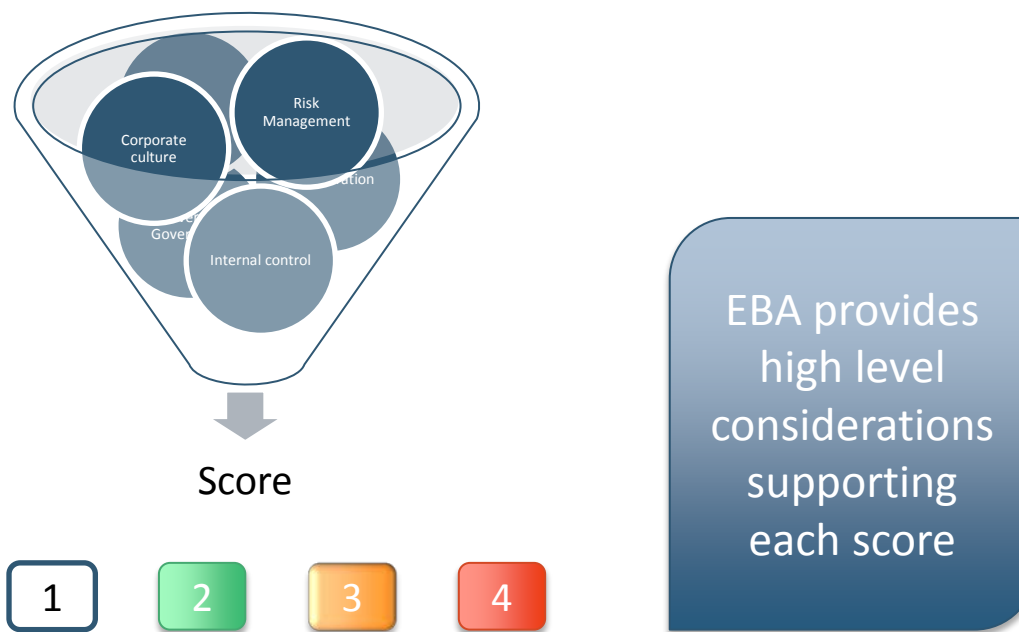
Assessment of internal governance and controls

Overview



Objective and scoring

Competent authorities should form a view on the adequacy of the institution's internal governance arrangements and institution-wide controls



Risk to the viability of the institution

Assessment of internal governance and controls

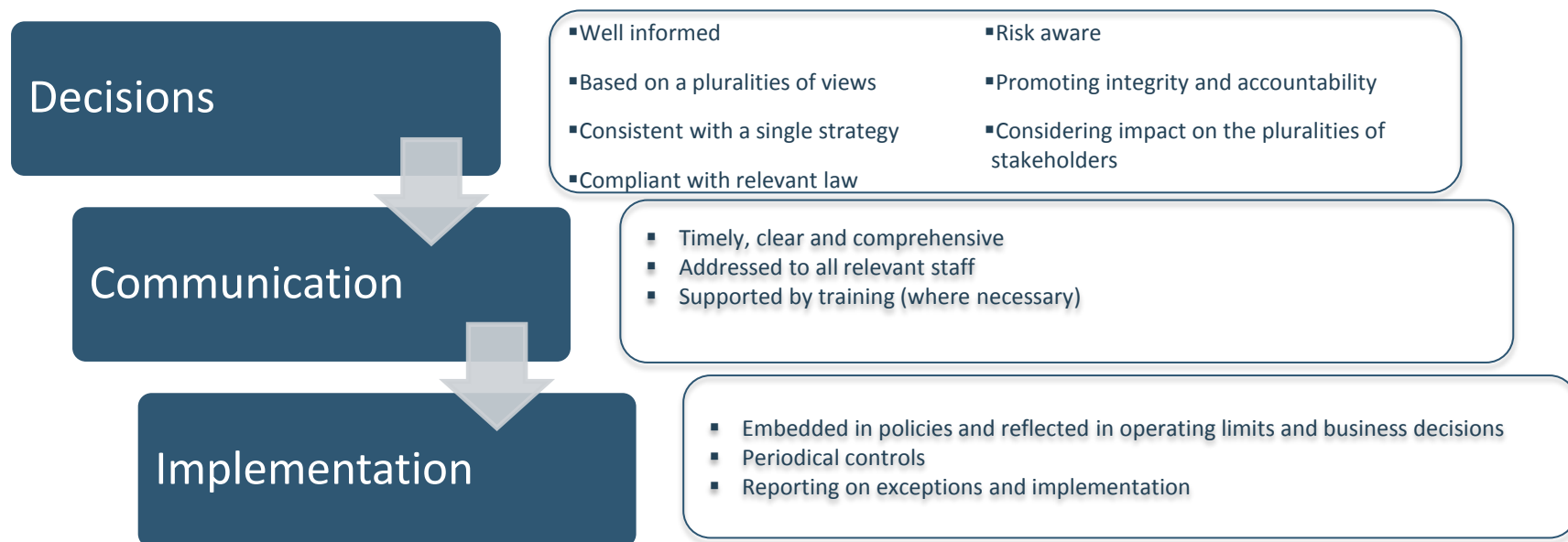
Overview

Appropriate and transparent corporate structure that is ‘fit for purpose’, and has implemented appropriate governance arrangements				
robust and transparent organisational structure	management body knowledge of the structure of the institution and the associated risks	risk policies and policies to identify and avoid conflicts of interest	clear outsourcing policy and strategy	transparency of the internal governance framework to stakeholders
<ul style="list-style-type: none"> - Clear roles and responsibilities, including for the management body and its committees - Accountability of the executives - Clear decision making process 	<ul style="list-style-type: none"> - Qualifications and skills of Board members - Transparency of the group entities’ business and contribution to the group strategy - Risk reporting 	<ul style="list-style-type: none"> - Established consistent risk policies consistently throughout the organisation - Assessment and management of potential conflict of interests 	<ul style="list-style-type: none"> - “Outsourceable” functions and businesses - Consistency with overall strategies - Risk\Benefit analysis 	<ul style="list-style-type: none"> - Transparency of roles and responsibilities to employees, supervisors, other stakeholders - Intra-group arrangements

Based on EBA GL 44 on internal governance and on CEBS guidelines on outsourcing

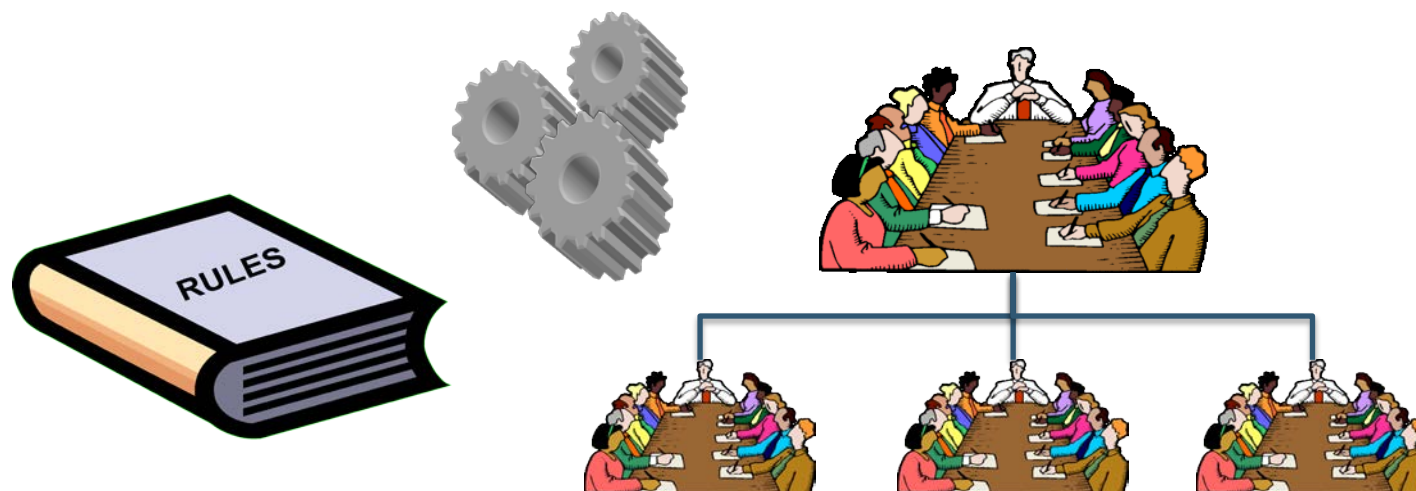
Corporate and risk culture

Competent authorities should assess whether the institution has a sound corporate and risk culture that is adequate for the scale, complexity and nature of its business, and is based on sound, clearly expressed values that take into account the institution's risk appetite



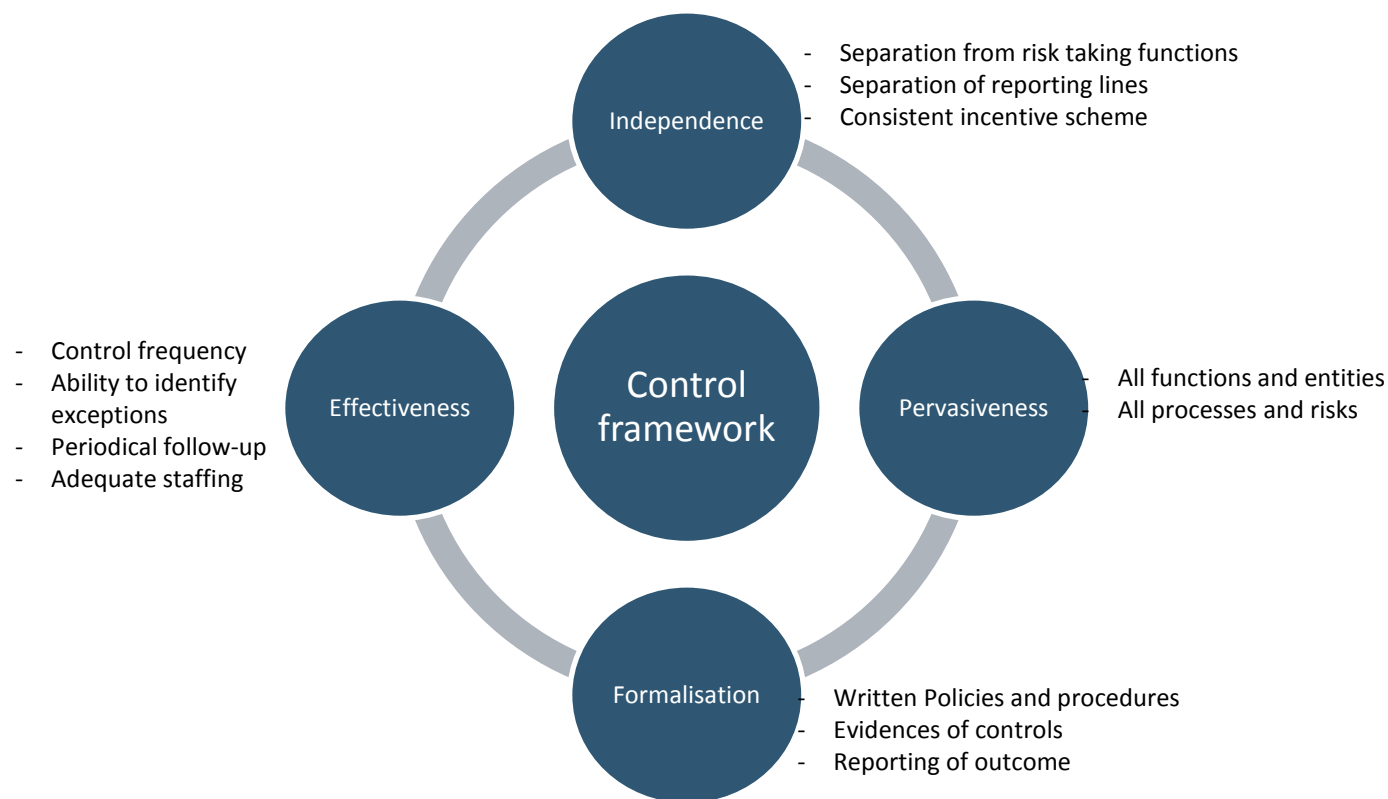
Organisation and functioning of Management Body

The management body shall define appropriate internal governance practices and procedures for its own organisation and functioning and have in place the means to ensure such practices are followed and periodically reviewed for improvement (EBA GL 44)



Internal control framework

The internal control framework should ensure that the strategy defined by the management body is implemented in compliance with laws and regulations and in consistency with corporate and risk culture, as reflected in the risk appetite

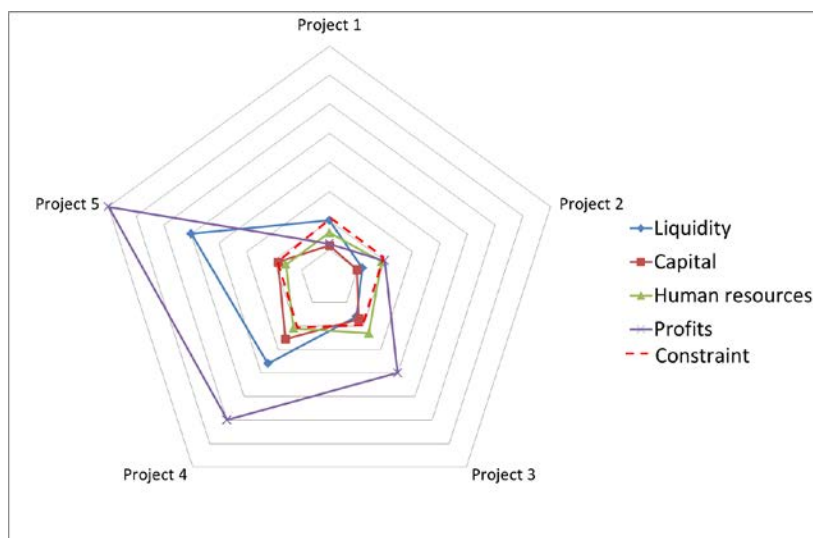


Risk management framework

The Management body should establish a risk management framework and processes to support achieve business targets without exceeding the chosen maximum acceptable level of risk, consistent with capital and liquidity constraints

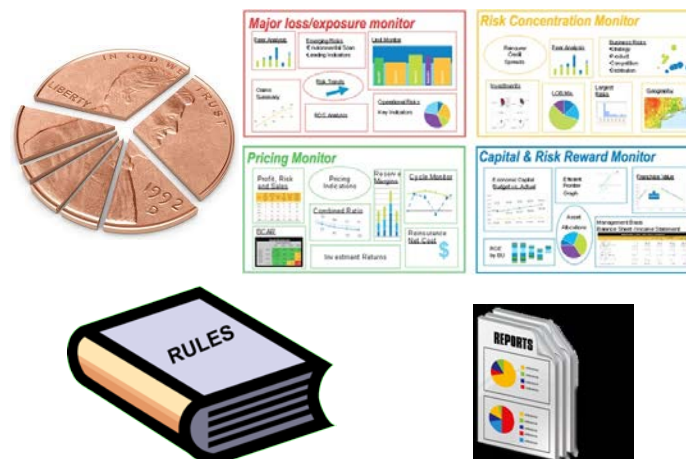
Risk appetite

Constrained business targets



ICAAP\ILAAP

Setting and tools



Risk appetite

It is the aggregate level and types of risk the institution is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives (EBA SREP Guidelines, 1.2 Definitions)

Risk appetite statement

- high level objectives in terms of market positioning, asset growth, credit rating, risk adjusted profitability, capital and liquidity strength, reputation, etc.

Articulation of risk appetite

- Setting targets, tolerance levels and limits for key drivers (e.g. Economic capital, Country risk, Credit VaR, Market VaR, Liquidity survival horizon, CET1, RAROC, provisions, operational losses, interest margin, trading P&L)

Implementation of risk appetite

- Allocation of targets and limits and embedding in operations (e.g. branch manager credit approval limit, FX trading desk limit, etc...)

Supervisory assessment

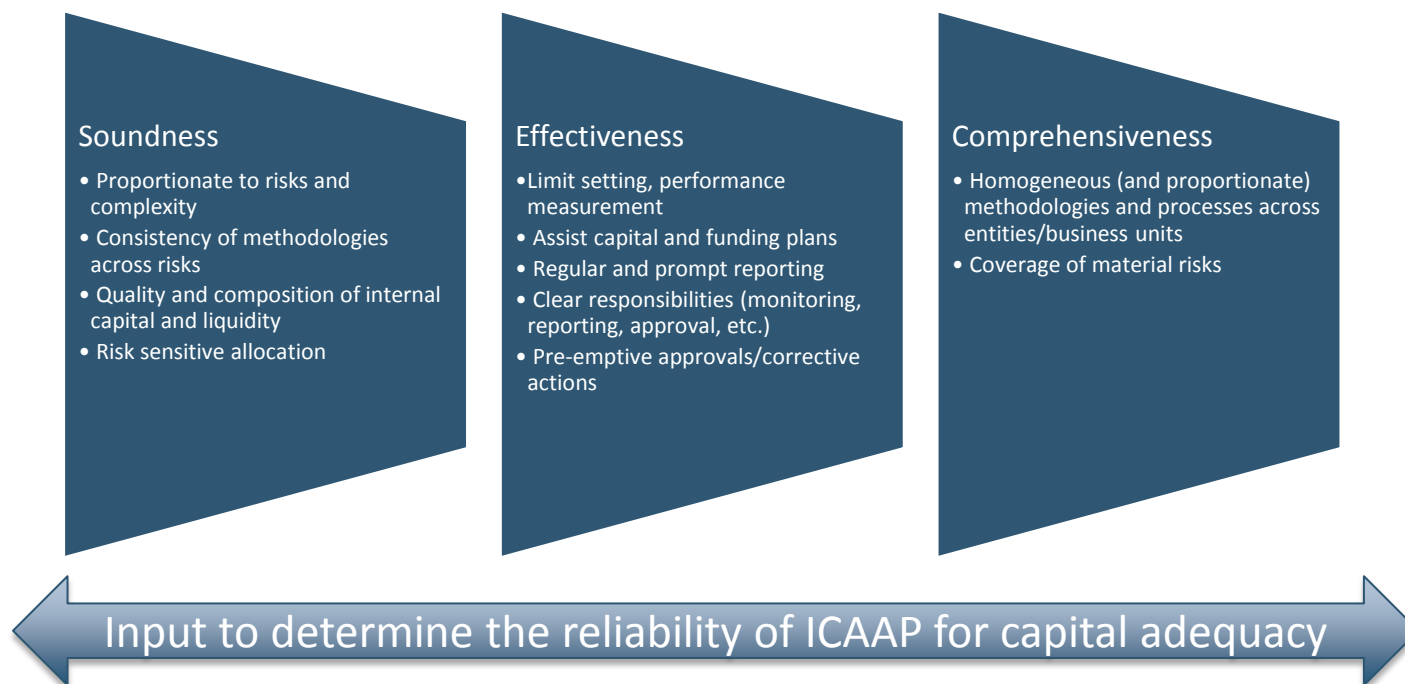
- Approved by the Management Body
- Consistent with the strategy and business plan
- Consistent and viable
- Forward looking
- Regularly reviewed and updated
- Coverage of key elements (capital, liquidity, profitability)

- Coverage of all material risks and drivers
- Compliant with the law and regulatory requirements
- Consideration of buffers and triggers
- Definition of a taxonomy and of key indicators

- Allocation of limits and targets to relevant entities, business units
- Embedding in risk policies and systems
- Inclusion in the incentive policy
- Monitoring and reporting
- Communication (and training)

ICAAP/ILAAP framework

Sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the **amounts, types and distribution of internal capital** that they consider adequate **to cover the nature and level of the risks** to which they are or might be exposed (CRD Article 73)



Remuneration policies and practices

Institutions have to apply sound remuneration policies to all staff and specific requirements for the variable remuneration of staff whose professional activities have a material impact on the institutions' risk profile

In line with institution's risk profile

- Non incentivising excessive risk-taking
- Aligned with risk appetite
- Supporting the business strategy and long-term interests
- Conditional to sound capital basis
- Establishment of a remuneration committee

Addressed to relevant staff

- Identification of staff based on qualitative criteria (e.g. management body, senior management, head of risk management, internal audit, compliance, managers of material business units, etc.) and quantitative criteria (e.g. remuneration above EUR 500t, etc.)

Balance between fixed and variable components

- Clear distinction between fixed and variable components
- Variable capped to 100% of fixed component (200% upon shareholders' approval)
- Linked to pre-determined performance objectives

Specific criteria provided by EBA guidelines on remuneration policies and by Regulation (EU) 604/2014

Information systems and BCP

Competent authorities should assess whether the institution has effective and reliable information and communication systems and whether these systems fully support risk data aggregation capabilities

Information system

- generates accurate and reliable risk data;
- captures and aggregate all material risk data across the institution;
- generates aggregate and up-to-date risk data in a timely manner; and
- generates aggregate risk data to meet a broad range of on-demand requests from the management body or competent authorities.

BCP

- established effective business continuity management
- tested contingency and business continuity plans
- recovery plans for all its critical functions and resources

Recovery planning arrangements

Any findings and deficiencies identified in the assessment of recovery plans and recovery planning arrangements conducted in accordance with Articles 6 and 8 of Directive 2014/59/EU should inform the competent authorities view on internal governance

Completeness	Quality	Credibility
<ul style="list-style-type: none"> • Updated information • Indicators and triggers set • Inclusion of intra-group financial arrangements • Inclusion of legal impediments and other obstacles 	<ul style="list-style-type: none"> • Clarity of the plan • Relevance of information used • Comprehensiveness of the plan • Internal consistency (group vs subsidiaries) 	<ul style="list-style-type: none"> • Integration with internal governance and risk management • Plausibility and viability of the options • Institution's preparedness • Adequacy of numbers and range of scenarios • Ability to restore

- Specific criteria provided by EBA guidelines and technical standards
- Recovery plan subject to separate assessment and joint decision



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