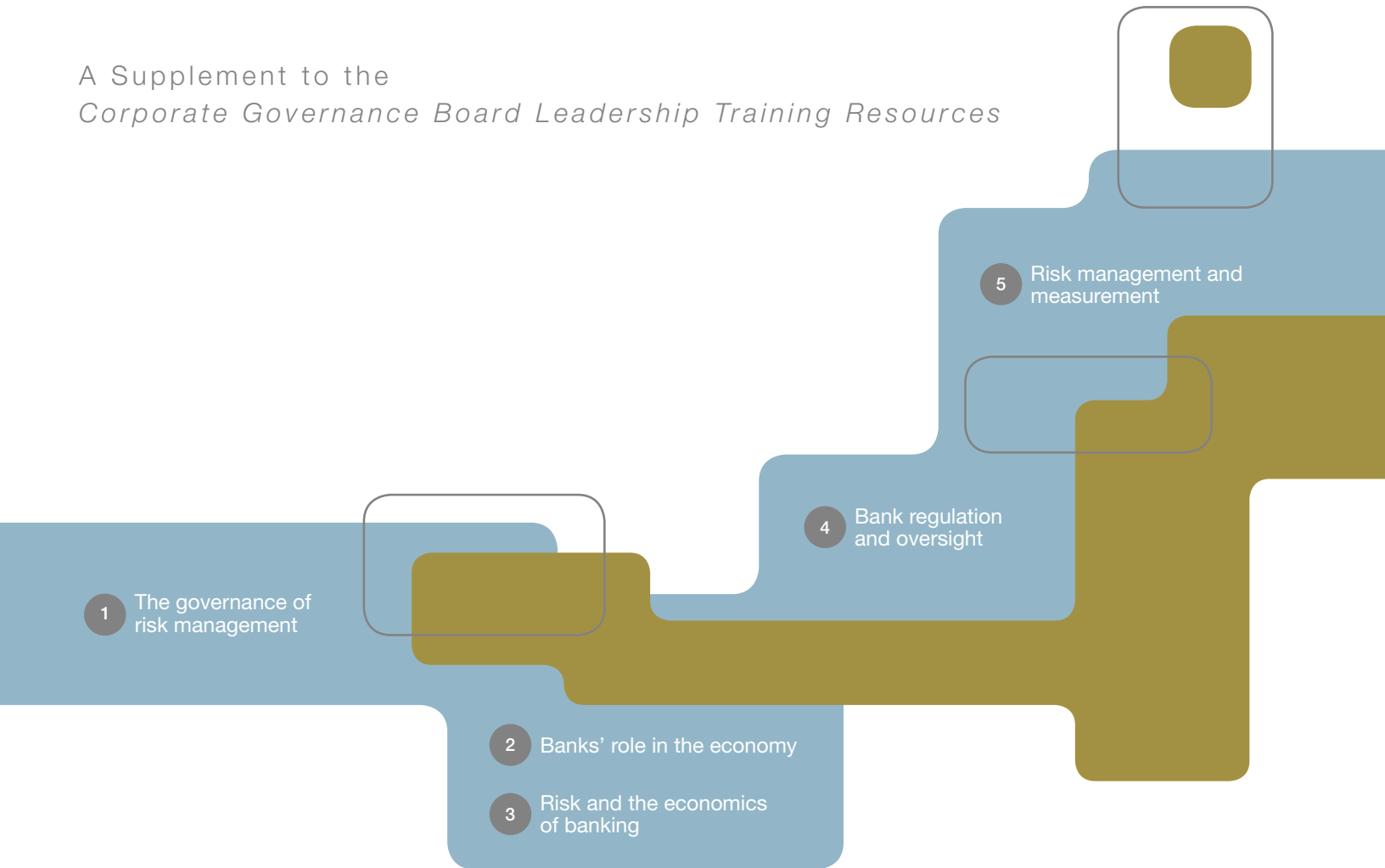


# GOVERNING BANKS

A Supplement to the  
*Corporate Governance Board Leadership Training Resources*



Global  
Corporate  
Governance  
Forum



**International  
Finance Corporation**  
World Bank Group

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# Foreword

Welcome to *Governing Banks*, a supplement to the *Corporate Governance Board Leadership Training Resources* published in 2008 by the Global Corporate Governance Forum.

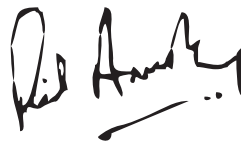
The global financial crisis that began in 2007 revealed several weaknesses in the governance of some banks. National and multilateral institutions spent countless billions of hours (and billions of dollars) stabilizing the world's financial system and searching for the underlying causes of the crisis. As part of that effort, the Forum explored the corporate governance and risk governance needs of banks' boards. Towards that end, the Forum undertook an extensive research and review program, including a review of existing literature, primary research, interviews with bank executives, a focus group session with bank board directors, consultations with an international advisory board composed of respected experts, the use of the Forum's Private Sector Advisory Group, and two high-level international meetings with bankers, directors, regulators, academics and others to explore bank corporate governance.

*Governing Banks* is the result of that process. A sector-specific curriculum designed to be taught in conjunction with the *Corporate Governance Board Leadership Training Resources*, *Governing Banks* recognizes the key consensus point that emerged from our research: Banks are different from other commercial enterprises. Few, if any, other business sectors have such effects on the real economy. Few, if any, other businesses have the inherent fragility of banks

built into their business models. Few, if any other businesses require such domain expertise from their board.

This supplement is designed to provide that domain expertise. With the *Corporate Governance Board Leadership Training Resources* providing the basic and advanced concepts of corporate governance and *Governing Banks* the special risk-governance curriculum for banks, the combination of the two Forum training materials provides trainers with a full, but flexible, curriculum.

A core team of committed and dedicated individuals was responsible for the development and production of *Governing Banks*: Jon Lukomnik as lead consultant on the project; Catherine Lawton as lead author from NestorAdvisors, assisted by David Risser; and, Hassan El-Shabrawashi and José Cruz-Osorio as task managers from the Forum. Acknowledgement is also due to the numerous individuals, institutions, and IFC colleagues who contributed their guidance and expertise at various stages of the review and drafting process. It is impossible to list everyone who contributed to the completion of *Governing Banks*, but special recognition must be accorded to Laura Ard, David Beatty, Gian Piero Cigna, Maxine Garvey, Leo Goldschmidt, Davit Karapetyan, Michael Kelly, Mary Jo Larson, Christopher Mattox, Ary Naim, Renate Schwob, James D. Spellman, Martin Steindl, and George Vojta.



Philip Armstrong  
Head, Global Corporate Governance Forum

*Governing Banks* was made possible through the generous contributions of the governments of Austria, Luxembourg, and the Netherlands.



LE GOUVERNEMENT  
DU GRAND-DUCHÉ DE LUXEMBOURG  
Ministère des Finances



Ministry of Foreign Affairs of the  
Netherlands

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# Preface

*Governing Banks* is a training resource for bank board directors in emerging markets, commissioned by the Forum as a part of its Financial Markets Recovery Project.

## About the Global Corporate Governance Forum

The Global Corporate Governance Forum is the leading knowledge and capacity building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crises, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

Co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD), the Forum is a multi-donor trust fund facility within the IFC. The IFC and the governments of Austria, France, Luxembourg, the Netherlands, Norway, and Switzerland provide funding.

## About the Financial Markets Recovery Project

The financial crisis exposed significant weaknesses in corporate governance, and specifically risk governance, across the financial services industry. In response, the Forum launched the Financial Markets Recovery Project. The project is designed to equip bank boards to: lead with integrity; develop and hold the right skill sets to exercise oversight functions; and, properly manage risk. Working through local market institutions, the project aims to do that by creating self-sustaining board leadership training programs in systemically important emerging markets, with a curriculum specifically designed for non-executive directors of banks.

The project began with internal and external consultations helping to define the scope and the substantive topics and issues. We thank the participants—directors, bankers, regulators, banking experts, and others from all regions—who gave generously of their time and expertise.

## About *Governing Banks*

*Governing Banks* is the cornerstone of the curriculum. By focusing on the uniqueness of banking and on the role of directors at a bank, it supplements the Forum's *Corporate Governance Board Leadership Training Resources*, a training manual for board directors of all types of companies. It is designed for those who have a good working knowledge of corporate governance, gained either through being trained in a program based on the *Corporate Governance Board Leadership Training Resources* or otherwise.

In addition to the consultations, *Governing Banks* is based on an extensive literature review and interviews with directors, bankers, and chief risk officers from banks based in Europe, Central Asia, the Middle East, North America, and Africa.

## The *Governing Banks* team

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# Introduction

## SETTING THE SCENE

*Governing Banks* creates a journey taken by a newly appointed bank director to acquire the understanding, skills, and insights needed to meet the unique challenges faced by bank directors. The materials share with the reader:

- ▶ Best practice recommendations on risk governance,
- ▶ Findings regarding the financial crisis that began in 2007, and
- ▶ An understanding of accounting for banking, the economics of banking, finance and banking risk management.

*Governing Banks* is a bank-specific supplement to the Forum's *Corporate Governance Board Leadership Training Resources* for directors of financial and non-financial companies.

## LIST OF CHARACTERS

- Alex** The newly appointed director of Nejme Bank<sup>1</sup>
- Selma** Chair of the board, Nejme Bank
- Max** Chief Executive Officer, Nejme Bank
- Tomas** Company Secretary, Nejme Bank
- Vikram** Chair of the board's risk committee, Nejme Bank
- Nadia** Head of domestic economic research of the local central bank
- Adam** Head of supervision of the local banking regulator
- Aziz** Chief Risk Officer, Nejme Bank

## NEJMEH BANK'S UNITARY BOARD STRUCTURE

Nejme Bank is a fictional bank that incorporates current practices of real banks that performed well during the financial crisis of 2007-2009.

While Nejme Bank is conceived as being led by a unitary board, that is not to suggest that this is the preferred model. Empirical evidence of the comparative performance of European banks during the financial crisis that began in 2007 does not suggest that, all else being equal, either the unitary or dual-board model increased or decreased the likelihood of bank failures.<sup>2</sup>

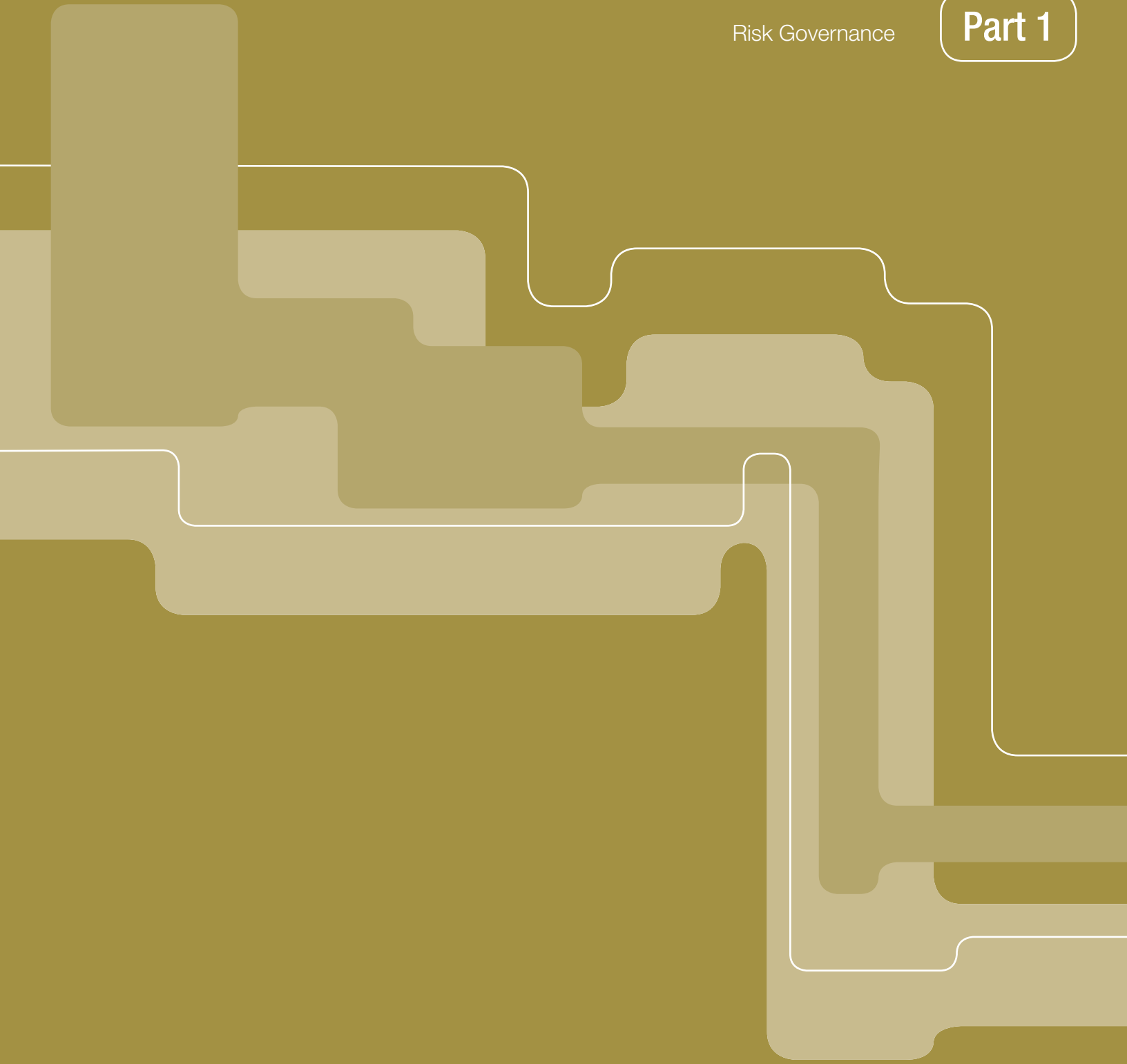
Board practices described in *Governing Banks* are applicable both to unitary and the supervisory board of a two-tier board structure. Executive committee practices apply to the management board of the two-tier board structure.

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1 Nejme (pronounced nej-may) means star in Arabic.

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2 See for example: Nestor Advisors, 2009. "Bank Boards and the Financial Crisis: A Comparative Governance Study of the 25 Largest European Banks." London.





## Part 1: Risk Governance

After receiving an invitation to become a director of Nejme Bank, Alex weighed the responsibility of acceptance. As a successful business owner and entrepreneur, his companies had become increasingly important to the country's economy and had successfully expanded internationally. He considered the invitation an honor, one that reflected on his contributions to the economy and his personal reputation.

Nejme Bank, a relatively young bank, has grown rapidly over the last ten years. With €10 billion in assets, the bank generated €300 million in net profits and was heralded in the press as one of the most promising emerging market banks, a true “star” (the English translation of its Arabic name). Principally a retail and commercial bank, Nejme operates a network of 400 branches, is active in ten countries, and has award-winning Internet and telephone banking operations.

The bank has also been commended for its best-in-class approach to corporate governance. The Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and seven non-executive directors constitute its board. Most of the non-executive directors were previously bankers, central bankers, or bank regulators. Alex would be one of only two directors who do not have a background in the banking industry.

“I imagine someone who has worked in a leadership position within banking would be a better candidate than me,” Alex suggested.

“No,” Selma replied. “The Nominating and Corporate Governance Committee considered the issue carefully. We already have several board members with solid banking experience. The Committee, and I as Chair, do consider that a requirement. But we also recognize the need to have the

experience and insight of those who have excelled outside of banking. What you would bring to the board is a different set of experiences, which will help us lead the bank into the future.”

“Which experience in particular interests you?” asked Alex.

“Several,” said Selma. “You have built two different and successful businesses, and the perspectives you have gained from each would complement our board. First, your commodities business: Having acquired the formerly state-owned mining assets, you transformed their governance and culture into one suited for a privately held company. You also developed a leading commodities trading operation. That suggests you have a good understanding of the challenges of building an international business and an appreciation of managing risks such as commodity-price and currency risks.

“Second,” she continued, “having built virtually from nothing one of the region's leading telecommunications companies, you have experienced what is involved in running a dynamic, high-growth business that must adapt constantly to competition and innovation. Our business has grown strongly in the last ten years and, as we fared well during the recent financial crisis, we look to capitalize on other growth opportunities going forward.

“Perhaps as important is your reputation. You are viewed as a very capable and highly respected businessman. Your charitable work and your reputation as an ethical businessman fit well with the culture we have developed at Nejme Bank. Additionally, you are seen as someone who voices his opinion and takes on challenges.”

“Thank you Selma, but allow me to be equally frank. Not being a banker means that I may not understand some of the board presentations. My understanding is that the entire board has a responsibility to be aware of the bank's risk exposure and ensure that management is taking the

**FIGURE 1.** The essential qualities of effective board directors

“Curiosity, courage, and persistence are among the essential qualities of a board member.”

A former executive and director of a European bank

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

**FIGURE 2.** How can directors add value when overseeing a bank?

### Directors add value to a bank board when they:

- Have a good level of financial expertise
- Are aware of risk fundamentals and techniques
- Are able to manage dynamics with executives
- Demonstrate emotional intelligence, addressing issues constructively

### A MENA (Middle East and North Africa) bank company executive

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

proper measures to manage that exposure. The board is also responsible for setting strategy, an exercise that cannot be done without an appreciation of the bank's businesses and the risks involved."

"You are absolutely correct," Selma said. "Your insights confirm my belief that you would be an excellent board director. And, I agree that you will need to acquire the banking knowledge necessary to effectively make decisions and assist the board in guiding the bank."

"How will the bank support me in doing so," asked Alex, "and what are the areas of competence that you expect from each director?"

"We will assist you in several ways," said Selma. "To begin with we will have you participate in a director induction program. This is one of our ongoing director training sessions, led by executives and experts from outside the bank. You will have access to all our executives, who are a tremendous resource. Some directors have found it useful to meet with the Chief Risk Officer (CRO) and/or CFO, outside of board meetings, to discuss how each manages their responsibilities. Additionally, I will be pleased to meet with you whenever you wish to devise ways of addressing any areas where you may wish to have further education.

"As for your second question, you should have a thorough understanding of your responsibilities as they relate to risk governance and the strategies for being an effective board member." (These are discussed in Chapter 1.)

"Additionally, you should understand the banks' role in the economy, the economics of retail and commercial banks like ours, and the risks involved." (These topics are discussed in Chapters 2 and 3.)

"Third, as banks play a critical part in the economy and in society, they are highly regulated, so you should understand the major components of banking oversight by the authorities and how that impacts your responsibilities as a director." (These topics are discussed in Chapter 4.)

"Fourth, you should have a clear understanding of how the different types of risk we face in the ordinary course of business are managed by the bank. (These topics are discussed in Chapter 5.) For this, I would suggest that a good first step would be to speak directly with our CRO. In so doing, you will begin to get to know him—which in itself is a terribly important part of a director's responsibilities—and see how he approaches his role and how his division interacts with other areas of the bank."

Later that evening, when looking at Nejme Bank's last annual report, Alex's eyes scanned over words like "ALCO", "Basel II", "cost income ratio", "market risk", and "VaR". He felt he was in unfamiliar territory. As an educated and accomplished business man, he understood well how to build and operate businesses in industries as varied as commodities and telecommunications, but learning the business of banking would be a new challenge. And one, he thought, that he would not take lightly.

Over the last few years, he had followed the news about the sizeable bank failures in the United States and Europe, and the impact of those failures on local banks, the national economy, and his own savings. Should he accept the invitation to become a Nejme Bank director, he would oversee not only the bank's wellbeing but also that of the companies and individuals that are the bank's clients.

Alex thought, “I can, without question, help guide Nejme Bank towards better serving its corporate clients and grow its footprint internationally, but how will I effectively guide Nejme Bank’s executives if I do not understand their language? How will I know if the information I will see is sufficient to make good decisions? How will I know that I am even being asked to make the right decisions if I do not have a full understanding of what it is that can bring a formidable bank to its knees?”

With this, he challenged himself to gain the expertise, skills and insights that would enable him to properly oversee the bank’s business.

## 1. The governance of risk management

Selma began the director induction program, a series of meetings organized by the board to assist Alex and another new director in preparing for their new role with the bank. After giving a presentation on the bank’s history and culture, Selma introduced Max, Nejme Bank’s CEO. He presented an overview of the bank’s business and its competitive profile and strategy. Selma then described the directors’ role, responsibilities, and the expected time commitment.

### 1.1 ROLE OF NON-EXECUTIVE DIRECTORS

“Your role as a bank director,” Selma said, “will be similar to that of other directorships in other types of companies, except that banking is unique in that it operates not only in a highly regulated and competitive environment but also one that can be difficult for non-bankers to understand. As such,

there is tremendous emphasis placed on having the bank directors develop a thorough understanding of the banking business and continually increase their skills so as to stay current with new innovations in banking products and practices.

“It is for this reason that we tend to select persons with relevant banking experience to join the board,” Selma said, noting Figure 3. “However, in the interests of good corporate governance, we also try to seek out directors from outside the industry who can challenge the conventional thinking.”

“Regardless of background, and given the highly innovative characteristic of banking,” Selma continued, “all of us strive continually to educate and improve ourselves. All bank directors should have an understanding of the key banking risks—such as liquidity, solvency, market, credit and operational risk. Additionally, questions every bank director should be able to answer include: Why are banks regulated; how does that impact the role of the director; and, how does your bank manage risks?”

“Second,” Selma continued, “like directors of all companies, you are asked to test assumptions and analyze the proposals put before you. In a banking setting, you might think that non-executive directors without a background in finance (or the particular type of finance being discussed) would defer to the perceived ‘experts’ on the board and/or the executives. This would not be an acceptable manner of executing one’s duties.

“To be effective, you must be willing to keep pushing and questioning—even while respecting others’ expertise—until you are confident that you thoroughly understand the issues involved in any decision. Challenging the obvious or the consensus often helps us to make sound

**FIGURE 3.** On directors’ financial industry expertise

“Our board participates and asks questions. This is explained by its composition. We have the luxury of counting many directors with a strong banking background. Thanks to this high quality of members, we are close to best practices.”

A non-executive bank director in Eastern Europe

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

decisions. You are expected to challenge in a manner that is open and rigorous, but does not lead to unnecessary conflict. It is indeed an art.

“The simplest questions, can be the hardest questions” Selma added. “One of my favorites is ‘Explain why this makes sense.’”

## 1.2 ROLE OF A BANK BOARD CHAIR<sup>3</sup>

“Now that I have presented what is expected from you, I should introduce my role as the non-executive Chair of Nejme Bank’s board,” Selma said. “Our board’s effectiveness is among my responsibilities. High on the list of my objectives is creating an atmosphere of constructive and collaborative debate. Sometimes that debate can even be contentious, but I allow that, as long as the debate is productive. Testing ideas produces better results.”

Selma then walked the directors through Figure 4. “To the extent that the financial crisis that began in 2007 was a result of board failings, then I believe that is in part the responsibility of the boards’ chairs. It is our job to make sure the right issues are being looked at with the appropriate level of critique.”

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3 For further discussion on the role of a chair and the separation of the chair and CEO’s functions, please see: “Board Role, Directors’ Duties and Liabilities” Part 2, *Corporate Governance Board Leadership Training Resources*. Washington.

Nejme Bank’s CEO, Max, added, “If you look at the top European banks, those that had board chairs with financial industry expertise performed better during the 2007-2009 financial crisis. They were better able to lead the board in part because they were better equipped to have confident and sophisticated dialogue with management. Selma, who brings to Nejme Bank her 30 years of banking experience with an international bank not operating in her (and our) home country, is an asset to our firm.”

## 1.3 RISK MANAGEMENT WITHIN A BANKING ENTERPRISE

“As a bank,” Selma explained, “we cannot exist without taking risks. The key is to decide which risks to take and how to minimize losses generated by those risks. Our task is to provide the leadership and strategic oversight that supports the bank in undertaking the right business mix to promote the sustainable growth of Nejme Bank.

“And,” Selma continued, “I cannot emphasize enough that just as risk taking is core to the bank’s business, we, the board directors of Nejme Bank, are ultimately responsible for the risks assumed by the bank.

“We must therefore ensure that risk management is not separate from, but an integral part of the bank’s activities. All decisions regarding, for example, which business opportunities to pursue, which clients to accept, which products to promote, and, what firm-wide behaviors are acceptable all tie back to our board’s view on the appropriate level of risk to be assumed by the bank.”

**FIGURE 4.** An effective bank board chair

### The Board Chair’s Role

- ▶ Ensures board’s effectiveness, **setting its agenda** and chairing its meetings
- ▶ Ensures the provision of accurate, timely, and clear **information to directors**
- ▶ Ensures that all board members **understand** the information provided and discussed
- ▶ Ensures effective **implementation** of board decisions
- ▶ Ensures effective **communications** with shareholders
- ▶ Facilitates **coordination** between board committees, especially between the audit, risk and remuneration committees
- ▶ Arranges the regular **evaluation** of the performance of the board, its committees, and the individual directors, including the chief executive
- ▶ Ensures the chief risk officer and the chief audit executive have direct **access** to the board
- ▶ Facilitates the **effective contribution** of directors and ensures constructive relations between the executive and non-executive directors
- ▶ Ensures that a comprehensive **induction** program is provided for new directors
- ▶ Addresses the **development** needs of individual directors and the board as a whole
- ▶ Encourages active **participation** by all board members

**FIGURE 5.** Risk management without risks

“Bankers sometimes think that risk management is about not taking risks. How wrong. If bankers didn’t take risks, then what would I have to manage?”

A chief risk officer of a bank in Central Asia

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

#### 1.4 RISK CULTURE

“All institutions develop a unique culture or way of doing business,” Selma added. “In that regard Nejme bank is no different from any other bank. The question is how does that culture promote the objectives that we set for the company? Just as we take time to develop a strategy for the bank, so, too, we need to encourage the development of a culture that encourages and facilitates actions that can enable management to implement the bank’s strategy.

**FIGURE 6.** On culture

“What matters most is not the techniques used in risk measurement. It’s culture.”

A chief risk officer of a bank in Central Asia

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

“We, therefore, work to cultivate a consistent ‘risk culture’ throughout the bank. In our view, a strong culture is one that promotes prudent risk-taking,” she said, reflecting on the insight of Figure 6 regarding the importance of risk culture.

“How do we create the right culture?” Selma asked. “We do so by making clear that risk management is a priority for the board and the entire firm; it is not just the concern of a particular department. For our part, the board regularly reviews the bank’s risk profile and, at least annually, assesses the efficacy of the risk-management function. Not just the CRO, but also his direct reports are known to each member of our risk committee, just as the CFO and his direct reports are known to each member of our audit and controls committee. This demonstrates to management that the board is committed to setting the tone<sup>4</sup> and that risk considerations are of strategic importance.

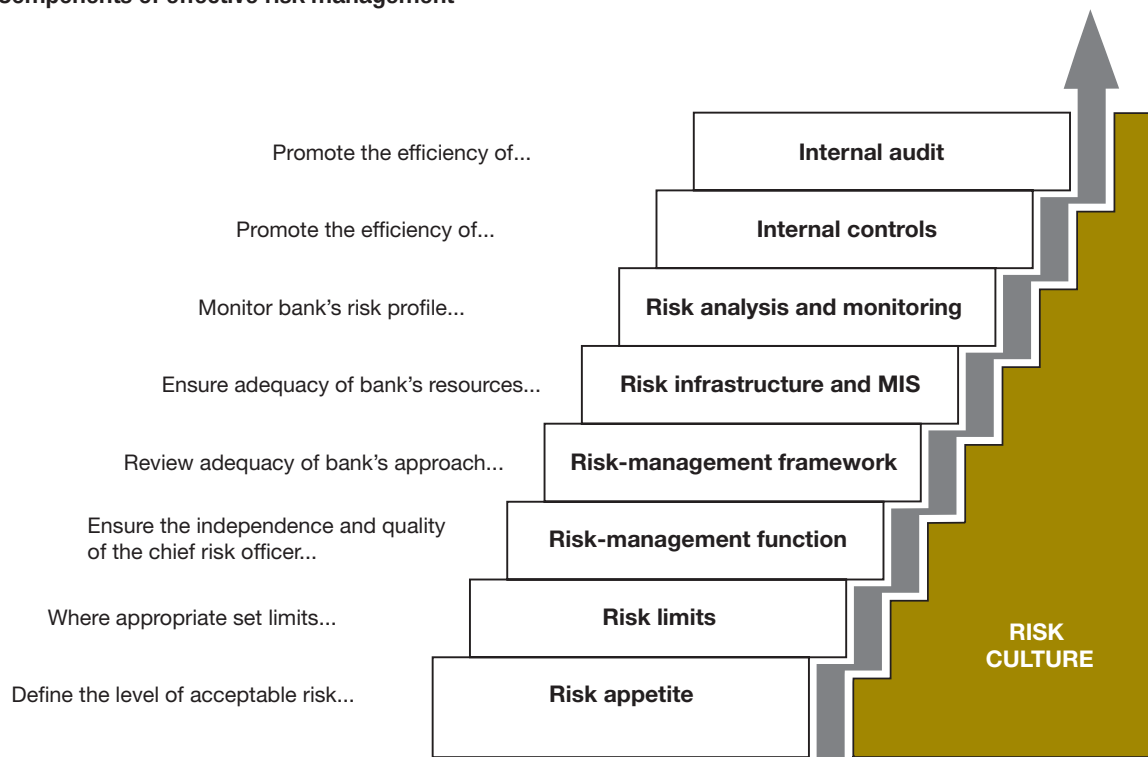
“Additionally, we ensure that all employees have a clear understanding of their responsibilities with regard to the management of risks assumed by Nejme Bank and are held accountable for their performance with respect to those responsibilities.”

#### 1.5 RISK GOVERNANCE

“Creating a strong culture,” Selma continued, “is part of executing our ‘risk governance’ responsibilities. These responsibilities characterize how we lead, oversee, monitor, and control the risks the bank is taking.

4 Related to risk management and setting the tone at the top is the matter of the promotion of ethical behavior throughout the firm. For further discussion on ethics and the tone at the top, please see: “The Business Case for Corporate Governance” Part 1, *Corporate Governance Board Leadership Training Resources*. Washington.

**FIGURE 7.** Components of effective risk management



Source: Nestor Advisors (2010)

“Risk governance is far more than just making sure the bank complies with regulation, as some bankers foolishly think,” Selma said with disdain. Referring to Figure 7, she continued, “It includes setting the firm’s risk appetite when determining the bank’s strategy, annual plans and budgets. It includes reviewing and ensuring the effectiveness of internal controls, such as assigning and overseeing adherence to clear lines of accountability. It includes ensuring the presence of a strong, independent, and authoritative risk-management function, with which the board has regular contact. It includes our active role in ensuring that the firm has the appropriate resources, organization, staffing and policies to manage risk effectively.”

Selma paused, then added, “Effective risk governance also includes, if not demands, the awareness of each director of the breadth of risks faced by the bank. And do note: This is a responsibility of each director, not just those with backgrounds in banking and finance.”

## 1.6 STRATEGIC AND ANNUAL PLANNING: SETTING RISK APPETITE

Nejmeh Bank’s CEO, Max, led the discussion on planning, opening with a request. “One principle that I use to guide our strategic planning work, and one against which I would ask you to test our proposals, is that the strategy is appropriate for

the nature, scale, and complexity of our bank’s activities. This may sound obvious, but there are many banks that overreach and lose sight of their risk profile.

“At Nejmeh Bank,” Max continued, “our strategic planning includes an expected return profile, analysis of existing or anticipated business activities, and the expectations of our stakeholders (foremost among whom are our depositors, counterparties, the regulator and our shareholders) regarding our risk profile. Like non-banks and particularly other cyclical companies, we take into consideration the economic environment and our capabilities, positioning and competitive strengths. We also evaluate the size of the safety margin we desire.

“That safety margin,” Max explained, “can be viewed as actual financial flexibility (for example the amount of capital or a level of liquid assets) that allows us to cushion the shock of any negative outcomes resulting from necessary risk taking.

“Developing the appropriate safety margin,” Max continued, “is intrinsic to the strategic and annual planning process. It is the output of our risk governance activities, and especially the board’s definition of Nejmeh Bank’s risk appetite, including risk tolerance and specific risk limits.

“Risk appetite is our view of how strategic risk taking can help achieve business objectives while respecting the constraints to which the organization is subject. It addresses



**FIGURE 8.** Being risk aware

“Some people ask if we are risk-seeking or risk-avoiding. I profess that we seek to be risk aware. The one set of risks for which you are likely not to be compensated are those risks you do not know that you are taking. Similarly, the risks that you do not know that you are taking are ones that are very difficult to manage or mitigate.”

### A non-executive director of a North American bank

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

all forms of risk, including risks of a contingent, non-contractual or off-balance-sheet nature, as well as reputational risks, whether or not those risks are measurable. We take this approach to ensure that risks are adequately captured and that we are as fully aware as is possible of potential risks.

“In defining our risk profile,” Max continued, “the board will indicate what the appropriate target credit rating is for the bank, which is critical as it drives our cost of capital and our margins.

“You will also approve concentration limits that will apply to our portfolio as well as to our counterparty exposures. We will look at and define exposure by counterparty, asset class, product, geography, and sector. Within the loan portfolio, the board will consider setting limits with respect to non-performing loans.

“From a liquidity risk perspective,” Max continued, “the board will also set limits with respect to cash flow gaps. The board will set the earnings volatility target, which will be a function of interest-rate and currency risk in the banking book and interest-rate and other market risks in the trading book. Also, when discussing market risk in the trading book, we will set limits with respect to Nejme Bank’s value at risk, which will drive our regulatory capital.”

Noticing that Alex was less familiar with the terminology being used, Max noted that they would later review such concepts as the cost of capital, trading book, banking book, and other basic concepts of banking.

“As shown in Figure 9,” Max continued, “the board reviews, challenges, and determines the firm’s risk appetite. A part of that will be articulated as risk limits, which are caps on the kind of exposures or implied risks that a bank may take. Once directed by the board, our management team translates limits from the firm-wide level to business lines and divisions, regions, and trading desks. All employees are then incentivized to keep our risk exposure below defined limits. For example, there are penalties for creating risks in excess of stated limits.

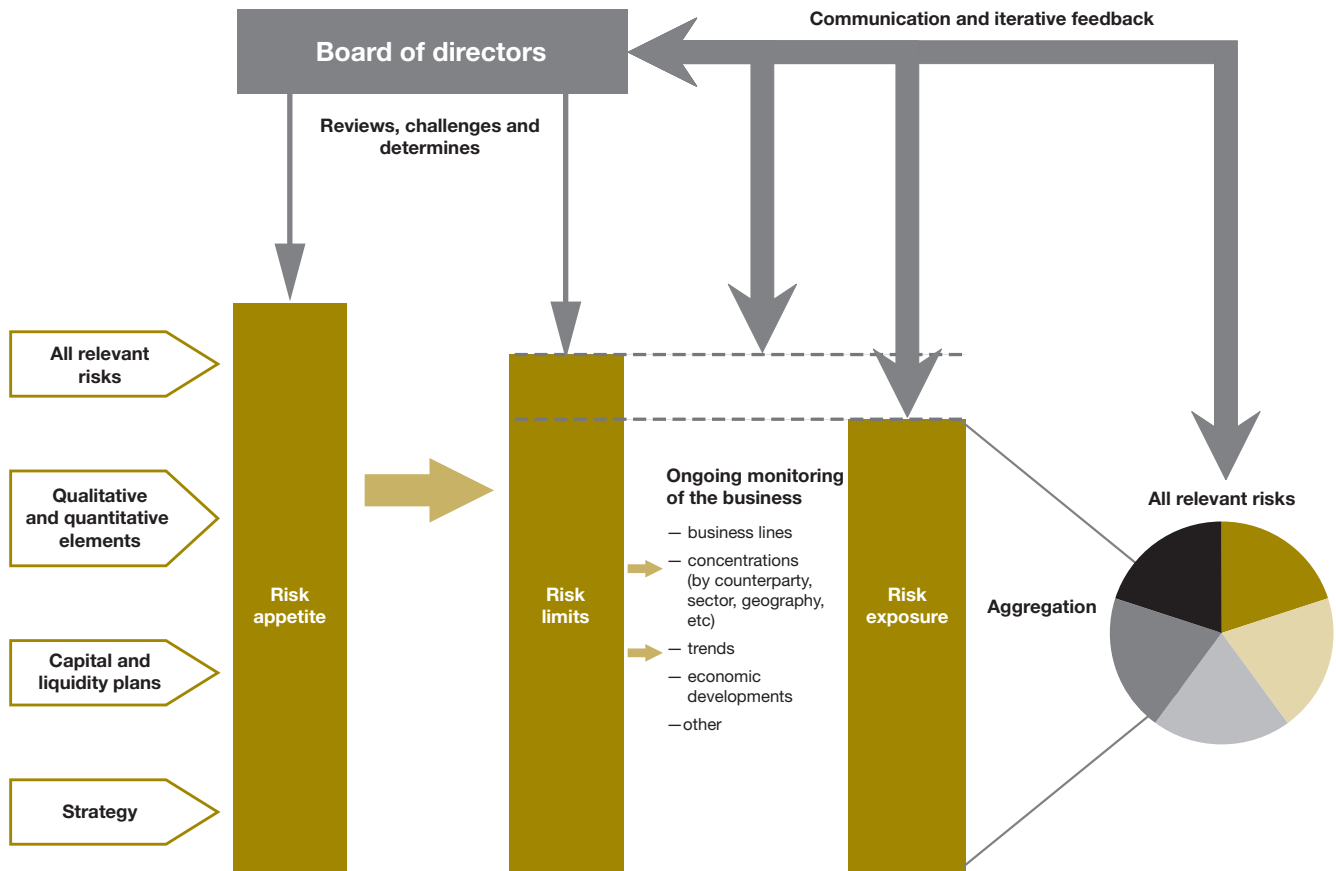
“You should be aware, however,” Max highlighted, “that there are no ‘limits’ per se for some risks—for example, jeopardizing our reputation, which the industry refers to as reputational risk. That does not mean however that those risks are not real. To the contrary, a reputational risk incident, for example, may cause a run on the bank.

“In addition, as a part of setting risk appetite, the board will set a target for the overall leverage of the firm. For example, should total assets be 10 times, 20 times or 30 times equity?”

“Figure 9 also shows that there are feedback and monitoring mechanisms. This involves the board’s monitoring and oversight role, which Selma described earlier and which we will discuss at further length today.

“In addition to our annual planning work,” Max continued, “we evaluate specific strategic initiatives from time to time. These may include merger and acquisition opportunities, the sale of a business, or entry into a new

**FIGURE 9.** Setting and monitoring risk appetite



Source: Nestor Advisors (2010)

**FIGURE 10.** Acknowledging ignorance can be a virtue

“Always question when a product or an investment is not understood. Don’t be afraid to admit you don’t understand. Claiming ignorance is a virtue, not a sin.”

A non-executive director of a bank in Eastern Europe

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)



**FIGURE 11.** On director motivations

“One should not engage in (types of) transactions because others do so. Prestige or market share are often wrong motives for engaging in transactions.”

A former executive and director of a European bank

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

product, financial market, or geographic market. In evaluating each of these, we assess how the proposed initiative may impact Nejme Bank’s risk profile to ensure that we retain a risk profile that is appropriate for the firm and consistent with strategic objectives.”

“If I may interrupt,” Selma said. “Our view on this board is that if we do not understand a proposed product or other initiative—or its risk implications—we delay the initiative until we fully understand it and the potential risks, or, if it is readily apparent that the risks are too great, we abandon it. We may hire external consultants to advise us too. We try to never approve things we do not understand.”

“In this,” Max added, “you have the full support of your executive management team.

“Similarly,” he continued, “before proposing any expansion into new financial or jurisdictional markets we—both the executives and the board—will take into consideration home and host country regulatory requirements and our capability to both effectively comply with all the regulatory requirements and manage the risk of the new business.

“Before we close our discussion on strategic planning,” he added, “I would like to make a final point. You will recall that I began our discussion of planning and risk appetite definition by saying this is something that the board discusses when working on the strategic and annual plan, and when there are significant changes in the business climate. This ensures that at least annually, we review and reaffirm or revise the firm’s risk appetite.

“Risk is dynamic. Even if we do not change a thing, the market, the competition, the regulatory environment, the economy—they change all the time. And they affect us.”

“Allow me to underscore,” Selma added, “the importance of our work to determine the firm’s risk appetite and to monitor the firm’s current and projected risk profiles. Both

parts are important: The risk appetite is our mandate to the CEO. It guides the risk-taking activities of all employees. It defines the boundaries within which the firm’s business objectives should be pursued and guides our own oversight, monitoring, and decision making with respect to the business. Risk monitoring gives us assurance that management is doing the right thing. It also forms part of our impression of our management team’s capabilities.”

Selma continued, “Our CEO and team are skilled and prudent. That, in turn, gives us confidence and affects how much risk we are willing to accept in our strategic planning and in our risk appetite mandate back to the management team.”

## 1.7 RISK MONITORING BY THE BOARD

“Timely and accurate information,” Selma transitioned, “is what enables us directors to execute our responsibilities in a meaningful way.” She then introduced Tomas, the Company Secretary of Nejme Bank. “Part of Tomas’s role is to assist non-executive directors with accessing the information we need to fulfil our duties. Another is to ensure that we allocate our time in such a manner that we address the issues that need to be addressed.”<sup>5</sup>

“As Selma has described,” Tomas began, “the board has a continuing responsibility to understand the bank’s risk profile at any given point in time, and to monitor the firm’s ongoing performance against its established risk appetite.

5 For further discussion on the role of a Company Secretary, please see the following sections of the *Corporate Governance Board Leadership Training Resources*: Board Practices, Part 2, Module 3 (for a description of the company secretary’s role); Appendix A2.3B, Part 2, Module 3 (regarding the company secretary’s terms of reference); and, Appendix A1.3A, Part 1, Module 3 (company secretary’s role with respect to information disclosure).

**FIGURE 12. Timeliness of information**

“One of our biggest challenges is to get financial information within a reasonable timeframe.”

An executive director of a bank in Europe and Central Asia

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

This responsibility cannot be accomplished without access to accurate and relevant information and adequate time to discuss the issues. In preparing the board agenda for our chair’s approval, I make sure that we provide adequate opportunities to brief the board and for board discussion and questioning.”

**Information sources**

“However,” Tomas continued, “accessing the right information at the right time can be slightly more challenging in banking than in some other businesses. We attempt to keep the board informed by using several channels.

“First,” Tomas explained, “the entire board, and in particular the board’s risk committee, has direct access to the CRO, who cannot be dismissed without the board’s prior approval. Our policy is that the CEO or CRO must, as soon as practicable, bring to the attention of the board’s risk committee any significant change in the bank’s risk

profile or any actual or expected violation of risk limits or regulatory requirements.

“Second, the Chief Internal Auditor (CIA)—who reports directly to the board’s audit committee and can be dismissed only by the board—monitors the activity of the bank to ensure that we are always operating within our policies and defined objectives and provides assurance that the control systems work as designed and that the information they supply, both to management and the board, is accurate. The board is alerted to any situations requiring the board’s attention as and when they occur.

“Third, we create opportunities for non-executive directors to interact with managers below the executive level. This not only provides directors with an important view into potential candidates for succession purposes, but also provides other sources of information on the bank and its risk culture. Without circumventing the CEO,

**FIGURE 13. Direct access to the chief risk officer**

“It’s crucial for the board to hear reports directly from the CRO as the management may be biased.”

A chief risk officer of a MENA bank

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

**FIGURE 14.** On information sources

“You need to get outside the boardroom and go to the ground several times a year.”

A non-executive director of a leading bank in Central Europe

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

**FIGURE 15.** Diversifying a director's sources of information

As one director put it, “Boards need to somehow find broader sources of information, so they’re not relying on one or two people.”

[Another] director advocated seeking broader sources of information but acknowledged that such approaches eat up time: “There is no substitute for time spent meeting with management of the different divisions or sectors that are the next level down the corporate ladder, having them present directly to the board, visiting operations, ...getting in the field, getting a sense of operations — not interfering, but understanding on a more hands-on level.”

Source: Lorsh, J., 2009. “*Perspectives from the Boardroom*”. Harvard Business School.

**FIGURE 16.** Directors confounded by complexity

“One Wall Street executive admits that it would not be too difficult for him to present financial information to this board ‘in such a complex way, that people would be prevented from asking whether the emperor is naked, for fear of looking stupid.’”

Source: *Financial Times*, 2008.

there are formal and informal ways in which we encourage interaction between the board and managers.

“Fourth, we create opportunities for non-executive directors to receive advice from expert and independent outsiders.

“Lastly, there are also periodic reviews of the bank’s position at board and committee meetings. Those reviews are included in your board materials, and we try to reserve adequate time at committee and board meetings to fully discuss those reports.”

**General reporting guidelines**

“Regardless of the level of our non-executive directors’ banking experience,” Tomas continued, “we follow certain

principles in preparing board reports. One tactic that we will not allow, but which some managers from other firms use, is to present information in a very complex manner, in an effort to keep directors in the dark and inhibit board discussion. Part of my job is to prevent this from happening. I encourage you to tell me when we have fallen short of that objective.

“Another general guideline that we follow is to provide not only updates on the current position of the firm but also trends. We have found reporting on exceptions and discussing outliers within those trends is particularly informative. From a risk perspective, an outlier with a negative impact on the business is as important to investigate as an outlier with a positive impact. For example, if a particular area of the

**FIGURE 17.** On seeing through sophistication

“We were greedy and stupid. We never really challenged why one AA-rated product could earn 90 basis points more than other AA-rated products.”

An executive director of a bank in Europe and Central Asia.

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

business is growing rapidly, we ask management to discuss the drivers and risk implications—both in terms of exposure to the bank and the management of that risk.”<sup>6</sup>

**CAMELS analysis**

“The written reports you will receive before the board meetings,” Tomas continued, “will include information on the aggregate performance of the business, as well as by business line, geography and risk area.

“We evaluate how our risk exposures relate to the board-defined risk appetite and risk limits. We measure those exposures on a global and consolidated basis, as well as by business segment.

“We do this along five axes: Capital adequacy, Asset quality, Management and particularly risk management, Earnings quality, Liquidity, and Sensitivity to market risk. This approach, referred to by the acronym CAMELS, is based on that used by the Federal Reserve System in the United States in the examination of commercial banks and mutual savings banks.

“Capital adequacy,” Tomas continued, “reflects, on one hand, the nature and extent of our risk exposure and, on the other, our ability to manage, identify, measure, monitor and control risks. The thinking is that if we are unable to accurately predict our exposures or to respond quickly, then the level of capital held should be greater. This is not just a function of our bank’s capabilities but also the general market environment. For example, if a particular group of assets becomes less liquid or falls in value, we should consider holding more capital.

“Capital adequacy is more than just a function of required regulatory capital; rather, it is a function of credit, market, liquidity, solvency, legal, regulatory and other risks. As such, each of the other components of the CAMELS analysis informs our assessment of our capital adequacy. In addition to those assessments, when evaluating our capital adequacy we also look at how our Tier 1 equity capital—a term we will explain later—relates to our risk-weighted assets, with risk-weighted assets including on- and off-balance sheet items; and how tangible equity relates to all on- and off- balance sheet tangible assets, that is with the removal of goodwill. We also look at how our capital holdings relate to the Basel recommendation of three-times VaR as a standard capital holdings recommendation and at our ability to access the capital markets at different points in the economic cycle.

6 For further discussion on board information and its role in enabling effective oversight, please see: “Evaluating Strategy Delivery” Part 3, *Corporate Governance Board Leadership Training Resources*. Washington.

**FIGURE 18. CAMELS ratings**



Source: Office of Thrift Supervision, 1997. “Uniform Financial Institutions Rating System”. Washington.

FIGURE 19. On abnormal profits

“Abnormal profits are often a sign of excessive risk taking.”

## A former executive and director of a European bank

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

“Asset quality,” Tomas continued, “reflects the size of existing and potential risk associated with our loan and investment portfolio, our real estate holdings and other on- and off- balance sheet assets. Data tracked here includes:

- ▶ The allowance for loan and lease losses;
- ▶ The level, distribution, severity, and trends of problems, including classified, non-accrual, restructured, delinquent, and non-performing on- and off- balance sheet assets;
- ▶ Credit risk arising from, or affected by, off-balance-sheet transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit;
- ▶ Diversification of the loan portfolio;
- ▶ Concentration of assets by counterparty, client, country, or sector;
- ▶ Current and projected borrower defaults; the frequency of credit documentation exceptions; and,
- ▶ Risks to the marketability of our assets, including trends in the economy, financial markets, counterparties and clients.

“When evaluating our Management of risks,” Tomas explained, “we present and discuss issues that have arisen with respect to not only the executives, but also the board’s risk oversight.

“In addition,” Tomas continued, “the board evaluates, with input from the executives, the quality of the board’s own risk oversight; the clarity of the board’s directions to management regarding risk appetite; the quality and output of our discussions; and, the board’s ability to respond in a timely manner to changing business conditions or the initiation of new activities.

“Selma, is there anything you would like to add to this?” Tomas asked.

“Two things,” Selma interjected. “The first is the issue of board oversight and the concentration of power by any one director or executive. Board composition, which we will discuss later, is one way in which we manage this. Another is how I, as chair of the board, execute my job. All directors will evaluate the performance of the board as a whole and me

as chair, annually. I highlight this to you: the concentration of decision-making authority—whether formally or effectively—impacts our risk profile and company performance.

“A second point,” Selma emphasized, “is one that you have likely heard elsewhere but is worth repeating here, as it is our mantra: Not everything we need to know to make our decisions is in the reports or produced by the analyses. We must never lose sight of the importance of our judgment and common sense.”

“Which brings us to the next category, Earnings quality,” Tomas said. “Here we track the quantity, quality, and trend in actual earnings, and other factors that will influence future earnings. Our goal is not to simply grow earnings, but to be aware of why and how earnings are being created.

“For example,” he continued, “questions that we might raise include the following:

- ▶ What is driving our earnings?
- ▶ Are we earning more because we are increasing our risk profile?
- ▶ Is the risk profile of our clients changing such that we anticipate an increase in loan losses going forward?
- ▶ Are we effectively managing credit risk?
- ▶ Are we adequately provisioning for loan and lease losses? Have we changed our reserves for loan losses in a way that materially affects earnings? If so, why? If not, why not?
- ▶ Is the collection rate of our workout group increasing or decreasing?
- ▶ What portion of earnings is being driven by non-loan activities?
- ▶ Is our exposure to interest-rate or other market risk increasing or decreasing and what is driving that change?
- ▶ How are economic trends impacting our expected interest expense and interest margin levels?
- ▶ How much capital can reasonably be expected to be generated by retained earnings?
- ▶ How are our operating expenses trending and what is the outlook?

“The next area of analysis is Liquidity,” Tomas continued. “Our liquidity objectives are to ensure that we

have enough cash, cash-equivalent assets, readily saleable assets, and available credit lines to meet any periods when we have more cash outflow than inflow; and to respond to unexpected changes in our funding sources (by which I mean our deposits, interbank lending, and debt issuances).

“In monitoring our liquidity risk exposure, we assess our access to money markets and other funding sources; the composition of our sources of liquidity; the degree of our reliance on short-term sources of funds, including borrowings and brokered deposits to fund long-term assets; the trend and stability of deposits; the ability to securitize and sell certain pools of assets; and, the risk management division’s track record with respect to identifying, measuring, monitoring, and controlling our liquidity position.

“Finally, we come to the ‘S’ of CAMELS, namely Sensitivity to market risk. Here we seek to understand how market risk, such as interest-rate, foreign exchange, commodity price, and equity price risk, can impact our earnings and capital.

“As our portfolio of business is heavily skewed towards retail and commercial banking, our single greatest exposure is to interest-rate risk, so proportionately the board spends a great deal of time on this subject. Over time, we anticipate currency risk becoming greater.”

### 1.8 RISK GOVERNANCE AND THE WORK OF BOARD COMMITTEES

“As with most large companies,” Selma began, “we find it helpful to split our workload among various board committees. The committees deliberate certain matters and then

present their views to the entire board. This allows us to be far more thorough, efficient and effective than otherwise.

“We have established only those committees that are relevant for a bank of our size: a risk committee, a separate audit committee, a human resource and remuneration committee and a nominations committee. As shown in Figure 20, major European banks have those as well as a number of other committees.

“Given that today’s focus is on risk governance,” Selma continued, “we’ll discuss those committees most relevant to risk governance.”

#### Risk committee

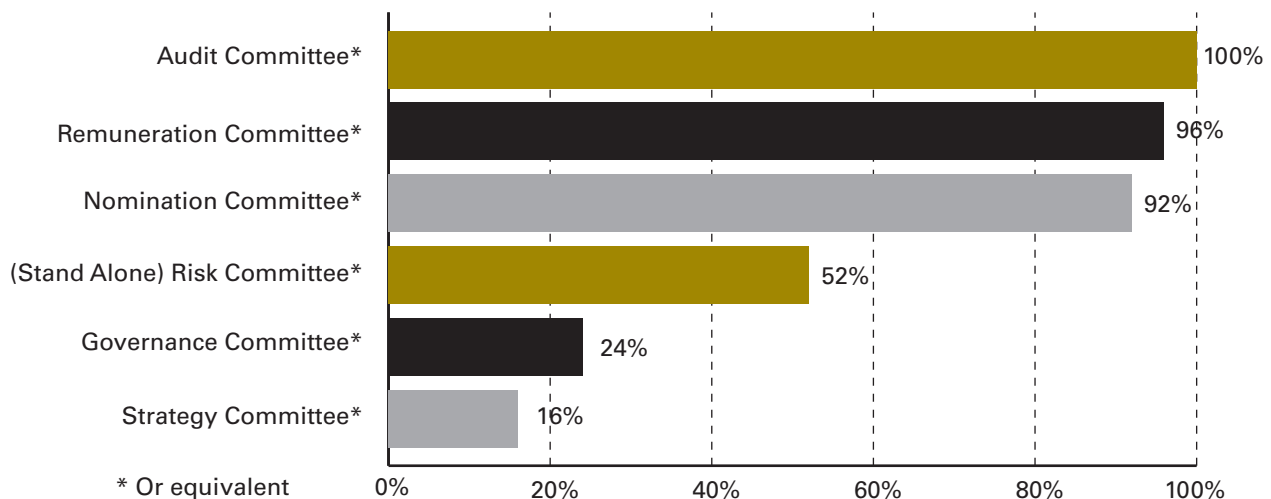
Selma then introduced Vikram, the risk committee chair.

“Our committee,” Vikram began, “advises the board on matters such as setting risk appetite, the use and appropriate levels of risk limits, the bank’s risk framework, management’s capabilities with regard to risk management, and, its risk management policies and procedures.”

“We also oversee the firm’s interaction with other stakeholders as it relates to risk,” Vikram explained. “For example, we review the reports on risk governance prepared by management that are published in our annual report and on our website, as well as any reports on risk assessment and control procedures submitted to the banking regulator. We are briefed on significant reputational risk matters and on management’s proposed responses or pre-emptive actions.

“The committee meets every other month,” Vikram continued. “As shown in Figure 21, the risk committees of the top European banks met on average six times per year

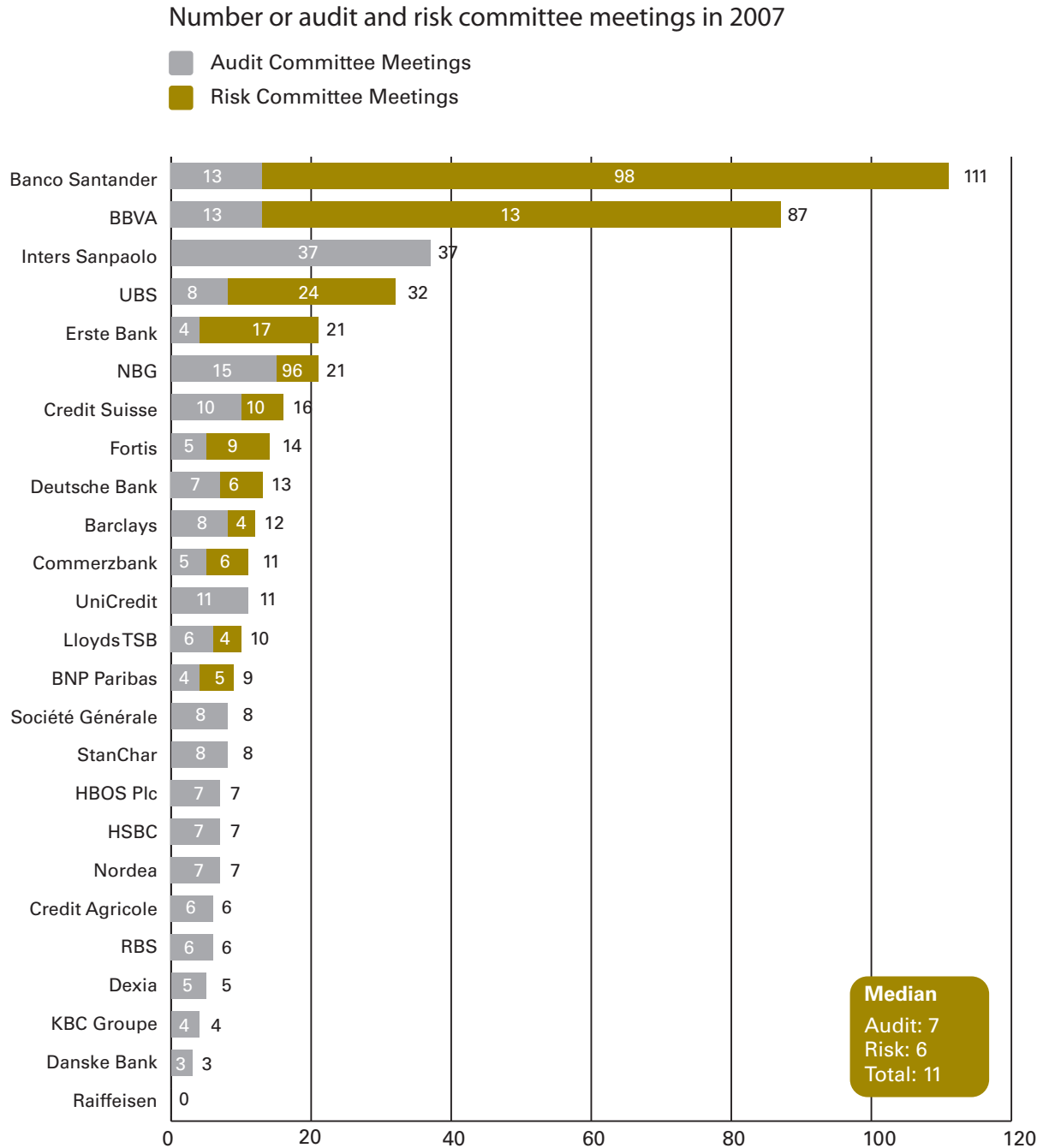
**FIGURE 20.** Board’s risk-related committees among the twenty-five largest European banks



Source: Nestor Advisors, 2009, “Bank Boards and the Financial Crisis: A Corporate Governance Study of the 25 Largest European Banks”.

**FIGURE 21.** Frequency of meeting of the risk committees of the twenty-five largest European banks

The work intensity of board audit and risk committees varies considerably across Europe, with the Spanish banks being, and by far, the more active



Source: Nestor Advisors, 2009. "Bank Boards and the Financial Crisis: A Corporate Governance Study of the 25 Largest European Banks".



**FIGURE 22.** A nimble risk committee

“Our board risk committee meets monthly and has authority. Hence it can switch directions when needed and our bank is very reactive”

A non-executive director of a bank in Central Asia

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

in 2007. We feel that meeting every other month enables the committee to adequately keep abreast of the bank’s risk profile and outlook, as well as allowing the capacity to respond to significant events in a timely manner. We do, of course, have extraordinary committee meetings in person or by telephone, if necessary.

“The committee is composed,” Vikram went on, “solely of non-executive directors, and particularly those with a background in finance and banking. Our CEO and CFO are members of the board but are not members of the risk committee, though they are frequently invited to attend the risk committee’s meetings. Our CRO is neither a member of

**FIGURE 23.** A fundamental task of a director: ask questions

“We...don’t want to manage the company. But we want to direct the company...Asking detailed questions to understand more fully what’s going on in a company is, I think, a requirement to be an effective director...I have no insight about what we should do until I have significant insight as to what’s really going on, and you can’t get that by somebody doing a PowerPoint presentation.”

Board Director

Source: Lorsh, J., 2009. “*Perspectives from the Boardroom*”. Harvard Business School.

the board nor a member of the risk committee but always attends the risk committee meetings.

“As Tomas suggested earlier today,” Vikram continued, “part of the CRO’s job is to effectively distill information for the risk committee’s review. Our working relationship is a close one. Yet, despite this closeness, I work to facilitate an atmosphere that encourages well-informed questioning, rather than one in which directors rubberstamp management recommendations.

“In addition, the committee regularly receives presentations by persons who report directly to the CRO, including those most responsible for monitoring market, credit, and operational risk. As Tomas mentioned, this not only diversifies information sources but also provides insights for succession planning purposes.”

Selma added, “We created the risk committee just a few years ago. Previously, the risk committee’s work had been performed by the audit committee, which struggled to find enough time, between reviewing the bank’s financial accounts and its other audit-related duties, to focus on the bank’s risk profile in-depth.

“A number of banks do not have risk committees,” Selma said, “because they prefer to have the entire board participate in risk discussions. Our experience, however, is that the risk committee’s work significantly enhances subsequent board discussion of not only risk but also the risk implications of matters such as remuneration, succession planning, and the board director nomination process.

“We recognize,” Selma continued, “that one of the potential pitfalls of having a risk committee is that the board might not discuss risk issues as it should. Hence, Tomas and I work to ensure that the board also has proper discussion of all risks, albeit without needing to go into the level of detail

that the committee does. The key issues are these: that the board has a holistic view of risk, and that the board has the appropriate time, information, and resources to adequately discharge its risk governance duties. Our choice is that the committee is a resource that supports the board’s work; it does not replace the board.”

**The audit committee**

“In supporting the board’s risk governance work;” Selma added, “the risk committee works very closely with the audit committee. Included among the audit committee’s responsibilities are oversight of the internal controls of operations, and the efficacy of internal audit, both of which have significant implications for risk management.”<sup>7</sup>

**Human resources and remuneration committee**

“Another committee with which the risk committee works,” Selma continued, “is the human resources and remuneration committee. This group reviews human resource policies, opines on the remuneration structure of executives and key employees, and sets the remuneration of the executive members of the board.

“The risk committee will collaborate with the remuneration committee to assess:

- ▶ The incentives remuneration policies create for managers, both with respect to growing the business and managing risks, and

<sup>7</sup> For further discussion on the composition and role of the audit committee, please see: “The Effective Board: Composition and Structure” Part 2, *Corporate Governance Board Leadership Training Resources*. Washington.

**FIGURE 24.** Bank audit committee versus bank risk committee

	<b>BENEFITS OF THIS COMMITTEE HAVING RISK OVERSIGHT FUNCTION</b>	<b>CHALLENGES TO THE COMMITTEE IN EXECUTING ITS RISK OVERSIGHT FUNCTION</b>
<b>AUDIT COMMITTEE</b>	<ul style="list-style-type: none"> <li>▶ Links risks to financial statements</li> <li>▶ Plays a central role in ensuring robust internal controls</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ensures sufficient time is allocated to risk matters</li> <li>▶ Ensures all risks are sufficiently covered</li> </ul>
<b>RISK COMMITTEE</b>	<ul style="list-style-type: none"> <li>▶ Promotes routine oversight of risks</li> <li>▶ Creates a forum which is comfortable handling specialized discussions of risk</li> <li>▶ Eases the growing workload of board and its audit committee</li> <li>▶ Contributes to focus on long-term risks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Keeps the entire board involved in risk oversight</li> <li>▶ Coordinates its work with the audit committee</li> </ul>

Source: Nestor Advisors (2010)

**FIGURE 25.** Remuneration practices in the London market prior to the crisis

- ▶ An excessive focus on short-term results without taking into account current or future risks by:
  - Providing all or most significant bonuses in cash, with no deferment
  - Determining bonus in reference to net revenue (typically, revenues after deduction of expenses) and revenue to compensation ratio, frequently in the range of 45-50%
  - Tying incentives to metrics such as earnings per share which are not risk adjusted and which can be used to drive short-term performance targets to the detriment of the longer term health of the firm
- ▶ Tying remuneration of risk management professional incentives to business unit performance rather than risk management
- ▶ Insufficient weight given to non-financial measures of performance (including in some cases attitudes to risk and compliance) alongside financial performance measures
- ▶ Relatively few remuneration structures provided a link between deferred bonuses (especially deferred cash bonuses) and the future performance of the firm (or, where practicable, the future performance of the employee's division or business unit)

Source: Financial Service Authority, 2009. "Reforming Remuneration Practices in Financial Services. Feedback on CP09/10 and Final Rules".

**FIGURE 26.** Competitive advantage

“You can get a tremendous competitive advantage by having someone with risk skills as you will make more intelligent decisions than other banks.”

### A non-executive bank director in North America

Source: Interviews commissioned by the Global Corporate Governance Forum (2009)

- Whether the incentives sufficiently encourage managers to promote the firm’s approved risk appetite.”

#### Director nominations committee<sup>8</sup>

“Finally, our nominations committee evaluates our corporate governance structures and procedures. The committee is responsible for both the composition of our board and the ongoing professional training of our board members,” Selma noted.

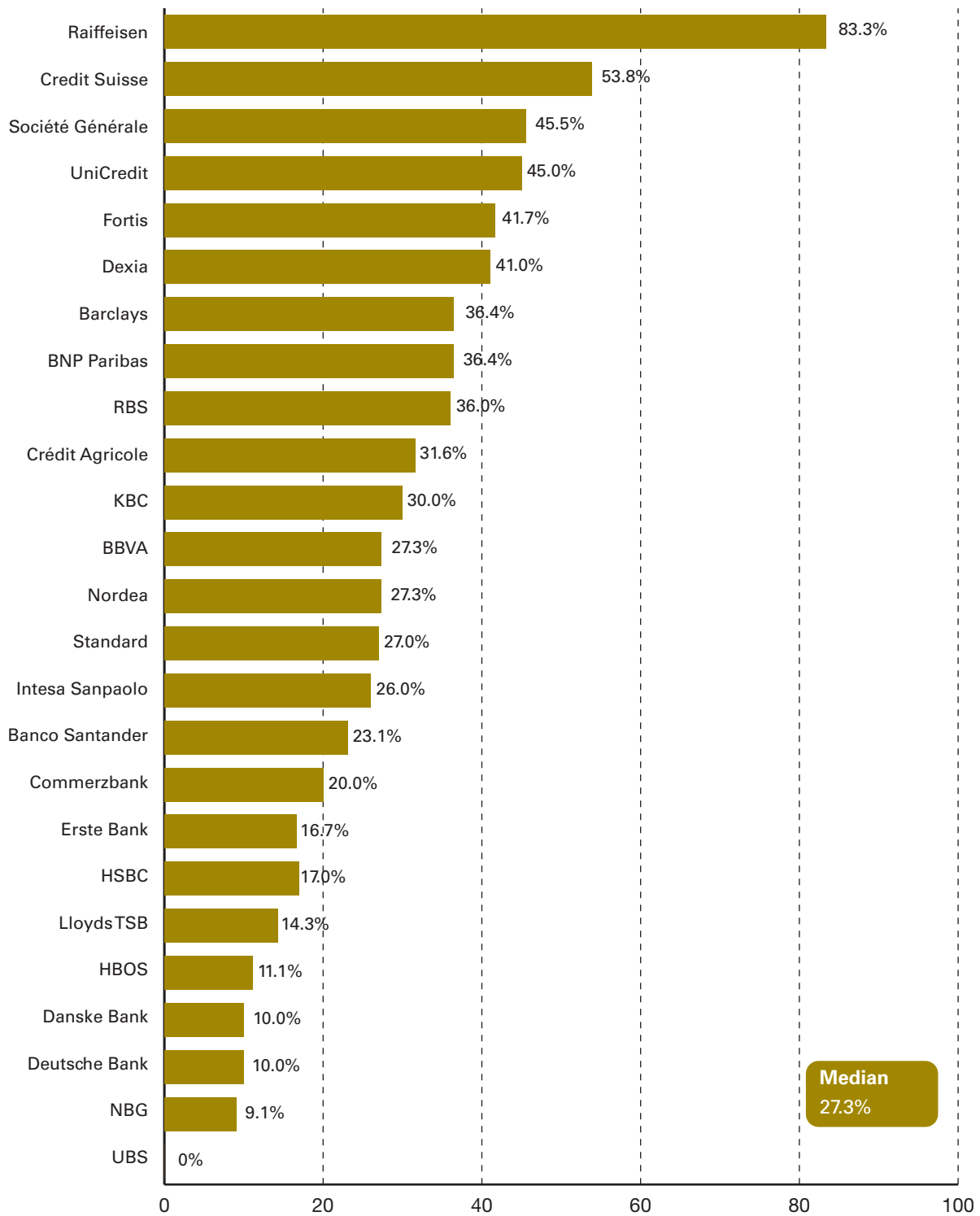
“Board composition can be an important advantage and a risk-management tool. We seek to have members who can provide leadership to the bank. Most directors have financial industry expertise, and all have a demeanor that encourages debate with the executives.

“In addition, we seek to have directors that are independent. While having independent board members may not prevent a bank from suffering failure,” she said, noting Fortis’ high level of independence among peers shown in Figure 28, “it promotes the chances that the board may deliberate, rather than rubberstamp management’s recommendations.

“Finally,” Selma added. “Just as you should challenge executives, you should not always rely on directors with banking expertise to lead board discussions. Each director should always seek to make his or her own judgment. Having directors with a strong banking experience does not prevent banks from making mistakes. It is worth remembering that the board of Northern Rock included the former CEO of NatWest, the CEO of JO Hambro Capital Management and a former director of the Bank of England.”

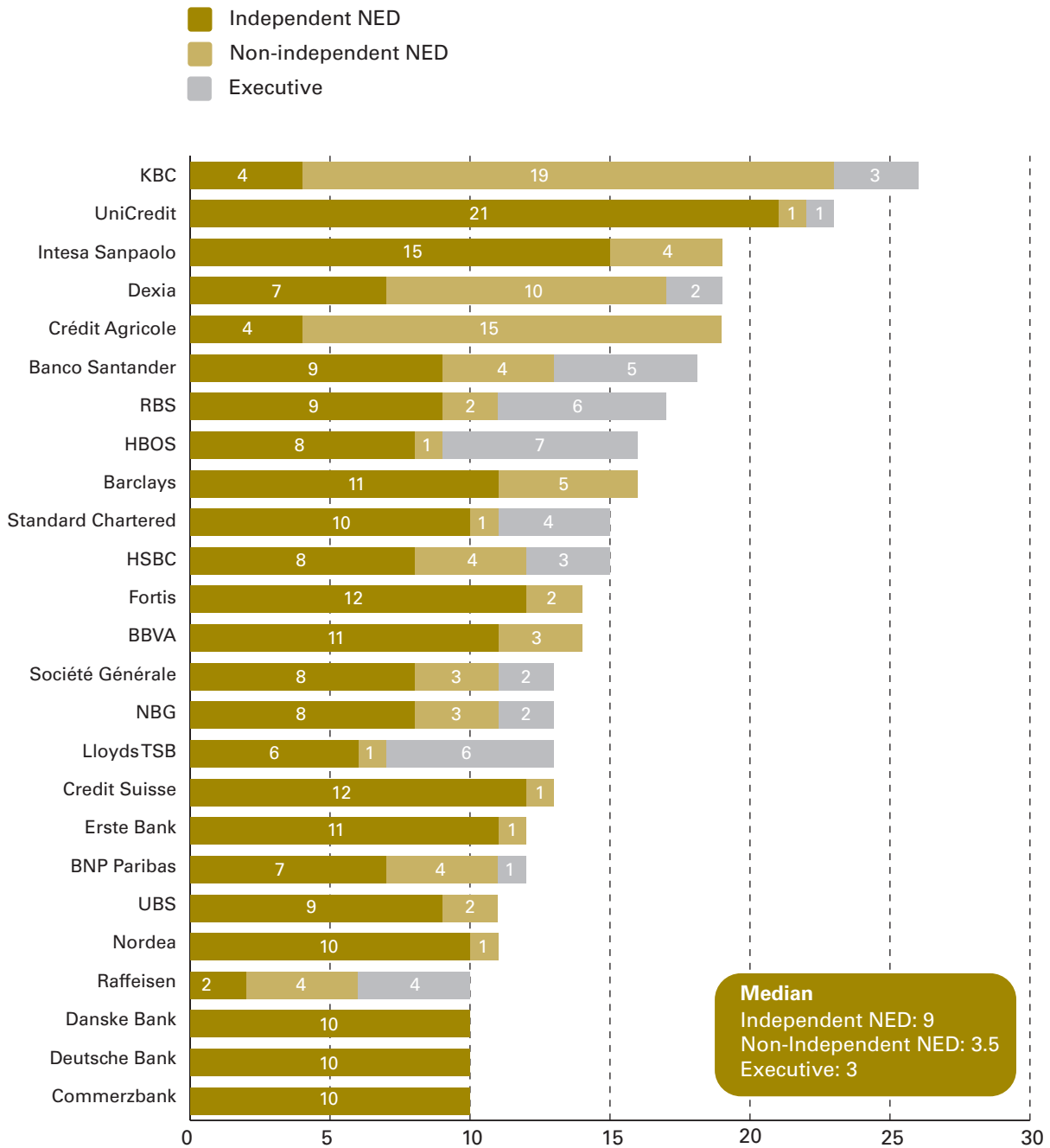
8 For further discussion on board composition and the nomination committee, please see: “The Effective Board: Composition and Structure” Part 2, *Corporate Governance Board Leadership Training Resources*. Washington.

**FIGURE 27.** The percentage of non-executive directors with financial industry expertise 2007 year-end



Source: Nestor Advisors, 2009. "Bank Boards and the Financial Crisis: A Corporate Governance Study of the 25 Largest European Banks".

**FIGURE 28. Board Composition at the start of 2009**



Note: Deutsche Bank and Commerzbank do not disclose the number of independent members.

Source: Nestor Advisors, 2009. "Bank Boards and the Financial Crisis: A Corporate Governance Study of the 25 Largest European Banks".

## Section review questions

- ▶ Ideally, what kinds of skills and background should a bank board director have?
- ▶ What minimum level of banking-related skills should all bank board directors seek to acquire regardless of their background?
- ▶ What is risk governance? What is the responsibility of the board with respect to risk governance?
- ▶ What are risk limits? Who sets which limits at your bank?
- ▶ What are the responsibilities of the board chair?
- ▶ Do directors at your bank challenge proposals put forth by the executives? Are discussions robust? Do they assist the executives with refining and improving proposals?
- ▶ Why is the independence and authority of the CRO important? How can it be achieved? How is it achieved at your bank?
- ▶ How do risk considerations inform executive and board decisions regarding strategic opportunities, executive remuneration?
- ▶ How does a board ensure that it receives the right information? What are some of the information sources bank directors receive or should seek to access?
- ▶ Why is it important for board directors to have a view on their bank's capital adequacy, asset quality, management and risk management quality, earnings quality, liquidity profile, and sensitivity to market risk?
- ▶ What are the advantages and disadvantages of having a board level risk committee, or assigning risk-governance-related tasks to a bank board's audit committee?

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