

ACSDA – Miami Senior Summit 2012

General Theme: Determining your organization's Risk Appetite

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Session Summary

Businesses are required to take risks in order to meet their objectives and to generate value for their stakeholders. Businesses that are well managed are explicit about the amount and types of risks they are willing to take. Central securities depositories (CSDs) are no different, and in fact have a particularly important requirement to take the appropriate amounts and types of risk given their critical and/or systemically important role in the markets they service.

Many organizations today are addressing the challenge of articulating their willingness to take risk by developing a **Risk Appetite Statement**. These statements describe, in terms that can be understood and acted upon by business managers, what risks the organization is willing to take, as well as those that it is unwilling to take. The statements may be qualitative or quantitative, but must be linked to the measures that the organization uses to manage its risk exposures. In fact, the value of articulating your Risk Appetite comes from incorporating those statements into the day-to-day decision-making of your business unit managers and staff.

CSDs are very risk aware organizations and devote a significant portion of their resources to measuring their risk exposures. We as CSD managers carefully consider the effects of introducing changes to our risk management and control processes, often depicting the results in multi-colored dashboards of metrics.

However...

How do we know if the remaining or residual risk is the right amount?

How do we know if it is too much or not enough?

A well-defined Risk Appetite Statement helps to answer those questions.

The absence of effective Risk Appetite statements can lead to either inadequate control resulting in the acceptance of an undesirable and unwanted risk profile, or conversely an avoidance of acceptable risks and underperformance. These

statements should not be used only to limit or reduce risk, but also to ensure that enough of the right risks are being taken in order to meet strategic objectives of the organization.

As part of the ACSDA Senior Leadership Summit, in this session we will be discussing notion of Risk Appetite, the experience of one CSD which is going through the development and evolution of its Risk Appetite Statement and discussing the various challenges in creating and implementing effective Risk Appetite Statements. Because Risk Appetite involves the entire organization, not just the risk management functions, and impacts overall organizational performance, it is a topic particularly relevant for the Senior Summit.

Session Structure

The session will begin with a presentation/Q&A session to introduce the subject of Risk Appetite, followed by a case study on what is being done at CDS in this area.

This will be followed by a break out session of 4 or 5 groups, each of which will be given a topic related to the challenge of implementing Risk Appetite in CSDs. Each of the breakout groups will then be asked to report back and we will summarize the results.