

## **Risk Appetite Statement & Enhanced ICAAP Requirements Workshop**

Developing and embedding a high-quality Risk Appetite Statement (RAS), carrying out stress testing and determining your ICAAP levels are three critical, and interlinked, components of your risk management framework (RMF). These three components need to be interlinked and be consistent with each other.

This workshop focuses on the “how” rather than the “what” of RAS, Stress Testing and ICAAP. The focus of the course is “hands on” with participants encouraged to bring live examples to the workshop. The workshop will enable you to carry out best practice RAS development, Stress Testing and ICAAP within your institution.

### **The workshop will give you:**

- Knowledge of current best practice in relation to RAS, Stress Testing and ICAAP.
- The ability to develop a comprehensive RAS which can be practically embedded across the business.
- A method for determining the risks that need to be subject to stress testing and why?
- An understanding of the different types of stress test that can be performed.
- Hands on practice on how to build and document stress tests across market, credit, liquidity, operational and strategic risks.
- Understanding and recording the drivers of each scenario.
- Determination of the range of variables that go into each scenario and how to determine the assumptions of each variable.
- How to link your business plan and risk appetite into the scenarios so that ICAAP supports your strategy and appetite.
- How to calculate your minimum ICAAP levels from the various stress tests.
- Consideration of how to aggregate stress tests for “stress test combinations”
- How to use the RAS, Stress Testing and ICAAP as part of your overall Risk Management Framework.

### **Workshop Presenter**

*David Tattam is a director of Protecht Pty Ltd. He is a specialist in all facets of risk management and in particular operational and enterprise wide risk management. He is recognised internationally as an authority on the discipline. Prior to setting up Protecht, David held roles as the Head of Operations and Risk Management at WestB Bank and the Industrial Bank of Japan in Australia and 7 years with PricewaterhouseCoopers. He currently consults to, and trains in, a range of industries in relation to setting up risk management functions and implementing systems to ensure successful Enterprise Wide Risk Management. He has also been instrumental in the development of a fully integrated ERM software solution. He is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Financial Services Institute of Australia.*

### **Workshop Outline**

#### **1: A Risk Management Framework**

- The Risk management framework
- A comparison to CPS 220 Risk Management Standard
- How Risk Appetite, ICAAP and Stress Testing fit in

## **2: Risk Appetite**

- External guidance—APRA and CPS 220
- Defining Risk Appetite, Tolerance, Capacity and Target
- Using risk appetite
- Articulation of risk appetite

## **3: Setting tolerances around objectives**

- Identifying measurable objectives
- Linking to the Business Plan
- Process for setting tolerances and trigger points

## **4. Setting tolerances around risk indicators**

- Identifying key risks
- Identifying which risk indicators to use for each key risk
- Setting tolerances and trigger points

## **5. Documenting the risk appetite—the RAS**

- Format of the Risk Appetite Statement
- Governance around the RAS
- Cascading the RAS through the institution
- Using the RAS in decision making, escalation and reporting

## **6. Stress Testing**

- What is stress testing? “Severe but plausible”
- Types of stress test
- Objectives and uses of stress testing
- External guidance—APRA and CPS 220
- Linking stress tests to the RAS. “Stressing the RAS”

## **7. A methodology and process for stress testing**

- Identifying which risks to stress
- How to determine a severe but plausible stress
- Defining the assumptions in a stress test
- Documenting a stress test using Bow Tie Analysis

## **8. Typical stress scenarios for a financial institution**

- How many stresses?
- Deciding on the stress scenarios
- Market risk stress tests
- Liquidity risk stress tests
- Credit risk stress tests
- Operational risk stress tests
- Strategic risk stress tests
- Case Study: Determining a stress scenario

## **9. The outputs of stress testing**

- Identifying single points of failure
- Identifying control weaknesses
- Determining cash flow effects for liquidity risk
- Determining capital effects of ICAAP

## **10. Principles of ICAAP**

- The principles of ICAAP
- APRA guidance on ICAAP
- An overall approach to ICAAP

#### **11. Determining the ICAAP level**

- Alternative methods
- A stress test approach
- Focusing on loss of capital and Risk Weighted Asset changes
- Converting stress test results in to Capital Adequacy Ratio (CAR) impacts
- Aggregating the CAR impacts of multiple stresses
- Determining a buffer on ICAAP for your minimum capital level

#### **12. Documenting and recording stress and ICAAP**

- A stress testing register
- Preparing the ICAAP documents—The Summary Statement, The Annual Statement, The Declaration

#### **13. Carrying out ongoing stress testing**

- Updating stress tests each year/period—a marginal approach
- When should an update occur?

#### **14. An integrated approach to stress testing**

- Ensuring your stress tests for ICAAP, liquidity and contingency planning are consistent

#### **15. Reporting stress test results**

- How to report stress test results as part of the Risk MIS

*In keeping with our policy of maintaining video resources to around 1 hour viewing time the Risk Appetite Statement & Enhanced ICAAP Requirements Workshop is offered in two videos.*