

November 2014

# Global Regulatory Network Executive Briefing

## Americas

Ted Price  
ted.price@ey.com  
Marc Saidenberg  
marc.saidenberg@ey.com  
Don Vangel  
donald.vangel@ey.com

## Asia-Pacific

Keith Pogson  
keith.pogson@hk.ey.com  
Philip Rodd  
philip.rodd@hk.ey.com  
David Scott  
david.scott@hk.ey.com  
Judy Vas  
judy.vas@hk.ey.com

## EMEIA

Marie-Hélène Fortesa  
marie.helene.fortesa@fr.ey.com  
Tom Huertas  
thuertas@uk.ey.com  
Patricia Jackson  
pjackson@uk.ey.com  
Colin Lawrence  
clawrence@uk.ey.com  
John Liver  
jliver1@uk.ey.com

## Japan

Hidekatsu Koishihara  
koishihara-hdtkts@shinnihon.or.jp

## Shifting focus Risk culture at the forefront of banking

Five key themes have emerged from this year's study of risk management practices, which was conducted by EY in cooperation with the Institute of International Finance. Fifty-two banks in 27 countries participated.

### 1. Sharper focus on culture and conduct

The global banking industry is trying to tackle the question of risk culture. Some firms are still focused on assessing whether they have any reason to be concerned about the culture across the business, but many have moved directly into the phase of correcting or reinforcing the culture. One of the key issues highlighted is the need to shift accountability for risk into the front office. Another is the need for clear messages about risk from top to bottom in the organization, reinforced by training and performance metrics and supported by an embedded risk appetite. It is evident that these efforts have to be linked with remuneration. With regard to enforcing accountability for risk, one executive remarked that it must affect individuals "where it counts – in their wallets."

### 2. Risk governance structures being strengthened

One important aspect of enhancing risk culture is risk governance frameworks. Boards and senior management are facing increasing scrutiny and pressure from regulators, the media and the public to tighten internal controls and reduce high-risk behavior. Rising litigation costs, steep fines and reputational damage have clearly been a catalyst for firms to



Building a better  
working world



re-evaluate and strengthen risk governance frameworks. Firms are adding new board-level committees to more closely monitor business ethics and conduct, and many are restructuring internally – streamlining and integrating current management committees, adding new committees and functions – to break down silos and close the gaps in risk oversight and control. Many are also strengthening their three lines of defense to clarify roles and responsibilities and redesigning frameworks to shift risk accountability to the front line. The role of the risk function continues to expand, with some banks now ensuring it oversees compliance risks, for example.

### **3. Greater attention to non-financial risk**

Many banks thought the events that led to the large operational losses sustained during the past five years (fines, payments to purchasers of products, fraud losses and so forth) were the result of weak oversight and control processes. This has triggered risk and control reviews in a number of banks and spurred changes to accountability to ensure the front office focuses on the quality of controls in the end-to-end activity. Banks have also increased evaluation of near-miss events and have sought mechanisms to improve information channels up through the organization, including whistle-blower arrangements. Moreover, many reported special initiatives aimed specifically at strengthening processes around new products to reduce the likelihood of mis-selling risk. These include the use of senior or board-level committees to review suitability and make certain that customers are being treated fairly.

### **4. Banks continue to struggle to embed risk appetite across the enterprise**

Fully embedding a risk appetite framework continues to be a significant challenge for many banks. Despite the fact that risk appetite has been a key area of focus for both boards and chief risk officers (CROs) in recent years, many firms are still finding it difficult to translate the firmwide risk appetite strategy into the day-to-day planning and operations of the business. While close to one-third of this year's respondents say they have successfully integrated risk appetite into business units (a steady increase over the past three years), more than one-half report continuing difficulty in moving the risk appetite approach further into their businesses. The impetus to integrate it more deeply comes from the link seen to risk culture, as well as ongoing pressure from regulators who view risk appetite as a brake on risk-taking and want it extended to include non-financial risks. As one interviewee told us, "Risk culture, risk appetite, business strategies, people and processes must all be aligned in order for everything to work effectively."

### **5. Basel III regulations still driving fundamental changes to the industry**

The industry is facing continuing pressures on business models from regulatory changes, particularly Basel III. The core issue is that with the higher capital and liquidity buffers, and with investors pushing back against the resulting lower ROEs, many business lines are now no longer sufficiently profitable. Many banks have exited entire lines of business and are still exiting operations and retreating to core markets. Prices for banking products are also falling, and international banks are coming under competitive pressure from local banks in some markets and shadow banks in others. A key question is at what point the investors will accept the lower ROEs. Many believe that it will likely take some time because, as one executive remarked, "Investors want to see a track record and a pattern and until that starts to play out, there will be uncertainty about the long-term economic and return model under Basel III."

► Download a full version of *Shifting focus: Risk culture at the forefront of banking* at [ey.com/bankingrisk](http://ey.com/bankingrisk).

## EY Global Regulatory Network Executive Team

**Marie-Hélène Fortesa** has extensive regulatory experience, including leadership roles at the Autorité de Contrôle Prudentiel (French Prudential Supervisory Authority), Association Française des Banques (French Banking Association), French National Institute for Statistics and Economic Studies and senior roles at a leading investment bank.

**Dr. Tom Huertas** is a former member of the Financial Services Authority's Executive Committee. He also served as alternate chair of the European Banking Authority, as a member of the Basel Committee on Banking Supervision and as a member of the Resolution Steering Committee at the Financial Stability Board.

**Patricia Jackson** was the Head of the Financial Industry and Regulation Division of the Bank of England from 1995 to 2003. From 1997 to 2004, she was also a member of the Basel Committee, where she led the development of Basel II and chaired the Global Quantitative Impact Studies committee and the Basel II calibration subgroup.

**Hidekatsu Koishihara** is a former chief inspector and inspection administrator for the Japan Financial Services Agency. He also worked at the Ministry of Finance (MOF) of Japan, Japan's former financial regulator, serving as the financial inspector at the Bank Bureau of MOF and Financial Inspection Division, and Minister's Secretariat of MOF.

**Dr. Colin Lawrence** was Director of Risk Specialists at the Financial Services Authority (FSA), where he was one of the senior executives responsible for running the stress tests and recapitalization of the UK banks. He was a member of the senior management and transition committee in the formation of the Prudential Regulatory Authority and became Senior Risk Strategist to the Deputy Governor, Bank of England. Prior to joining FSA, he held senior executive positions at major universal banks in Europe and the US.

**John Liver** has held regulatory roles with leading investment banks, the UK Financial Services Authority and its predecessors. His roles include leading the thematic supervision in the Investment Firms Division; leading the Personal Investment Authority Supervision, where he oversaw the sales regulation of the life and pensions industry; and management roles in the Investment Management Regulatory Organization's Enforcement and Supervision Departments.

**Keith Pogson** has more than 20 years of experience advising governments and regulators across Asia-Pacific on banking reform. His expertise includes acquisitions, market entry strategy and due diligence across banking, asset management and securities. He is the Immediate Past President of the Hong Kong Institute of Certified Practising Accountants.

**Ted Price** was Deputy Superintendent and a member of the Executive Committee at the Office of the Superintendent of Financial Institutions, Canada, serving on the Senior Supervisors' Group and the Financial Stability Board Supervisory Intensity and Effectiveness Working Group. Ted previously held senior roles at a global investment bank.

**Philip Rodd** has more than 23 years of experience in accounting and risk management, including 13 years in the Asia-Pacific region. He assists clients in assessing the impact of regulatory change, implementing compliance initiatives and responding to regulatory findings.

**Marc Saldenberg** was a senior vice president and director of supervisory policy at the Federal Reserve Bank of New York, representing the bank on the Basel Committee, and served as co-chair of the committee's Working Group on Liquidity. He was actively involved in the development of the Basel III capital and liquidity standards, supervisory expectations for capital planning, liquidity risk management and recovery and resolution plans.

**David Scott** has spent 14 years working with a number of large global institutions, most recently on the implementation of the global financial regulatory reform agenda. He is involved in addressing emerging regulatory and legislative initiatives and engaging in dialogue with regulators and supervisors on emerging issues.

**Don Vangel**, Regulatory Advisor to the Office of the Chairman, joined EY after a 17-year career at the Federal Reserve Bank of New York, where he ultimately served as a senior vice president for bank supervision.

**Judy Vas** spent 16 years at Goldman Sachs as a managing director, Head of Regulatory Affairs and Head of Compliance for Asia (excluding Japan). Prior to this, she spent seven years in a senior role at the Securities and Futures Commission in Hong Kong. She sits on the Hong Kong Takeovers Panel, Takeovers Appeals Committee and the Hong Kong Securities & Investment Institute Examination Committee.

EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

### About the EY Global Regulatory Network

EY's Global Regulatory Network helps our clients find solutions to their regulatory challenges, providing extensive experience, leadership and strategic insights on financial regulation. Led by Dr. Tom Huertas, former Alternate Chair of the European Banking Authority, the network comprises former regulators throughout the Americas, Asia and Europe, many with senior regulatory experience, including membership in the Basel Committee, the Financial Stability Board, the European Banking Authority, the Federal Reserve Bank of New York and the Japanese Financial Services Agency. The network enables our clients to understand and adapt to the impact of the changing regulatory landscape, advising on such topics as:

- ▶ Capital and liquidity
- ▶ Recovery and resolution
- ▶ Governance
- ▶ Risk culture
- ▶ Structure
- ▶ Conduct

© 2014 EYGM Limited  
All Rights Reserved.

EYG no. EK0330  
BSC No. 1410-1343476  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

Learn more at [ey.com/financialreform](http://ey.com/financialreform)