

CPS 220 Risk Management *

OBJECTIVES:

- Entity must have systems for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks.
- The Board of the entity is ultimately responsible for having a Risk Management Framework (RMF) that is appropriate to the size, business mix and complexity of the entity.
- Maintain a Board-approved Risk appetite, Risk Management Strategy (RMS) and business plan
- Ensure adequate resources are maintained to comply with the Standard.
- Notify APRA of any material deviations from the risk management framework.

| Key Requirements | Not in Place | Working Towards | In Place |
|---|--------------|-----------------|----------|
| Risk Governance <ul style="list-style-type: none"> ▪ Management and reporting structures, delegations, three lines of defence. ▪ RMS must describe the risk governance relationship between the Board, board committees and senior management with respect to the RMF. | | | |
| Role of Board <ul style="list-style-type: none"> ▪ The Board is “ultimately responsible” for approval, monitoring, review and oversight of the RMF, risk appetite, and ensuring a sound risk management culture. | | | |
| Risk Management Culture <ul style="list-style-type: none"> ▪ Senior management responsible for monitoring material risks. ▪ Regular communication, effective operational structure, sufficient resources, appropriate controls are in place. | | | |
| Risk Management Framework (RMF) <ul style="list-style-type: none"> ▪ Includes all systems, structures, policies, processes, people that identify, measure, manage, control and report all material risks. ▪ Alignment of RMF to business plan, operational structure, Risk Appetite Statement (RAS), Internal Capital Adequacy Assessment Process (ICAAP), Management Information System (MIS), stress testing, scenario analysis, policies & procedures. ▪ RMF must cover material risks e.g. Credit Risk, market & investment risk, operational risk, liquidity risk, risks from business plan. | | | |
| Risk Management Strategy (RMS) <ul style="list-style-type: none"> ▪ Adequately describes RMF. ▪ Adequate policies & procedures for identifying, monitoring, reporting material risks. | | | |
| Strategic & Business Plans <ul style="list-style-type: none"> ▪ Consider risk appetite, tolerance and material risks. | | | |
| Risk Appetite Statement <ul style="list-style-type: none"> ▪ Effective processes for establishing, reviewing, communicating, and monitoring risk appetite & risk tolerance. | | | |
| Risk Management Function <ul style="list-style-type: none"> ▪ Designate a person to be responsible i.e. Chief Risk Officer (CRO). ▪ Ensure independence & authority of CRO & function. ▪ Appropriate resources, responsibilities and reporting structure. | | | |
| Compliance Function <ul style="list-style-type: none"> ▪ Ensure adequate resourcing for effectively managing compliance risks. | | | |
| Risk Monitoring & Reporting <ul style="list-style-type: none"> ▪ Regular assessment of risks, risk appetite, control effectiveness, MIS, system performance, annual declaration process, APRA notifications. | | | |
| Review of Risk Management Framework <ul style="list-style-type: none"> ▪ Annual review and a three-year comprehensive, independent review of RMF. | | | |

* This is summary from CPS220 for illustrative purposes only. A full copy is available from www.apra.gov.au