Central Bank of Ireland Findings and Expectations on Review of Control Frameworks and Risk Appetite Statements in MiFID Investment Firms

Area of Deficiency	Central Bank Finding	Central Bank Expectation
Risk Management Frameworks and Governance	▪ **Risk Management Frameworks not sufficiently comprehensive or joined-up** to allow Investment Firms to effectively identify, monitor, manage and mitigate their risks, including new and emerging risks. ▪ **Weaknesses in the adequacy of resourcing of the Risk and Compliance Control Functions.** ▪ **Governance structures not sufficient to enable the independence of Risk and Compliance Control Functions.**	The Central Bank expects Investment Firms to ▪ maintain comprehensive, joined-up, embedded and sufficiently mature Control Functions and Control Frameworks; ▪ have a holistic, structured, proactive and forward-looking approach to risk identification and mitigation, which is underpinned by a robust and embedded Risk Management Framework; and ▪ have Control Functions that are sufficiently resourced, with appropriate levels of experience and seniority that enable the Functions to implement and maintain an effective approach to managing risk and compliance matters including providing independent and credible challenge to Senior Management. The Central Bank also reminded Investment Firms of their obligation to comply with the MiFID Regulations in this regard.
Board Oversight of Risk and Compliance Matters	▪ **Board failure to sufficiently prioritise or engage with and/or recognise the Board's collective responsibility and accountability for matters relating to risk and compliance** e.g. important risk and/or compliance matters being dealt with predominately at Board Sub-Committee level with limited or no consideration by the full Board. ▪ **Reactive approach to risk and compliance matters** e.g. limited self-initiated improvements made in Control Functions, with significant enhancements to frameworks primarily made following identification of concerns by the Central Bank.	The Central Bank expects: ▪ the Board and its Sub-Committees to operate effectively and in line with corporate governance best practices, and legislative requirements; ▪ the collective skillset of the Board to have sufficient experience, including a clear understanding of good market practice in risk and compliance matters, to provide effective oversight of, direction and challenge in these areas; and ▪ the Board and Senior Management to drive an appropriate risk and compliance culture in the Firm on an ongoing basis.
Application of Risk Appetite Statement as a Risk Management Tool	▪ **Lack of evidence that the RAS was utilised as an effective risk management tool** to monitor, control and report material risks on a holistic basis and influence strong decision-making. ▪ **Lack of recognition in some firms of the importance of developing a robust RAS** to help monitor and control the risks associated with their business activities. ▪ **A reliance in some firms placed on a Group RAS that did not adequately reflect the material risks pertaining to local entities.**	The Central Bank expects: ▪ the Board and Senior Management to have developed robust and functional RAS, Risk Register and policies which reflect the local entity specificities rather than just an overall Group entity; ▪ the RAS to be tied into the Investment Firm's strategic objectives and used in the decision-making of the Firm; and ▪ the RAS to be reviewed and approved by the Board on an annual basis. The Central Bank notes a mature risk culture will distinguish between an Investment Firm's risk tolerance and overall risk capacity and have measures for both.
Poor Risk Appetite Statement Design	▪ **RAS not clearly articulating Firms' appetite and motivation for taking on or avoiding certain risks types.** ▪ **Identification of material risks not clear, consistent or aligned across risk appetite documentation.** ▪ **Desired level of risk the Investment Firm is willing to take for each material risk, both financial and non-financial not evident**, due to the limited use of quantitative metrics. ▪ **Design of the RAS not reflecting a holistic view of material risks and not clearly linked to strategic objectives.** ▪ **Documentation of risk appetite disjointed and dispersed across several risk documents.** ▪ **Little consideration evident of emerging risks in RAS.**	The Central Bank expects Investment Firms to ensure that qualitative descriptions of risk appetite correctly reflect the risks they are willing to take and are aligned to the overall business strategy. The RAS should: ▪ reflect the holistic view of all material risks facing the Firm. The desired level of risk that an Investment Firm is willing to take for each risk type should be clearly outlined using quantitative KRIs, qualitative and quantitative risk tolerances and risk limits; ▪ be forward looking, reflecting emerging risks facing the Firm; and ▪ be a dynamic document that reflects changes in the internal and external environment.
Risk Appetite Reporting to the Risk Committee and Board	▪ **Risk appetite reporting to the Risk Committee and/or Board not clear/concise.** ▪ **Lack of documented analysis to support the setting of risk limits or Early Warning Indicators** for material risk types. ▪ **Sufficiently robust quantitative key risk indictors not developed** to monitor, control and report on material risks, both financial and non-financial. ▪ **Inability to detect risk appetite breaches** due to poorly defined qualitative risk appetite descriptions and lack of quantitative RAS metrics for both financial and non-financial risks. ▪ **Absence of a defined escalation process for RAS breaches.** ▪ **Lack of evidence of how Risk Committees and Boards obtained comfort that their Firm was operating within the approved risk appetite.** ▪ **Lack of documented qualitative descriptions of risk appetite for specific risk types** that reflected the actual level of risk taken on a day-to-day basis. As an example, some Investment Firms noted that there was no appetite for client asset risk despite holding client assets.	The Central Bank expects that: ▪ an Investment Firm should determine the risk capacity and risk profile that it is prepared to operate within, based on its risk appetite for each material risk and its overall risk appetite; ▪ the RAS should contain quantitative measures that are translated into risk limits applicable to business lines; ▪ the escalation process be clearly defined and documented and the Investment Firm to establish thresholds for reporting on risk events to Senior Management, Risk Committees and to the Board; and ▪ risk appetite reporting should be presented in a clear manner reflecting the holistic view of material risks.
Deficiencies in Cascading Risk Appetite through the Organisation	▪ **Lack of evidence of the Firm's overall risk appetite, risk appetite for material risks and applicable risk limits being communicated throughout the Firm.** ▪ **Lack of formal documentation of the risk appetite and motivation for accepting risks, or the rationale for not accepting certain risks.** ▪ **Lack of formal risk appetite training** provided to employees at all levels throughout the Firm.	The Central Bank expects that: ▪ Investment Firms employ various methods of communicating risk appetite information throughout the Firm; ▪ at an operational level, risk limits should act to constrain or guide the activities of the business units to which they apply; ▪ business units should be aware of the existence of risk limits and the consequences of breaching such limits; and ▪ Investment Firms should ensure that periodic risk appetite training is provided to all employees within the Firm.