



Mutuals 2013

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“Deepening the risk management journey”

Nigel Boik

Australian Prudential Regulation Authority

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APRA's Risk Management Expectations CPS 220 Risk Management



- Each entity needs to have a Risk Management Framework consistent with risk profile and capital strength, supported by an appropriate risk management function and be subject to comprehensive review.
- Why CPS 220 ?
 - Harmonisation across regulated industries
 - Consolidation from parts of various industry Prudential Standards
 - Enhance existing requirements in order to achieve better practice

What APRA is not looking for



Resulting in....



What is APRA looking for?



- Boards have ultimate responsibility for Risk Appetite and Risk Management Framework of an entity.
- Risk Management culture to be embedded in the entity - essential for an effective RMF.
- RMS to contain key elements of the RMF to manage the risks of the entity.
- MIS to measure, report and assess material risks.
- Regular accurate and timely reporting to support risk based decision making.
- Alignment of risk management declarations.

CPS 220 Risk Management



- Risk Appetite set by Board should be amount and types of risk Board is willing to accept in pursuit of business objectives.
- Tolerances set are the maximum specific risks the Board is willing to take for each material risk - definition of what are the material risks.
- Risk Management Framework, Risk Management Strategy need to link with Business Strategy and Business Plan.
- Review of Process for:
 - Appropriateness,
 - adequacy, and
 - Effectiveness.
- Designated Risk Management Function - see CPS 510 Governance

CPS 510 Governance



- Independent oversight of the RMF, implementation of the RAS, RMS.
- Dedicated Risk Management Function.
- Designated Chief Risk Officer to be independent of the business and finance functions.
- No conflicts of interest.
- Direct reporting line to the CEO - access to the Board and Board Risk Committee - Board holds ultimate responsibility.
- Board Risk and Board Audit Committees are to be separate committees.

When are the changes to CPS 220 and CPS 510 effective?



- To be implemented 1 January 2014.
- To be Effective 1 January 2015.
- 12 months to transition.
- APRA will be pragmatic if the black letter of CPS 510 is not met due to lower risk profile, level of complexity and low capital level.
- **However**, there will need to be a sound alternative arrangement with appropriate independent oversight of the entity's RMF and Board reporting.
- If alternative arrangements are proposed, speak to your APRA supervisor early.