



**XV REUNIÓN DE AUDITORES INTERNOS
DE BANCOS CENTRALES**

“Apetito por Riesgo”

**BANCO CENTRAL DE CHILE, SANTIAGO, CHILE
SEPTIEMBRE 25 - 27, 2019**

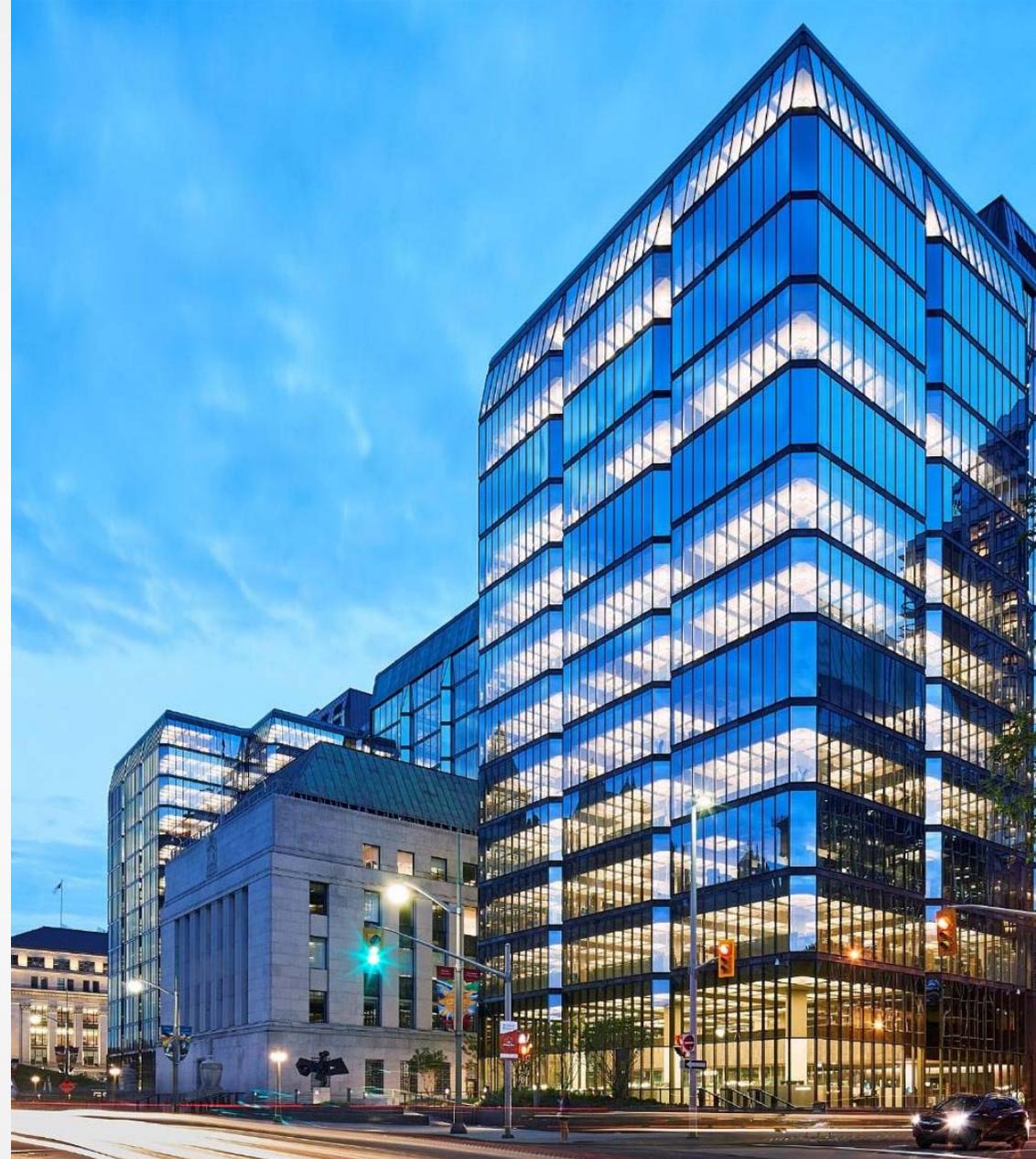
SEPTEMBER 2019

Risk Appetite

XV CEMLA Meeting of Central Bank Internal
Auditors

Michael O'Bryan

MANAGING DIRECTOR AND CHIEF INTERNAL AUDITOR



Overview

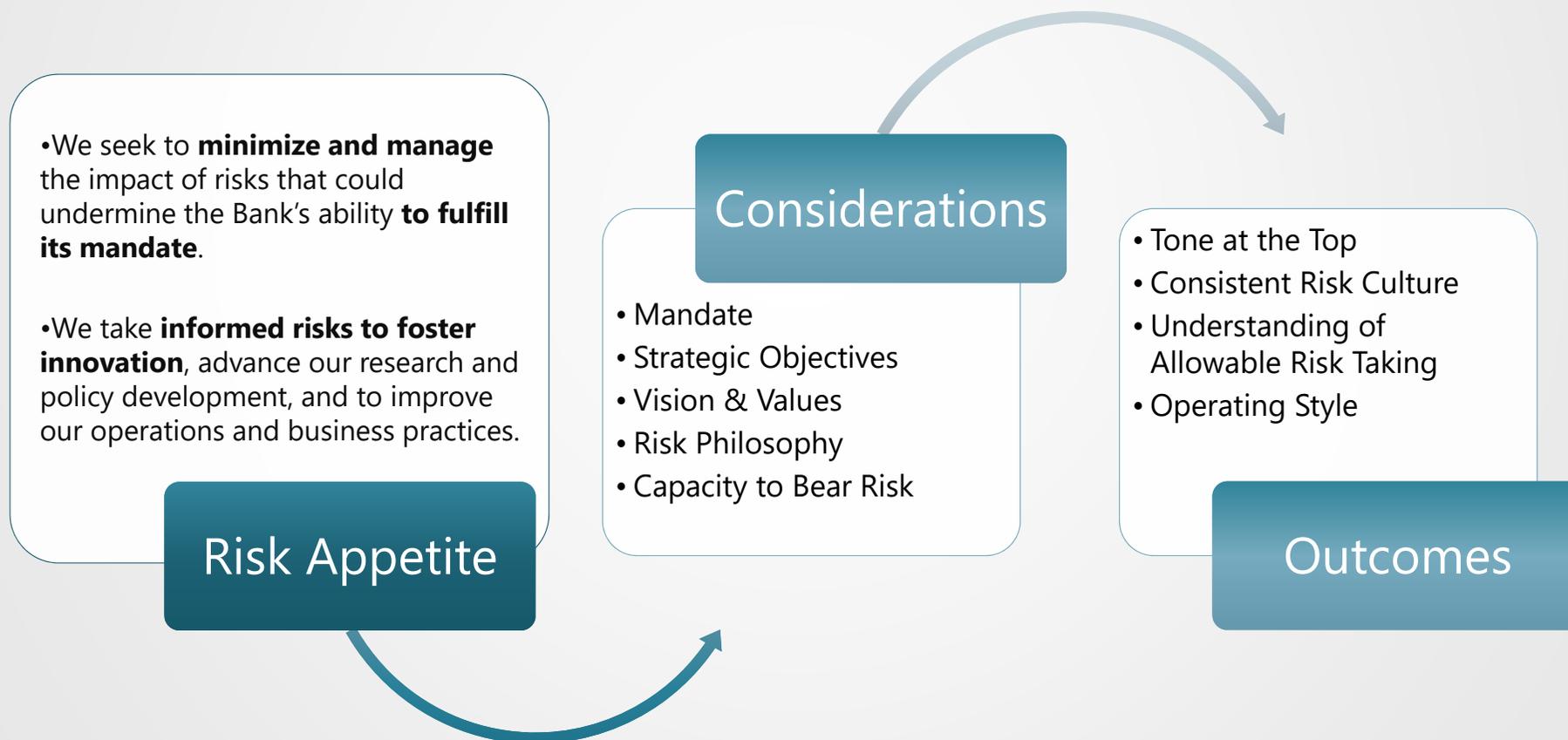
- Risk Appetite
- The Bank of Canada Experience
- Internal Audit Considerations

Risk Appetite: Definitions



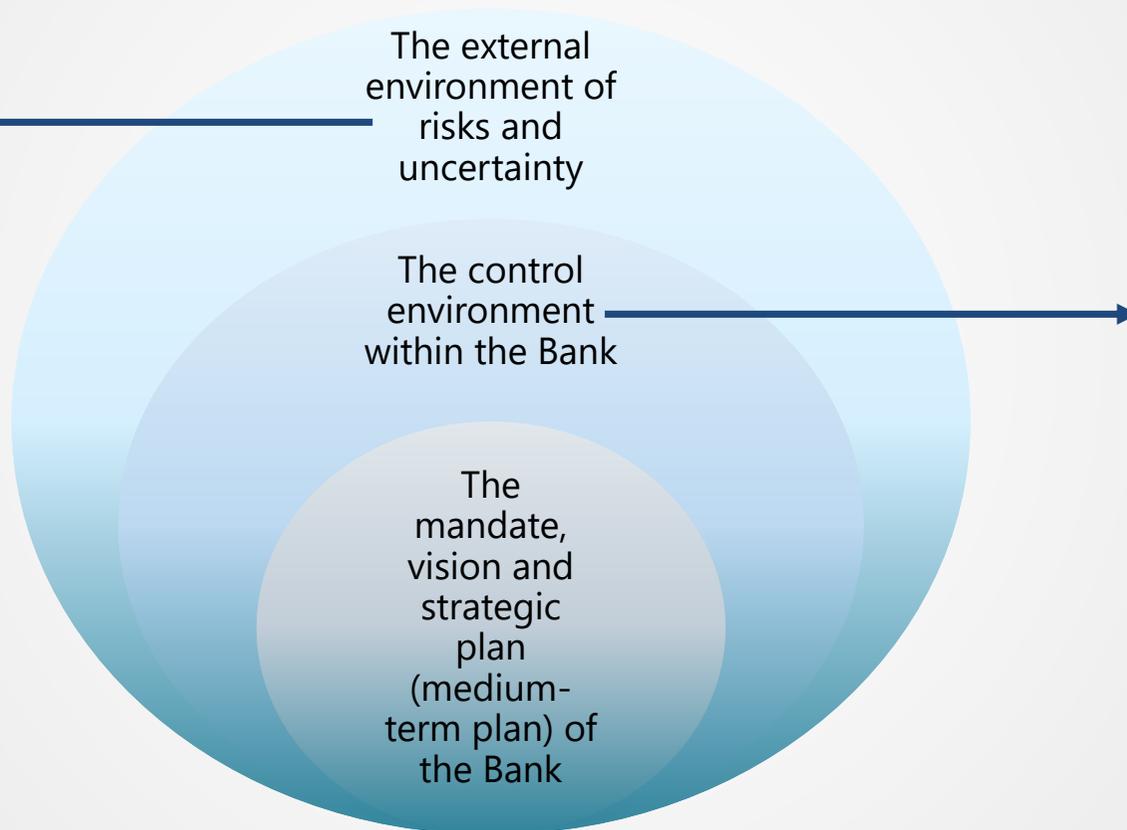
The Bank of Canada Experience: The Nature of its Risk Appetite

The Bank's Risk Appetite **describes the type and amount of risk** that the Bank is prepared to take or accept, to achieve its mandate and strategic objectives.



The Bank of Canada Experience: What Influences Risk Appetite

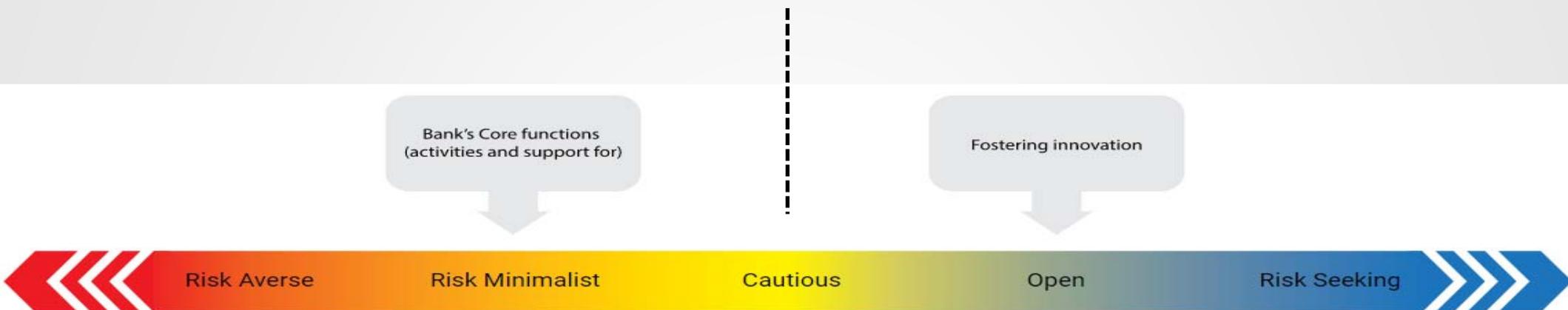
- Complex and specialized environment
- Managing a range of risks
- Making decisions that anticipate the future in a context of ever-changing uncertainty



- The nature of the functions and operations
- Activities are managed by Bank employees according to their delegated authority with strong controls
- Processes to regularly monitor known risks and watch for other risks in the policy and operational areas

The Bank exercises judgment in weighing and managing risks in light of their potential impact on its credibility and reputation, as well as its ability to achieve its long-term goals.

The Bank of Canada Experience: Spectrum of Risk Taking



Minimize & Manage Risk Over Core Functions

- prevent the occurrence of material risk events
evaluate the consequences of major policy
and operational decisions
- anticipate and assess new risks
- respond to risks effectively

Informed Risk Taking to Foster Innovation

- encourage leading-edge research /
innovative lines of inquiry
- constructive public discourse and debate
- process and technological innovation to
respond to emerging risks
- consider alternative futures

The Bank of Canada Experience: Benefits of the Risk Appetite for Stakeholders

All Employees

Sets the context for the Bank's Risk Tolerances

•Guidance on:

- Acceptable risk ranges
- Development and application of tolerances
-

Business Owners

Supports assessing and managing risk at the business level

Practical uses:

- Departmental risk assessments
- Risk mitigation action planning
- Discussing tradeoffs

Strategic Planners

Provides direction on the allowable amount of risk that can be taken

•Support for:

- Turning strategy into action
- Understanding allowable risks
- Pursuit of known and alternate futures

Internal Audit Considerations

Leveraging Risk Appetite

- Source of risk and control intelligence
- Operational indicators to support monitoring compliance with risk tolerances

Focuses testing of controls where risk tolerance is low

Aligned understanding between the three lines of defense

- Undefined risk limits allow for:
 - (i) different perspectives on the importance of control gaps
 - (ii) accepting risks associated with Audit observations

Insufficient risk information limiting Audit's ability to support

Without a Risk Appetite

Thank you

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are arranged in a way that they appear to converge towards the top of the frame, creating a strong sense of height and scale. The sky is a clear, bright blue with scattered, light-colored clouds. The glass surfaces of the buildings reflect the sky and each other, creating a complex pattern of light and dark blue tones. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, containing the text "Additional slides" in a white, sans-serif font.

Additional slides

Risk Appetite: Challenges in Establishing it

- Understanding the organisation's objectives and risks.
- Gaining management interest in defining a risk appetite.
- Getting everyone to understand the concept of risk appetite statements.
- Addressing multiple perspectives on risks.
- Writing a statement that is short and simple, yet meaningful, measurable, and covers all fundamental risks in a way that avoids unintended constraints.
- Being forward looking (3-5 year horizon).
- Fitting the control culture of the organisation.

Risk Appetite: Reasons to Have it

- Assists in the achievement of strategic goals.
- Increases the capacity to take risks in pursuit of innovation.
- Enables better governance and better strategic and tactical decisions.
- Promotes transparency and accountability.
- Encourages consistent behavior and a common risk language.
- Allows for more meaningful and targeted risk reporting (e.g. meaningful early warning indicators and risk limits).
- Frames risk tolerances and limits and informs risk capacity.