

Risk Management Committee¹ Charter Assessment Tool:
Part of IFC’s Advanced Methodology for Financial Institutions

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
I. Establishment²	1. Any written document, including the board charter or equivalent authority.	1. Incorporated in bylaws ³ or corporate governance guidelines.	1. Incorporated in corporate charter or articles of association.	1. Same. ⁴

¹ Overall risk management in a financial institution is generally considered primarily the responsibility of executive management. The board’s role is to establish the institution’s general risk philosophy and risk tolerances in each material business area, and to provide oversight of risk policies and procedures to ensure that management implements a robust risk management program. As noted in the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* of the Basel Committee on Banking Supervision (Basel II), “The bank’s board of directors has responsibility for setting the bank’s tolerance for risks.” Moreover, Basel II notes that various favorable capital adequacy treatments are available only if a bank can demonstrate that “its board of directors and senior management, as appropriate, are actively involved in the oversight of the operational risk management framework.”

² It may be acceptable, in the case of relatively small or simple institutions, that the board have no formal “risk” committee, but that the full board regularly discusses risk philosophy and tolerance issues and reviews the adequacy of risk management as a routine part of its strategic and operational review. Alternately, the functions of the risk policy committee are sometimes combined with those of the audit and compliance committees. However, given the centrality of risk management to financial institutions, and the requirements of Basel II, it is a function that should be assumed either by the full board, or, in what is increasingly considered best practice, the board should establish a separate risk management committee.

³ Bylaws refer to internal corporate documents, which are not required to be filed externally (with a corporations registry or the regulator).

⁴ “Same” in a column means that the recommendation with the same number in the column immediately to the left is carried over into that column. Where the recommendation is the same but with additions, the additions are in italics.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
II. Purpose	2. Establishing the bank's risk policies, including risk tolerances, consistent with the risk management program (see also XIII).	1. <i>Same, and ensuring that senior management takes the necessary steps to identify, measure, monitor and control risk, and has active oversight of the risk exposure of the bank.</i>	1. Same. 2. Reviewing the adequacy of the bank's capital and liquidity in current and future scenarios, including stress events. Limits and capital allocated in accordance with type of risks and tolerance across the Financial Institution (FI) and its business units.	1. <i>Same, and overseeing the practice of reverse stress-testing to contribute to developing risk tolerance limits.</i> 2. Same. 3. Establishing an enterprise-wide risk management framework for all companies in the group and at all levels, consistent with the requirements of Basel.
III. Composition	1. At least three board members.	1. Same. 2. Material presence of non-executive board members. ⁵	1. Same, and no more than seven members. 2. Majority of non-executive members. 3. No more than one committee member serving on both the risk management and audit and compliance	1. Same. 2. Majority of independent members. 3. Same. 4. At least one board member with an understanding of environmental and

⁵ In jurisdictions with a "two-tier" board system, "non-executive directors" means members of the supervisory board.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
			committees.	social risks, and if the FI invests in sensitive ⁶ industries, then at least one member has an in-depth knowledge of environmental and social risks. 5. Rotation of members. 6. Less than 75% attendance at committee meetings in one year is an automatic threshold for non-reappointment. 7. Limit on the number of memberships on other board committees.
IV. Committee Chairperson	1. Appointed by non-executive board chair, board as a whole, or the	1. Same. 2. Has requisite skills and knowledge to	1. Same. 2. Same.	1. Same. 2. Same. 3. Is an independent

⁶ Examples of “sensitive industries” include oil, gas, mining, heavy industry (steel, cement) and chemical manufacturing, and large agro-commodity production or processing.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
	committee.	oversee the bank's risk management program.		board member.
V. Qualifications of Committee Members	<ol style="list-style-type: none"> 1. Committee over all has requisite skills and knowledge adequate to oversee the bank's risk management program (e.g., knowledge of credit and financial markets). 2. The members have the time and desire to fulfill their committee obligations. 	<ol style="list-style-type: none"> 1. All committee members have the requisite skills and knowledge to oversee the bank's risk management program. 2. Same. 3. Orientation session on risk management for all new committee members. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Periodic professional education/training is provided for all committee members. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Less than 75% attendance at committee meetings in one year is an automatic threshold for non-reappointment.
VI. Appointment of Members	<ol style="list-style-type: none"> 1. Appointed by board chair, board as a whole or CG/nominations committee. 	<ol style="list-style-type: none"> 1. Same, with full board ratification of committee members where nomination is by chair or CG/nominations committee. 2. Fixed terms, preferably annual but not exceeding board terms. 	<ol style="list-style-type: none"> 1. Same. 2. One-year renewable terms. 	<ol style="list-style-type: none"> 1. Same. 2. Same.
VII. Remuneration (in addition to	<ol style="list-style-type: none"> 1. Solely related to fulfilling the obligations of a 	<ol style="list-style-type: none"> 1. Same, but payment as committee fees 	<ol style="list-style-type: none"> 1. Annual committee fees. 2. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
compensation as board members) ⁷	committee member (no form of payment that would compromise independence, e.g., salary, consulting, finders' fees, etc.)	<i>and/or meeting fees is the preferred form.</i> 2. Adequate level of payment to create the expectation of responsibility.	3. Additional per-meeting fees. 4. Additional fee for chair.	3. Same. 4. Same.
VIII. Meetings	1. May be called by the committee chair. 2. Approved annual calendar of regular meetings. ⁸ 3. At least semiannually.	1. Same. 2. Same. 3. Meetings are held at least quarterly. 4. Meetings may be requested by the chair of the board, CEO, CFO or chief risk officer.	1. Same, <i>and by any two committee members.</i> 2. Same. 3. Same. 4. Same. 5. Meetings may be in person, by telephone, web, or other means of electronic communication agreeable to the committee. 6. Ability to act by unanimous written consent.	1. Same. 2. Same. 3. Meetings are held monthly. 4. Same. 5. Same. 6. Same.
IX. Attendance and Notice	1. Quorum is required. 2. Advance notice required;	1. <i>Same, and a simple majority as a</i>	1. Same. 2. Same, <i>and with</i>	1. Same. 2. Same, <i>and with a</i>

⁷ Executive director members of the risk management committee do not receive additional remuneration for their services to the committee.

⁸ In addition to regular committee meetings, extraordinary meetings may be held when needed and appropriate, with the agenda set in advance.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
	<p>may be waived with unanimous written consent.</p>	<p><i>minimum.</i></p> <ol style="list-style-type: none"> 2. Same. 3. Minutes are prepared and distributed to committee members and the board has access to review the minutes. 4. Agenda and related materials to be provided in advance unless the chair (or other convener) believes confidentiality requires otherwise, in which case a general description of subject of the meeting is circulated, with a statement from the chair as to the reasons for confidentiality. 5. The chief risk officer and other executive officers attend the 	<p><i>minimum 48 hours' notice.</i></p> <ol style="list-style-type: none"> 3. Same. 4. Same. 5. Same, <i>and the chief risk officer is invited to attend meetings.</i> 6. The chief of internal audit, the external auditor and chief compliance officer are given notice of all meetings. 	<p><i>minimum one week's notice.</i></p> <ol style="list-style-type: none"> 3. Same. 4. Same. 5. Same. 6. Same. 7. Independent members of the committee meet without executive officers present at each committee meeting if invited.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
		meetings if invited.		
X. Reporting to the Board and Shareholders	<ol style="list-style-type: none"> 1. Verbal or written reports are submitted to the board, as needed. 2. Annual written report is submitted to the board. 	<ol style="list-style-type: none"> 1. Written reports or minutes are submitted to the board following each committee meeting. 2. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. General report on committee activities is included in the annual report, including qualitative and quantitative data enabling shareholders and the public to understand the bank's risk profile and policies. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same, and information on environmental and social risk management activities is included in the annual report, as well as reports on the internal capital adequacy assessment process, stress testing, and independent evaluation of risk management capabilities.
XI. Communication to External Stakeholders	<ol style="list-style-type: none"> 1. There is regular communication of risk information to external stakeholders (e.g., the public, affected communities, media, government). 	<ol style="list-style-type: none"> 1. Same, with policies and plans in place for corporate communications. 	<ol style="list-style-type: none"> 1. Same. 2. The crisis management plan and business continuity plan are endorsed by the committee. 3. External communication is coordinated by the corporate communications 	<ol style="list-style-type: none"> 1. Same. 2. Same, and the plan is periodically drilled and ready to execute. 3. Same, and communication includes information about the internal capital adequacy assessment process, stress-testing,

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
			department, with responsibilities, including those of spokespersons in various situations, clearly defined. A communications plan, crisis management policy and defined processes are in place. A communications policy with respect to risk management is in place.	<i>independent evaluation of risk management capabilities.</i> 4. As part of its annual reporting, include an integrated financial, environmental and social performance report to the public.
XII. Evaluation⁹			<ol style="list-style-type: none"> 1. There is an annual evaluation of work the committee. 2. There is an annual evaluation of the effectiveness of the committee, including its processes and procedures. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. A periodic evaluation of the committee charter is carried out, with a written report to the board suggesting improvements, if any. 4. Periodic independent

⁹ The corporate governance/nominations committee may coordinate evaluation of the board and all committees at some companies. For more on evaluations, see the Corporate Governance and Nominations Committee Charter Assessment Tool of the IFC's Advanced Methodology for Financial Institutions.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
				evaluation of committee effectiveness.
XIII. Authority and Resources	1. The committee has access to all internal resources.	1. Same. 2. The committee makes recommendations regarding the hiring of outside resources (e.g., risk management consultants, counsel), as needed.	1. Same, <i>without necessarily going through the hierarchy (though the hierarchy should be respected absent compelling reasons not to do so)</i> . 2. The committee has the right to hire outside resources without executive approval. 3. The committee may authorize, or conduct, any investigation within its area of responsibility. It has the right to hire independent experts for such investigations and approves the terms of engagement. The bank pays for such investigations.	1. Same. 2. Same. 3. Same. 4. The committee has an annual budget sufficient for its needs, and has the right to access additional funds in unforeseen circumstances.
XIV. Responsibilities -	1. Reviewing and recommending to the	1. Same, <i>and advising the board on</i>	1. Same, <i>and advising the board on approving</i>	1. Same. 2. Same.

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
Policies and Procedures	<p>board, in conjunction with executive officers, proposed aggregate loss limit targets for various risk categories (e.g., loan losses, market losses, operational risk), paying special attention to capital adequacy and liquidity requirements.</p> <p>2. Reviewing the bank's risk management infrastructure and control systems to ensure adequacy to enforce the bank's risk policies.</p> <p>3. Ensuring that management (e.g., the CEO and chief risk officer) develops a comprehensive risk management program.</p> <p>4. Reviewing management's determination of key balance sheet and off-balance-sheet risks.</p> <p>5. Overseeing the chief risk officer and the annual</p>	<p><i>management's recommendations for overall credit and market risk limits, as well as country risk limits for non-domestic exposure.</i></p> <p>2. Same.</p> <p>3. Same, and overseeing the implementation of the risk management program and reviewing its quality and soundness.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Reviewing risk exposure and compliance with limits and receiving exception reports.</p> <p>7. Ensuring that risk measurement/management function is independent of any line business function.</p> <p>8. Consulted by the CEO</p>	<p><i>maximum credit exposure for major clients and counterparties to ensure diversification.</i></p> <p>2. Same.</p> <p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Same, and ensuring that the risk measurement and management functions have adequate expertise and resources to fulfill their responsibilities.</p> <p>8. Same.</p> <p>9. Reviewing and recommending risk measurement and rating methodologies for board approval, to be reported to regulators (e.g., value at risk, economic capital, internal measures, risk-adjusted return on</p>	<p>3. Same.</p> <p>4. Same.</p> <p>5. Same.</p> <p>6. Same.</p> <p>7. Same.</p> <p>8. Recommending to the board the candidate for chief risk officer, leading the chief risk officer's performance assessment and record, and making recommendations to the board on his/her remuneration.</p> <p>9. Same.</p> <p>10. Same.</p> <p>11. Same.</p> <p>12. Same.</p> <p>13. Same.</p> <p>14. Proactively monitoring "best practice" risk management developments.</p> <p>15. Overseeing a periodic review of the effectiveness of the</p>

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
	plan of his/her activities.	on the appointment of the chief risk officer.	<p>capital, credit ratings, etc.)</p> <p>10. Reviewing assumptions in risk measurement models and ensuring that model risk issues have been properly considered.</p> <p>11. Reviewing stress tests on credit, liquidity, market and operational risks; approving contingency planning and capital adequacy.</p> <p>12. Reviewing the level of delegated authority and making recommendations for full board approval.</p> <p>13. Monitoring the bank's preparations for and implementation of Basel framework requirements with respect to risk management and measurement.</p>	<p>environmental and social risk management system.</p> <p>16. Overseeing the engagement of independent experts to periodically review the risk management framework.</p>

	ACCEPTABLE	BETTER	DESIRABLE	BEST PRACTICE
XV. Responsibilities – Specific Risk Reviews	<ol style="list-style-type: none"> 1. Regularly receiving summary risk data from responsible managers (CEO, chief risk officer) and comparing that data with adopted policies. 	<ol style="list-style-type: none"> 1. Same. 2. Regularly receiving disaggregated data on major risk categories from responsible managers (CEO, chief risk officer). 3. Receiving regular reports from the asset liability committee and/or the management risk committee. 4. Receiving and acting on compliance and internal audit reports relevant to risk management. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Receiving a copy of the executive evaluation of the chief risk officer. 6. Reviewing exposure to major clients, counterparties, countries, and economic sectors. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same. 7. Reviewing reports on financial compliance issues such as compliance risk and money-laundering risks (unless specifically reserved for the audit and compliance committee).

Acceptable	Minimum acceptable practices in corporate governance and risk management. Elementary. Meets the basic and regulatory/legal requirements. Reflexive.
Better	Taking further steps to strengthen corporate governance and risk management. More established. Beginning to form a system. Meeting some internal and external regulatory/legal requirements.
Desirable	Major contributor to improving corporate governance and risk management nationally. Established. A system is in place. Meets all internal and external requirements. Proactive and forward-looking. Working toward best practices.
Best Practice	Conforms with international best practices in the industry. Well-established system. Risk management is integrated with the corporate governance framework. Forward looking and focused on continuous improvement.